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Missouri State Auditor

City of Liberal



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CITIZENS SUMMARY

Findings in the audit of the City of Liberal

Accounting Controls, Procedures, and Records

The city does not segregate accounting duties, and the Board of Aldermen does not provide any independent or supervisory review of the City Clerk's work. The city does not have a consistent receipting procedure and does not always timely record or deposit monies received. Some disbursements were not recorded accurately in the accounting system, but were recorded at wrong amounts or in the wrong fund. Other disbursements were not posted to the accounting system, and some were posted to the system twice. Audit staff found serious problems with bank reconciliations, resulting in a \$151,330 difference between the adjusted bank balance and book balance, and the city issued over 100 checks which were not signed by a Board member.

Utility System Controls and Procedures

The city has not performed a formal review of water, sewer, gas, electric, and trash rates, providing less assurance that utility rates are set at an appropriate level. The city had not performed a reconciliation of total gallons of water billed to gallons of water pumped until we brought it to their attention. In addition, city water usage is not tracked, making it difficult to perform a proper reconciliation. The city conducted a reconciliation for the February 2013 billing cycle which revealed a discrepancy of 755,431 gallons (32 percent of water pumped). The City Clerk has the ability to make adjustments to the utility computer system without approval, which is a significant control weakness. A monthly list of utility deposits on hand is not prepared and reconciled to the deposit payable balance in the general ledger. At our request a list of utility deposits was prepared as of April 8, 2013, and the total differed from the city's general ledger.

Disbursements

The city does not have a formal bidding policy and did not solicit bids for numerous services and purchases during 2012, including \$52,450 for tree trimming, \$44,027 for natural gas, and \$42,701 for gas system maintenance, repairs and installations. The city did not maintain documentation to support the allocation of expenses among funds and did not maintain invoices for some purchases. The city lacks adequate procedures to review invoices and document receipt of goods and services. Audit staff found a duplicate payment totaling \$1,055 for police equipment; the city has since received a refund from the vendor. The city does not reconcile fuel billings and fuel purchases or have procedures to ensure fuel use is proper. Mayor Garrett approved timesheets of and signed payroll checks written to his wife, which created an actual or the appearance of a conflict of interest, and the city did not document its reasons for classifying the Mayor's wife as an independent contractor rather than an employee.

Payroll Controls

A former City Clerk received a \$4,020 check for accrued sick leave and a \$2,010 check for accrued vacation leave, but the city did not maintain any

leave records to support these final payments, and the city overpaid the former City Superintendent \$2,306 for vacation and sick leave upon termination. The same former City Clerk and former City Superintendent were paid \$220 and \$210, respectively, from the Park and Cemetery Funds, but the city had no documentation to support these additional payments, and these payments were not included on the employees' W-2 forms or subjected to payroll tax withholdings. The city failed to timely remit payroll taxes due for the period August 15 to October 15, 2012, to the IRS and the Missouri Department of Revenue, resulting in \$718 in penalties and interest.

Budgetary Procedures and Financial Reporting	Annual budgets do not contain all elements required by state law and are not approved timely. A 2011 budget amendment was approved in February 2012, well after the end of the fiscal year, and the city had already overspent the Water and Sewer Fund, Electric Fund, Gas Fund and Cemetery Fund budgets before the amendment was prepared. The city did not publish financial statements in 2012 or 2011, as required by state law.
Agendas, Meetings, and Ordinances	The Board did not retain notification or tentative agendas for some meetings. The Board discussed some issues in closed meetings which were not allowable, and open meeting minutes do not record a roll call vote of the Board to enter into closed session. The city has not adopted ordinances to establish the compensation of city officials or employees; to establish water, sewer, gas, electric, and trash rates; or to address utility service shutoff practices.
Capital Assets	The city does not maintain records for its capital assets, does not tag assets for specific identification, and does not conduct an annual physical inventory.

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 Liberal, Missouri

The State Auditor was petitioned under Section 29.230, RSMo, to audit the City of Liberal. We have audited certain operations of the city in fulfillment of our duties. The city engaged Davis, Lynn, & Moots, P.C., 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 at the time of our audit, the CPA firm's audit of the year ended December 31, 2012, was not complete. 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 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 its audited financial report 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 Liberal.

