



Office of Missouri State Auditor  
**Nicole Galloway, CPA**

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**City of Sparta**



**Nicole Galloway, CPA**  
Missouri State Auditor

# CITIZENS SUMMARY

## Findings in the audit of the City of Sparta

|                                    |   |
|------------------------------------|---|
| Financial Condition                | The Police, Park, and General Funds are in poor financial condition. The Board of Aldermen (Board) has failed to adequately monitor the city's budget, cash balances, and other transactions of the city, and as a result, was not fully aware of the severity of the financial condition in each fund. In addition, the city's financial records are not complete and accurate, making it difficult to effectively monitor the condition of each fund.   |
| Financial Activity                 | The city has not established adequate accounting records or procedures and has failed to implement audit recommendations. The city does not account for funds in a consistent manner and maintains more bank accounts than required, resulting in cumbersome and sometimes inaccurate record keeping. The city has not established procedures to properly track and record various statutorily restricted monies. Many of the weaknesses identified in the city's financial statement audits are similar to those documented in our report.   |
| Budgets and Financial Statements   | City budgets do not include all elements required by state law and budget amendments were not properly documented or filed timely. In addition, published financial statements were inaccurate and untimely.  |
| Accounting Controls and Procedures | The city's procedures for receipting, recording, transmitting, and depositing are poor. As a result, there is no assurance all monies collected are properly receipted, recorded, transmitted, or deposited. Bank reconciliations were not always completed timely or accurately. At the time of our review in July 2015, the last completed bank reconciliation for any of the city's 17 checking accounts was for the month of April 2015. Officials that sign checks and had access to bank accounts were not covered by a bond.   |
| Payroll Controls and Procedures    | Payroll functions are not segregated and there is not a sufficient review of time records and payroll functions. Auditors noted errors with time and leave records, and documentation to support payroll transactions was not always adequate. The city did not have ordinances to address some significant personnel issues and did not always comply with established ordinances. The city also had not adopted a personnel manual or other needed policies. The city did not document the reasons for classifying one Board member and two temporary employees as independent contractors rather than employees. |
| Utility Controls and Procedures    | Significant weaknesses in utility operations were noted. The Board did not segregate duties or perform adequate reviews of the work performed by the former Utility Clerk. The city does not periodically reconcile customer utility deposit balances reported in the utility system to the General Fund available cash balance or the city accounting records. The city allowed some customers to avoid utility shut off by signing a promise to pay agreement without the Board's approval. City procedures do not comply with ordinances when assessing late penalties and discontinuing utility services.       |
| Capital Projects                   | The city's monitoring and tracking of capital projects, procurement of engineering services, and review of prevailing wage documentation need improvement. The city did not monitor or track project costs to ensure funds  |

were used for restricted purposes. The city did not solicit statements of qualifications from at least three engineering firms as required by statute. The Board did not receive documentation from a contractor to demonstrate compliance with prevailing wage provisions as required by the contract.

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## Disbursements

City disbursement controls and procedures need improvement. The oversight and approval process for disbursements and transfers between bank accounts is not adequate. The city's procurement procedures do not always comply with the City Code and the city did not require the Park Board President to abstain from evaluating bids when the appearance of a conflict of interest existed. Professional services are obtained without benefit of a competitive selection process. The city did not obtain adequate documentation to support some disbursements, and some disbursements were not paid timely. Disbursements to the city's trash collection service vendor did not comply with contract requirements, resulting in a potential liability of \$7,647.

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## Electronic Data Security

Controls over city computer systems are not sufficient. As a result, city records are not adequately protected and are susceptible to unauthorized access or loss of data. Various city personnel and a contracted CPA share the user identification and password for administrative access to the accounting system, and the password is not required to be changed on a regular basis. Security controls are not in place to lock computers after a specified number of failed logon attempts or after a certain period of inactivity. The city has not developed a formal, written contingency plan for resuming normal business operations and recovering computer systems and data in the event of a disaster or other extraordinary situations.

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## Ordinances and Sunshine Law Issues

Improvement is needed in ordinances and public record requests. City ordinances are not complete or organized. The Board has not adopted a formal policy regarding public access to city records and the city does not maintain a log of public record requests.

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.

