



Thomas A. Schweich

Missouri State Auditor

City of Marshfield

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<http://auditor.mo.gov>



Thomas A. Schweich
Missouri State Auditor

CITIZENS SUMMARY

Findings in the audit of the City of Marshfield

Financial Condition	The General Fund balance has plummeted from almost \$1.4 million in 2008 to just over \$200,000 in 2012, and the Board of Aldermen was not aware of the severity of the General Fund's financial condition. The city used General Fund monies to cover costs which could have been paid from other funds, borrowed monies from restricted funds to cover unrelated costs, and has operated the Park Fund and bus transportation service at a loss without evaluating whether park fees charged are appropriate or conducting a cost-benefit analysis to determine whether the bus service provided is beneficial.
Financial Activity	The city does not properly account for restricted monies. The city commingles monies from various funds into one "pooled cash" bank account, from which it makes disbursements without considering the availability of monies for each fund, and it improperly used other restricted monies to cover deficits. The city has not implemented many of the recommendations made by its independent auditor, and the City Accountant was able to make adjusting journal entries without an independent review or approval.
Real Estate Purchases and Leases	The city owns several properties which it leases for minimal or no rental fees and holds several other properties for possible future use by a non-profit organization. The city entered a 10-year lease with one not-for-profit for \$1 per year plus free water and sewer services and holds three additional properties for possible future construction for this entity. The city leases four additional properties to other entities, two of which pay no rent, one which pays \$1 per year, and one which pays \$1 per month. Given the city's poor financial condition, it should conduct a cost-benefit analysis to determine whether it is in the city's best interest to continue owning these properties and/or leasing them at minimal rental rates.
Budgets and Financial Statements	City budgets do not include all the information required by state law, and the Board of Aldermen does not adequately monitor budget to actual receipts and disbursements. The city has not published semiannual financial statements, as required by state law, for at least 3 years.
Accounting Controls and Procedures	The city does not always issue receipt slips for monies received, use prenumbered receipt slips, restrictively endorse checks upon receipt, document the method of payment, or deposit monies received timely and intact. The city does not reconcile business licenses and permits issued to fees collected and amounts deposited and does not always charge fees in compliance with the Municipal Code. The city did not timely prepare invoices for park facilities rental, and six of the eight invoices reviewed contained errors causing the city to undercharge renters \$268. The city did not refund some overpayments timely.
Payroll Controls and Procedures	The city does not adequately segregate or supervise payroll duties, timesheets were not signed by most employees or supervisors, the city personnel manual does not address some significant issues, and the city has not adopted ordinances to establish the compensation of city officials and employees.

Written Contracts and Contract Compliance	The city does not always enter into written contracts with vendors and did not always effectively monitor contracts. The city has paid over \$50,000 for an updated comprehensive plan, but the document remains incomplete.
Disbursements	The list of bills approved by the Board is not complete, and the Board does not review or approve bank account closings or transfers. The city does not effectively monitor fuel use or verify the accuracy of fuel billings. Some city officials had conflicts of interest; former Alderman Noland also serves as Deputy Fire Chief but sometimes voted to approve disbursements for the city Fire Department, and the Public Works Superintendent approved purchases from a company owned by his cousin. The city did not competitively bid some purchases, did not always receive or retain documentation to support disbursements or show compliance with grant agreements, and did not timely pay several invoices. The city vendor list contained 18 duplicate vendor names, resulting in a duplicate payment to at least one vendor.
Computer Controls and Procedures	The city needs to improve its computer controls. Prior to January 2013, the City Accountant had unlimited access to information recorded in the accounting and utility billing system. In a three month period, the City Accountant accessed the administrative module containing all user identifications, passwords, and user rights 48 times with no apparent business need to do so.
Utility Controls and Procedures	The city did not investigate significant discrepancies between the gallons of water billed to customers and gallons of water pumped and does not track city water usage. In May 2012 alone, the city pumped 6.6 million more gallons of water than it billed to customers. As of October 2012, the city was holding deposits totaling \$3,770 on 50 inactive customer accounts and \$1,105 in customer overpayments on 39 inactive accounts.
Capital Asset and Insurance Procedures	The city lacks procedures to identify capital asset purchases and dispositions throughout the year, property is not tagged or numbered, and an annual physical inventory is not performed for items at city hall. The city has not obtained property insurance coverage for all city-owned property and does not require entities leasing city buildings to provide certificates of liability insurance.

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.

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THOMAS A. SCHWEICH

Missouri State Auditor

To the Honorable Mayor
and
Members of the Board of Aldermen
City of Marshfield, Missouri

The State Auditor was petitioned under Section 29.230, RSMo, to audit the City of Marshfield. We have audited certain operations of the city in fulfillment of our duties. The city engaged Decker & DeGood, Certified Public Accountants (CPAs), to audit the city's financial statements for the years ended December 31, 2012 and 2011. To minimize duplication of effort, we reviewed the report and substantiating working papers of the CPA firm for the year ended December 31, 2011, since the year ended December 31, 2012, audit had not been completed. The scope of our audit included, but was not necessarily limited to, the year ended December 31, 2012. The objectives of our audit were to:

1. Evaluate the city's internal controls over significant management and financial functions.
2. Evaluate the city's compliance with certain legal provisions.
3. Evaluate the economy and efficiency of certain management practices and operations, including certain financial transactions.

Our methodology included reviewing minutes of meetings, written policies and procedures, financial records, and other pertinent documents; interviewing various personnel of the city, as well as certain external parties; and testing selected transactions. We obtained an understanding of internal controls that are significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contract, grant agreement, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

We conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis.

The accompanying Organization and Statistical Information is presented for informational purposes. This information was obtained from the city's management and was not subjected to the procedures applied in our audit of the city.

For the areas audited, we identified (1) deficiencies in internal controls, (2) noncompliance with legal provisions, and (3) the need for improvement in management practices and procedures. The accompanying Management Advisory Report presents our findings arising from our audit of the City of Marshfield.

An additional report, No. 2013-10, *Thirtieth Judicial Circuit, City of Marshfield Municipal Division*, was issued in January 2013.

A handwritten signature in black ink that reads "Thomas A. Schweich". The signature is written in a cursive style with a large, sweeping initial 'T'.

Thomas A. Schweich
State Auditor

The following auditors participated in the preparation of this report:

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City of Marshfield Management Advisory Report State Auditor's Findings

1. Financial Condition

The General Fund is in poor financial condition. The Board of Aldermen failed to monitor the city's budget and cash balances, and as a result, was not aware of the severity of the General Fund's financial condition. In addition, the city improperly borrowed monies from restricted funds, including transportation sales tax, water, and sewer monies, to finance general operations. Also, the city used General Fund monies to subsidize the Park Fund and transportation services without completing a cost benefit analysis of these activities.

The General Fund balance significantly deteriorated from 2008 to 2012. General Fund revenues, expenditures, and fund balances for those years are noted below:

	Year ended December 31,				
	2012	2011	2010	2009	2008
Beginning fund balance	\$ 317,599	516,723	958,872	1,383,451	1,591,720
Revenues	1,992,213	1,933,464	2,073,689	1,912,684	2,042,204
Expenditures	(2,125,774)	(2,230,738)	(2,389,277)	(2,659,083)	(2,403,030)
Other financing sources (uses)	16,467	98,150	(126,561)	321,820	152,557
Ending fund balance	\$ 200,505	317,599	516,723	958,872	1,383,451

Information for the years ended December 31, 2008 through 2011, was obtained from independent audit reports. Information for the year ended December 31, 2012, was obtained from the city's unaudited financial statements.

The independent Certified Public Accountant (CPA) firm which completed the annual financial statement audit (independent auditor) identified an additional \$91,096 received in 2009 as committed and restricted. This results in an unrestricted fund balance of \$109,409 at December 31, 2012.

