



Thomas A. Schweich

Missouri State Auditor

City of Leeton



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<http://auditor.mo.gov>



CITIZENS SUMMARY

Findings in the audit of the City of Leeton

Accounting Controls and Procedures	The Board of Aldermen has not segregated duties or provided adequate reviews of the work performed by the former City Clerk. The former City Clerk did not timely deposit monies received, did not issue receipt slips for some monies received, did not use official prenumbered receipt slips, and did not always designate the composition of receipts on receipt slips. The former City Clerk did not maintain book balances for 7 bank accounts and bank reconciliations were not performed for these accounts. The city could consolidate some of its 11 bank accounts to reduce record keeping and the potential for service charges. At the end of 2013, the city was holding \$52,700 of gross receipt taxes that should have been turned over to the Unclaimed Property Fund held by the State Treasurer. Only one signature is required for disbursements from the City Collector account, and the Mayor, Mayor Pro-Tem, and City Superintendent have access to city funds but are not covered by a bond.
Restricted Revenues	The former City Clerk commingled restricted monies with general purpose monies rather than accounting for them in separate funds, so the city could not determine what portion of the General Fund represents restricted monies and could not demonstrate disbursements were made as allowed by law, ballot, and/or ordinance. The former City Clerk allocated personnel salaries between funds but failed to allocate some corresponding personnel costs, such as health insurance and taxes. In addition, the city lacked documentation to support its allocation of workers compensation and property and liability insurance between the General, Water, and Sewer Funds for 2013.
Water and Sewer System Controls and Procedures	The former City Clerk adjusted off penalties for 3 customers for reasons not allowed by city ordinances and also made changes to a school district account and a fire district account so penalties were not assessed for late payments. The former City Clerk did not monitor delinquent utility accounts, and as of March 2014, city records showed 303 active and inactive accounts (totaling \$19,791) were over 60 days delinquent, including 188 (totaling approximately \$13,000) that were more than 5 years old. The former City Clerk did not follow the city's ordinances regarding late penalties and shutoff procedures and allowed some customers to make partial payments for utilities without the Board of Aldermen's approval. The former City Clerk did not adequately follow-up on bad checks received and did not prepare a monthly list of utility deposits on hand to reconcile to the bank account. The city does not have a meter on its bulk water dispenser, so it cannot reconcile bulk water sales to monies received. The city does not obtain annual audits of its Water and Sewer Funds as required by state law.
Payroll	The city paid significant overtime, including \$30,554 to the former City Superintendent and \$8,636 to the former City Clerk, and it overpaid the former City Clerk for 52 hours of vacation leave (\$684) and the former City Superintendent for 62 hours of vacation leave (\$1,001). The city paid incentive payments in 2012 to city employees and a contract laborer, in apparent violation of the Missouri Constitution, and it has not updated its compensation ordinances since 1984.

Disbursements	The Board of Aldermen does not retain a list of bills approved, does not document its approval of individual invoices, and does not approve some non-payroll disbursements prior to payment. The city does not have a formal bidding policy and did not solicit bids for any goods or services purchased during 2012 and 2013, and the Board of Aldermen does not adequately monitor its activities for conflicts of interest. The city paid \$1,000 to Mayor Gary King's repair business without soliciting bids and paid Alderman Binder's son for contract labor with no documentation of Board approval. The city has not clearly determined Alderman Binder's son's employment classification and did issue 1099-MISC forms to applicable contractors. City personnel did not reconcile vending machine sales to purchases to ensure all monies and beverages were accounted for, and the city lost \$1,776 on the sale of beverages because it was not charging enough. The city paid \$900 in credit card service costs and transaction fees in 2013 but few utility customers paid their bills with credit cards, making it questionable whether the city should continue to accept credit card payments. The city does not always enter into written contracts or retain and update contracts, and it does not review and evaluate the reasonableness of vehicle usage and does not reconcile fuel usage to billings.
Sunshine Law	The Board of Aldermen's open meeting minutes did not always record a roll call vote to enter into closed session and did not always document the reason for closing the meeting, as required by the Sunshine Law.
Budgets	City budgets do not include all elements required by law and are not accurate. In addition, the City Clerk reported more labor costs than actually incurred for the Water Fund and Sewer Fund and recorded some checks as 2013 disbursements that were not signed until 2014.
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, leaving city assets susceptible to loss, theft, or misuse.

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 Leeton, Missouri

The State Auditor was petitioned under Section 29.230, RSMo, to audit the City of Leeton. We have audited certain operations of the city in fulfillment of our duties. The scope of our audit included, but was not necessarily limited to, the year ended December 31, 2013. 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 was not subjected to the procedures applied in our audit of the city.

For the areas audited, we identified (1) deficiencies in internal control, (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 Leeton.

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, and "A." as a middle initial.

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
Audit Manager:	Pamela Allison Tillery, CPA
In-Charge Auditor:	Michelle Crawford, M. Acct., CIA
Audit Staff:	Tracy Schnakenberg

City of Leeton

Management Advisory Report

State Auditor's Findings

1. Accounting Controls and Procedures

There are numerous weaknesses with accounting controls and procedures. The former City Clerk resigned July 11, 2014, and is referred to as City Clerk throughout this audit report. The former City Superintendent resigned July 31, 2014, and is referred to as City Superintendent throughout this report.

