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CITIZENS SUMMARY

Findings in the audit of the City of Gallatin

Utility System Controls and Procedures	The city does not maintain a separate fund for the financial activity of the combined water and sewer systems, as required by bond covenants and state law. Currently, electric, water, and sewer transactions are accounted for in the Utility Fund. The city has historically violated bond covenants for its combined water and sewer system bonds by transferring surplus water and sewer revenues to the General Fund. From 2011 through 2014, approximately \$252,000 of water and sewer revenues were transferred to the General Fund. The board has no documentation of any discussions held or a basis for determining the amount to be transferred from the electric department to the General Fund, and from 2011 through 2014, approximately \$607,000 was transferred from the electric department to the General Fund. The city also allocated approximately 75 percent of the wages for the city administrator, city clerk, and deputy city clerk, totaling approximately \$85,000, to the Utility Fund (25 percent to each department - water, sewer, and electric) with no supporting documentation indicating how these amounts were determined. The city increased sewer rates in December 2012 and electric rates in September 2013 without preparing a statement of costs as required by law or maintaining documentation of how the rate increase was calculated. Additionally, some adjustments posted to customer utility accounts are not approved by the city administrator, in violation of city policy. The city does not track or restrict the balance of customer utility deposits in its financial records. Penalties are not properly assessed on delinquent sewer accounts.
Accounting Controls and Procedures	The city is not properly tracking and recording some restricted funds. The board has not adequately segregated duties or performed adequate reviews of the work performed by the city clerk or the deputy city clerk. The city has not established procedures to routinely follow up on outstanding checks.
Disbursements	The city does not have a formal bidding policy and bids were not solicited for several significant goods and services purchased in 2014. The board did not document its evaluation and selection of engineering services and professional services are obtained without the benefit of a competitive selection process. The city does not have adequate procedures to account for fuel used by the public works and police departments.
Payroll	Procedures have not been established to ensure IRS regulations are followed regarding uniform allowances and the police chief's additional compensation received for teaching the DARE program. As a result, the city may be subject to penalties and/or fines for failure to report all taxable benefits.
Missouri Public Energy Pool Disclosures	The city does not include any disclosure about its relationship with the Missouri Joint Municipal Electric Utility Commission and the Missouri Public Energy Pool or detail about the city's ownership interest in power generating facilities under construction or potential ownership costs in the city's financial statements. Such disclosures are necessary to comply with accounting standards for state and local governments and to fully disclose the financial arrangements, as well as potential, significant future debt, to citizens.

Lease Agreements and Policies	The former city administrator entered into a lease agreement with his father on behalf of the city. The lease agreement allowed the city to use salt bins owned by the former city administrator's father to store city salt used for street maintenance, but the board did not approve the lease agreement. In addition, the city has not adopted formal policies for a gun purchase program for police officers.
Budgets and Financial Reporting	Budget amendments are not prepared prior to incurring related expenditures and the budgets do not include beginning or ending cash balances. The city did not submit an annual financial report for 2014 to the State Auditor's Office.
Electronic Data Security	The city has not established adequate password controls to reduce the risk of unauthorized access to computer systems and electronic data. Passwords are not required to be changed on a periodic basis to help ensure they remain known only to the assigned user and to reduce the risk of a compromised password. In addition, security controls are not in place to lock a computer after a specified number of incorrect logon attempts.

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

*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.

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