The city failed to record transfers between various funds in the accounting system which may further impact the unrestricted fund balance. In addition, restricted street revenues and police training fees maintained in the General Fund are not properly tracked and the portion of the fund balance related to these monies is unknown. Many funds established in the city's accounting system had negative balances at December 31, 2012. (See MAR finding number 2.)

Financial information

The Board of Aldermen does not receive and review accurate financial information, which would assist in effectively monitoring cash balances and the financial condition of city funds. In addition, accounting records and annual budgets are not accurate. (See MAR finding numbers 4 and 8.)

Allocation

The city failed to allocate some disbursements to all impacted funds, thereby unnecessarily using General Fund resources to cover costs which could legitimately be paid from other funds. For example, three disbursements reviewed could have been allocated to other funds, but were



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instead paid entirely from the General Fund. These were costs related to the payroll, accounts payable, and general ledger modules of accounting and utility billing software totaling \$17,602, though all city funds benefit from the implementation of these modules; audit services for 2011 totaling \$10,450, though all funds were audited and the audit was required for the Water, Sewer, and Transportation Sales Tax Funds; and plans related to an annexation totaling \$5,500, though only water and sewer information was documented in the plans. In addition, the city's allocation of fuel expenses incurred during 2012 was inaccurate and no fuel costs were allocated to the Sewer Fund. (See MAR finding number 8.)

During the year ended December 31, 2012, the city allocated 100 percent of the salaries and benefits of the City Administrator and City Accountant to the General Fund, though the activities performed by these employees affect all funds held by the city. Further, the city has no documented calculation or tracking of time to justify the allocation to various funds of salaries of employees who perform functions for multiple departments.

Interfund obligations

During 2008 and 2009 the city transferred monies from the Transportation Sales Tax Fund to the General Fund but did not track these monies. As a result, approximately \$1.3 million was owed from the General Fund to the Transportation Sales Tax Fund as of December 2012. In late 2012 the city reviewed General Fund disbursements for the past several years and determined that enough transportation related expenses have been paid from the General Fund since 2009 to offset this obligation. However, transfers from restricted funds to general funds should occur only for allowable and specific purposes, and reasons should be adequately documented. In addition, for the year ended December 31, 2011, the city recorded transfers from the Water and Sewer Funds to the General Fund totaling \$208,890 to cover General Fund shortages. No repayment to the Water and Sewer Funds was made in 2012 for 2011 transfers. (See MAR finding number 2.)

Subsidization

The city has historically operated the Park Fund at a loss and, according to city personnel, has not evaluated the amounts charged by the Park Department for registration fees, supplies provided by the city, or rental of pavilions and parks for several years. In addition, the city operates an on-demand bus transportation service at a loss and has not performed a documented cost-benefit analysis to determine whether the service is beneficial. The Park Fund had operating losses of \$112,274 and \$219,298 for the years ended December 31, 2012 and 2011, respectively. The city's transportation services had operating losses of \$42,974 and \$37,758 for the years ended December 31, 2012 and 2011, respectively. These transportation activities are accounted for within the city's General Fund. As a result, the General Fund subsidizes park and transportation operations and activities.



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Conclusion

It is essential the Board of Aldermen address the General Fund financial condition both in the immediate- and long-term future. To improve the financial condition, the Board should reevaluate amounts allocated to the General Fund, reduce spending as much as possible, address General Fund obligations to other funds, and evaluate controls and management practices to ensure efficient use of city resources. To effectively monitor cash balances and the financial condition of funds, and ensure appropriate use of restricted funds, the Board must receive timely and complete financial information. Activities of the city that operate at a loss should be carefully analyzed for ways to make them more cost effective. While it may be desirable to fund certain operations, funding should be reviewed periodically to ensure activities are operated efficiently and are in the best interest of the city.

Recommendation

The Board of Aldermen require accurate and timely financial reports be prepared, allocate disbursements when appropriate, and closely monitor the city's financial condition. Additionally, the Board of Aldermen should establish a plan to repay General Fund obligations to other restricted use funds, and periodically review operations of the city to ensure activities are operated efficiently and continue to be in the best interest of the city.

Auditee's Response

The Board of Aldermen provided the following written response:

The Board agrees with the auditor's recommendation and will continue to take action to improve the financial position of the General Fund. In November 2012, the Board adopted a resolution that requires the city to provide a revenue and expense versus budget report, a report of corrective journal entries, and a report of cash balances to the Board monthly. Within the 2013 budget, the Board made several changes that allocated disbursements based on fund involvement with the disbursements. An example is the allocation of legal services, audit expenses, and the cost for the City Administrator and City Accountant positions. In December 2012, the Board reviewed past years' allocations of transportation related expenses and determined the General Fund has incurred transportation related expenses in excess of the \$1.3 million transfer identified in the report and therefore, no outstanding obligation is due to the Transportation Sales Tax Fund. We will review the transfer from the Water and Sewer Funds to the General Fund and make a plan to repay these transfers in the future. In October 2012, the Board reviewed ridership and some financial information related to transportation services provided by the city. We plan to continue to review the cost and benefit of both the transportation services and the subsidization of the Park Fund.



2. Financial Activity

The city has not established adequate accounting records and procedures and has failed to implement prior audit recommendations related to inadequate financial procedures.

The City Accountant is responsible for establishing funds and accounts, and recording financial data in the accounting system including receipts, disbursements, transfers, and adjustments. The city hired a CPA not associated with the financial statement audit to complete monthly bank reconciliations. Several adjustments in addition to those made by the City Accountant are often necessary to complete the reconciliations. Reconciliations identify the cash balance for each established fund. Annually, the city's independent auditor performs the financial statement audit. To complete this work, the independent auditor combines some of these established funds into major funds and proposes transfers and other adjustments be recorded in the accounting records. Due to questions related to past transfers between the Transportation Sales Tax Fund and General Fund, the independent auditor issued a qualified opinion on the audited financial statements for the year ended December 31, 2011. The independent auditor also recommended improvements in the city's accounting for interfund loans and fund balances.

2.1 Restricted monies

The city operated with negative balances for some funds in the "pooled cash" account during the year, and financial information is inaccurate because the city does not record interfund transfers as they occur.

The city commingles monies from various funds in one bank account called "pooled cash." The city made disbursements for grant projects, an annexation project, and the General and Park Funds from the "pooled cash" account without considering the availability of monies in this account for each fund. As a result, these fund balances in the "pooled cash" account are negative and restricted Debt Service, Water, Sewer, and Cemetery Fund monies were used improperly to make these disbursements. No transfers were recorded between these funds and no determination of which fund was used to cover these negative balances was made at the time of the disbursement. Instead, the independent auditor prepares proposed transfers when completing the annual financial statement audit, often months after the end of the year. For example, for the year ended December 31, 2011, the city recorded proposed transfers from the Water and Sewer Funds to the General Fund totaling \$208,890 to cover General Fund shortages. As of December 31, 2012, no repayment to the Water and Sewer Funds had been made for these transfers.



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As of December 31, 2012, the reconciled cash balance of the "pooled cash" account showed the following balances:

Fund	Balance
General Fund	\$ (97,630)
Water Fund	283,116
Sewer Fund	61,087
Cemetery Fund	149,126
Park Fund	(50,659)
Enhancement Grant I (Sidewalks)	(94,157)
Enhancement Grant II (Sidewalks)	(116,858)
LWCF Grant	(34,042)
Safe Room Grant	(23,365)
I-44 Corridor Federal Grant	(9,017)
Sewer Fund Debt Service	236,067
McNabb Road Annexation	(164)
Water Fund Debt Service	484,384
Reconciled account balance	\$ 787,888

We noted the following additional issues related to the use of restricted funds:

- The city transferred monies from the Transportation Sales Tax Fund to the General Fund but did not track these monies. In 2012, the city hired a CPA to complete a detailed review of all Transportation Sales Tax receipts and disbursements since implementation of the tax in 2005. The CPA determined the city inappropriately transferred \$939,743 from the Transportation Sales Tax Fund to the General Fund in 2008 for unknown reasons, and inappropriately transferred \$350,000 from the Transportation Sales Tax Fund to the General Fund in 2009 to purchase a new fire engine.
- The city did not always record disbursements related to grant projects in the appropriate grant fund. For example, a disbursement totaling \$9,797 for work completed by an engineer on the I-44 Interchange Study was incorrectly recorded in the Phase I Enhancement Grant (Sidewalk Project) Fund.
- During the year ended December 31, 2012, the city deposited state motor vehicle-related receipts of \$237,741 and Police Officer Standards Training (POST) and Law Enforcement Training (LET) fees totaling approximately \$1,300 into the "pooled cash" account, to the credit of the General Fund without tracking the receipts, disbursements, and balances of these restricted monies.