1.1 Segregation of duties

The Board of Aldermen has not segregated duties or provided for adequate review of the work performed by the City Clerk. The City Clerk is responsible for receiving, recording, and depositing monies; reconciling bank accounts; preparing invoices for payment; and preparing, signing and distributing checks. Additionally, the City Clerk is responsible for utility billings 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, timely supervisory reviews by the Board should be performed and documented.

1.2 Receipting, recording, and depositing procedures

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

The City Clerk does not issue receipt slips for most non-utility monies received. When receipt slips are issued, the city uses generic prenumbered receipt slips rather than official prenumbered receipt slips. In addition, the method of payment (cash, check, or money order) of non-utility receipts is not always designated on receipt slips. As a result, a reconciliation of the composition of receipts to deposits cannot be performed.

The City Clerk does not deposit monies collected (utility and non-utility receipts) timely or intact. The City Clerk does not prepare or make a deposit until receiving the 60th utility payment since the last deposit. As a result, utility receipts are still on hand after deposits are made. We reviewed April 2013 deposits and identified numerous instances of utility payments received being deposited up to a week after the receipt date and payments received on the same day being deposited on separate days. These delays were due to the 60th payment procedure.

Issuing official prenumbered receipt slips for all monies received, ensuring the method of payment is documented, depositing all receipts intact and timely, and reconciling the composition of receipts to deposits decreases the



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risk that loss, theft, or misuse of monies received will occur and go undetected.

1.3 Bank accounts

The City Clerk did not maintain book balances for 7 bank accounts, and bank reconciliations were not performed for these accounts. The city has 11 accounts at various banks (checking and savings).

- The city maintains a book balance for 4 of its accounts using check-writing software, but a book balance is not maintained for the City Collector account, water and sewer reserve accounts, or any of the cemetery savings and CD accounts. In addition, bank reconciliations are not performed for these accounts. Book balances are necessary to reconcile bank accounts and adequately monitor account balances. Monthly bank reconciliations are necessary to ensure accounting records balance, transactions are properly recorded, and errors or discrepancies are detected and corrected timely.
- One of the cemetery saving accounts incurred \$270 in service charges and only accrued \$6 in interest during 2013. The large number of bank accounts requires additional record keeping. Except for separate accounts required by ordinance or law, some of the remaining bank accounts and CDs could be consolidated to help simplify city records and reduce the number of accounts that must be monitored and controlled. In addition, consolidation of accounts may reduce the likelihood of bank service charges resulting from low account balances or inactivity.

1.4 Gross receipt taxes

The city was notified by a wireless telephone company in October 2007 that the telephone company would be distributing gross receipt taxes as part of a legal settlement. Because the city had not placed a gross receipt tax on the ballot for citizens to approve, it was not eligible to retain the monies. City officials indicated the city began receiving gross receipt taxes from wireless telephone companies during 2008. The city attempted to return the monies, but the wireless telephone companies returned the tax payments to the city. The city has deposited the taxes into an interest bearing savings account since November 2008, and has not disbursed any of these monies. This account had a balance of approximately \$52,700 at December 31, 2013. The city had not taken sufficient actions to determine the proper disposition of these funds, given its lack of authority to retain them. At our suggestion, city officials consulted with their legal counsel regarding the handling of these monies, and he recommended 3 options for the handling of these monies. The options included returning the monies to the phone companies, retaining the monies after the 5 year statute of limitations has elapsed, or turning the monies over to the state as unclaimed property. Our review indicates the appropriate disposition recommended would be turning these monies over to the Unclaimed Property Fund held by the State Treasurer in accordance with Section 447.532, RSMo.



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The Board placed the collection of this gross receipt tax issue on the August 4, 2014, ballot and it passed; therefore, the city will be eligible to retain future collections of gross receipt taxes.

1.5 Check signers

The Board does not have adequate controls over the City Collector bank account and disbursements. While dual signatures are required on all other city accounts, only one signature is required on the City Collector account. The City Collector account is used for depositing utility payments; utility deposits; and business license, building permit, and animal license fees. The City Clerk transfers monies from the City Collector account quarterly by preparing and signing checks to the General Fund, Water Fund, and Sewer Fund accounts, leaving only utility deposits in the City Collector account. 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. To ensure adequate controls over bank accounts and disbursements, at least one Board member should sign all checks.

1.6 Bond coverage

Although the Mayor and Mayor Pro-Tem are authorized signors on the city bank accounts, they are not covered by a bond. In addition, the City Superintendent occasionally collects utility payments and is also not covered by a bond. Failure to properly bond individuals who have access to funds exposes the city to risk of loss.

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 should perform and document review of the City Clerk's work.
- 1.2 Require official prenumbered receipt slips be issued for all monies received. The Board should also ensure that all money is deposited intact and timely and the composition of receipts is reconciled to the composition of deposits.
- 1.3 Ensure bank reconciliations are performed each month and any differences are investigated, and maintain a book balance for all accounts. Further, consider consolidating bank accounts to simplify records and reduce service charges incurred.
- 1.4 Dispose of gross receipt taxes and the associated interest accumulated prior to August 2014 in accordance with state law.
- 1.5 Require at least one member of the Board to sign all checks.