A handwritten signature in black ink, reading "Thomas A. Schweich". The signature is fluid and cursive, with the first name "Thomas" and last name "Schweich" clearly legible.

Thomas A. Schweich
State Auditor

The following auditors participated in the preparation of this report:

Deputy State Auditor:	Harry J. Otto, CPA
Director of Audits:	Regina Pruitt, CPA
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City of Liberal

Management Advisory Report

State Auditor's Findings

1. Accounting

Controls, Procedures, and Records

There are numerous weaknesses with accounting controls and procedures.

The city had significant turnover in the City Clerk position from July 2012 through February 2013, which may have caused some of these weaknesses. The same person served as City Clerk from 1989 to July 16, 2012. Mayor Garrett's wife served as acting City Clerk from July 16 to August 27, 2012, and again from November 27, 2012, to February 4, 2013, to temporarily fill in due to vacancies in the City Clerk position. Another individual served as City Clerk from August 27 until November 27, 2012. The current City Clerk has been employed since February 4, 2013.

1.1 Segregation of duties

There is no segregation of the accounting functions, and the Board does not provide any independent or supervisory reviews. Had reviews been performed, many of the errors noted below may have been identified. The City Clerk is responsible for receiving, recording, and depositing monies; reconciling bank accounts; preparing invoices for payment; issuing checks; and posting entries into the accounting system. Additionally, the City Clerk performs utility billing procedures and payroll related duties. Many of these duties would normally be performed by a City Treasurer and City Collector; however, the city does not have individuals serving in these positions.

Proper segregation of duties helps ensure all transactions are accounted for properly and assets are adequately safeguarded. Attorney General's Opinion No. 24, 1955 to Dodds, concluded that in a fourth-class city, the holding of the positions of City Clerk, City Treasurer, and City Collector, or any two of these offices, by the same person at the same time would be incompatible. If segregating duties is not possible, a timely supervisory review by the Board of Aldermen should be performed and documented.

1.2 Receipting, recording, and depositing procedures

The city's receipting, recording, and depositing procedures are poor. As a result, there is no assurance all monies collected are properly receipted, recorded, or deposited.

- Rediform prenumbered receipt slips rather than official prenumbered receipt slips are issued for non-utility monies received. The city utilizes several different records/methods to receipt utility monies received, and all pertinent details of monies received are not documented on utility billing stubs. Unnumbered official receipt slips are issued for some utility payments received, unnumbered unofficial receipt slips are issued for utility deposits received, and utility billing stubs used to record some utility payments do not document the date payments are received. In addition, receipt slips and utility stubs do not always indicate the method of payment received. Further, receipt slips are not issued for some park monies received.



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- Monies received are not always recorded timely in the accounting system or deposited timely. For example, 12 utility receipts totaling \$2,201 received between February 17 and February 24, 2012, were not recorded in the accounting system until March 1, 2012, and 29 utility receipts totaling \$6,902 received between February 17 and February 28, 2012, were not deposited until March 5, 2012.

Failure to implement adequate receipting, recording, and depositing procedures increases the risk that loss or misuse of monies received will go undetected and accounting records will contain errors.

1.3 Accounting records

The city does not maintain accurate accounting records. As a result, reports generated from the accounting system cannot be relied upon by city officials when making decisions.

- Some disbursements were not accurately recorded in the accounting system. For example, a \$10,875 check issued on August 24, 2012, was recorded in the accounting system as \$108.75, a \$2,025 check issued on August 6, 2012, was recorded in the accounting system for \$624, and the same check number issued on both September 27, 2012 and October 23, 2012, was recorded in the accounting system for both \$91 and \$2,507. Additionally, some disbursements were posted to the wrong fund. For example, the city purchased electricity to be sold to its customers costing \$38,671 in August 2012, but the disbursement was erroneously posted to the Water and Sewer Fund instead of the Electric Fund.
- Some disbursements were not posted to the accounting system, and some disbursements were posted to the accounting system twice. For example, at least 45 accounts payable checks totaling over \$45,000 were not posted to the accounting system, and check number 23908 issued for \$263 was posted to the accounting system twice.
- We reviewed the December 31, 2012, bank reconciliation and identified numerous and significant problems, resulting in a difference of \$151,330 between the adjusted bank balance and book balance. Numerous checks totaling \$289,253 were listed as outstanding, but had previously cleared the bank account or were errors. In addition, 83 deposits and credits totaling \$227,228 were listed as uncleared transactions, but had previously cleared the bank account or were errors. Eighteen adjustments at a net total of \$213,355 were also listed as uncleared transactions. Legitimate deposits in transit totaling \$3,607 and an outstanding check totaling \$482 were not recorded on the city's bank reconciliation. Additionally, some deposits were recorded as checks and some checks were recorded as deposits on the bank reconciliation.