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- Donations received by the city for a sidewalk improvement project were not adequately tracked or identified as restricted monies. A 2005 grant proposal showed \$27,900 in donations pledged as matching funds from area businesses, associations, and citizens for this project. A January 2008 report of revenues shows the city recorded two donations received for this project in 2007 and 2008 totaling \$12,900 to the General Fund. The city was unable to determine if other monetary donations were received or specifically account for the use of donated monies.
- The city incorrectly reported negative lodging tax receipts totaling \$1,108 during the year ended December 31, 2012. As lodging tax monies are received, they are immediately disbursed to the Chamber of Commerce. The city recorded \$12,819 in lodging taxes. However, due to the city's recording of disbursements totaling \$13,927 as negative receipts, accounting records reflect a negative receipts amount.

Section 250.150, RSMo, restricts the use of water and sewer monies for operating the systems, payment of bonds, establishment of a reserve, fulfillment of any agreements contained in ordinances, and payment of costs of improvements of such systems. Section 137.1040(4), RSMo, restricts the use of cemetery monies for the maintenance, upkeep and preservation of cemeteries located within the city. Section 94.745, RSMo, restricts the use of transportation sales tax monies for transportation purposes. Article IV, Section 30, Missouri Constitution, requires motor vehicle-related receipts apportioned by the state of Missouri be disbursed for street-related purposes. Section 488.5336.2, RSMo, requires POST and LET fees be used only for the training of law enforcement officers.

To be of maximum assistance to the Board and adequately inform the public, accounting records should accurately report financial activity and account balances. To ensure restricted monies are used for the intended purpose, monies received should be credited to the appropriate fund, disbursements should be paid from the appropriate funds, and adjustments and transfers should be recorded timely to reflect actual financial decisions of the city.

2.2 Corrective action

The city failed to implement many recommendations made by the independent auditor who performed the city's financial statement audit for the past 5 years. Weaknesses identified in the audit of the financial statements for the years ended 2010 and 2011 included negative cash balances, lack of control over federal funds, not properly accounting for transfers between funds, purchasing policy noncompliance, and lack of segregation of duties. The city generally responded recommendations would be addressed; however, many of the weaknesses identified are similar to those noted in our report and likely contributed to the city's financial condition.



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2.3 Adjustments

Adjustments recorded in the accounting system by the City Accountant are not reviewed or approved by someone independent of administering the accounting system. Between October 1 and December 31, 2012, the city accountant recorded 51 adjusting journal entries totaling more than \$1.6 million, without a documented review or approval of these entries. To ensure adjustments are valid, someone independent of receiving and recording functions should review and approve all adjustments.

Recommendations

The Board of Aldermen:

- 2.1 Establish procedures to ensure restricted monies are used only for allowable purposes and accounting records accurately reflect the financial activity of the city. In addition, the Board should correct errors and identify and review restricted fund activity.
- 2.2 Implement audit recommendations timely.
- 2.3 Require an independent review and approval of all adjustments.

Auditee's Response

The Board of Aldermen provided the following written responses:

- 2.1 *The Board continues to identify and implement procedures that protect restricted funds receipts from uses other than what the funds are intended. The city has already moved the Transportation Sales Tax Fund into a separate bank account. The city will continue the separation of the "pooled cash" account to further restrict the cross use of funds. As the Board has responded to finding 1, we have reviewed the \$1.3 million transfer from the Transportation Sales Tax Fund to the General Fund, and have determined the General Fund has incurred transportation related expenses for the Transportation Sales Tax Fund and no outstanding obligation is due. We plan to repay the Water and Sewer Funds in the future. The city has engaged an independent CPA not associated with the annual independent audit to prepare corrective journal entries for the errors identified in this report. The city will continue until all identified errors are corrected. The end of month revenue and expense report will show the Board the activities of all funds, including restricted funds.*
- 2.2 *We are being more diligent in implementing recommendations of the Independent Auditor.*
- 2.3 *The City Administrator now receives and reviews all journal entries and the Board receives and reviews all corrective journal entries monthly.*



3. Real Estate Purchases and Leases

The city leases properties for minimal or no rental fees and is holding additional property for possible future use by a not-for-profit organization (NFP) despite the city's poor financial condition.

The city owns properties for the benefit of a local NFP without a documented plan for usage of the land or a cost-benefit analysis. The city leases one property (land and building) to the NFP. The city entered into a written agreement in September 2005 to lease the property to the NFP for 10 years, with rental fees of \$1 per year and free water and sewer services. This agreement outlines additional non-monetary benefits received by the city, such as the preservation of home bound meal services for area residents. According to city officials, this agreement formalized a long-standing arrangement that originated in the 1970s.

In addition, the city is holding three additional properties for possible future construction of a facility for the NFP. In the 1990s, the NFP expressed interest in a parcel of unused city property for construction of a new facility. The facility was not built on the property and the city continues to hold this land for the NFP. In April 2011, the NFP approached the city regarding the purchase of another parcel of land for future construction of the NFP's facility. The city purchased the property (land and house) for \$24,000 in April 2011, without obtaining an appraisal. Then, in September 2011, a financial institution contacted the city to see if the city would be interested in purchasing the adjacent property. The NFP expressed interest in this location for additional space needed for its facility and the city noted other possible uses for the property, including a community center and storm water improvements. The city purchased this property (land and house) in October 2011 at a cost of \$28,500. Per city officials, the land purchases were made because they believed a new facility for the NFP would provide a benefit to the city; however, no analysis was documented.

The city also leases four additional properties to another NFP, a government agency, and a private business for minimal or no rental fees and one agreement has not been formalized through a written contract. No cost-benefit analysis has been completed for these leases. The city received \$1 per month as rental fees for lease of one property, \$1 per year as rental fees for lease of one property, and no rental fees for lease of the other two properties.

To ensure efficient and effective use of city resources, the Board should have a documented plan, including a cost-benefit analysis, for the utilization of city owned properties. Good business practice requires real estate purchases be formally and independently appraised to ensure a reasonable price is paid. While leasing properties to other entities may provide some benefit to the city, adequate planning and cost-benefit analysis is needed to ensure the best use of city property.



Recommendation

The Board of Aldermen develop plans for the utilization of city owned property and ensure associated costs are considered and a cost benefit analysis is performed when leasing properties. The Board should also better plan for future real estate purchases and projects, and ensure independent appraisals are obtained prior to the purchase of real estate.

Auditee's Response

The Board of Aldermen provided the following written response:

The Board of Aldermen have initiated a process of identifying and acquiring copies of all lease agreements or lack of; and will perform a cost benefit analysis on each property. The Board plans to prepare a property management plan so that periodic reviews of agreements and insurance requirements are met. The Board recently sold one property leased to a not-for-profit (nfp) to the county and traded two additional properties held for the nfp with the Marshfield Housing Authority for land to build an area storm water retention basin. Independent appraisals were obtained for these transactions.

4. Budgets and Financial Statements

Budget preparation and financial reporting need improvement.

4.1 Budgetary compliance and monitoring

City budgets do not include all statutorily required information and the Board does not adequately monitor budget to actual receipts and disbursements.