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- 1.6 Maintain bond coverage for all officials with access to city assets and allow only bonded employees to collect payments.

Auditee's Response

The Board of Aldermen provided the following written responses:

- 1.1 *The Board has hired a City Treasurer. The Board will continue to provide closer oversight of the City Clerk and City Treasurer and will periodically perform documented reviews of their work.*
- 1.2 *A new pre-numbered receipt process was implemented for all collections, as well as daily deposits. Beginning July 10, 2014, the city is issuing prenumbered receipt slips for all monies, and the Board is reviewing to ensure all monies are deposited intact and the composition of receipts is being reconciled to the composition of deposits.*
- 1.3 *The Board agrees with the recommendation and will consolidate bank accounts. The Board will ensure that bank account reconciliations are performed monthly and that differences are investigated, and a book balance and/or check register balance will be maintained monthly.*
- 1.4 *The public vote on the gross receipt tax passed. An ordinance will be adopted and past and current collections of these monies will be placed in the General Fund.*
- 1.5 *The Mayor and Mayor Pro Tem will sign all checks. If the Mayor or Mayor Pro Tem is not available, another Alderman has been designated as an alternate.*
- 1.6 *The Board agrees with and will implement this recommendation.*

Auditor's Comment

- 1.4 While the Board's response indicates the city intends to keep past gross tax receipts received from wireless telephone companies despite not having an ordinance allowing the city to do so, Section 447.532, RSMo, states unclaimed intangible personal property shall be turned over to the State Treasurer. The August 2014 voter approval makes the city eligible for future gross receipt taxes, but is not retroactive.

2. Restricted Revenues

The city has not established adequate procedures to ensure restricted monies are expended only for intended purposes and salaries and other disbursements are properly allocated among funds.

2.1 Tracking and recording restricted revenues

The City Clerk is not properly tracking and recording various restricted monies. State motor vehicle-related revenues, Police Officer Standards



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Training (POST) fees, Law Enforcement Training (LET) fees, Capital Improvement Sales Tax (CIST) monies, and Law Enforcement Sales Tax (LEST) monies are comingled with general purpose monies rather than being accounted for in separate funds. The City Clerk deposits all these monies into the General Fund, and while the receipts of these restricted monies are tracked separately within the General Fund, the disbursements and balances of these restricted monies are not. As a result, the city cannot determine what portion of the General Fund represents restricted monies. Also, the city cannot demonstrate disbursements were made as allowed by law, ballot, and/or ordinance.

Article IV, Section 30(a), Missouri Constitution, requires motor vehicle-related revenues apportioned by the state to be spent for street-related purposes. Section 488.5336.2, RSMo, requires POST and LET fees to be used for the training of law enforcement officers. By city ordinance, the CIST is to be used for the retirement of debt or capital improvement. The LEST ballot restricts the use of these monies to law enforcement equipment and personnel costs. Receipts and disbursements associated with restricted monies should be recorded in a fund or funds established to account for their usage and ensure compliance with state laws.

2.2 Allocation of salaries and disbursements

The City Clerk failed to allocate some costs between various funds and documentation does not exist to support the allocation of some disbursements among city funds.

The City Clerk allocated personnel salaries between funds, but failed to allocate some corresponding personnel costs, such as health insurance and taxes totaling \$18,659, to all impacted funds in 2013, thereby unnecessarily using General Fund resources to cover costs that could legitimately be paid from other funds. Our review of General Fund disbursements determined that bulk fuel and contract labor were used for street and utility projects; cleaning services for city hall benefited several departments including police and utilities; and attorney services covered issues pertaining to several departments. These goods and services totaling \$7,175 were paid entirely from the General Fund in 2013, although it appears a portion of these costs could be allocated to other funds.

Additionally, the city had no documentation to support the allocation of workers compensation and property and liability insurance totaling \$14,228 between the General, Water, and Sewer Funds for 2013.

It is essential the city properly allocate disbursements among funds, to accurately determine the results of operations of specific activities, thus enabling the city to establish the level of taxation and/or user fees necessary to meet operational costs.



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Recommendations

The Board of Aldermen:

- 2.1 Determine the amount of restricted monies in the General Fund and establish separate funds or a separate accounting of these monies.
- 2.2 Ensure payroll costs and shared costs are properly allocated to the applicable city funds and allocations are supported by adequate documentation.

Auditee's Response

The Board of Aldermen provided the following written responses:

- 2.1 *The Board agrees with and will implement this recommendation.*
- 2.2 *The Board agrees with the recommendation. A new payroll software system will be used to allocate payroll costs, and the Board will ensure applicable costs are allocated to city funds as appropriate and retain supporting documentation.*

3. Water and Sewer System Controls and Procedures

Significant weaknesses exist in control procedures over providing water and sewer services. The city provides water and sewer services to approximately 270 customers and collected approximately \$90,000 in water and sewer fees during the year ended December 31, 2013.

3.1 Adjustments

The Board does not review and approve adjustments and changes made to customer accounts by the City Clerk, and the utility duties performed by the City Clerk are not adequately segregated (see MAR finding number 1).

