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Missouri State Auditor

City of Kimmswick



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Thomas A. Schweich
Missouri State Auditor

CITIZENS SUMMARY

Findings in the audit of the City of Kimmswick

City Festivals	<p>Each year the city holds the Strawberry Festival and the Apple Butter Festival, but the city does not maintain adequate records of festival monies received, so the city cannot ensure all monies collected are accounted for and properly deposited. The city does not issue pre-numbered receipt slips for booth rentals or sponsor fees received, does not maintain a record of vendors and fees paid, and does not reconcile registration forms to fees deposited. The city does not track city booth sales or reconcile products sold to monies collected, does not deposit monies timely and intact, and does not maintain monies in a secure location until deposit. Various members of the community work at city festivals, but only some are paid for their services, and the city did not maintain documentation to support compensation paid to festival workers, and it was not clear whether the Board approved the amounts. The city did not always comply with its own purchasing policy for festival disbursements, the Board did not review bid documentation prior to approving the recommended vendors, and the city did not enter into written contracts with some service providers. Festival disbursements were not always approved by the Board before payment, and the Festival Committee does not comply with the Sunshine Law.</p>
Accounting Controls and Procedures	<p>The Board has not segregated duties or performed adequate reviews of the work performed by the City Clerk. The City Clerk performs various accounting duties for the city and manages events held at the Anheuser Estate. The city does not issue pre-numbered receipt slips and cannot demonstrate all monies received were deposited. The city does not deposit monies intact or timely, restrictively endorse money orders upon receipt, deposit all monies related to events held at the Anheuser Estate, or keep receipts for estate events in a secure location. The City Clerk does not properly mutilate and retain voided checks.</p>
City Policies and Procedures	<p>The city made several disbursements prior to obtaining Board approval, and it is unclear whether all disbursements were approved. The city paid 4 relatives of the Mayor a total of \$2,468 during 2013 and paid a total of \$5,762 to 2 city employees who are related to Board members. To reduce the risk and appearance of a conflict of interest, the city should develop policies and procedures concerning related parties. The city did not properly report the mayor's \$200 per month stipend as compensation for tax purposes and did not file required 1099-MISC forms for 9 individuals and 2 vendors.</p>
Anheuser Estate	<p>In 2001, the family estate of Fred and Mabel Anheuser was bequeathed to the city, along with a \$1.5 million permanent trust fund for the purpose of maintaining the estate as a library and museum. The estate is overseen by a 5 person board of trustees (Trust Board), and the city and Trust Board has approval authority over estate disbursements. The city does not retain</p>

documentation to support its approval of disbursements made from the trust fund, so it is not clear that all disbursements were approved by the city as required. The city has used an outdated capital assets listing to insure the property and has not conducted an inventory of the estate. The city began renting the estate to the public for special events, but the city does not have a formal agreement with the Trust Board outlining how income from such events will be divided between the city and the Trust Board.

Closed Meetings	Prior to November 2013, the city did not prepare closed meeting minutes. The Board generally uses the same statement in each meeting notice/agenda as the reason for a potential closed meeting, and topics discussed in closed meetings were not limited to the reasons cited and were not always allowable.
Budgets and Financial Statements	The city does not prepare a budget for each of the city's 4 funds, and the budgets prepared do not contain all required elements. The Board does not timely approve budgets and does not adequately monitor budget-to-actual receipts and disbursements. Actual expenditures exceeded budgeted amounts by \$98,600 for 2013. The Board does not publish the city's financial statements semiannually, as required by state law, and financial statements do not include adequate detail of the activity for each fund.
Computer Controls	The city has not established adequate password controls to reduce the risk of unauthorized access to the city's computer and data. The city does not store backups of system data at a secure off-site location, so backup data may not be available for restoring systems following a disaster or computer failure.

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

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

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

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City of Kimmswick

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THOMAS A. SCHWEICH

Missouri State Auditor

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

The State Auditor was petitioned under Section 29.230, RSMo, to audit the City of Kimmswick. 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, grant agreement, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

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

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

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

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
Audit Manager:	Keriann Wright, MBA, CPA
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City of Kimmswick

Management Advisory Report

State Auditor's Findings

1. City Festivals

Significant weaknesses were identified with controls and procedures over city festivals.

The city holds two festivals annually, the Strawberry Festival, held in June, and the Apple Butter Festival, held in October. Revenues for the festivals account for nearly half of the city's annual revenues and totaled approximately \$105,000 for the 2013 Apple Butter Festival and approximately \$42,000 for the 2013 Strawberry Festival. Festival revenues include fees charged for booth rentals, sponsors, parking, and sales during the festivals, including beer, jam, hay, and raffle tickets.

The city has a Festival Committee tasked with helping to organize and manage city festivals, including managing booth rentals, obtaining sponsors, soliciting bids, and negotiating contracts, when necessary. The committee is comprised of the Mayor, City Clerk, a member of the Board of Aldermen, and a community volunteer. In addition, the city enlists the help of various community members to operate each festival.

1.1 Receipting and depositing procedures

The city's controls and procedures over receipting and depositing festival monies need significant improvement.

Festival receipts

The city does not maintain adequate records of festival monies received, and as a result, the city cannot ensure all monies collected are accounted for and properly deposited.