Compliance

City budgets do not include a budget message or budget summary, the actual beginning and estimated ending fund balances, or city indebtedness. Because the city does not include beginning or estimated ending cash balances on the budget, the Board cannot determine if it is budgeting a deficit balance, and the budget does not present a complete financial plan.

Monitoring

The city has not established adequate procedures to monitor or amend budgets. On December 27, 2012, after disbursements already exceeded budgeted amounts in the Sewer Fund and several grant funds, the Board amended the budget to increase total budgeted disbursements by approximately \$170,716 (3 percent) for the year ended December 31, 2012. Even with this late budget amendment, disbursements exceeded budgeted appropriations for the Sewer Fund by approximately \$55,000.

In addition, the 2012 budgeted information was not recorded in the city accounting system correctly, causing any budget to actual reports generated to be inaccurate. For example, while the Board approved budgeted



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appropriations of \$214,459 for the Fire Department, the city recorded budgeted appropriations of \$229,076 in the accounting system.

Conclusion

Sections 67.010 to 67.040, RSMo, outline requirements for the format of the annual operating budget, require the budget present a complete financial plan for the ensuing budget year, require political subdivisions to keep disbursements within amounts budgeted, and allow for budget increases after the governing body officially adopts a resolution setting forth the facts and reasons. In addition, Section 67.080, RSMo, provides that no disbursement of public monies should be made unless it is authorized in the budget.

A complete and well planned budget, in addition to meeting statutory requirements, can serve as a useful management tool by establishing specific financial expectations for each area of city operations and provides a means to effectively monitor actual receipts and disbursements by periodically comparing budgeted to actual amounts and prior year information. It also assists in informing the public about city operations and current finances.

4.2 Financial statements

The city has not published semiannual financial statements as required by state law for at least 3 years. Section 79.160, RSMo, requires the Board of Aldermen to prepare and publish a full and detailed account of the receipts, disbursements, and indebtedness of the city semiannually. Complete and accurate financial statements are necessary to keep citizens informed of the financial activity and condition of the city. In addition, Section 79.165, RSMo, states the city cannot legally disburse funds until the financial statement is published.

Recommendations

The Board of Aldermen:

- 4.1 Ensure budgets comply with state law and include the most up to date information. In addition, the Board should establish procedures to properly monitor actual to budgeted activity, and ensure any budget amendments are made prior to incurring related disbursements.
- 4.2 Ensure semiannual financial statements are published in accordance with state law.

Auditee's Response

The Board of Aldermen provided the following written responses:

- 4.1 *The 2013 Budget, as approved, includes all the elements required by the state and was published for the first time. As stated before the Board now receives an end of month report that gives them actual to budgeted activity. The Board also receives any budget*



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amendment prior to or with any expected disbursement that may cause the fund to exceed the annual budget level.

4.2 *The city plans to prepare and publish mid-year financial statements in September 2013.*

5. Accounting Controls and Procedures

Accounting controls and procedures need improvement. The city has multiple cash collection points which collect over \$2.8 million annually (excluding the municipal court).

The various collection points include the City Collector, Building Inspector, Parks Department, Cemetery Superintendent, Public Works Department, Police Department, Fire Department, and City Accountant. All monies collected regardless of collection point are transmitted to the City Collector for deposit.

5.1 Receipting, transmitting, and depositing procedures

We noted the following areas of concern related to receipting, transmitting, and depositing:

- Receipt slips are not issued for some monies received. In addition, the City Collector does not issue receipt slips for monies transmitted from other city departments.
- Receipt slips issued for building permits and water deposits are not prenumbered.
- The method of payment is not always documented on utility stubs used to receipt utility payments and is not recorded in the utility billing system. Therefore, the composition of receipts cannot be reconciled to either the accounting system or deposits.
- Checks are not always restrictively endorsed upon receipt.
- Monies collected are not always timely transmitted to the City Collector for deposit. For example, five checks received by the Fire Department totaling \$585, dated between September 12 and September 24, 2012, were not transmitted until October 16, 2012. In addition, some city departments routinely withheld payments from transmittals. For example, the Parks Department held a \$185 check dated September 6, 2012, until October 11, 2012, when the check was returned to the payor because the city decided not to host the event. No receipt slip was issued for this payment. Also, Public Works employees do not properly secure monies collected after hours (for reconnections when city hall is closed). Employees took monies home, instead of securing them at City Hall or the Public Works Department, before transmitting the monies to the City Collector.



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- Receipts are not always deposited timely and intact. Cash and checks totaling \$131 and dated in 2006, 2007, and 2009 were found unrecorded and undeposited in the City Collector's cash register during a cash count completed on October 10, 2012.

Failure to implement adequate receipting, transmitting, and depositing procedures increase the risk that loss, theft, or misuse of monies received will occur and go undetected.

5.2 Business licenses and building permits

Business licenses and building permits are not prenumbered, and there is no procedure to reconcile business licenses and building permits issued to fees collected and amounts deposited. Also, fees charged were not always in compliance with the Municipal Code. For example, the city charged \$750 for 6 of the 13 water tap-in permits sold in 2012 instead of the \$700 required by Municipal Code. In addition, if business licenses are purchased after November, the City Clerk only charges half the required fee although there is no provision within Municipal Code allowing this reduction. Without proper controls and compliance with Municipal Code, the possibility of loss, theft, or misuse of monies increases.

Prenumbered documents allow for proper accountability over licenses and permits, and enable the reconciliation of issuances to monies received and deposited. Adherence to Municipal Code is necessary to ensure individuals or entities are treated equitably and provide assurance transactions are accounted for properly.

5.3 Park fees and refunds

Parks Department invoicing and refunding procedures are not adequate. Individuals or groups renting park facilities are charged for electricity usage, licensing, and other services or supplies provided by the city (trash bags, lime, etc.). Registration fees are paid by individuals for park activities including soccer, swimming lessons, swim team, and youth baseball.

Invoices do not include an invoice or due date. The city did not prepare invoices for events that occurred between May and October 2012 until December 2012, and six of the eight invoices contained mathematical errors causing the city to undercharge renters a total of \$268.

In addition, the city identified refunds due to various individuals for overpayment of registration and rental fees paid in early 2012. Cash refunds totaling approximately \$2,200 were made between June and October 2012; however, the remaining refunds, totaling approximately \$1,500, were not made until February and March 2013. To increase collectability and decrease billing errors, invoices should be prepared timely and reviewed for accuracy. In addition, to properly monitor customer accounts and ensure records are accurate, overpayments should be refunded timely.



Recommendations

The Board of Aldermen:

- 5.1 Require prenumbered receipt slips or utility stubs, documenting the method of payment, be issued for all monies received including transmittals received by the City Collector's office. The Board should also ensure checks are restrictively endorsed immediately upon receipt, maintained in a safe location, and deposited intact and in a timely manner.
- 5.2 Issue prenumbered business licenses and building permits and account for the numerical sequence, reconcile licenses and permits issued to fees recorded and deposited, and ensure fees charged are supported by Municipal Code and charged consistently.
- 5.3 Invoice park rental fees and issue refunds timely and ensure invoices are complete and accurate.

Auditee's Response

The Board of Aldermen provided the following written responses:

- 5.1 *The city purchased and installed the Receipt Management (RM) module of the city accounting system in 2013. The RM addresses each identified concern noted in 5.1 of this report. Checks are endorsed for deposit and the funds are coded for recording in the appropriate fund. All monies collected during the day are entered into RM and an evening deposit is made. All after hours collection of monies for turning on water service will be deposited nightly in the City Hall night deposit box.*
- 5.2 *The city now issues prenumbered building permits and sequentially numbered business licenses and each line of fees or deposits collected have been coded into RM, after verification, as the amount charged from Municipal Code.*
- 5.3 *The city continues to improve on this item and has been aided by the RM system in the Parks department. In the future, the city will ensure refunds are made timely.*

6. Payroll Controls and Procedures

Significant improvement over payroll controls and procedures is needed. The city disburses over \$1.4 million for salaries annually.

