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CITIZENS SUMMARY

Findings in the audit of the City of Leadwood

Improper Bonuses

The Board of Aldermen wasted public resources by improperly authorizing over \$100,000 in bonuses to themselves, the Mayor, and other city personnel. The Board improperly used Coronavirus State and Local Fiscal Recovery Funds (SLFRF) to pay the majority of the bonuses and city personnel did not process these payments through the city payroll process. The Board used 88% of the city's total grant expenditures received from September 2021 to May 2022 to fund a total of \$103,360 in improper bonuses.

Financial Condition

The financial condition of the city's General Fund is declining. The Board is not adequately monitoring the city's financial condition, is not receiving detailed information showing financial data for each fund, and has poor budgeting procedures. The report notes General Fund expenditures continuously exceeded revenues for fiscal years 2021-2024. The city does not track beginning and ending fund balances so they do not know what funds are available. Additionally, the city deposits restricted street, water, and sewer funds in the same account as General Fund money and does not separately track the funds. As a result, water and sewer funds are likely subsidizing the General Fund. The city's budget did not include all statutory requirements and the Board does not monitor the budget periodically to determine if the city exceeds budgeted expenditure amounts.

Restricted Funds

City personnel do not separately identify state motor vehicle-related money or related transactions in the General Fund. As a result, the city cannot ensure the money is only used for street-related expenditures as required or determine what portion of the General Fund balance represents restricted street-related monies as required by the Missouri Constitution. The city is comingling the water and sewer funds with the General Fund, making it hard to identify which money is for restricted use. Separate accounting of restricted funds is necessary to ensure compliance with state law. The city also does not maintain a listing of refundable customer security deposits to reconcile to balances held in the General Fund.

Sunshine Law

The city does not always comply with the Sunshine Law for open and closed Board meetings. The city did not list the reason for going into closed meetings, discussed topics not allowed, and failed to document roll call votes. The city held 39 closed meetings from April 2021 through March 2023 and classified 11 as emergency closed meetings. Meeting minutes and notices did not list the specific reason or section of law allowing the closed meeting for the 39 closed meetings held. During 24 of the 39 closed meetings reviewed, the Board discussed topics that were not allowable. The Board did not provide sufficient notice or opportunity to attend open meetings held by telephone as required. The city has not adopted a written policy regarding public access to city records, as required, or developed a log to track Sunshine Law requests.

Utility System Controls and Procedures

City personnel do not always shut off services when utility accounts are over 30 days past due and inform the Board about delinquent accounts, as required by ordinance. Additionally, the former Utility Clerk allowed customers to make partial payments without Board approval. The Board does not review or approve non-monetary utility adjustments and no one prepares a listing of adjustments posted to the system to compare to known or expected

adjustments. City personnel do not perform monthly reconciliations of total billings, payments received, and amounts remaining unpaid for utility services. The city has not obtained annual audits of its combined waterworks and sewerage system as required by state law and the United States Department of Agriculture bond agreement. The city last obtained an audit in 2019.

Bond Requirements

The city failed to comply with its 2018 bond covenants including a failure to maintain a separate fund for water and sewer revenues, allocate and restrict enough money to cover water/sewer system expenses, deposit 1/6 of its monthly debt service payment, approximately \$2,670, into a separate debt service account, have a surplus account to hold any money remaining from the Revenue Fund after expenses, and complete an annual budget containing all the requirements of Missouri law.

Accounting Controls and Procedures

The former City Treasurer did not prepare adequate or timely bank reconciliations. In addition, city personnel did not prepare bank reconciliations timely for any of the city's 9 bank accounts. The city has not established adequate procedures for receipting utility payments.

In the areas audited, the overall performance of this entity was **Poor**.*

*The rating(s) cover only audited areas and do not reflect an opinion on the overall operation of the entity. Within that context, the rating scale indicates the following:

- Excellent:** The audit results indicate this entity is very well managed. The report contains no findings. In addition, if applicable, prior recommendations have been implemented.
- Good:** The audit results indicate this entity is well managed. The report contains few findings, and the entity has indicated most or all recommendations have already been, or will be, implemented. In addition, if applicable, many of the prior recommendations have been implemented.
- Fair:** The audit results indicate this entity needs to improve operations in several areas. The report contains several findings, or one or more findings that require management's immediate attention, and/or the entity has indicated several recommendations will not be implemented. In addition, if applicable, several prior recommendations have not been implemented.
- Poor:** The audit results indicate this entity needs to significantly improve operations. The report contains numerous findings that require management's immediate attention, and/or the entity has indicated most recommendations will not be implemented. In addition, if applicable, most prior recommendations have not been implemented.



Recommendations in the audit of the City of Leadwood

Improper Bonuses

The Board of Aldermen:

- 1.1 Strengthen internal controls over all grant funds to ensure expenditures are allowable. In addition, discontinue paying employee bonuses. The Board work with legal counsel to determine the best course of action to recoup money paid as bonuses from the Coronavirus State and Local Fiscal Recovery Funds (SLFRF) funds, and either allocate the money towards allowable SLFRF expenditures, if possible, or repay funds to the grantor agency.
- 1.2 Establish procedures to ensure all compensation is paid through the city's payroll system, is properly reported, and payroll taxes are withheld and remitted to the appropriate taxing entity. In addition, the Board amend the W-2 forms for all employees whose income was not properly reported.

Financial Condition

The Board of Aldermen ensure detailed financial data is reviewed monthly; perform immediate and long-term financial planning; and closely monitor, and take necessary steps to improve, the city's financial condition. In addition, prepare annual budgets that contain all information required by state law and ensure the budgets are adequately monitored.

Restricted Funds

The Board of Aldermen determine the balance of motor-vehicle related revenues, the balance of the water and sewer revenues, and the balance of water security deposits in the General Fund and establish separate funds or separately account for these monies within the General Fund.

Sunshine Law

The Board of Aldermen:

- 4.1 Ensure specific reasons for closing a meeting are documented in the open minutes, only topics allowed by state law are discussed in the closed meeting, and votes taken in closed session are recorded by a roll call.
- 4.2 Ensure all Board meetings are held at a place and in a manner to accommodate and allow the public access to the meetings, proper notification and agendas for public meetings are given, and the reasons for holding emergency meetings are documented.
- 4.3 Develop a written public access policy, and maintain a public request log or other documentation to help ensure compliance with state law.

Utility System Controls and Procedures

The Board of Aldermen:

- 5.1 Ensure utility service is shut off in accordance with city ordinance. In addition, if the Board wants to allow partial payments, it should establish a written ordinance, review and approve customer payment agreements, and monitor delinquent accounts.

- 5.2 Establish policies and procedures to ensure all utility account adjustments are properly approved and compared to actual changes posted to the computer system, and documentation of the adjustments is retained.
- 5.3 Establish procedures to ensure monthly reconciliations are performed of amounts billed to amounts collected and delinquent accounts, and investigate significant differences.
- 5.4 Obtain annual audits of the water and sewer system as required by state law and bond agreement.

Bond Requirements	The Board of Aldermen ensure compliance with all bond covenants.
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Accounting Controls and Procedures	The Board of Aldermen: <ul style="list-style-type: none"> 7.1 Establish procedures to ensure monthly bank reconciliations are prepared properly and timely. 7.2 Establish procedures for receipting all utility payments and compare them to the daily system report and the deposit.
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