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Further, differences existed between the December 31, 2012, reconciled bank balance and the book balance recorded in the accounting records of the Park Fund and Cemetery Fund. The Park Fund's reconciled bank balance was \$9,189 while the book balance was \$8,416, resulting in a difference of \$773. The Cemetery Fund's reconciled bank balance was \$3,039 while the book balance was \$2,500, resulting in a difference of \$539.

Accurate and complete financial information is necessary for the Board to make informed decisions and to provide residents with reliable information about city finances. Inaccurately recorded transactions make it more difficult to detect loss or misuse of funds.

1.4 Check signers

The Board does not have adequate controls over bank accounts and disbursements. While dual signatures are required on all city checks, of 250 checks issued during the period January 1, 2012, to May 15, 2012, 118 were signed by the City Clerk and City Superintendent and not a Board member. These checks totaled over \$140,000. Ideally the first signature should be that of the check preparer and the second signature should be that of a Board member to show review and approval of the disbursement. With two non-board members signing the checks, the control provided by dual signatures is diminished.

To ensure adequate controls exist over bank accounts and disbursements, the Board of Aldermen should require at least one member of the Board to sign all checks.

Recommendations

The Board of Aldermen:

- 1.1 Consider appointing separate individuals to the position of City Clerk, City Collector, and City Treasurer to adequately segregate duties. If this is not possible, the Board of Aldermen should perform and document reviews of the City Clerk's work.
- 1.2 Ensure official prenumbered receipt slips are issued for all monies received and the numerical sequence of receipt slips is accounted for properly. The method of payment should be documented and the composition of receipts reconciled to the composition of deposits. Additionally, the Board should ensure receipts are posted to the accounting system and deposited timely.
- 1.3 Ensure accounting records are accurately maintained.
- 1.4 Require at least one member of the Board to sign all checks.



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Auditee's Response

The Board of Aldermen provided the following written responses:

- 1.1 The Board and Mayor will provide closer oversight of the City Clerk's work. The Board will compare receipts to deposits each month and checks to invoices and related accounting records. The Board plans to implement these changes immediately.*
- 1.2 The City Clerk will begin using pre-numbered official receipt slips to record all city collections including utilities, the numerical sequence of receipt slips issued will be accounted for at the time of deposit, the method of payment will be recorded on each receipt slip, and the composition of receipt slips will be agreed to the composition of related deposits, and these procedures will be implemented immediately. The Board and Mayor will ensure receipts are posted to the city's computer system and deposited timely.*
- 1.3 We believe we currently have the accounting records under control. The Board and Mayor will work together with the City Clerk to review accounting records for accuracy each month from this point forward.*
- 1.4 We now currently have two Aldermen, the Mayor and the City Clerk on the checking account, and two signatures are required on all checks.*

2. Utility System Controls and Procedures

There are significant weaknesses in city operations related to utility services. The city provides utility services to approximately 420 customers. According to the city's audited financial statements, during the year ended December 31, 2011, the city collected approximately \$170,000, \$552,000, and \$232,000 in water and sewer (including trash fees), electric, and natural gas fees, respectively.

2.1 Utility rates

The city has not performed a formal review of water, sewer, gas, electric, and trash rates, and as a result, there is less assurance utility rates are set at an appropriate level. The city increased water, sewer, gas, and trash rates in September 2012. According to the city's independent audit report, the Water and Sewer Fund, Electric Fund, and Gas Fund incurred an operating net income (loss) of (\$29,724), \$125,847, and \$52,525, respectively, for the year ended December 31, 2011.