6.1 Payroll procedures

Payroll duties are not adequately segregated or supervised, and reviews of time records are not sufficient. Errors were noted with some time and leave records.



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- The City Accountant is primarily responsible for all payroll functions, including receiving time records (time cards, timesheets, and time summaries) and entering time and leave data into the payroll system. The City Accountant also completes the direct deposit transaction authorizing the bank to direct deposit into employee accounts. Neither the Board nor a supervisor or employee independent of these processes reviews the City Accountant's work or approved payroll reports.

Because of the extent of the City Accountant's responsibilities over payroll, a supervisory review of the City Accountant's time and leave records is essential; however, such a review was not always completed or documented. As a result, errors occurred without being detected. For the 2 weeks ended August 17, 2012, the former City Accountant recorded time worked totaling 70.5 hours and compensatory leave used totaling 4.5 hours, for a total of 75 hours; however, she was paid her normal salary for 80 hours worked.

- Timesheets and timecards were not signed by most employees or by most supervisors to document approval of time worked and leave used. A review of supporting documentation available for seven sewer department employees between January 1 and October 31, 2012, determined 22 errors in the calculation of vacation leave balances, 9 errors in the calculation of sick leave balances, and 26 errors in the calculation of compensatory leave balances. A careful review of time sheets by the City Accountant and/or supervisors would likely have detected these errors.
- The Police Department does not submit time records to the City Accountant to support payroll disbursements and provide information needed for updating centralized leave records. The City Accountant enters data into the payroll system and does not track any leave for the Police Department. As a result, any adjustments needed to regular pay amounts are not made and there is less assurance leave records are accurate.

Proper segregation of duties helps ensure all payroll transactions are accounted for properly and assets are adequately safeguarded. If proper segregation of payroll duties cannot be achieved, a periodic independent review of the records should be performed and documented. Without a review of payroll documentation, errors, theft, or misuse of city resources could go undetected. Original signed and approved timesheets are necessary to document hours worked, substantiate payroll disbursements, provide the city with a method to monitor hours worked and leave taken, and are beneficial in demonstrating compliance with Fair Labor Standards Act of 1938 (FLSA) requirements.



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6.2 Personnel policies

The city personnel manual does not address some significant issues and the city does not always comply with the manual.

- The city personnel manual does not address when some vacation leave is credited. In addition to the 12 days of vacation leave awarded annually to all employees who have worked more than 2 years for the city, employees earn an additional day of vacation leave after working 9 years for the city, and continue to earn an additional day for each year of service until 20 years of service. No additional leave is earned for any additional years of service after 20, so a maximum of only 12 additional vacation days is possible.

While the original 12 days of vacation leave is accrued on a monthly basis (1 day each month) in accordance with the established personnel manual, the accrual of additional vacation leave is not addressed in the personnel manual and therefore, some employees accumulated the entire balance of additional leave on January 1 of each year, regardless of employment anniversary month, while other employees accumulated the entire balance of additional leave on the month of their employment anniversary. As a result, employees with leave balances credited on January 1 received additional time to use their leave. Additional leave earned was also incorrectly calculated for some employees in January 2012 and the error was not identified or corrected by the city until August 2012. For example, one employee, who had served more than 20 years, was awarded 25 days of additional vacation leave on January 1, 2012, 12 days more than allowed by policy.

- The city personnel manual states employees may not accumulate more than 60 hours of compensatory leave. The city identified several employees with excess leave accumulations in May 2012 and took steps to lower compensatory leave balances below the allowed maximum. Despite efforts to reduce balances the city did not establish a system to continuously monitor compensatory leave, and by October 2012 compensatory leave balances of three employees again exceeded the limit including one employee with an accumulated balance exceeding 120 hours.

Strict compliance with personnel policies is necessary to ensure employees are treated equitably and are properly compensated. In addition, detailed written policies are necessary to provide guidance to city employees, provide a basis for proper compensation, ensure equitable treatment among employees, and avoid misunderstandings.

6.3 Compensation ordinances

The city has not adopted ordinances to establish the compensation of city officials and employees. Sections 79.270 and 79.290, RSMo, require the Board of Aldermen to fix the salaries of all city officials and employees by



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ordinance. Compensation ordinances not only ensure compliance with state law, but also help prevent misunderstandings.

Recommendations

The Board of Aldermen:

- 6.1 Adequately segregate payroll duties or, at a minimum, ensure a documented review of these functions is performed on a periodic basis by someone independent of the payroll functions. The Board should ensure timesheets are prepared, properly signed, approved, and retained for all employees and the information is reviewed for accuracy prior to entry into the accounting system.
- 6.2 Ensure the city's personnel manual includes essential city policies and procedures, and ensure compliance with those policies and procedures.
- 6.3 Establish the compensation of all city officials and employees by ordinance.

Auditee's Response

The Board of Aldermen provided the following written response:

- 6.1 *Starting in 2013, the City Administrator reviews the department superintendents' and all direct report employees' timesheets for accuracy. All employees, including the Police Department, now prepare time records, which are signed by the employee and are reviewed for accuracy by supervisors before entering into the payroll system. Once all timesheets are entered, a trial report is reviewed by the City Administrator and gross pay is checked against the previous pay period. The payroll claim report is then signed by the City Administrator and retained.*
- 6.2 *The city has now added the vacation accrual rates into the payroll accounting system so that compliance with policy is met. We have also implemented a monitoring system to ensure accumulated compensatory leave balances do not exceed the maximum allowed by policy.*
- 6.3 *The Board is in the process of reviewing job descriptions for all positions and once complete will adopt comprehensive pay scales for each position through an annual Ordinance.*



7. Written Contracts and Contract Compliance

The city does not have written contracts with some service providers and the city's contract monitoring procedures need improvement.

7.1 Written contracts

The city does not always enter into written contracts defining services and benefits received.

- The city entered into oral agreements with several existing service providers during 2012, including the purchases of information technology services totaling \$39,327, audit services totaling \$20,900, veterinary services totaling \$14,559, cleaning services totaling \$10,065 and accounting services totaling \$5,548.
- The Board approved a lodging tax in August 2004. The city has an informal arrangement with the Chamber of Commerce to operate a convention and visitors bureau in exchange for these monies and paid the chamber \$13,927 in 2012 to provide this service. No written agreement was established with the chamber, as required by city ordinance.
- The city does not have a written agreement with the Marshfield Fire Protection District regarding financial responsibilities. In 2006, a separate political subdivision, the Marshfield Fire Protection District, was organized (formerly a rural fire department). A decision was made at that time for the city's full-time fire chief to serve as the fire chief for both the City of Marshfield Fire Department and the Marshfield Fire Protection District and for the city to pay the chief's entire salary. All volunteers, cadets, and reserves also work for both entities. These employees are paid on a per-call basis by both entities, based on the location of the call worked. In August 2011, a written joint response plan was adopted, which allows both entities to use assets, equipment and personnel of the other entity to respond to any call; however, this plan does not outline the financial responsibilities of each entity for costs related to the assets, equipment, and personnel. The city paid a total of \$201,199 in expenses related to fire protection during the year ended December 31, 2012. The city does not know the amount of expenses paid by the fire protection district.

Clear and detailed written contracts, including reporting requirements and provisions to allow for proper monitoring, are necessary to ensure all parties are aware of their duties and responsibilities, prevent misunderstandings, and ensure city monies are used appropriately and effectively. Section 432.070, RSMo, requires contracts for political subdivisions to be in writing.



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7.2 Monitoring contracts

The city did not always monitor contracts effectively.