The city does not issue pre-numbered receipt slips for booth rentals or sponsor fees received, and a record of vendors and fees paid is not maintained. When a vendor wants to rent a booth or sponsor a festival, a registration form is completed and a fee is paid dependent upon the type of rental or sponsorship agreement. The City Clerk records the composition of payment on the registration form and attaches a copy of the cash or check received. The City Clerk forwards a copy of the registration form and payment to the Festival Committee Chairperson to assign a booth space. Booth assignments are not made in any specific order and the only record of vendors is a site map of booth assignments. The site map shows all available/rented booth spaces based on their location in the city. The booth spaces are pre-numbered on the site map and are assigned to vendors based on location request. Additionally, the City Clerk does not reconcile registration forms to fees deposited. City officials deposited approximately \$109,000 in rental and sponsor fees from 560 vendors for the 2013 festivals.

In addition, the city does not track city booth sales or reconcile products sold to monies collected. During each festival, the city operates various booths, generally selling beer, jam, hay, and raffle tickets. Each booth has a cash box used by volunteers for any monies collected. Throughout the day, the City Clerk picks up cash from the city booths and maintains the monies in bank bags by receipt type at city hall. The city does not keep a record of



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sales made and does not try to reconcile products sold with monies received to ensure all monies collected are accounted for and deposited. During the 2013 festivals, the city deposited approximately \$22,200 from city booth sales.

Deposits

The city does not deposit festival monies received intact or timely and the city does not restrictively endorse checks upon receipt. The city allows vendors to post-date checks for future festivals in order to secure their booth location. Approximately 35 percent of checks received for both booth rental and sponsor fees were post-dated and held up to 10 months before deposit. A cash count performed on May 21, 2014, identified 76 checks on hand, totaling \$19,235. Most of these checks were post-dated August 1, 2014, for the Apple Butter Festival to be held in October 2014, and none of them were restrictively endorsed. Allowing and retaining post-dated checks for long time periods places monies on hand at risk and increases the possibility that checks may be insufficient by date of deposit.

Security of receipts

The city did not maintain festival monies received in a secure location until deposit. During the June 2014 Strawberry Festival, we observed an unattended bank bag sitting on a table in city hall containing several bundles of cash. We also noted the city left the file cabinet that holds post-dated checks and other receipts unlocked. During this time, city hall was unlocked and various people, including city staff, vendors, and others, had unrestricted access to these areas. The city does not ensure all monies collected from city booths during the festival are accounted for prior to deposit. The City Clerk placed monies collected from the city booths in bank bags, uncounted until deposit the following business day. Based on our questions and weaknesses noted, the city made some changes to better account for monies collected from booth sales during the 2014 Strawberry Festival, such as counting monies collected throughout the festival at the time of collection, and placing cash collected in the bank drop box at night; however, some monies remained uncounted before they were secured.

Conclusion

Failure to implement adequate receipting and depositing procedures increases the risk that loss, theft, or misuse of funds will go undetected. To adequately safeguard receipts, a receipt log and/or pre-numbered receipt slips should be prepared for festival monies received, checks and money orders should be restrictively endorsed upon receipt, city booth sales should be tracked and reconciled with monies collected, monies should be deposited intact and timely, and monies should be kept in a secure location until deposit.

1.2 Festival staff

The city does not designate which festival staff services will be compensated. Various members of the community work at city festivals; however, only some of the workers are paid for their services. For the year ended December 31, 2013, the city paid 21 festival workers approximately \$8,900. Compensation paid to workers ranged from approximately \$100 to



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\$400 for each festival. An additional 36 festival volunteers were not compensated. Duties performed by the paid workers during 2013 festivals included event security, clean up, parking, and bus coordination. Duties performed by volunteers included booth sales, setup and tear down, and other tasks as necessary.

In addition, the city did not maintain documentation to support compensation paid to festival workers and it was not clear whether the amounts compensated were approved by the Board of Aldermen (Board). Further, the city paid a security officer a \$50 cash advance on the first day of the 2013 Apple Butter Festival, before services were provided.

To ensure compensation for festival services is clearly defined and documented, the city needs to develop a policy and make it available to the public. In addition, to ensure obligations were actually incurred and amounts paid were proper, all disbursements, including compensation to festival workers, should be paid by check, adequately supported, and properly approved and documented in the Board meeting minutes.

1.3 Festival disbursements

Controls and procedures over festival disbursements need improvement.

Bidding

The city did not always comply with its purchasing policy for festival disbursements, resulting in bids not being solicited for all services required. City policy requires solicitation of bids for goods or services costing more than \$500 by placing bid requests in public view. For goods or services costing more than \$5,000, policy requires the request for bids to be advertised in a newspaper. City officials did not solicit bids for trash services (\$2,646), portable toilets (\$5,605), or the band solicitor/promoter (\$2,600) for the 2013 Apple Butter Festival.

The Festival Committee is responsible for obtaining bids for festival goods or services and making recommendations to the Board; however, the Board does not review bid documentation prior to approving the recommended vendors. Personnel indicated the Board discusses and approves festival bids during Board meetings; however, there is no documentation in the meeting minutes noting the approval. In addition, all bid documentation relating to festival activity is maintained offsite by the committee chairperson.

Competitive bidding not only ensures the Board is complying with city policy, but also helps ensure all parties are given an equal opportunity to participate in city business. Documentation of the selection process and criteria should be reviewed and maintained by the city to support purchasing decisions and Board approval should be clearly documented in meeting minutes.