The City Clerk made adjustments to customer accounts not allowed by ordinance. City ordinances allow for adjustments to be made to customer accounts for water leaks, if certain steps are followed, and for a misread of a meter. Our review of adjustments made during April, July, September, and November 2013 identified 3 customer accounts had penalties removed for reasons not covered by city ordinances. The City Clerk also made changes to a local school district account and a local fire district account so that penalties would not be assessed for late payments. There is no documentation the Board approved waiving penalties for the school or fire district, and the fire district made several late payments during 2013. The failure to perform independent reviews and adhere to city ordinance increases the risk that unsupported or unauthorized changes can be made to the utility system.

Adjustments to customer account balances should be verified and approved by a person independent of the postings of such transactions to ensure they are legitimate. In addition, a report of adjustments should be presented to the Board for review.



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3.2 Delinquent accounts

The City Clerk is not monitoring delinquent utility accounts, and the Board has not developed policies and procedures for pursuing delinquent accounts and monitoring utility account balances. Accounts are considered delinquent after a full payment is not received by the 10th of the month following billing. At our request the city generated a report of delinquent accounts (active and inactive) as of March 2014, that indicated 303 accounts, totaling \$19,791, were over 60 days delinquent, including 188 accounts (totaling approximately \$13,000) more than 5 years old. The Board does not have a process to periodically review this report and evaluate the likelihood of collection, and never removes accounts from its system. As a result, many of the delinquent accounts listed are old and are likely uncollectible and the value of the report is diminished.

To help maximize utility revenues, policies and procedures should be developed to ensure adequate steps are taken to collect delinquent accounts and to monitor delinquent balances.

3.3 Late penalties and shutoff procedures

The City Clerk is not following the city's ordinance regarding late penalties and shutoff procedures. Ordinance 294 states that a utility bill will be considered delinquent if not paid by the 10th of the month following billing and an additional payment of 20 percent of the amount of the past due water bill will be charged. If payment is not made by the 20th of the month following billing, in addition to the 20 percent penalty, water service will be disconnected, and a \$40 fee will be charged to restore water service. We reviewed 4 customer accounts with balances past due for 90 days as of March 3, 2014, and only 1 of those accounts had the water service shut off.

It is not good public policy to make exceptions to city ordinances, and failing to enforce city ordinances related to utility services does not provide equitable treatment of all utility users and reduces the incentive for customers to make timely payments.

3.4 Partial payments

The City Clerk allows some customers to make partial payments for utilities without the Board's approval. The City Clerk indicated she has customers sign a hardship agreement to document a payment plan; however, signed hardship agreements were not available for partial payments reviewed, and the City Clerk is not tracking which customers are currently on a payment plan. In addition, the Board was not aware of the use of hardship agreements and did not approve payment plans. The city does not have a policy addressing partial payments.

To ensure all customers are treated in a fair and equitable manner, a formal policy should be established documenting the process to determine when payment plans are allowed, how the payment amount is established, and the approval process for these plans. A signed payment agreement is necessary to indicate the intent of the customer to pay the outstanding balance and assist in monitoring and collecting amounts due.



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3.5 Non-sufficient funds checks

Procedures regarding bad checks received for utility payments are insufficient. The City Clerk sends a letter notifying the customer of the bad check, but makes no other follow-up efforts if this first attempt is unsuccessful. The City Clerk also does not adjust monthly utility bills to include amounts due for previous payments made with bad checks. The city charges \$20 for each bad check to cover bank fees, but does not ensure amounts collected offset bank fees. In addition, bad check fees assessed by the city are not supported by a city ordinance or policy.

Policies are needed to address bad check procedures in order to recover unpaid monies and ensure customer account balances are proper. In addition, the assessment of bad check fees should be supported by ordinance.

3.6 Utility deposits

The City Clerk does not prepare a monthly list of utility deposits on hand and reconcile the list to a deposit reconciliation report or the balance in the City Collector bank account. The city collects a \$40 deposit from new water and sewer customers and deposits the monies in the City Collector bank account. At our request, the City Clerk prepared a list of deposits held as of December 31, 2013. The list totaled \$6,770 and agreed to the deposit reconciliation report maintained in the system. The City Clerk identified an additional \$613 of refunds due to customers pertaining to the period 1996 through 2012 not listed on the reconciliation report, for total identified liabilities of \$7,383. However, the reconciled bank balance was \$7,233, indicating a \$150 shortage. The shortage may relate to bad check fees that come out of this account, but once recouped from the customer are transferred to the water or sewer account.

A complete and accurate listing of customer utility deposits and periodic reconciliation to the bank balance and reconciliation report is necessary to ensure sufficient funds are available for potential utility deposit liabilities and provide a record of monies held for individual customers. Such reconciliations would allow for prompt detection of discrepancies.

3.7 Bulk water sales

The city does not have a meter on the bulk water dispenser and cannot reconcile bulk water sales to monies received. According to city personnel, water is dispensed in 43 second increments (approximately 100 gallons) for 25 cents, and monies are collected from the dispenser change box monthly. The bulk dispenser is not metered, and the city uses the total dollar amount collected to determine total gallons of water pumped.

To improve accountability over the bulk water sales dispenser, the city should meter the dispenser and reconcile money collected to water dispensed to determine if all bulk water revenues are deposited. Without proper reconciliation procedures, there is less assurance bulk water revenue is accounted for properly and transmitted to the bank.