Section 67.042, RSMo, provides that fees may be increased if supported by a statement of costs, which shows the increase is necessary to cover costs of providing the service. Water, sewer, electric, gas, and trash fees are user charges which should cover the cost of providing the related services. The city should perform a detailed review of its utility costs, including



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depreciation and debt service costs, and set rates to cover the total cost of operation. Preparing a statement of costs would not only allow the city to determine the rates necessary to support current and future operations, but also provide documentation to customers of the rationale behind the rates. Such rate studies should be performed periodically.

2.2 Water reconciliation

The city had not performed a reconciliation of total gallons of water billed to gallons of water pumped until we brought this to the attention of the Utility Superintendent. The city then performed a reconciliation for the period from January 10 to February 10, 2013. In addition, city water usage is not tracked, and without this information the city cannot properly perform the reconciliation. The February reconciliation showed the city pumped 2,391,000 gallons of water and billed customers for 1,635,569 gallons, a difference of 755,431 gallons or 32 percent of water pumped. This significant difference is indicative of water loss issues and/or possible unbilled usage, and indicates a need for follow up.

Monthly reconciliations of gallons of water billed to gallons of water pumped and tracking city water usage is necessary to help detect significant water loss and ensure all water use is properly billed. According to the U.S. Environmental Protection Agency, the water industry goal for unaccounted for water is 10 percent or less.¹

2.3 Adjustments

The City Clerk posts adjustments to the utility computer system without always obtaining independent approval or adequate documentation to support the reason for the adjustments. During June 2012, adjustments were made resulting in an overall reduction to utility account balances of \$711. Because the City Clerk is responsible for all accounting functions (see MAR finding number 1), the ability to make adjustments without approvals represents a significant control weakness.

Requiring someone independent of receipting and recording functions to review and approve adjustments, and requiring proper supporting documentation be maintained for such adjustments would help ensure all adjustments are valid.

2.4 Utility deposits

The city does not prepare a monthly list of utility deposits on hand and reconcile the list to the deposit payable balance in the general ledger. New customers are required by ordinance to pay a refundable deposit before receiving utility service. At our request, the City Clerk prepared a list of utility deposits on hand as of April 8, 2013. The list of utility deposits

¹ United States Environmental Protection Agency, "Using Water Efficiently: Ideas for Utilities," <http://www.epa.gov/watersense/pubs/utilities.html>, accessed on April 8, 2013.



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totaled \$30,325 and the deposit payable balance in the city's general ledger totaled \$27,034, resulting in a difference of \$3,291.

Monthly reconciliations of the list of deposits to the deposit payable balance are necessary to ensure deposits are properly recorded and are sufficient to meet liabilities. Any discrepancies should be promptly investigated and resolved.

Recommendations

The Board of Aldermen:

- 2.1 Document formal reviews of utility rates periodically to ensure revenues are sufficient to cover all costs of providing these services and to support any rate increases.
- 2.2 Ensure all water use is properly metered, gallons of water pumped is reconciled to gallons billed monthly, and investigate any significant differences.
- 2.3 Require someone independent of the utility system review and approve all adjustments, and ensure documentation is retained supporting such adjustments.
- 2.4 Ensure a list of utility deposits on hand is prepared and reconciled monthly to the deposit payable balance in the general ledger. Any discrepancies should be investigated and resolved.

Auditee's Response

The Board of Aldermen provided the following written responses:

- 2.1 *The Mayor and Board will perform a review of water, sewer, gas, electric, and trash rates to ensure they are set at an appropriate level and will retain documentation of these reviews. The Board and Mayor will make a decision concerning rate increases in the near future.*
- 2.2 *We have currently been metering city utilities, and are reconciling gallons of water pumped to gallons billed monthly. We are trying to get a handle on the water usage loss issue.*
- 2.3 *The Mayor and Board are planning to work with the City Clerk on adjustments. These adjustments will be approved by more than one person, and documentation of the reason for the adjustment will be retained. The changes will be implemented immediately.*
- 2.4 *The City Clerk will begin using pre-numbered receipts for all utility collections, and this change will be implemented immediately. The City Clerk has been working diligently on correcting the list of*



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utility deposits from customers, and is trying to reconcile it to the deposit payable balance in the general ledger. There is still some work to be made in this area, but we are confident we are making great progress.