Contracts

The city did not enter into a contract with the band solicitor/promoter or the beer vendor for the 2013 festivals. The city paid the band solicitor/promoter



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approximately \$4,800 to find and pay bands for both festivals. The city paid the beer vendor approximately \$9,800.

Written agreements, signed by the parties involved, should specify the services to be rendered and the manner and amount of compensation to be paid. Written contracts are necessary to ensure all parties are aware of their duties and responsibilities and to prevent misunderstandings. Section 432.070, RSMo, requires contracts for political subdivisions to be in writing.

1.4 Board approval

The Board did not approve a large portion of the 2013 festival disbursements prior to payments being made, and Board meeting minutes did not document the Board's approval for festival disbursements. As a result, festival disbursements were not always approved prior to payment and it is unclear whether they were ever approved. The Board did not hold meetings during May through July 2013 for various reasons, including the lack of a quorum, flooding within the city, and the Strawberry Festival. During this period, the city disbursed \$29,185 relating to the 2013 Strawberry Festival, which accounted for approximately 41 percent of total festival disbursements made in 2013.

According to the City Clerk, anticipated 2013 Strawberry Festival disbursements were presented to and pre-approved by the Board prior to the festival and then subsequently approved by the Board during the August 2013 Board meeting. There is no documentation to support the Board pre-approved or subsequently approved these payments, and Board meeting minutes do not indicate approval.

To safeguard against possible loss or misuse of funds, the Board should approve all festival disbursements prior to payment. Board approval should be documented in the meeting minutes, and by signature or initials on the approved disbursement reports.

1.5 Festival Committee

The Festival Committee does not comply with the Sunshine Law. The committee does not hold open meetings and meeting minutes are not prepared. Further, recommendations made by the committee to the Board are not approved. As a result, decisions and recommendations made by the Festival Committee were not open to the public. According to committee members, committee decisions are made by phone, text, or email between the members; open meetings are not held. Recommendations are made by the committee to the Board; however, committee decisions are not always brought before the Board for approval and recommendations made to the Board were not always voted on and approved. For example, the Festival Committee solicited bids and paid for bus services totaling \$4,867 for the 2013 Strawberry Festival without approval by the Board. According to the City Clerk, the Board and the Mayor were informally contacted to obtain approval to pay for the service.



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Minutes serve as the only official permanent record of decisions made by the Festival Committee. Section 610.020, RSMo, requires minutes be taken of meetings of all public governmental bodies. Section 610.010, RSMo, defines committees appointed by and reporting to public governmental bodies as subject to Sunshine Law requirements.

Recommendations

The Board of Aldermen:

- 1.1 Ensure proper receipt records are maintained and reconciled to the composition of the deposits. In addition, the Board should develop procedures to track and reconcile city booth sales to monies collected, ensure deposits are made timely and intact, checks/money orders are restrictively endorsed upon receipt, and monies are properly secured. Further, the Board should discontinue the practice of accepting post-dated checks. Any fees received in advance of upcoming festivals should be promptly deposited and vendor payments and booth assignments should be adequately tracked.
- 1.2 Establish a policy to address compensating festival workers and ensure disbursements are adequately supported, reviewed, and approved. Board approvals should be documented in meeting minutes.
- 1.3 Ensure the city solicits and approves bids in accordance with city policy, and maintains documentation at city hall. In addition, the Board should establish written contracts for festival services when needed to properly define services to be received and amounts to be compensated.
- 1.4 Review and approve all festival disbursements prior to payment and ensure approval of festival disbursements is properly documented in meeting minutes.
- 1.5 Ensure public meetings are held and meeting minutes prepared, approved, and maintained for the Festival Committee in accordance with the Sunshine Law. Meeting minutes should document all decisions made and be filed with the city.

Auditee's Response

The Board of Aldermen provided the following written responses:

- 1.1 *The city has already implemented better procedures to improve accounting practices, including the use of pre-numbered receipts so that receipts can be reconciled. The city will implement better procedures to track booth sales during the festivals so that sales can be accurately reconciled with the monies collected. Any discrepancies will be promptly investigated and corrected. Deposits*



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will continue to be made in a timely fashion, and all monies will continue to be secured at all times during and after festivals. The city has created a database for tracking vendors to allow for better accounting practices. The practice of accepting post-dated checks from vendors as a means to secure a spot for the following year's festivals will be discontinued completely by 2016. The city is unable to discontinue this practice any sooner, as post-dated checks have already been received for the 2015 festival season. The city has already begun endorsing checks immediately upon receipt, pursuant to the Auditor's recommendation.