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3.8 Audits

The city does not obtain annual audits of its Water and Sewer Funds. Section 250.150, RSMo, requires the city to obtain annual audits of the combined water and sewer system. In addition to being required by state law, annual audits of these funds help ensure monies are properly handled and financial transactions are properly recorded.

Recommendations

The Board of Aldermen:

- 3.1 Require someone independent of the utility system review and approve all adjustments, and ensure supporting documentation is retained. In addition, ensure that adjustments are only made in accordance with city ordinances.
- 3.2 Establish policies and procedures regarding the collection of delinquent accounts.
- 3.3 Ensure utility ordinances for late fees and service shut off are followed.
- 3.4 Establish a policy that documents procedures and requirements for allowing customers to pay outstanding balances over a period of time. In addition, the Board should review payment agreements and ensure signed agreements are in place for all partial pay arrangements.
- 3.5 Ensure procedures are in place for the collection of bad checks and adopt an ordinance regarding bad check fees.
- 3.6 Maintain adequate records of customer deposits held and periodically reconcile these deposits to the deposit reconciliation report and bank account balance.
- 3.7 Meter the bulk water dispenser and develop reconciliation procedures to ensure revenue from the bulk water sales machine is properly accounted for and deposited.
- 3.8 Obtain annual audits of Water and Sewer Funds as required by state law.

Auditee's Response

The Board of Aldermen provided the following written responses:

3.1, 3.2

3.4, &

3.5 *A review is forthcoming of all accounts and future adjustments. The issues related to the collection of delinquent accounts, late fees,*



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payment plans, bad check collection, and reconciliations will all be covered in a new or updated ordinance.

The Board will ensure documentation is retained supporting such adjustments including citing the cause. In addition, the Board will ensure that adjustments are only made in accordance with city ordinances. The Board will review ordinances for compliance.

The Board will approve all written agreements, payment plans, and obtain signed written payment agreements.

3.3 *The Board will ensure utility ordinances are followed and all accounts are set up to charge late penalties and reconnect fees.*

3.6 *The Board will maintain adequate records of all customer deposits held by the city and periodically reconcile these deposits to the deposit reconciliation report and the related bank account. The Board is reviewing the affected ordinance and seeking legal advice pertaining to the handling of water deposits.*

3.7 *A meter will be installed at the bulk water dispenser, providing the Board a means to account for and reconcile the water usage and monies collected.*

3.8 *The Board agrees with and will implement this recommendation.*

4. Payroll

The Board does not adequately monitor employee overtime or leave balances, and has not established employee salaries by ordinance. In addition, the city has made improper incentive payments in past years.

4.1 Overtime

The city paid significant overtime during 2012 and the first quarter of 2013 that was not approved by the Board or Mayor. City policy states that overtime is to be kept to a minimum and in June 2013, the Board updated the policy to require overtime to be authorized by the Board or Mayor prior to it being incurred. The city paid \$30,554 in overtime to the City Superintendent and \$8,636 in overtime to the City Clerk during the 2 years ended December 31, 2013. The City Superintendent's annual salary is \$33,592 and the City Clerk's annual salary is \$27,373. The City Superintendent reported overtime of 810 hours for 2012 and 451 hours for 2013 (averaging more than 15 hours per week in 2012 and 8 hours per week in 2013). The City Clerk reported overtime of 291 hours for 2012 and 146.5 hours for 2013.

Board members indicated overtime was excessive during 2012 and the first quarter of 2013; however, the Board did not have a process for reviewing and approving timesheets and did not address the overtime issue until 2013.



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Additionally, some overtime was recorded on timesheets, but the timesheets were not always signed by the employee or an approving official as required by city policy. In addition, non-working time, such as vacation, sick and holidays, was included as hours worked when calculating overtime, which is not in accordance with city policy and not required by the Fair Labor Standards Act of 1938 (FLSA).

During 2013, the Board did not document approval of payroll payments made to employees totaling \$100,000 and payments made to a contract laborer totaling \$712.

To limit overtime costs, the city should complete a thorough review of overtime and ensure compliance with established policy. Policies regarding nonworking time should be followed to ensure the city is not paying more overtime than required. In addition, the Board should approve all payroll payments.

4.2 Leave and final paychecks

The Board is not tracking leave balances for city employees. Vacation and sick leave hours are allowed to be carried over annually with a maximum balance established in the personnel policy. Vacation leave is paid out when an employee terminates employment. As a result of not tracking leave, there was no documentation to support the final amounts paid to the former City Clerk and former City Superintendent for vacation leave upon their termination.

The City Clerk resigned on June 25, 2014. The City Clerk used accumulated leave so that her actual final day of work (June 27, 2014), preceded her effective termination date (July 11, 2014). On June 27, 2014, the City Clerk prepared her own 3 final paychecks (one check for the period June 16 through June 30, 2014, one check for the period July 1 through July 11, 2014, and one check for accumulated vacation leave). The Mayor signed and approved the City Clerk's timesheets, and the City Clerk and Mayor signed the final paychecks. The Board did not approve the final paychecks prior to payment.