3. Disbursements

Controls and procedures over city disbursements are in need of improvement.

3.1 Procurement procedures

The city does not have a formal bidding policy and did not solicit bids for numerous services and purchases made during the year ended December 31, 2012, including:

Item or Service	Cost
Tree trimming (annual)	\$ 52,450
Natural gas (annual)	44,027
Gas system maintenance, repairs, and installations (annual)	42,701
Utility system construction and repair projects (annual)	20,688
Transformers	9,653
Fuel (annual)	9,509
Utility system repairs and maintenance (annual)	7,008

Formal bidding procedures for major purchases or services provide a framework for economic management of city resources and help ensure the city receives fair value by contracting with the lowest or best bidders. Competitive bidding also helps ensure all parties are given an equal opportunity to participate in city business.

3.2 Allocation of expenses

The city does not maintain documentation to support the allocation of expenses among funds. The cost of the independent audit was allocated 1/4 to the General Fund, 1/4 to the Electric Fund, and 1/2 to the Water and Sewer Fund during 2012, and none of these costs were allocated to the Gas Fund or Cemetery Fund, which were also reported in the audit. Additionally, there was no basis to support how payroll related expenses for employees performing multiple functions such as the City Clerk, City Superintendent, and maintenance workers were allocated among the various city funds. Without proper basis and support, it is unclear whether the expense allocation is reasonable as compared to job tasks of those performing multiple functions.

Proper allocation of expenses and payroll is necessary for the city to accurately determine the results of operations of specific activities, thus enabling the city to establish the level of taxation and/or user charges



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necessary to meet all operating costs. Documentation and periodic reevaluation of allocations is important to ensure their validity.

3.3 Supporting documentation

Invoices were not maintained for transformers costing \$9,653, credit card purchases made during March 2012 totaling \$2,679, and utility system repairs and maintenance costing \$2,124.

To ensure obligations were actually incurred and amounts paid were proper, all disbursements should be supported by paid receipts, itemized vendor invoices or other detailed documentation with payment information clearly indicated.

3.4 Disbursement review

Procedures used to review invoices and document receipt of goods and services need improvement. We identified a duplicate payment of \$1,055 for police equipment. The equipment invoice was originally paid June 13 and then again on July 30, 2012. The city has since received a refund from the vendor. Additionally, documentation acknowledging receipt of goods for items was not indicated on many of the invoices paid by the city.

A thorough and documented review of disbursements reduces the possibility of duplicate payments, and documentation of the receipt of goods or services is necessary to ensure the city actually received the items or services.

3.5 Fuel use and purchases

Controls and procedures over fuel use and purchases need improvement. According to accounting records, the city purchased \$9,509 of fuel from a local gas station during the year ended December 31, 2012.

- Fuel purchases recorded in police department mileage and fuel use logs are not reconciled to fuel billings to the city.
- The city has no records to ensure fuel purchases for other city equipment and vehicles are used appropriately. As a result, fuel use is not reconciled to fuel purchases.

Procedures for reviewing fuel use and reconciling use to fuel purchased are necessary to ensure the reasonableness and propriety of fuel use and disbursements. In addition, mileage and fuel use logs are necessary to document the appropriate use of equipment and vehicles and to support fuel charges. Failure to account for fuel purchases could result in theft and misuse of fuel going undetected.

3.6 Conflicts of interest and employment classification

Mayor Garrett signed 13 timesheets approving contract payments to his wife totaling \$6,340 and signed 11 of the related checks totaling \$5,668 while serving as Mayor. Mayor Garrett's wife served as City Clerk (see MAR



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finding number 1) and also worked for the city assisting other City Clerks at other times during the period July 2012 through April 2013.

In addition, the city had not documented reasons for classifying Mayor Garrett's wife as an independent contractor rather than an employee. The other City Clerks were classified as employees. Payments to Mayor Garrett's wife were reported to the Internal Revenue Service (IRS) on Forms 1099-MISC.