- 1.2 The city no longer has paid volunteers working at festivals. Anyone who receives payment over \$600 during a single year will be issued a 1099 form. The Board will make all necessary approvals with respect to the approval of any payments.*
- 1.3 The city accepts the recommendation of the Auditor, and further will update its policies and procedures with respect to the soliciting and approving of bids. The city will ensure that documentation relative to the soliciting and approval of bids is maintained at City Hall. The city will ensure all written contracts are executed in accordance with Section 432.070, RSMo. To help with the updating of policies and to ensure compliance, the city has recently hired a City Attorney.*
- 1.4 The city will continue to ensure that all disbursements are approved by the Board of Aldermen prior to the disbursements being paid, and that such approvals will be documented in meeting minutes. Reports will be given during public meetings with respect to the specific disbursements that are being approved by the Board of Aldermen. The city already provides, and will continue to do so, a financial report each month at its public Board meetings, and has all invoices and checks available for review by the Board members at each meeting. Further, a detailed financial report is, and will continue to be, completed and made public for each of the city's festivals.*
- 1.5 The Board of Aldermen will appoint an individual to serve as festival director, and shall adopt a policy detailing the scope of the individual's powers with respect to the task of organizing the festivals. Each month, as applicable, the Festival Director shall report to the Board of Aldermen during the regularly scheduled Board meetings to provide an update and to seek any required approvals from the Board of Aldermen. All documents and communications generated by the Festival Director will be*



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maintained and made available to the public in accordance with all applicable laws and regulations.

2. Accounting Controls and Procedures

We identified several weaknesses with the city's accounting controls and procedures. In addition to various festival fees and sales receipts (see MAR finding number 1), the city also receives monies for various taxes, merchant licenses, events, and other miscellaneous receipts and reimbursements. During the year ended December 31, 2013, the city collected approximately \$166,000, excluding festival receipts.

2.1 Segregation of duties and supervisory reviews

The Board has not segregated duties or performed adequate reviews of the work performed by the City Clerk. The City Clerk is responsible for receipting and depositing monies, preparing checks, reconciling bank accounts, preparing monthly financial reports, and maintaining accounting records. In addition, the City Clerk manages events held at the Anheuser Estate (see MAR finding number 4) and prepares billings for merchant licenses. 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. The Board hired the former City Treasurer to prepare the city's annual financial statements. On a monthly basis, as part of this service, this individual performs an independent review of the monthly bank reconciliations, disbursements, and financial statements; however, the former City Treasurer's review is not documented and does not include reconciling receipts to deposits or reviewing detailed transactions. A detailed review of accounting records is also not performed by the Board.

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 segregation of duties is not possible, a timely supervisory review by the Board should be performed and documented.

2.2 Receipting and depositing procedures

The city's controls and procedures over receipting and depositing monies need improvement. We noted the following issues:

- The city did not issue pre-numbered receipt slips nor maintain an immediate record of receipts. As a result, the city cannot demonstrate all monies received were deposited. For example, fees received for 2 Anheuser Estate events, totaling \$675, could not be traced to deposit. The application forms indicated payment had been made; however, receipt documentation was not adequate to ensure deposit of these payments.
- The city does not deposit monies intact or timely, and checks and money orders were not restrictively endorsed upon receipt. For



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example, during July 2013, 13 checks totaling \$1,200 were deposited. The checks were dated between 4 and 44 days before deposit. Because the city does not maintain adequate receipt records, it is not clear when these checks were physically received by the city.

- The city does not deposit all monies received relating to events held at the Anheuser Estate. The city requires a refundable deposit when booking an event. The city allows individuals to submit a post-dated check as the deposit for renting the Anheuser Estate for events; however, the checks are held until after the event, at which time they are either remitted back to the payee or deposited. A cash count performed on June 17, 2014, identified 17 checks totaling \$3,575 with dates ranging from April 30, 2014, to November 2, 2014.
- The City Clerk does not maintain receipts for estate events in a secure location. The City Clerk places checks for deposits and event payments in a binder left out in the open at city hall. The City Clerk said she takes the binder home in the evenings.

Failure to implement adequate receipting and depositing procedures increases the risk that loss, theft, or misuse of funds will go undetected. To adequately safeguard receipts, a receipt log and/or pre-numbered receipt slips should be prepared for all monies received, monies should be deposited intact and timely, and all monies should be kept in a secure location until deposit.

2.3 Voided checks

The City Clerk does not mutilate and retain voided checks. During the year ended December 31, 2013, the City Clerk voided 23 checks. The City Clerk stated she shreds voided checks each month after the bank statements are balanced.

To ensure accounting records are accurate and to reduce the risk of unauthorized transactions, the city should ensure all voided checks are properly mutilated and retained.

Recommendations

The Board of Aldermen:

- 2.1 Segregate the duties of the City Clerk. At a minimum, there should be a documented review of city records and reconciliations.
- 2.2 Ensure proper receipt records are maintained and reconciled to the composition of the deposits. In addition, the Board should ensure deposits are made timely and intact, and monies are properly secured. Further, the Board should discontinue the practice of accepting post-dated checks. Any fees received in advance of upcoming events should be promptly deposited.



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2.3 Mutilate and retain all voided checks.

Auditee's Response

The Board of Aldermen provided the following written responses:

- 2.1 *The City of Kimmswick currently employs no full-time employees. Current budget constrictions do not allow the city to employ a City Treasurer or other employee to allow the city to segregate the duties of the City Clerk. The city will continually review its staffing needs and budgeting restraints to determine if needs and circumstances change so as to allow for the hiring of additional employees. The city has, and will continue to have, the city's retired City Treasurer (or other qualified individual) review the monthly reports. Such reviews will be documented, and will be more comprehensive owing to the increased accounting procedures put in place as referenced in response to Point 1.1. Further, the Board of Aldermen will consider providing for additional periodic overview of the city's financial records by the Board or a Board subcommittee.*
- 2.2 *With the exception of the city's practices regarding post-dated checks, monies received are, and will continue to be, promptly deposited and receipts issued relative to receipt of monies. Again, the city will eliminate its post-dated check system for securing festival spots by 2016. The city will also not accept post-dated checks for other purposes, and will ensure that all monies received, regardless of form, are promptly deposited.*
- 2.3 *The city accepts and has already implemented this audit recommendation.*

3. City Policies and Procedures

3.1 Board approval

The city's policies and procedures are not adequate to address Board approvals, related parties, and Internal Revenue Service (IRS) reporting.