- The city contracted with an engineering firm in March 2008 to update the city's comprehensive plan. The comprehensive plan, which provides recommendations for physical development (maps; plats; present and future land uses; and infrastructure repair, replacement and maintenance of existing infrastructure) and zoning of the city, has not been updated since 2001. The contract provided for a fee of \$46,500. However, due to lack of progress, the city terminated the agreement in September 2009, after having paid \$14,283 to the firm. In January 2010 the city contracted with a new engineering firm to provide the same service and agreed to pay up to \$35,000. In November 2010, the city was notified the original engineering firm, which the city had fired in 2009, had acquired the new engineering firm and the original engineering firm assumed the second contract. As of December 31, 2012, the city had paid \$36,000 on the second contract, \$1,000 more than required, for a total of \$50,283 for this project and the city did not have a finalized comprehensive plan document. The firm drafted some areas of the plan; however, information gathered for the project through citizen surveys is dated and may no longer be useful or accurate. The City Administrator indicated he does not consider the document useful and the document remains incomplete.
- The city entered into a contract in April 2009 with a local company which agreed to maintain a minimum average number of full time jobs over 5 years (2009 through 2013) in exchange for 6.18 acres of city-owned land in the industrial park area. The written agreement requires the company to provide documentation of the average number of full time jobs maintained; however, the city did not receive this documentation in 2010, 2011, or 2012. As a result, the city has not properly monitored the contractual requirements. The city had no documentation of any attempt to request or gather the required information prior to a June 2012 Board meeting, when the newly elected Mayor reported this non-compliance to the Board. The Mayor explained at the June 2012 Board meeting she had contacted the company and anticipated a report would be filed with the city soon. As of December 31, 2012, no report had been filed.
- The city entered into a contract in July 2009 to lease the recycling center to a local sheltered workshop for \$1 per month for 18 months. Although this contract expired in December 2011, the city allowed the sheltered workshop to occupy the building until December 2012 without an updated contract. This arrangement no longer exists.



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Closely monitoring contractor performance and compliance with contract terms is important to ensure limited city resources and assets are used wisely and that expectations of city officials and the public are met.

Recommendations

The Board of Aldermen:

- 7.1 Enter into written agreements defining services provided and benefits received. In addition, the Board should ensure written agreements include reporting requirements when city monies are paid for a specific purpose and allow for proper monitoring of contract requirements.
- 7.2 Monitor contracts for compliance and ensure satisfactory progress by contractors prior to payment.

Auditee's Response

The Board of Aldermen provided the following written response:

These recommendations have been implemented. The Board of Aldermen have initiated a process of identifying and acquiring copies of all contracts or lack thereof; and have begun identifying requirements of the contracts and services to be provided. The Board will prepare a contract management plan so that periodic reviews of contract requirements are met.

8. Disbursements

Weaknesses exist in controls and procedures over disbursements.

8.1 Approval process and oversight

The approval process for disbursements and oversight of bank account activity is not adequate.

- The list of bills approved by the Board each month is not complete, and a comparison of this list to approved invoices and the actual checks written is not performed. The list of bills does not include payroll or some non-payroll expenditures, and some amounts listed are not accurate. The July, August, and September 2012 list of bills did not include \$266,363 in payroll and \$393,600 in non-payroll related disbursements, which together represent 50 percent of total disbursements. The types of non-payroll disbursements omitted varied each month.
- The Board does not review or approve the closing of bank accounts or transfers between bank accounts. Between January and April 2012, the City Accountant closed five bank accounts containing restricted water, sewer, and cemetery funds totaling approximately \$332,700, and deposited those funds into the pooled cash account without Board approval. Also, between July and December 2012, the City Accountant made 30 online banking transfers, totaling more than \$420,500.



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Transfers were made between bank accounts containing restricted funds without documented supervisory approval and from the pooled cash account using online banking to pay vehicle lease payments totaling \$6,436. As a result of using this payment method the Board did not approve these disbursements.

- Some invoices were not approved prior to payment and purchase orders were not always approved prior to the date of purchase. The numerical sequence of purchase orders issued is not tracked. City purchasing policy requires purchase orders for some purchases and excludes certain types of transactions from the policy (bond payments and fees, utilities, utility customer refunds, employee benefits, postage, drug testing, professional services, and sales tax remittance). Of 19 disbursements reviewed not requiring a purchase order, 14 disbursements totaling approximately \$162,900 were made without documented approval of the invoice. In addition, of 27 disbursements reviewed which required purchase orders, 9 of the purchase orders completed were approved after the date of purchase.

Payment of invoices without documented approval from a department head and/or the City Administrator and a properly completed purchase order increases the risk of paying for goods or services not actually received.

To ensure disbursements and transfers are appropriate, the Board should require complete and accurate financial information be provided for its review and approval. The Board should also develop policies and procedures to review and approve bank account closures and transfers.

8.2 Fuel and usage records

The city does not effectively use available information to evaluate appropriateness of fuel use, verify accuracy of fuel billings, and properly allocate fuel costs to various city departments. The city uses a combination of bulk fuel tanks and fuel cards to provide fuel for city vehicles and equipment. The city requires bulk fuel pumped to be recorded on department logs kept at the tanks. The logs document the employee pumping fuel, vehicle number, mileage, date, number of gallons and description of equipment for each fill. Vehicle and equipment logs are also maintained in each vehicle and document date of vehicle use, employee using the vehicle, beginning and ending odometer readings, purpose of use, indication of business or personal use, gallons of fuel pumped, and odometer reading at time of fueling. Combined fuel use recorded on bulk fuel department and vehicle and equipment logs should represent total fuel use (from bulk fuel tanks and fuel cards) for a given time period and provide a basis for the allocation of related costs. Fuel purchases totaled \$87,987 during the year ended December 31, 2012.



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- The flow meter installed on the bulk fuel tank tracks the amount of fuel pumped per fill but not the overall flow from the tank. As a result, the city cannot reconcile total fuel pumped from the tank to bulk fuel purchased or fuel usage records maintained at the tank.
- The City Accountant does not reconcile usage records to individual vehicle and equipment logs to ensure fuel use is for a business purpose or to support the allocation of fuel costs.
- Calculations completed to allocate fuel costs are inaccurate. The City Accountant used bulk fuel logs and fuel card invoices to allocate total fuel purchases to each department. The worksheet used identifies the department, total gallons pumped for each department, and the cost per gallon. The total gallons pumped by each department multiplied by the various per gallon prices should equal the total bulk and fuel card purchases. If the amounts do not equal, the differences should be investigated. However, rather than investigating the differences the price per gallon of fuel purchased or number of gallons shown as pumped by each department were arbitrarily adjusted so that total fuel costs were allocated. As a result, inaccurate amounts were charged to each department.

For example, in March 2012 the City Accountant inflated the price per gallon charged to departments. Departments were charged \$5.81 per gallon for gasoline and \$4.40 per gallon for diesel fuel used, although fuel tickets for the same billing period show a cost of \$3.19 per gallon for gasoline and \$3.36 per gallon for diesel fuel. Also, the City Accountant increased the number of gallons used by the Police Department from 599 gallons (number of gallons actually recorded as used by the department on bulk fuel department logs) to 744 gallons, to account for 145 gallons of unaccounted for gallons on the June 2012 calculation of costs allocated to each department.

- The City Accountant unnecessarily combined bulk fuel and fuel card purchases to calculate the allocation of fuel costs. Fuel card invoices identify individual vehicle and equipment usage and costs. For example, a fuel card is used for all fuel purchased for the city bus. In May 2012, the fuel card statement showed 278 gallons of gasoline costing \$910 was purchased for the bus; however, after the allocation was completed, only \$727 was allocated as fuel expense to the bus department.

Procedures for reviewing fuel used and reconciling use to fuel purchased and on hand, are necessary to ensure the reasonableness and propriety of fuel use and disbursements. Proper allocation of fuel costs is needed to ensure city departments and funds are assessed the appropriate amount.



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Failure to account for fuel purchases could result in theft and misuse of fuel going undetected.

8.3 Conflicts of interest

Former Alderman Noland, who served on the Board until April 2012 and who also serves as Deputy Fire Chief and receives payment for fire calls, did not always abstain from the approval of disbursements made for the operation of the city Fire Department. For example, he voted to approve the purchase of a sport utility vehicle in January 2012. The Marshfield Fire Protection District and city Fire Department split the associated costs. The city paid \$14,700.