The former Mayor served in a fiduciary capacity and approving his wife's timesheets and signing her checks created an actual or the appearance of a conflict of interest. In addition, Section 105.300, RSMo, defines an elected or appointed officer or employee of a political subdivision as an employee for Social Security and Medicare tax purposes. For employees, the IRS requires employers to report compensation on W-2 forms and withhold and remit income and payroll taxes. Similarly, Chapter 143, RSMo, includes requirements for reporting wages and withholding state income taxes. State and federal laws require employers to pay the employer's share of Social Security and Medicare on the compensation paid to employees.

Recommendations

The Board of Aldermen:

- 3.1 Establish formal bidding policies and procedures, including documentation requirements regarding the bids or quotes received and justification for the bid selected.
- 3.2 Ensure city expenses are properly allocated to the applicable funds and allocations are supported by adequate documentation.
- 3.3 Maintain adequate supporting documentation for all disbursements.
- 3.4 Ensure all invoices are adequately reviewed, and all invoices are initialed or signed by an employee to indicate acceptance of goods or services.
- 3.5 Require fuel use logs be maintained for all city-owned vehicles and equipment, and ensure logs are reviewed for accuracy and reconciled to fuel purchases. Any significant discrepancies should be investigated.
- 3.6 Closely examine city transactions to identify and avoid apparent and actual conflicts of interest. The Board should also ensure all persons hired by the city are properly classified as employees or contract employees in compliance with state and federal laws and regulations, and all compensation paid is subject to income and payroll taxes and properly reported.



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Auditee's Response

The Board of Aldermen provided the following written responses:

- 3.1 *The Board and Mayor will implement a bidding policy immediately.*
- 3.2 *In the future, we will maintain documentation to support the allocation of expenses among funds.*
- 3.3&
3.4 *The Board and Mayor believe the city has this issue under control.*
- 3.5 *In the future, we will review fuel use logs maintained by the police department quarterly, and we will require employees to maintain fuel use logs on other city equipment and vehicles and will reconcile these quarterly, also.*
- 3.6 *In the future, we will review transactions closely for conflicts of interest, ensure all persons hired are properly classified, and ensure all compensation is subject to income and payroll taxes and is properly reported.*

4. Payroll Controls

Controls and procedures over payroll disbursements and other related matters need improvement.

4.1 Final paychecks

No documentation was retained by the city to support the final amounts paid to a former City Clerk, and the former City Superintendent was overpaid for vacation and sick leave upon termination.

A former City Clerk received two final paychecks dated July 16, 2012; one for accrued sick leave totaling 30 days or \$4,020, and one for accrued vacation leave totaling 15 days or \$2,010; however, no leave records were maintained by the city to support these final payments.

The former City Superintendent received two final paychecks dated May 18, 2012; one for accrued sick leave hours totaling 35 days or \$6,521 and one for accrued vacation leave hours totaling 15 days or \$2,795, both of which included days in excess of policy maximums. According to attendance records, the former City Superintendent used 2.375 days of sick leave and 5 days of "2011" vacation days from January to May 2012. According to city policy, the former City Superintendent should have only been paid for 27.625 sick days or \$5,147 and 10 days of vacation or \$1,863, resulting in an overpayment of \$2,306. The city's personnel policy indicates this employee accrued 15 days of vacation leave annually, and vacation leave cannot accumulate from one year to the next. It also indicates this employee accrued 5 sick days annually, sick leave can be accumulated up to 30 days, and any sick days over 30 days are forfeited.



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Without leave records, the Board cannot ensure employee leave usage and balances are accurate. Leave records also aid in determining final compensation for employees leaving city employment. To ensure employees are treated equitably and are properly compensated, strict compliance with personnel policies is necessary.

4.2 Additional compensation From January to July 2012, additional compensation totaling \$220 and \$210 was paid to a former City Clerk and the former City Superintendent, respectively, from the Park and Cemetery Funds; however, timesheets or other supporting documentation were not retained to support this additional compensation. In addition, these payments were not included on the employees' W-2 forms and were not subjected to payroll tax withholdings. Also, it is unclear how the work performed was not within the normal job duties of these employees. Further, three of the checks totaling \$90 were signed by the former City Clerk and former City Superintendent and not a Board member.