The city made several disbursements prior to obtaining Board approval, and meeting minutes did not include documentation of disbursements approved by the Board. It is unclear if the Board approved all disbursements. As discussed in MAR finding number 1.4, the Board did not hold meetings during May through July 2013. During this period, the city disbursed approximately \$23,000 from the General Revenue, Road, and Event Funds, which accounted for approximately 18 percent of disbursements from those funds during 2013. The City Clerk indicated she spoke with 2 Board members and the Mayor to obtain approval to pay the essential bills during the months the Board did not meet. Disbursements are generally approved during each monthly Board meeting; however, there is no documentation



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maintained with the Board meeting minutes to identify which disbursements were approved.

To safeguard against possible loss, theft, or misuse of funds, the Board should approve all disbursements prior to payment. Board approval of disbursements should be documented in the meeting minutes, and by signature or initials on the approved disbursement reports.

3.2 Related parties

The city does not ensure payments made to relatives of city officials are free of conflicts of interest. As a result, \$8,230 paid to relatives of city officials during the year ended December 31, 2013, represent a potential conflict of interest.

- The city paid 4 relatives of the Mayor a total of \$2,468 during the year ended December 31, 2013, for work performed at the city festivals and events, and for miscellaneous repair work. Payments to these relatives ranged from \$245 to \$1,248.
- The city paid \$5,762 to 2 city employees during the year ended December 31, 2013, who are related to Board members. The employees were hired prior to the Board members taking office; however, the city does not have policies or procedures in place to help prevent conflicts of interest from occurring regarding these positions. For example, the meeting minutes do not indicate if the related Board members abstained on any decisions involving these positions.

To reduce the risk and appearance of a conflict of interest, the city should develop policies and procedures concerning related parties. These policies and procedures should include, at a minimum, Board members abstaining from any decisions made concerning their relatives, and adequate documentation of decisions in Board meeting minutes.

3.3 IRS reporting

The city did not properly report payments to vendors or individuals to the IRS when required.

Expense payments

The city did not properly report the mayor's stipend as compensation for tax purposes. The city pays the Mayor a stipend of \$200 per month to cover general expenses; however, there is no documentation supporting the use of these monies.

IRS publication 463 states any reimbursement or other expenses not qualifying under an accountable plan, represents income and should be reported on a W-2 form. The Mayor's stipend does not qualify under an accountable plan and should have been reported as income.

1099-MISC

The city did not always file 1099-MISC forms with the IRS when required.



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We identified payments to 9 individuals and 2 vendors totaling \$12,723 where city officials did not issue 1099-MISC forms. Payments ranged from \$600 to \$4,800 and related to festival work, accounting services, and Anheuser Estate event work.

Sections 6041 to 6050 of the Internal Revenue Code require non-wage payments of at least \$600 in one year to an individual be reported to the federal government on a 1099-MISC form.

Recommendations

The Board of Aldermen:

- 3.1 Review and approve all disbursements prior to payment and ensure approval is properly documented.
- 3.2 Establish policies and procedures concerning related parties and ensure decisions concerning related parties are adequately documented in meeting minutes.
- 3.3 Ensure W-2 and 1099-MISC forms are issued when required.

Auditee's Response

The Board of Aldermen provided the following written responses:

- 3.1 *The city will ensure that disbursements will be approved prior to payment by the Board of Aldermen, and the approval documented in meeting minutes. During scheduled meetings the Board of Aldermen reviews and approves the financial report and approves the payment of bills. The Board of Aldermen will adopt a procedure for allowing for the payment of essential bills, such as utilities, for months when the city is unable to hold its regularly scheduled meetings. The city will ensure compliance with all applicable laws and policies, and the procedures it prescribes.*
- 3.2 *The city will review potential conflicts that may exist, and take necessary remedial measures. Further, the city will adopt policies and procedures to address potential conflicts of interest. Again, the city has hired legal counsel to assist with this process.*
- 3.3 *The city will ensure W-2 forms are issued as required. The city will also issue 1099-MISC forms as required.*

4. Anheuser Estate

City policies and procedures over disbursements, capital assets, and event profits involving the Anheuser Estate need improvement.

In 2001, the family estate of Fred and Mabel Anheuser was bequeathed to the city, along with a \$1.5 million permanent trust fund (trust fund) for the purpose of maintaining the estate as a library and museum in honor of the



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Anheuser family. The trust fund is supervised by a 5 person Board of trustees (Anheuser Trust Board) and consists of the Mayor, a city appointed representative, and 3 representatives of the Anheuser family. To ensure the trust fund is spent and the estate is used as intended, monies can only be spent after the approval of both the Anheuser Trust Board and the city's Board of Alderman. The city approves and signs all disbursements from the trust fund; however, the Anheuser Trust Board is the custodian of the trust fund and all of its related records and is a legally separate entity from the city. As a result, our review was limited to the city's involvement with the Anheuser estate and the related trust fund.

