



Office of Missouri State Auditor
Nicole Galloway, CPA

FOLLOW-UP REPORT ON AUDIT FINDINGS

City of Viburnum

Report No. 2017-131
November 2017

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City of Viburnum

Follow-Up Report on Audit Findings

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*Includes selected findings



NICOLE GALLOWAY, CPA **Missouri State Auditor**

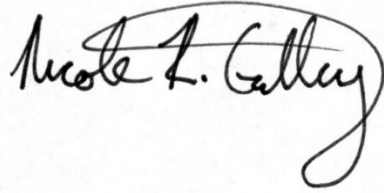
To the Honorable Mayor
and
Members of the Board of Aldermen
City of Viburnum, Missouri
and
Presiding Judge
Forty-Second Judicial Circuit
and
Municipal Judge

We have conducted follow-up work on certain audit report findings contained in Report No. 2017-043, *City of Viburnum* (rated as Poor), issued in June 2017, pursuant to the Auditor's Follow-Up Team to Effect Recommendations (AFTER) program. The objectives of the AFTER program are to:

1. Identify audit report findings that require immediate management attention and any other findings for which follow up is considered necessary at this time, and inform the city about the follow-up review on those findings.
2. Identify and provide status information for each recommendation reviewed. The status of each recommendation reviewed will be one of the following:
 - Implemented: Auditee fully implemented the recommendation, either as described in the report or in a manner that resolved the underlying issue.
 - In Progress: Auditee has specific plans to begin, or has begun, to implement and intends to fully implement the recommendation.
 - Partially Implemented: Auditee implemented the recommendation in part, but is not making efforts to fully implement it.
 - Not Implemented: Auditee has not implemented the recommendation and has no specific plans to implement the recommendation.

As part of the AFTER work conducted, we reviewed documentation provided by city officials and held discussions with officials to verify the status of implementation for the recommendations. Documentation provided by the city included minutes of meetings, financial records, and other pertinent documents. In July 2017, the City of Viburnum Board of Aldermen voted to transfer the operations of the municipal division to the Forty-Second Judicial Circuit, Iron County. That court is now responsible for receiving and disbursing court monies and ensuring court records are properly maintained. Our follow-up work was conducted after the transfer of the court operations, so we did not do work related to recommendations made to the municipal division (numbers 5.1 through 5.5). We did, however, follow up on recommendation number 5.6 that was made to the municipal division and the city's Police Department.

This report is a summary of the results of this follow-up work, which was substantially completed during October 2017.

A handwritten signature in black ink that reads "Nicole R. Galloway". The signature is written in a cursive style with a large, looping flourish at the end of the word "Galloway".

Nicole R. Galloway, CPA
State Auditor

City of Viburnum

Follow-Up Report on Audit Findings

Status of Findings

1. Missing Monies

Utility, property tax, and municipal division receipts totaling at least \$4,413 were received but not transmitted to the City Treasurer for deposit or deposited in the municipal division bank account and were missing. In addition, the former City Clerk,¹ Dana Mayberry, made approximately 1,800 unauthorized utility account adjustments resulting in reductions to utility account balances totaling approximately \$104,000. Based on our understanding of the utility system, information obtained regarding methods used to conceal missing monies, and audit procedures performed, it is likely those monies were also missing.

In May 2016, the Mayor notified the State Auditor's Office (SAO) that the former City Clerk admitted to theft of city funds and requested the SAO perform an audit of city finances. On August 9, 2016, the Board of Aldermen passed an ordinance formally requesting and authorizing an audit and the audit began on August 11, 2016.

City officials indicated most of the city and municipal division records disappeared from City Hall around the time the former City Clerk lost her April 2016 re-election bid. As a result, detailed receipt information was not available for most of the time period we reviewed.

Missouri State Highway Patrol (MSHP) investigators questioned the former City Clerk in December 2016. The former City Clerk indicated she destroyed city records prior to her employment ending with the city in order to conceal the theft. The former City Clerk confessed to the investigators to stealing approximately \$25,000 in utility, property tax, and municipal division receipts and to concealing the theft of utility receipts by adjusting customer accounts rather than recording receipts in the system.