The Public Works Superintendent approved purchases of ready mix totaling \$14,135 from a company owned by his cousin. The Public Works Superintendent indicated other companies were contacted and goods were purchased based upon availability; however, no supporting documentation of this process was maintained. The Public Works Superintendent provided the only approval for approximately \$11,000 of the \$14,000 paid to this vendor during 2012.

Board members serve in a fiduciary capacity and approving disbursements to a department for which they work, could create a conflict of interest. Also, personal interests by employees in business matters of the city could create actual or the appearance of conflicts of interest and should be avoided.

8.4 Bidding

The city does not always comply with its own purchasing policy. City policy requires city officials to advertise and solicit written bids for goods or services costing more than \$5,000, solicit written bids for goods or services costing more than \$3,000 but less than \$5,000, and document oral quotes received for goods or services costing more than \$1,000 but less than \$3,000. City policy also requires documentation supporting sole source procurements.

Bids were not solicited for the purchase of accounting software (\$60,185), information technology services (\$39,327), accounting services (\$5,548), surveying services (\$5,500), and trash services (\$4,085), and oral quotes were not documented for roofing services (\$2,390). Documentation to support bids received for auditing services (\$29,000) could not be located. In addition, no documentation was maintained for several sole source purchases including handheld meters (\$5,995), concrete (\$1,172), or fire department radios (\$1,009).

Competitive bidding not only ensures the city is complying with city policy, but also helps ensure all parties are given an equal opportunity to participate in city business. Documentation of the selection process and criteria,



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including sole source procurement, should be retained to support purchasing decisions.

8.5 Supporting documentation

The city does not always receive or retain adequate supporting documentation to support disbursements or show compliance with grant agreements.

- The city did not retain documentation to support amounts paid to various vendors including \$23,625 paid to an accounting software company, \$3,982 paid to an electrical contractor, \$2,390 paid to a roofing company, \$2,527 paid to a veterinary clinic, and \$493 paid to reimburse the petty cash fund. In addition, the city did not retain bulk fuel and fuel card statements for 2 months. As a result, the city is not able to provide an audit trail to support that purchases were for city business and the purchased items were received.
- The city pays fire call payments without obtaining adequate documentation. The annual report submitted by the fire chief only includes the employee's name, elected deductions for donations, and total to be paid to each person. It does not include the calculation used to support the amount to be paid, number of calls responded to, or rate of pay for each employee.
- The city has not established procedures to ensure documentation is retained for federal and state grants. Grant related documentation is scattered throughout several city offices and city personnel had difficulty locating or could not locate requested grant related documentation, including disbursement documentation and grant agreements. Failure to retain adequate documentation of grant projects and disbursements limits the city's ability to prove compliance with grant agreement terms and conditions.

Detailed supporting documentation, such as itemized receipts and vendor invoices, is necessary to ensure disbursements are proper. Organization of grant records ensures ability to readily access such records and demonstrate compliance with grant agreement terms and conditions.

8.6 Untimely payments

The city did not pay several invoices timely. For example, the city did not pay bulk fuel purchases totaling \$23,050 made between May and September 2012 until October 2012. The city incurred unnecessary late payment fees for these errors, and paying other invoices late could cause the city to incur additional unnecessary costs and discourage vendors from bidding on future city projects.

Further, invoice due dates are not correctly recorded in the accounting system. The City Accountant records the board meeting date rather than



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invoice due date. Inaccurate information hinders the Board's ability to monitor timely payment of invoices.

8.7 Vendor information

As of December 2012, the city vendor list contained 18 duplicate vendor names, each with a separate vendor number. The city does not review the vendor list and was not aware of these duplications. For one of the duplicate vendors, the city entered an invoice totaling \$316 into the accounting system twice in June 2012, under two different spellings of the vendor's name and made a duplicate payment to the vendor. The city requested a refund for the duplicate payment after our inquiry. As of June 2013, the city had not received a refund. In addition, the vendor list did not include addresses for 50 vendors. Requiring review and approval of new vendors entered into the accounting system, deleting duplicate vendor names, and ensuring all vendor information is complete and accurate would give the city better control over vendor information and result in a more efficient operation. In addition, inaccurate, unverified vendor information increases the risk false vendors could be established resulting in the loss, theft, or misuse of city funds going undetected.

Recommendations

The Board of Aldermen:

- 8.1 Ensure the list of bills provided for approval at monthly meetings is complete, all invoices are reviewed and approved by appropriate officials prior to payment, purchase orders are approved prior to the date of purchase, and the numerical sequence of purchase orders issued is accounted for properly, and establish adequate review and approval procedures for transfers and bank account closures.
- 8.2 Require total flow of bulk fuel be monitored and used to reconcile total fuel used to total fuel recorded on usage records, review and reconcile individual vehicle and equipment logs to fuel usage records, and investigate any discrepancies. In addition, the Board should ensure procedures used to allocate fuel expenses are accurate and consistent.
- 8.3 More closely examine city transactions to identify and avoid apparent and actual conflicts of interest.
- 8.4 Ensure bids are solicited for all applicable purchases in accordance with city policy and sufficient documentation is maintained.
- 8.5 Ensure sufficient supporting documentation is maintained for all disbursements and grants.
- 8.6 Ensure all invoices are paid in a timely manner and invoice due dates are correctly recorded in the accounting system.



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- 8.7 Ensure new vendors added to the accounting system are reviewed and approved. In addition, existing vendor files should be periodically reviewed by someone independent of the disbursement process and duplicate vendors should be eliminated.

Auditee's Response

The Board of Aldermen provided the following written responses:

- 8.1 *The Board now approves all non-payroll related disbursements. In the future, the Board will be provided with payroll related disbursements. Also, the Board will approve the closure of all bank accounts and the City Administrator will approve all transfers between bank accounts. The city is in the process of working on tracking and approving purchase orders properly.*
- 8.2 *The city no longer uses a bulk fuel tank and has bid a fuel purchasing agreement. The fuel program has assigned cards for individuals and vehicles. A monthly invoice and report is generated and checked against receipts given at time of purchase. Fuel costs are then allocated to funds.*
- 8.3 *The city will conduct a thorough review of all vendors against the State requirements for degrees of separation. Where a conflict of interest exists an annual bid or review and signature by the City Administrator will be used. The Board continues to approve an annual Conflict of Interest Ordinance for the Missouri Ethics Commission and requires all transactions comply.*
- 8.4 *This recommendation has been implemented.*
- 8.5 *The city continues to improve in documentation and retention of documents.*
- 8.6 *The city continues to improve in processing of claims in a timely manner.*
- 8.7 *The city has reviewed the vendor list and has eliminated duplications identified. We will continue to monitor this area. We received a credit memo in July 2013 from the vendor who was paid twice.*

9. Computer Controls and Procedures

Controls over computer systems and assets are not sufficient for proper accountability and to prevent unauthorized access.

9.1 Computer access

Access to the accounting and utility billing system was not adequately restricted. Prior to January 2013, the City Accountant had administrative



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rights to the system, giving her unlimited access to information recorded in the system. The city purchased and installed a new computerized accounting and utility billing system between July and September 2012. At the time of the installation, the city did not have a City Administrator so the City Accountant was given administrative rights. The city did not restrict these rights after the City Administrator was hired in September 2012. The City Accountant accessed the administrative module containing all user identifications, passwords, and user rights 48 times between October 1, 2012, and January 7, 2013. City officials could not explain why the City Accountant would need to access this information so often given her job responsibilities. After we brought this to the City Administrator's attention, he had the programmer limit the City Accountant's access rights in January 2013. Unrestricted access can result in the unauthorized deletion or alteration of data, change of another employee's user rights, or use of another employee's user identification and password. To prevent unauthorized changes, access should be limited based on user needs.