4.1 Disbursements

The city does not retain documentation to support its approval of disbursements made from the trust fund. Both the Mayor and the City Clerk are responsible for signing all checks for the trust fund. When disbursements need to be made, the Anheuser Trust Board provides the city with checks and supporting documentation for review and approval at the next city Board meeting. However, meeting minutes do not specify what disbursements were approved and documentation to support what was approved at each meeting is not maintained. The city receives some documentation of trust fund expenditures from the Anheuser Trust Board about every 6 months to keep as city records; however, the documentation does not provide assurance disbursements were properly approved by the city.

Without documentation supporting what expenditures were approved with Board meeting minutes, it is not clear the trust fund disbursements were approved by the city as required.

According to Section 6.6 of the Anheuser Permanent Fund Trust Agreement, dated July 24, 2010, because the City of Kimmswick is the owner of the Anheuser property and the beneficial owner of the Anheuser permanent trust fund, it is understood and agreed by all parties that all acts of the Anheuser Trust Board are contingent upon approval of the Board of Alderman of the City of Kimmswick. Without adequate documentation, the city cannot demonstrate disbursements and other actions of the Anheuser Trust Board were properly approved by the city.

4.2 Capital assets

The city has not conducted an inventory of the Anheuser Estate and has not updated the related capital asset records since 2010. As a result, the city has used an outdated listing to insure the property. Each year, the city insures the Anheuser Estate along with other city property and the Anheuser Trust Board reimburses the city for the estate's portion of the insurance premium. The Anheuser Estate property includes the museum and its contents, including various antiques and heirlooms, land, and other structures. In 2013, insurance records show Anheuser Estate capital assets had a value of approximately \$1.3 million.



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

4.3 Event profits

The city does not have a formal agreement with the Anheuser Trust Board outlining how income derived from events held at the Anheuser Estate will be divided between the city and the Anheuser Trust Board. Beginning in 2013, the city began renting the estate to the public for special events. Any related costs for events at the estate are covered by the city. According to city personnel, an informal agreement was made between the city and the Anheuser Trust Board to equally divide the profits from these events. However, the city's meeting minutes do not document this agreement and a written agreement with the Anheuser Trust Board was not created. In July 2013 the city disbursed \$221 to the Anheuser Trust Board as the estate's portion of profits earned from 3 events held between March and July 2013; however, the city did not retain documentation to support how the profits were calculated, and profits from events held after July 2013 have not been divided. Since July 2013, 44 events have been held at the Anheuser Estate and the city has collected \$15,630 in rental fees.

According to Section 5.3 of the Anheuser Permanent Fund Trust Agreement, dated June 24, 2010, if in the future, additional sources of income are derived from the Anheuser Estate, including but not limited to, income derived from any improvements constructed after the date of this agreement, the disposition of the income will be determined by agreement between the City of Kimmswick and the Anheuser Trust Board.

Recommendations

The Board of Aldermen:

- 4.1 Ensure the city maintains documentation of trust fund disbursements approved by the Board. Additionally, meeting minutes should clearly document the Board's approval.
- 4.2 Ensure an annual inventory of the capital assets is performed and records updated as necessary for the Anheuser Estate.
- 4.3 Establish a formal agreement with the Anheuser Trust Board documenting the disposition of future income earned.

Auditee's Response

The Board of Aldermen provided the following written responses:

- 4.1 *The city keeps, and will continue to keep, the documentation it has relative to the Anheuser Trust Fund. The city will maintain copies of the invoices and checks approved at each Board of Aldermen meeting, so as to maintain current records of approved disbursements. In accordance with the Auditor's recommendation,*



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the city has already begun approving disbursements for the Anheuser Trust Fund separate and apart from the approval of city disbursements during public meetings, and will continue to do so and make sure such authorizations are documented in the meeting minutes for the Board of Aldermen. The city will comply with the requirements for the disbursement of funds as required by the terms of the trust.

- 4.2 *The city accepts the Auditor's recommendation and will schedule an inventory for early 2015. The city will thereafter perform annual inventories.*
- 4.3 *The city will attempt to negotiate a written formal agreement with the Anheuser Trust Board with respect to the disposition of future earned income.*

5. Closed Meetings

The city was not always in compliance with the Sunshine Law for closed meetings held. The Board held 8 closed meetings from January 2013 to July 2014.

- Prior to November 2013, city officials did not prepare closed meeting minutes. While the city documented the results of votes taken during closed meetings in the open meeting minutes, closed meeting minutes documenting the date, time, and Board members in attendance, topics discussed, and decisions made were not prepared or retained.
- The Board generally uses the same statement in each meeting notice/agenda to indicate the potential for a closed meeting, instead of citing the specific exception as the reason for a closed meeting, when applicable. For 1 closed meeting held, the specific reason for closing the meeting was not cited in either the agenda or the open meeting minutes.
- Topics discussed in closed meetings were not limited to the reasons cited and were not always allowable. For example, during the May 13, 2014, closed meeting, the Board discussed personnel issues although the reason for closing the meeting was to discuss sealed bids. Further, sealed bids were opened, discussed, and a bid was accepted during this closed meeting, which is not allowable per the Sunshine Law.