Recommendation

The Board of Aldermen, along with the City of Viburnum Municipal Division, continue to work with law enforcement officials regarding criminal prosecution for the missing cash receipts and take the necessary actions to seek restitution for amounts missing. In addition, an attempt should be made to locate or recover missing city and court records to determine whether additional funds are missing.

Status

Implemented

The Board of Aldermen is working with the MSHP and Iron County Prosecuting Attorney regarding prosecution of the former City Clerk. The former City Clerk was charged with receiving stolen property, a Class B

¹ Use of the title former City Clerk, former City Collector, former Court Clerk, or any combination thereof, throughout the report refers to the same person, Dana Mayberry, who held all three positions during the period under review. City officials indicated she had held these positions for approximately 14 years at the time of her employment ending.



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Felony, in June 2017 and the case is ongoing as of October 2017. The city received a \$50,000 insurance settlement for the loss from the theft in September 2017. City officials expect to receive an additional settlement from the city's bonding company and indicated they made efforts but could not locate additional records.

2. Accounting Controls and Procedures

Significant weaknesses existed in the city's accounting controls and procedures.

2.1 Segregation of duties and supervisory review

The city had not adequately segregated the duties of receiving and recording monies and preparing transmittals, and there were no documented supervisory or independent reviews of the detailed accounting records. The former City Clerk/Collector was solely responsible for receiving and recording city utility and property tax payments and transmitting them to the City Treasurer for deposit. The former City Clerk/Collector also was responsible for providing supporting documentation for the amounts collected to the City Treasurer. The City Treasurer's review of monies transmitted was limited to ensuring the total amount transmitted agreed with the documentation provided by the former City Clerk/Collector.

Recommendation

The Board of Aldermen segregate accounting duties to the extent possible and implement appropriate reviews and monitoring procedures.

Status

In Progress

The City Clerk/Collector remains responsible for receiving and recording city utility and property tax payments and transmitting them to the City Treasurer due to the limited staff available in the city. However, the City Treasurer now reviews the City Clerk/Collector's manual cash receipt slips, accounts for the numerical sequence of receipt slips, and reconciles manual receipt slips to the total cash received. The City Treasurer documents her review in the receipt slip book and on the City Clerk/Collector's supporting documentation.

While the City Treasurer's review process has improved, the review of check and credit card receipts is still limited to ensuring the total deposited agrees with the documentation provided by the City Clerk/Collector and does not ensure that all check receipts are deposited. The City Clerk/Collector and City Treasurer indicated they would work to improve monitoring procedures.

2.2 Receipting, recording, and transmitting procedures

The city's procedures for receipting, recording, and transmitting were poor. The former City Clerk/Collector did not always issue receipt slips for monies received; record the method of payment on manual receipt slips, billing stubs, tax statements, or in the city's utility system; or record and transmit receipts timely and intact. In addition, the city's utility and tax system did not number



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recorded receipts to allow city personnel to account for the numerical sequence of all transactions.

Recommendation

The Board of Aldermen ensure receipt slips are issued for all monies received with the method of payment indicated on the receipt slip and in the utility and tax system, and reconcile the composition of transmittals to the amounts recorded in the utility and tax system and on receipt slips. The Board of Aldermen should also ensure receipts are posted to the city's utility and tax system when received and transmitted timely and intact.

Status

Partially Implemented

The City Clerk/Collector records receipts in the utility and tax as one batch journal entry for each payment method (cash, check, or credit card) and the system does not assign a receipt slip number or unique identifier for each payment received. She issues manual receipt slips for cash payments or if the customer requests a receipt slip, and records the manual receipt slip number for cash payments in the utility system as a reference. The City Clerk/Collector prints separate reports by payment method for the City Treasurer to reconcile the composition of the transmittal to the amounts recorded in the system. The City Clerk/Collector indicated she would start entering receipts individually with a receipt number and method of payment.