Any overtime or additional part time hours worked should be reported on the employees' timesheets and compensated as such to ensure compliance with the Fair Labor Standards Act of 1938 (FLSA). The city should amend these employees' W-2 forms for these payments.

4.3 Payroll taxes The city failed to remit payroll taxes due for the period August 15 to October 15, 2012, to the IRS and Missouri Department of Revenue timely, resulting in an assessment of \$718 in penalties and interest.

The Internal Revenue Code requires Form 941 to be filed with the IRS on a quarterly basis along with payment of Social Security and Medicare taxes withheld from the employee and the employer's share, as well as federal income taxes withheld. Similarly, Chapter 143, RSMo, includes requirements for reporting wages and withholding state income taxes. Good business practices require the city to make timely deposits of tax withholdings to avoid unnecessary penalties and interest.

Recommendations

The Board of Aldermen:

- 4.1 Ensure future final paychecks are supported by proper documentation and are in compliance with city personnel policies, and seek reimbursement of overpayments.
- 4.2 Ensure additional time worked is reported on employee timesheets and compensated properly. In addition, the Board should amend the employees' 2012 W-2 forms.
- 4.3 Ensure payroll taxes are remitted to the appropriate taxing entity on a timely basis.



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Auditee's Response

The Board of Aldermen provided the following written responses:

- 4.1 *The Board and Mayor are working with the City Clerk to ensure proper documentation is kept in regards to sick days, vacation days, and comp time; thus, enabling the city to pay employees in an accurate manner. The Board and Mayor will consider seeking reimbursement of overpayments.*
- 4.2 *In the future, no additional compensation will be given for duties conducted during normal operating hours. We will contact the IRS and amend W-2 forms for the time period they recommend.*
- 4.3 *The Board and Mayor will ensure that payroll taxes are being remitted properly and on a timely basis.*

5. Budgetary Procedures and Financial Reporting

The city does not comply with state law relating to budget preparation, monitoring, and amendments and publishing financial statements.

5.1 Budgets

Annual budgets do not contain all elements required by state law and are not approved timely. Budgets for the years ended December 31, 2012 and 2011, did not include a budget message, actual and budgeted amounts for the 2 preceding years, and beginning and ending actual and estimated cash balances. The budgets only included projected receipts and disbursements for the coming year. Additionally, as of March 9, 2013, the 2013 budget had not been prepared or approved by the Board, and the 2012 budget was not approved by the Board until June 2012.

Sections 67.010 to 67.080, RSMo, establish requirements for the format of the annual operating budget. In addition, the law requires if a new budget is not adopted by the beginning of the new year then the Board should operate under the prior year's budget, and provides that no expenditure of public monies shall be made unless it is authorized in the budget. To be of maximum benefit to the taxpayers and the city, the budget should be adopted in a timely manner.

5.2 Budget amendments

The city did not approve a 2011 budget amendment until February 2012, well after the end of the fiscal year and according to the city's accounting records the city had overspent the Water and Sewer Fund, Electric Fund, Gas Fund, and Cemetery Fund budgets.

Section 67.040, RSMo, requires political subdivisions to keep disbursements within amounts budgeted and allows for budget increases,



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after the governing body officially adopts a resolution setting forth the facts and reasons. To ensure compliance with state law, the Board should properly monitor actual disbursements compared to budgeted amounts and formally amend the budgets before the related disbursements are incurred.

5.3 Financial statements

The city did not publish financial statements in 2012 or 2011 in compliance with state law. Section 79.160, RSMo, requires the Board to prepare and publish financial statements for each six month period which include a full and detailed account of the receipts, disbursements, and indebtedness of the city. Section 79.165, RSMo, states the city cannot legally disburse funds until the financial statements are published.

Recommendations

The Board of Aldermen:

- 5.1 Prepare budgets timely and in compliance with state law.
- 5.2 Prepare and approve budget amendments prior to incurring the related disbursements.
- 5.3 Ensure financial statements are published in accordance with state law.