Section 610.020, RSMo, requires minutes of closed meetings be taken and retained by all governmental bodies and to indicate the date, time, place, members present, members absent, and a record of votes taken. In addition, Section 610.022, RSMo, provides that a public governmental body planning to hold a closed meeting should follow the notice procedures for an open meeting and include there will be a closed meeting and cite the specific provision of the law that allows the meeting to be closed. A statement that includes general issues that may be discussed in a closed meeting appears to



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circumvent the intent of state law. Further, Section 610.021, RSMo, limits the subjects Board's may discuss in closed meetings.

Recommendation

The Board of Aldermen ensure meeting minutes are prepared for all closed meetings. In addition, the Board should ensure specific reasons are cited for closing the meeting, and topics discussed are allowable and limited to only those specific reasons cited to justify the closed meeting.

Auditee's Response

The Board of Aldermen provided the following written response:

The city will comply with the Sunshine Law and has already revised its notices to better comply with the law. The meeting notices, and the motion to close the meeting, will state the statutory authority for the closing of the meeting. The city will ensure that roll call votes are taken and recorded in meeting minutes as required. The city will ensure closed meeting minutes are prepared as required. The city will not discuss sealed bids in closed meetings, and will ensure that it only discusses those matters in closed meetings which it is authorized to. Finally, the Board of Aldermen believes it restricts its discussions during closed sessions to the stated reasons for which the meeting was closed. Regardless, the city will ensure that it continues to limit discussions during closed meetings to the topics pursuant to which the Board of Aldermen voted to close the meeting. Furthermore, the Board of Aldermen will be provided training on the Sunshine Law in early December. Again, legal counsel has been hired to assist with compliance.

6. Budgets and Financial Statements

The city does not properly prepare, approve, or monitor budgets and has not complied with state law in publishing and reporting financial information.

6.1 Budgets

The city does not have adequate procedures to prepare, approve, or monitor budgets.

Preparation and approval

The Board does not prepare a budget for each of the city's 4 funds. Additionally, budgets do not include a budget message or summary, the actual beginning and estimated ending cash balances, budgeted amounts for the 2 preceding years, or city indebtedness information. Instead, the Board combines the city's 4 funds (General, Road, Enterprise, and Event Funds) into a consolidated budget and the budget only includes the actual receipts and disbursements for the prior 2 years. As a result, the Board is not using all available information to assist in effectively managing the city, and the public is not provided a complete overview of city finances.



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In addition, the Board does not approve budgets timely. The annual budgets for the years ended December 31, 2013 and 2014, were not approved until the February 11, 2013, and March 31, 2014, Board meetings, respectively.

Section 67.010, RSMo, requires the budget present a complete financial plan for the ensuing budget year and sets specific guidelines for the format. A complete budget should include the beginning available resources and a reasonable estimate of the ending available resources. A complete and well-planned budget, in addition to meeting statutory requirements, can serve as a useful management tool by establishing specific financial expectations for each area of city operations. It also assists in setting tax levies and informing the public about city operations and current finances. In addition, Section 67.030, RSMo, states the governing body shall approve and adopt the annual budget prior to the beginning of the fiscal year.

Monitoring

The Board does not adequately monitor budget-to-actual receipts and disbursements. As a result, actual expenditures exceeded budgeted amounts by \$98,600 for the year ending December 31, 2013. The City Clerk provides the Board with monthly financial statements at each Board meeting; however, the reports do not include budget-to-actual information and the financial statements are not broken down by fund or budgetary line item. As a result, the Board is not reviewing information to ensure disbursements remain within budgeted appropriations.

Section 67.040, RSMo, requires political subdivisions to keep disbursements within amounts budgeted, but allows for budget increases if the governing body officially adopts a resolution setting forth the facts and reasons. In addition, Section 67.080, RSMo, provides that no disbursement of public monies should be made unless it is authorized in the budget. Proper monitoring and amending prior to disbursing funds is necessary for the budget to be an effective management tool and comply with state law.

6.2 Financial statements

The Board does not publish the city's financial statements semiannually as required by state law. Instead, the city's financial statements are published once per year, after the end of each calendar year. In addition, the annual financial statements combine all 4 funds (General, Road, Enterprise, and Event Funds) into a consolidated statement, which does not allow for a clear, detailed analysis of each fund's financial status.

Complete and accurate financial statements are necessary to keep citizens informed of the financial activity and condition of the city. Section 79.160, RSMo, requires the Board to prepare and publish a full and detailed account of the receipts, disbursements, and indebtedness of the city semiannually. In addition, Section 79.165, RSMo, states the city cannot legally disburse funds until the financial statements are published as required.



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Recommendations

The Board of Aldermen:

- 6.1 Prepare annual budgets, which contain all information required by state law, and document its approval of budgets prior to the beginning of the fiscal year. In addition, the Board should ensure the budget and financial condition are adequately monitored and monthly financial statements have adequate detail.
- 6.2 Ensure semiannual financial statements are published in accordance with state law and contain adequate detail and documentation.

Auditee's Response

The Board of Aldermen provided the following written responses:

- 6.1 *The city will ensure its annual budgets are adopted as required and that the monthly financial reports contain sufficient detail. The city will breakdown the budget by each of the four funds, and will include a budget message or summary, beginning and estimated ending balances, budgeted amounts for the preceding years and any city indebtedness information, in addition to any other information required by state law. The city will put in place necessary policies and procedures to ensure that the budget is prepared in a timely manner, and that the monthly financial statements contain sufficient information to allow the Board to effectively monitor actual performance compared to the budget. The Board of Aldermen will approve budgets in a timely manner, and ensure that such approvals are documented in meeting minutes.*
- 6.2 *The city accepts and will implement the Auditor's recommendation.*

7. Computer Controls

Controls over the city's computer are not sufficient to prevent unauthorized access. In addition, backup data is not stored in a secure, off-site location. As a result, city records are unprotected and susceptible to damage or theft.