The City Clerk/Collector does not record receipts into the utility and tax system when received. Instead, she posts cash receipts to the utility and tax system and transmits cash receipts to the City Treasurer twice a month. The City Clerk/Collector now deposits checks through an automated check reader rather than transmitting them to the City Treasurer and posts check and credit card receipts into the utility and tax system weekly. The City Clerk/Collector indicated she will deposit checks as they are received and work with the City Treasurer to transmit and deposit cash receipts more often.

We reviewed the manual receipt slip book and noted all receipt slips included the method of payment. As previously noted, the City Treasurer is now reconciling the composition of the manual cash receipt slips and system reports to the composition of the deposits. We reviewed the September 2017 transmittals and the cash reconciliations were documented and all were made intact.

2.3 Record retention

Many city financial records were not properly retained. Manual utility receipt books containing receipt slips issued prior to March 2016, paid tax statements, and some water deposit receipt slips could not be located by the city. When questioned by MSHP investigators, the former City Clerk indicated she destroyed some records prior to her employment ending with the city to conceal theft.



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Recommendation	The Board of Aldermen ensure city records are properly retained.
Status	Implemented The City Clerk and Mayor indicated that all city records are now retained in the office of the City Clerk. The City Clerk plans to box up records at the end of each fiscal year for storage. City officials have consulted with the city attorney regarding record retention requirements. All records requested were available during our follow up review.
3. Utility System Controls	Significant weaknesses existed in control procedures related to the city's utility system.
3.1 Adjustments	The former City Clerk made numerous unauthorized adjustments to customer utility accounts in order to conceal missing monies. Since the implementation of the city's utility and tax system in November 2009, the former City Clerk made approximately 1,800 adjustments to customer accounts resulting in a reduction to utility account balances of approximately \$104,000.
Recommendation	The Board of Alderman ensure all adjustments are reviewed and approved by the Superintendent of the Department of Water and Sewer (Superintendent), adequate supporting documentation with reasons for adjustments is retained, and a system-generated report is reviewed by the Board.
Status	Partially Implemented The City Clerk indicated the Superintendent and Mayor now review water loss adjustments. We reviewed water loss adjustments since May 2017 and noted the Superintendent and Mayor's approval. Adjustments for other reasons, such as penalty adjustments, are not reviewed or approved. We reviewed the September 2017 system-generated adjustments report. Adjustments totaled approximately \$96, and all adjustments had a reason code of "MISC" for penalty adjustments so they were not reviewed. The City Clerk and Mayor indicated they would develop a process to ensure all adjustments are reviewed. The City Clerk and Mayor also indicated that only two monthly reports of adjustments have been provided to the Board; however, the City Clerk intends to provide them monthly in the future.
3.2 Water loss	City officials did not reconcile the total gallons of water billed to customers to the gallons of water pumped, and were unaware of significant water losses.
Recommendation	The Board of Alderman review the city's monthly water loss reports and investigate significant differences.
Status	Implemented



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The Superintendent now reconciles the total gallons billed to the gallons pumped monthly. Any unexplained differences are investigated and the explanations documented. The City Clerk reconciles the billed amount to the utility system and documents her review monthly. The Superintendent's reconciliation is presented to the Board monthly. We reviewed the August reconciliation and noted no significant unexplained differences. The report was included in the September board packet for the Board's review.

3.3 Delinquent accounts

Reports of delinquent utility accounts were not prepared and provided to the Board of Aldermen for review. In addition, penalties had not been assessed and utility service always shut off in accordance with city ordinances.

Recommendation

The Board of Alderman require reports of delinquent utility accounts be prepared and reviewed monthly. The Board should ensure penalties are assessed and utility service is shut off in accordance with city ordinances.

Status

In Progress

The City Clerk prepares a listing of delinquent utility accounts subject to shut off monthly and provides the report to the Mayor for his review. We reviewed the September listing and noted the Mayor reviewed the listing and services were shut off for all customers listed. We reviewed the September delinquent utility account listing and noted penalties were assessed in accordance with city ordinance.

In September, the Board approved writing off old delinquent balances that occurred during the former City Clerk's tenure because the city could not assure those amounts were accurate. The City Clerk maintains the expunged customer history on a flash drive and on her computer to ensure the records are not lost. The city also obtained permission from the Iron County Prosecuting Attorney prior to expunging any customer history that may be needed for the ongoing criminal prosecution. The City Clerk indicated she plans to provide a report of delinquent utility accounts to the Board now that older balances have been cleared.