We recalculated the final amounts paid to the City Clerk for vacation leave based on the assumption the City Clerk began 2014 with the maximum carryover balance of vacation leave allowed by city policy (160 hours), and adjusted these hours for leave earned and taken between January 1, 2014, and July 11, 2014, according to City Clerk's timesheets. Our calculations determined the city overpaid the City Clerk for 52 hours of vacation leave (\$684).

The City Superintendent resigned on July 17, 2014, effective July 31, 2014. We recalculated the final amount paid to the City Superintendent for vacation leave based on the assumption the City Superintendent began 2014 with the maximum carryover balance of vacation leave allowed by city policy (160 hours) and adjusted these hours for leave earned and taken



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between January 1, 2014, and July 31, 2014, according to the City Superintendent's timesheets. Our calculation determined the city overpaid the City Superintendent for 62 hours of vacation leave (\$1,001).

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, and the Board should review final paychecks.

4.3 Incentive payments

The city paid incentive payments ranging from \$90 to \$150 in 2012 and prior years to city employees and a contract laborer. There was no supporting documentation or approval for these payments. In addition, these payments did not have payroll taxes withheld, and were not included on the employees' W-2 forms or contractor's Form 1099-Misc. These incentive payments appear to represent additional compensation for services previously rendered and, as such, are in violation of Article III, Section 39, Missouri Constitution, and Attorney General's Opinion No. 72, 1955 to Pray, which states, ". . . a government agency deriving its power and authority from the constitution and laws of the state would be prohibited from granting extra compensation in the form of bonuses to public officers after the service has been rendered." In addition, the failure to properly report and withhold taxes could result in penalty and interest charges assessed against the city.

4.4 Salary ordinance

The city has not updated its ordinances to establish the compensation of employees since 1984. Section 79.270, RSMo, authorizes the Board to fix the compensation of employees by ordinance.

Recommendations

The Board of Aldermen:

- 4.1 Ensure adequate reviews of time records and payroll payments are performed and proper monitoring of overtime to ensure overtime is necessary and approved. In addition, ensure compliance with the city's overtime policy and the FLSA.
- 4.2 Ensure employee leave balances are properly tracked and monitored. In addition, ensure future final paychecks are supported by proper documentation, are in compliance with city personnel policies, are reviewed and approved by the Board prior to payment, and seek reimbursement of the overpayments.
- 4.3 Discontinue granting incentive payments to employees and contract laborers and ensure all employee compensation is properly taxed and reported to the Internal Revenue Service.



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- 4.4 Update the city ordinance that establishes the compensation of employees.

Auditee's Response

The Board of Aldermen provided the following written responses:

- 4.1 *A review is in progress, and procedures will be set in place to ensure adequate reviews of time records are performed, and compliance with city policy and the FLSA, and all payroll is currently being approved by the Board*
- 4.2 *A vacation and sick time tracker will be included in the new payroll software to ensure accrual, usage, and balances are tracked. The Board will also ensure all future final paychecks are reviewed and approved prior to final payout, and the Board will review the final payouts to past employees to determine if reimbursement should be sought. The Board will ensure future final paychecks are supported by proper documentation and in compliance with city personnel policies.*
- 4.3 *Incentive pay was discontinued in December 2013. In the future, the Board will ensure all compensation is properly taxed and reported to the IRS.*
- 4.4 *A review of the city's ordinance will be conducted, and the ordinance will be adjusted, changed, rescinded, and/or a new ordinance created to reflect compensation of all city employees.*

5. Disbursements

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

5.1 Approval process and oversight

The Board does not retain a list of bills approved, does not document its approval of individual invoices, and does not approve some non-payroll disbursements prior to payment. For example, we reviewed the period between the October 7, 2013, board meeting and the November 12, 2013, board meeting and identified payments totaling \$16,000 for non-payroll disbursements occurred prior to November board meeting. In addition, the city does not require invoices to be marked paid or otherwise canceled, and the receipt of goods or services is not documented prior to payment.

To safeguard against possible loss or misuse of funds, the Board should approve all disbursements and review supporting documentation, bank information, and canceled checks. Board approval of disbursements should be documented in a listing and by signature or initials on monthly reports. Canceling invoices and other supporting documentation reduces the likelihood of duplicate payments, and requiring acknowledgement of receipt of goods or services prior to payment helps ensure the city actually received all items.