Auditee's Response

The Board of Aldermen provided the following written responses:

- 5.1 *The Board, Mayor and City Clerk will make sure the budget is prepared in compliance with state law and adopted on time.*
- 5.2 *The Board and Mayor will work with the City Clerk to prepare and approve any budget amendments before any related disbursements are incurred.*
- 5.3 *The Board and Mayor will make sure the city's financial statements are published every six months.*

6. Agendas, Meetings, and Ordinances

The city did not always ensure compliance with the Sunshine Law, and improvement is needed with ordinances.

6.1 Agendas

The Board of Aldermen did not retain notification or tentative agendas for some meetings, and as a result, the city cannot demonstrate compliance with state law. Section 610.020, RSMo, requires the city to give notice at least 24 hours in advance of the time, date, and place of each meeting, and its tentative agenda, in a manner reasonably calculated to advise the public of the matters to be considered.



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6.2 Meetings

The Board of Aldermen did not always comply with the Sunshine Law.

- Based upon closed meeting minutes documentation, some issues discussed in closed meetings were not allowable under the Sunshine Law. For example, trash service bids were opened, discussed, and approved in a closed meeting on March 20, 2012.
- Open meeting minutes do not record a roll call vote of the Board of Aldermen to enter into closed session.

The Sunshine Law, Chapter 610, RSMo, limits discussions in closed meetings to only those specifically allowed by law; and requires minutes to include at a minimum the date, time, place, members present, members absent and votes taken, including roll call votes before closing a meeting.

6.3 Ordinances

City ordinances are not complete.

- The city has not adopted ordinances to establish the compensation of city officials or employees. Sections 79.270 and 79.290, RSMo, require the Board of Aldermen to fix the salaries of all city officials and employees by ordinance.
- Ordinances have not been adopted to establish water, sewer, gas, electric, and trash rates charged.
- The city has not adopted ordinances to address utility service shutoff practices. Currently, utility service is shut off 4 days after the 25th of the month, if a partial payment has not been received on delinquent accounts.

Ordinances represent legislation passed by the Board to govern the city and its residents. In addition to meeting statutory requirements, ordinances documenting approved salary amounts and utility procedures help ensure equitable treatment and prevent misunderstandings.

Recommendations

The Board of Aldermen:

- 6.1 Provide proper notice of meetings and ensure appropriate agendas are posted and retained.
- 6.2 Limit discussions in closed meetings to only those specifically allowed by law and record roll call votes to enter closed session in open meeting minutes.
- 6.3 Ensure ordinances are complete.



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Auditee's Response

The Board of Aldermen provided the following written responses:

6.1&

6.2 *The Board believes this issue is under control at this time.*

6.3 *The Board and Mayor intend to prepare an ordinance that addresses fixed salaries. We will also adopt ordinances to establish water, sewer, gas, electric, and trash rates, and to address utility shutoff practices.*

7. Capital Assets

The city does not maintain records for its capital assets including buildings, utility system infrastructure, equipment, and other property. Additionally, assets are not tagged for specific identification, and an annual physical inventory is not performed.

Adequate capital asset records and procedures are necessary to provide controls over city property; safeguard city assets that are susceptible to loss, theft, or misuse; and provide a basis for proper financial reporting and insurance coverage.

Recommendation

The Board of Aldermen ensure property records are maintained that include all pertinent information for each asset such as tag number, description, cost, acquisition date, location and subsequent disposition. The Board should also properly tag, number, or otherwise identify all applicable city property and conduct and document an annual inventory.

Auditee's Response

The Board of Aldermen provided the following written response:

The city is currently working on an inventory system. Though there are some improvements yet to be made, but we are confident we will succeed. We will also consider tagging all assets and will document an annual inventory.

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Organization and Statistical Information

The City of Liberal is located in Barton County. The city was incorporated in 1880 and is currently a fourth-class city. The city employed five full-time employees and a part-time employee on December 31, 2012.

City operations include utility services, police, recreational services, and a city cemetery.

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 Board of Aldermen, at December 31, 2012, are identified below. The Mayor is paid \$100 per month and \$4 per meeting, and Board of Aldermen members are paid \$4 per meeting.

Bobbie Garrett, Mayor
Val Clark, Mayor Pro-Tem
John Nicolas, Alderman
John Knox, Alderman
Patsy Yount, Alderwoman