3.4 Utility deposits

Refundable utility deposits posted to the utility system were not reconciled to the balance of the Water Deposit Fund. According to the water deposit report for July 2016, the city should have been holding approximately \$7,000 in water deposits; however the balance of the Water Deposit Fund at that date was approximately \$2,100. In March 2016, the city transferred \$25,000 from the Water Deposit Fund to temporarily cover a portion of the deficit in the General Fund. The accrued balance of the Water Deposit Fund prior to the transfer was approximately \$27,000 and a difference of approximately \$20,000 existed between the water deposit report and the accrued balance. The reason for the difference was unknown.



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Recommendation

The Board of Alderman review water deposit records to ensure all monies received are deposited and posted to the appropriate customer account, and prepare an accurate list of water deposits held and reconcile the list monthly to monies in the Water Deposit Fund. Any discrepancies should be investigated and resolved.

Status

In Progress

The City Clerk maintains the individual water deposit receipt slips in a file, but does not record them in the utility system or otherwise compile them into a list. The monies are transmitted with other utility and tax receipts. The City Clerk indicated she plans to create a water deposit list and provide it to the Board periodically. The water deposit records still are not reconciled to the balance in the Water Deposit Fund. City officials indicated they would perform these reconciliations periodically, after the listing is compiled, and also work with the Board to resolve any unidentified balance in the Water Deposit Fund. We reviewed the water deposit receipt slips. The information on the slips is sufficient to prepare a water deposit list.

4. Property Tax Collections

We noted significant concerns with reporting and monitoring procedures of delinquent property tax collections that resulted in less assurance that property taxes collected had been properly recorded and transmitted.

4.1 Delinquent taxes

A list of delinquent taxes was not prepared and approved by the Board of Aldermen. Upon our request, the current City Collector prepared a list of delinquent taxes as of August 2016; however, the list was not accurate and included some individuals and amounts shown as delinquent when the taxes had been paid.

Recommendation

The Board of Alderman require the City Collector submit an accurate list of all taxes remaining due and uncollected at the first meeting of the Board in April for the Board to review and approve.

Status

Implemented

The City Collector provided a listing of delinquent accounts to the Board in April 2017. The Mayor indicated the Board reviewed the listing at the April 2017 Board meeting.

4.2 Penalties

The former City Collector did not always assess or collect the correct penalty on delinquent taxes. The former City Collector did not assess penalties on delinquent taxes in the city's tax system between May 2010 and November 2014.

Recommendation

The Board of Alderman ensure delinquent property tax penalties are assessed in accordance with state law.



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Status

Implemented

The City Clerk now assesses delinquent property tax penalties. We reviewed a system-generated report of property taxes paid in September 2017 and penalties were assessed for each delinquent property tax payment.

**5.6 Municipal Division -
Ticket and bond
accountability**

Neither the Police Department nor the municipal division had developed adequate procedures to account for the numerical sequence or ultimate disposition of tickets issued. In addition, the Police Department did not retain copies of bond forms for monies transmitted to the former Court Clerk.

Recommendation

The City of Viburnum Municipal Division work with the Police Department to ensure the numerical sequence and ultimate disposition of all tickets issued is accounted for properly and bond forms are retained and accounted for properly.

Status

In Progress

The City of Viburnum Police Department now assigns ticket books to police vehicles rather than each officer to reduce the number of outstanding ticket books. The Police Chief indicated the new procedure helps ensure all tickets are tracked and the numerical sequence and ultimate disposition is accounted for properly. The Police Chief indicated issued tickets are entered into the police department records management system and he reviews the tickets weekly. At that time, he sends the tickets to the court for processing. The Police Chief indicated he is scheduling a meeting to discuss the handling of bond monies since the transition of the court operations to the Circuit Court. At that time, he will discuss with the Associate Circuit Judge, City Prosecuting Attorney, and Circuit Clerk the appropriate handling of bond monies and records.