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- 5.2 Procurement procedures** The city does not have a formal bidding policy and did not solicit bids for any goods or services purchased during the 2 years ended December 31, 2013. Significant purchases not bid included insurance (\$25,433), a sewer pump (\$9,650), repair services (\$4,050), attorney services (\$3,325), cleaning services (\$2,400), and a water pump (\$2,021).
- 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.
- 5.3 Conflicts of interest** The Board does not adequately monitor its activities for conflicts of interest. The city paid approximately \$1,000 to Mayor Gary King's repair business in 2012 without soliciting bids. In addition, Alderman Binder's son was paid \$712 in 2013 as a contract laborer with no documentation of Board approval.
- Board members serve in a fiduciary capacity and have an obligation to the public to avoid the appearance of impropriety. Personal interests in business matters of the city could create actual or the appearance of conflicts of interest and a lack of independence could harm public confidence in the Board and reduce its effectiveness. Sections 105.454 and 105.458, RSMo, prohibit financial transactions between the city and elected officials that involve more than \$500 per transaction or \$5,000 per annum, unless there has been public notice to solicit proposals and competitive bidding, provided the bid or offer accepted is the lowest received.
- 5.4 Employment classification and 1099-MISC form** The city has not clearly determined the employment classification of Alderman Binder's son (who performs labor on an as needed basis for the city). The city did not withhold payroll taxes or issue applicable year-end tax forms for payments to him totaling \$712 during 2013 and \$1,382 during 2012. In addition, in 2013 and 2012, the city paid \$2,400 each year to an individual for cleaning services and did not issue a 1099-MISC form.
- Procedures are necessary to ensure individuals providing services are properly classified as employees or contract labor. Proper classification of employees and contract labor is necessary to ensure compliance with various state and federal laws and regulations. Individuals classified as employees should be paid through the city's payroll system, while individuals classified as contractors should receive a 1099-MISC form.
- 5.5 Vending machine** City personnel did not reconcile vending machine sales to purchases to ensure all monies and beverages were accounted for, and beverage prices charged did not cover the product costs. The city paid 2 beverage vendors \$10,359 from January 2012 through February 2013. The city purchased 8,976 bottles of beverages which were sold at \$1 per bottle; however, total



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collections/deposits of beverage sales totaled only \$8,583, a shortage of \$393. In addition, the city realized a loss of \$1,776 on the beverages sold.

To safeguard against possible loss, theft or misuse of product, the city should reconcile sales to purchases on a periodic basis. Ensuring the price charged covers the cost of items being sold would ensure the city does not unnecessarily lose money.

5.6 Credit card payments

The city accepts utility bill payments by credit card; however, few bills are paid by credit card and card users are not charged a convenience fee to offset card transaction fees assessed. Credit card service costs and transaction fees in 2013 totaled approximately \$900, but the city only received revenues from card payments of approximately \$1,500. Considering the limited usage, city officials should evaluate continued acceptance of credit card payments or look into a less costly credit card processing option. If credit card payments continue to be accepted, city officials should consider assessing a convenience fee to offset the card transaction fees. In addition, absorbing the credit card transactions fees is a possible violation of Article VI, Section 23, Missouri Constitution, which prohibits the granting of public funds to individuals.

5.7 Written contracts

The city does not always enter into written contracts or retain and update contracts. The city approved hiring the former City Superintendent on a contract basis to perform water and sewer testing services on July 31, 2014. A formal written contract for these services was not prepared, and the only documentation of the agreement was an index card listing rates of pay for testing on weekdays and weekends. In addition, the city does not have a written contract for cleaning services or for funds given to a local civic organization. The contract with the city's attorney also has not been updated since 2000, and the city did not retain a copy of the contract.

Clear and detailed written contracts are necessary to ensure all parties are aware of their duties and responsibilities, and prevent misunderstandings. Section 432.070, RSMo, requires contracts for political subdivisions to be in writing. In addition, in order to monitor compliance with contract terms, copies should be retained.

5.8 Fuel and vehicles

The city does not have procedures to review and evaluate the reasonableness of vehicle usage and does not reconcile fuel usage to billings. The city spent approximately \$700 in bulk fuel and approximately \$2,400 in fuel at gas stations in 2013. Maintaining and reviewing vehicle usage logs and comparing usage to fuel purchases is necessary to ensure vehicles and equipment are properly utilized, prevent paying vendors for improperly billed amounts, and decrease the risk of theft or misuse of fuel occurring without detection.



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Recommendations

The Board of Aldermen:

- 5.1 Ensure all invoices are reviewed and approved by appropriate officials prior to payment and ensure approval of disbursements is documented. In addition, the Board should ensure invoices are marked paid to prevent duplicate payments and require documentation of receipt of goods and/or services prior to payment of invoices.
- 5.2 Establish formal bidding policies and procedures, including documentation requirements regarding the bids or quotes received and justification for bids selected.
- 5.3 Comply with state law regarding transactions with businesses owned by city officials, and ensure such arrangements are properly handled and documented. In addition, the Board should closely examine city transactions to identify and avoid the appearance of or actual conflicts of interest, and ensure members avoid participation in decisions or other situations that could result in the appearance of or actual conflict of interest.
- 5.4 Implement procedures to ensure individuals hired are properly classified as employees or contractors and they are issued applicable year-end tax forms as required by law.
- 5.5 Ensure that monies from the sales of goods are properly accounted for and purchases are reconciled to sales periodically. Goods should be priced to ensure revenues cover costs.
- 5.6 Consider discontinuing accepting credit card payments or changing to a less costly credit card processing option. If credit card payments continue, consider assessing a convenience fee.
- 5.7 Enter into written contracts defining services provided and benefits received and retain copies of all written contracts.
- 5.8 Establish adequate records and procedures to effectively monitor vehicle and fuel use.

Auditee's Response

The Board of Aldermen provided the following written response:

5.1-8 The Board agrees with and will implement these recommendations.

6. Sunshine Law

The Board did not always comply with the Sunshine Law. Open meeting minutes did not always record a roll call vote of the Board members to enter into closed session and did not always document the reason for closing the



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meeting. Section 610.022, RSMo, requires that before any meeting may be closed, the question of holding the closed meeting and the reason for the closed meeting, including reference to a specific section of the law, shall be voted on during an open meeting. These reasons and the corresponding votes to close the meeting should be documented in the open minutes to demonstrate compliance with statutory provisions.