7.1 Passwords

The city has not established adequate password controls to reduce the risk of unauthorized access to the city's computer and data. Separate user identifications and passwords are not required to log onto the computer, and the City Clerk has shared her identification and password with other city officials. In addition, the password is not required to be changed periodically.

Passwords are required to authenticate access to computers. The security of a computer password is dependent upon keeping passwords confidential. However, since the City Clerk's password does not have to be periodically changed and has been shared among officials, there is less assurance it is effectively limiting access to the computer and data files to only those individuals who need access to perform their job responsibilities. Passwords



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should be unique and confidential and changed periodically to reduce the risk of unauthorized access to and use of the city's computer and data.

7.2 Backup data

Backup data for the city's financial system may not be available for restoring information following a disaster or computer failure. Backups are performed daily; however, the backups are not stored at a secure off-site location but are stored at the same location as the original data and periodic testing of the data for adequacy is not performed. As a result there is an increased risk a disaster or other disruption impacting the city's computer and original data would also adversely impact the backups. The unavailability of both the original and backup data would be significant and detrimental to the city accomplishing its mission.

Failure to store computer backup data at a secure off-site location results in backup data being susceptible to the same damage as the data on the computer. Preparation of backup data, preferably on a daily or at least weekly basis, periodic testing to ensure the backup process is adequate, and off-site storage would provide increased assurance city data could be recovered if necessary.

Recommendations

The Board of Aldermen:

- 7.1 Require a unique password for each employee that is confidential and periodically changed to prevent unauthorized access to the city's computer and data.
- 7.2 Ensure backup data is stored in a secure off-site location and tested on a regular, predefined basis.

Auditee's Response

The Board of Aldermen provided the following written responses:

- 7.1 *The city accepts and has already implemented the Auditor's recommendation. The City Clerk (who is the only employee with a password for the computer at City Hall) now changes her password on a monthly basis.*
- 7.2 *The city accepts the Auditor's recommendation, and has already implemented the process of off-site storage and monthly testing of the backup.*

City of Kimmswick

Organization and Statistical Information

The City of Kimmswick is located in Jefferson County. The city was incorporated in 1871 and is currently a fourth-class city. The city employed 8 part-time employees on December 31, 2013.

City operations include street maintenance services and a post office.

Mayor and Board of Alderman

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 a stipend of \$200 per month.

Patricia Reno, Mayor
Shirley Ising, Alderwoman, Ward 1
Connie Schmitt, Alderwoman, Ward 1
Gary Paszkiewicz, Alderman, Ward 2
Phil Stang, Alderman, Ward 2

Financial Activity

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

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

	General Fund	Enterprise Fund	Road Fund	Event Fund	Total
RECEIPTS					
Property taxes	\$ 2,109	0	0	0	2,109
Sales taxes	48,925	0	24,462	0	73,387
Motor fuel and vehicle taxes	0	0	5,031	0	5,031
Road and bridge taxes	0	0	1,128	0	1,128
Festivals:					
Strawberry	0	42,409	0	0	42,409
Apple Butter	0	105,001	0	0	105,001
Anheuser Estate reimbursements (1)	36,673	0	15,000	650	52,323
Miscellaneous reimbursements	4,669	0	200	0	4,869
United States Post Office grant	10,800	0	0	0	10,800
Events	1,013	0	0	7,598	8,611
Licenses and fees	5,198	0	0	0	5,198
Miscellaneous	1,403	70	731	0	2,204
Transfers in	0	0	0	712	712
Total Receipts	110,790	147,480	46,552	8,960	313,782
DISBURSEMENTS					
Payroll	69,621	0	0	0	69,621
Office expenses	10,599	0	0	1,084	11,683
Festivals	0	70,048	0	0	70,048
Tractor	0	0	25,996	0	25,996
Insurance and bonds	25,637	0	0	0	25,637
Flood	0	0	17,065	0	17,065
Utilities	9,746	0	0	0	9,746
Anheuser Estate repairs	9,013	0	0	0	9,013
Maintenance	6,551	0	2,188	0	8,739
Legal fees	6,300	0	0	0	6,300
Post office	4,786	0	0	0	4,786
Reimbursements	4,431	0	0	0	4,431
Event expenses	0	0	0	2,654	2,654
Snow removal	0	0	2,250	0	2,250
Trolley	1,422	0	0	0	1,422
Transfers out	712	0	0	0	712
Miscellaneous	0	358	0	0	358
Total Disbursements	148,818	70,406	47,499	3,738	270,461
RECEIPTS OVER (UNDER) DISBURSEMENTS	(38,028)	77,074	(947)	5,222	43,321
CASH, JANUARY 1, 2013	135,358	507	45,705	300	181,870
CASH, DECEMBER 31, 2013	\$ 97,330	77,581	44,758	5,522	225,191

(1) Includes reimbursements from the Anheuser Permanent Trust Fund for the Anheuser Estate's share of disbursements.