9.2 User identifications and passwords

Separate user identifications and passwords are not required for access to the accounting and utility billing software. The City Clerk, Waste Water Treatment Plant Director, and Public Works Director share the same user identification and password to access the accounting system. Also, four employees who work in the City Collector's office share the same user identification and password to access the utility billing system. Additionally, passwords are not changed on a periodic basis. The lack of an effective system of user identifications and passwords may allow unauthorized access and/or changes to the system. To control access and monitor user activity, a unique user identification and password should be assigned to each user of a system. User identifications and passwords should be kept confidential and changed periodically.

9.3 Computer inactivity

The city does not utilize security controls to shut down accounting and utility billing system computers after a certain period of inactivity and detect or prevent incorrect login attempts. As a result, unauthorized individuals could access an unattended computer and have unrestricted access to programs and data files. To help protect computer files, security controls should be implemented to shut down the system after a certain period of inactivity and to detect and prevent incorrect login attempts.

Recommendations

The Board of Aldermen:

- 9.1 Ensure accounting and utility billing system access rights are limited to only what is needed for the users to perform their job duties and responsibilities.



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- 9.2 Require unique user identifications and passwords for all employees who have access to the accounting and utility billing systems, and require passwords be kept confidential and changed periodically.
- 9.3 Establish a security control requiring computers to shut down after a certain period of inactivity and lock computers after a specified number of incorrect logon attempts.

Auditee's Response

The Board of Aldermen provided the following written responses:

- 9.1 *The City Administrator or the accounting system programmer, with authorization from the City Administrator, can make changes to authorization level in the accounting system. All authorizations are reviewed for need by the employee in conducting their required duties.*
- 9.2 *This recommendation has been implemented.*
- 9.3 *This recommendation will be added to the city's Computer Use Policy.*

10. Utility Controls and Procedures

Weaknesses exist in control procedures for the utility system. Per city accounting records, utility system operating receipts exceeded \$1.5 million for the year ended December 31, 2012.

10.1 Accounts Receivable Reconciliations

The city did not perform monthly reconciliations of total amounts billed, payments received, and amounts unpaid for utility services during 2012. At the request of the independent auditor the city completed a reconciliation as of December 31, 2011; however, the city did not continue this procedure. Monthly reconciliations are necessary to ensure accounting records balance, transactions are properly recorded, and errors or discrepancies are detected on a timely basis.

10.2 Water usage and billings

The city did not investigate significant differences identified in the monthly comparison of gallons of water billed to customers to gallons of water pumped. In addition, city water usage is not tracked, and the city failed to install meters and bill two other political subdivisions for water and sewer services at city properties leased by those political subdivisions. Without this information the city cannot properly perform the comparison. It is normal for a comparison of gallons of water billed to gallons pumped to show differences; however, city records showed significant and unexplained differences for several months. For January and May 2012, gallons of water pumped exceeded gallons billed by approximately 3 million gallons (18 percent of water pumped) and 6.6 million gallons (31 percent of water pumped), respectively. For March and September 2012, gallons of water billed exceeded gallons pumped by approximately 1.4 million gallons (12



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percent of water pumped) and 4.1 million gallons (27 percent of water pumped), respectively. Significant differences may be indicative of water loss issues and/or possible unbilled usage or billing problems, and require follow up.

Tracking city and other unbilled usage, metering all properties as appropriate, and timely investigation of unexpected or significant differences between water billed and water pumped is necessary to help detect significant water loss on a timely basis and ensure water usage is properly billed. According to the U.S. Environmental Protection Agency, the water industry goal for unaccounted for water (water losses and leaks not accounted for) is 10 percent or less.¹

10.3 Utility deposits and overpayments

Controls and procedures over utility deposits and customer overpayments need improvement. As of October 2012, the city held deposits totaling at least \$3,770 on 50 inactive customer accounts. Of these, 43 deposits totaling \$3,295 should be applied to outstanding balances, and 7 deposits totaling \$475 should be refunded. In addition, the city is holding \$1,105 in customer overpayments on 39 inactive accounts. Some accounts with deposits or overpayments held have been inactive since 2004. Applying deposits to outstanding balances reduces accounts receivable balances. In addition, to properly monitor customer accounts and ensure records are accurate deposits and overpayments should be refunded as appropriate.

Recommendations

The Board of Aldermen:

- 10.1 Ensure monthly reconciliations of amounts billed to amounts collected and delinquent accounts are performed. In addition, the Board should ensure adequate documentation to support reconciliations is retained.
- 10.2 Investigate significant differences between gallons of water pumped to gallons billed, track city usage on a monthly basis, and ensure all usage is appropriately billed and collected.
- 10.3 Ensure deposits are refunded or applied to balances due and refund all overpayments of utility services in a timely manner.

¹ United States Environmental Protection Agency, "Using Water Efficiently: Ideas for Utilities," <http://www.epa.gov/watersense/pubs/utilities.html>, updated on April 22, 2013



Auditee's Response

The Board of Aldermen provided the following written responses:

- 10.1 *The city prepares a monthly report of water and sewer billed, collected and outstanding. In the future, we will begin completing this reconciliation and the Mayor will review for adjustments and sign the document.*
- 10.2 *The city complies with Missouri Department of Natural Resources monthly determination of loss reporting requirements. If a significant difference is noted in the future, we will take action to investigate the matter.*
- 10.3 *This recommendation has been implemented.*

11. Capital Asset and Insurance Procedures

City procedures to account for capital assets and maintain proper insurance coverage are not adequate. City owned capital assets including land, buildings, equipment, and other property are valued at approximately \$12 million.

The city lacks procedures to identify capital asset purchases and dispositions throughout the year. In addition, property is not tagged, numbered, or otherwise identified as city property, and an annual physical inventory is not performed for any items maintained at city hall. Other city offices and departments complete a physical inventory in conjunction with their budgetary review and property records for those offices and departments are updated at that time. Current property records are not available for city hall. As a result, overall city property records are not complete and up to date.

The city has also not obtained property insurance coverage to safeguard all property owned by the city. For example, the city did not have insurance coverage in 2012 for two residential lots with houses purchased in May and November 2011. In addition, the city did not require entities leasing city buildings to provide certificates of liability insurance, as required in the lease agreements.

Adequate capital asset records and procedures are necessary to secure better internal controls and safeguard city assets that are susceptible to loss, theft, or misuse; and to provide a basis for determining proper insurance coverage.

Recommendation

The Board of Aldermen ensure complete and up to date property records are maintained; city property is properly tagged, numbered, or otherwise identified; and annual physical inventories are conducted of all city property. In addition, the Board should obtain insurance coverage for all city owned property, and require proof of insurance from entities leasing city property.



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Auditee's Response

The Board of Aldermen provided the following written response:

The Board will take these recommendations into consideration for implementation of a policy to manage city assets. The city will continue to review assets for proper and needed insurance coverage and will require proof of insurance from entities leasing property from the city in the future.

City of Marshfield

Organization and Statistical Information

The City of Marshfield is located in Webster County. The city was incorporated in 1869 and is currently a fourth-class city. The city employed 39 full-time employees and 2 part-time employees on December 31, 2012.

City operations include fire services, law enforcement, utilities (water and sewer), transportation services, a cemetery, and recreational facilities (parks).

Mayor and Board of Aldermen

The city government consists of a mayor and four-member board of aldermen. The members are elected for 2-year terms. The mayor is elected for a 2-year term, presides over the board of aldermen, and votes only in the case of a tie. The Mayor and members of the Board of Aldermen at December 31, 2012, are identified below. The Mayor is paid \$825 per quarter and members of the Board of Aldermen are paid \$375 per quarter. In addition, the Mayor was paid \$6,096 for May through August 2012, for duties as Interim City Administrator. The compensation of these officials is not established by ordinance.

Barbara Carroll, Mayor
Champ Herren, Alderman
Vicki Montgomery, Alderwoman
Robert Williams, Alderman
Vacant, Alderman*

* Alderman Bill Schroder resigned from his position on November 26, 2012. Alderman Ken Williams was appointed in January 2013 to fill the vacant position.