Recommendation

The Board of Aldermen ensure open meeting minutes properly disclose the votes and reasons for closing a meeting.

Auditee's Response

The Board of Aldermen provided the following written response:

The Board agrees with and will implement this recommendation.

7. Budgets

City budgets do not include all elements required by law and are not accurate, and some budgeted receipts and disbursements were overstated.

Budgetary requirements

The Board approved budgets for the years ended December 31, 2013, and 2012, that did not include a budget message, budgeted amounts for the 2 preceding years, and beginning and ending actual and estimated cash balances. City budgets only include actual amounts for the prior 4 years and budgeted receipts and disbursements for the upcoming year.

Budget accuracy

Information contained in the budgets prepared by the City Clerk was not accurate. The Water Fund and Sewer Fund budgets list labor as a disbursement, however, these labor costs were already included in the General Fund budget. In addition, the 2013 actual amounts recorded as transfers in to the General Fund and transfers out of other city funds on the 2014 budget were not correct. The City Clerk also prepared checks that were dated December 31, 2013, to reimburse the General Fund for expenses paid from other funds, and these checks were not signed until the beginning of 2014. Some of these checks were recorded as actual disbursements of 2013 in the 2014 budget, while other checks were recorded as disbursements in the accounting system for 2014.

Sections 67.010 to 67.080, RSMo, establish requirements for the format of the annual operating budget. In addition to meeting statutory requirements, an accurate budget 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.

Recommendation

The Board of Aldermen prepare budgets that are accurate and in compliance with state law.



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Auditee's Response

The Board of Aldermen provided the following written response:

The Board agrees with and will implement this recommendation.

8. 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. City-owned capital assets including land, buildings, equipment, and other property are valued at approximately \$836,000 on the city's insurance listing.

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 physical inventory.

Auditee's Response

The Board of Aldermen provided the following written response:

The Board agrees with and will implement this recommendation.

City of Leeton

Organization and Statistical Information

The City of Leeton is located in Johnson County. The city was incorporated in 1946 and is currently a fourth-class city. The city employed two full-time employees (City Clerk and City Superintendent) and three part-time law enforcement officers on December 31, 2013.

City operations include utility services (water and sewer), law enforcement services, and a 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, 2013, are identified below. The Mayor is paid \$60 annually and the Board of Aldermen members are paid \$24 annually. The compensation of these officials is established by ordinance.

Gary King, Mayor
Steve Binder, Mayor Pro-Tem
Loretta Burford, Alderwoman
Robin Miller, Alderwoman
Tom Wissinger, Alderman

Financial Activity

A summary of the city's financial activity for the year ended December 31, 2013, follows:



City of Leeton
Organization and Statistical Information

City of Leeton
Schedule of Receipts, Disbursements, and Changes in Cash Balances
Year Ended December 31, 2013

	General	Water	Sewer	Cemetery	Gross Receipts	
	Fund	Fund	Fund	Fund	Tax Fund	Totals
RECEIPTS						
Property taxes	\$ 33,694	0	0	0	0	33,694
Franchise taxes	32,317		0	0	0	32,317
Sales taxes	69,835	2,060	0	0	0	71,895
Motor fuel and vehicle fees	20,506	0	0	0	0	20,506
License and permit fees	1,996		0	0	0	1,996
Utility receipts	0	63,021	30,113	0	0	93,134
Other (1)	9,278	0	5	2,575	8,565	20,423
Transfers in	19,399	0	0	0	0	19,399
Total Receipts	187,025	65,081	30,118	2,575	8,565	293,364
DISBURSEMENTS						
Salaries and wages	92,447	0	0	0	0	92,447
Employment taxes	7,077	0	0	0	0	7,077
Utilities	11,412	7,241	2,592	0	0	21,245
Street lighting	13,472	0	0	0	0	13,472
Vehicle fuel, repair, and maintenance	4,271	0	0	0	0	4,271
Insurance and bonds	16,077	4,842	4,842	0	0	25,761
Street repair and maintenance	4,740	1,040	0	0	0	5,780
Legal services	3,325	0	0	0	0	3,325
Trash service	2,117	0	0	0	0	2,117
Supplies, printing, and postage	2,578	5,179	1,131	0	0	8,888
Repair and maintenance	1,821	0	242	1,412	0	3,475
Election expense	1,200	0	0	0	0	1,200
Principal and interest	0	14,111	0	0	0	14,111
Other	7,879	4,698	1,619	63	0	14,259
Transfers out	0	24,507	4,170	0	0	28,677
Total Disbursements	168,416	61,618	14,596	1,475	0	246,105
RECEIPTS OVER (UNDER) DISBURSEMENTS	18,609	3,463	15,522	1,100	8,565	47,259
CASH, JANUARY 1, 2013	42,980	62,849	68,340	38,541	44,176	256,886
CASH, DECEMBER 31, 2013	\$ 61,589	66,312	83,862	39,641	52,741	304,145

(1) Other receipts of the General Fund include Law Enforcement Training and Police Officer Standards Training fees.