**All reports are available on our Web site: [auditor.mo.gov](http://auditor.mo.gov)**

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# City of Sparta

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## **NICOLE GALLOWAY, CPA**

### **Missouri State Auditor**

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

The State Auditor was petitioned under Section 29.230, RSMo, to audit the City of Sparta. We have audited certain operations of the city in fulfillment of our duties. The city engaged Decker & DeGood, Certified Public Accountants (CPAs), to audit the city's financial statements for the years ended June 30, 2015, and 2014. To minimize duplication of effort, we reviewed the CPA firm's audit reports for the years ended June 30, 2015, and 2014, and the substantiating working papers of the CPA firm for the year ended June 30, 2014, audit. The scope of our audit included, but was not necessarily limited to, the fiscal year ended June 30, 2015. 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 procedures, including certain financial transactions.

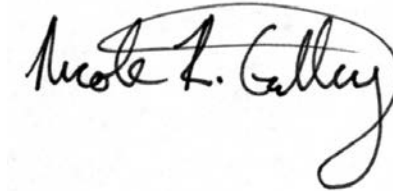
Our methodology included reviewing minutes of meetings, written policies and procedures, financial records, and other pertinent documents; interviewing various personnel of the city, as well as certain external parties; and testing selected transactions. We obtained an understanding of internal controls that are significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We tested certain of those controls to obtain evidence regarding the effectiveness of their design and 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 its audited financial report and was not subjected to the procedures applied in our audit of the city.

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

An additional report, No. 2016-044, *Thirty-Eighth Judicial Circuit, City of Sparta Municipal Division*, was issued in July 2016. That report identified problems with the municipal division's lack of procedures to identify minor traffic violation tickets and the associated fines and court costs collected, and the city's procedures to calculate whether excess revenues are due to the Missouri Department of Revenue. The complete findings, recommendations, and auditee responses are contained in that report.



Nicole R. Galloway, CPA  
State Auditor

The following auditors participated in the preparation of this report:

|                       |                                |
|-----------------------|--------------------------------|
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| Director of Audits:   | Regina Pruitt, CPA             |
| Audit Manager:        | Kelly Davis, M.Acct., CPA, CFE |
| In-Charge Auditor:    | Natalie B. McNish, CGAP        |
| Audit Staff:          | Katelyn Crosson                |

# City of Sparta

## Management Advisory Report

### State Auditor's Findings

#### 1. Financial Condition

The Police, Park, and General Funds are in poor financial condition. The Board of Aldermen (Board) has failed to adequately monitor the city's budget, cash balances, and other transactions of the city, and as a result, was not fully aware of the severity of the financial condition in each fund. In addition and as noted in the remainder of this report, the city's financial records are not complete and accurate, making it difficult to effectively monitor the condition of each fund.

#### Police Fund

The Police Fund has carried a deficit fund balance since at least June 30, 2011. The following table shows the activity of the Police Fund for fiscal years 2012 through 2015.

|                              | Year ended June 30, <sup>1</sup> |           |           |          |
|------------------------------|----------------------------------|-----------|-----------|----------|
|                              | 2015                             | 2014      | 2013      | 2012     |
| Beginning fund balance       | \$ (173,104)                     | (141,041) | (18,156)  | (5,199)  |
| Revenues                     |                                  |           |           |          |
| General sales tax            | 127,511                          | 119,001   | 98,744    | 116,577  |
| Fines and forfeitures        | 56,449                           | 28,989    | 17,224    | 27,904   |
| Grants                       | 1,500                            | 1,850     | 785       | 970      |
| Motor fuel and vehicle taxes | 6,800                            | 6,452     | 0         | 0        |
| Law enforcement training     | 896                              | 0         | 0         | 0        |
| Other                        | 99                               | 2,362     | 1,019     | 65       |
| Transfer in                  | 0                                | 45,752    | 0         | 0        |
| Total revenues               | 193,255                          | 204,406   | 117,772   | 145,516  |
| Expenditures                 |                                  |           |           |          |
| Capital outlay               | 8,945                            | 0         | 5,203     | 10,044   |
| Operations                   | 211,295                          | 236,469   | 235,454   | 148,429  |
| Total expenditures           | 220,240                          | 236,469   | 240,657   | 158,473  |
| Ending fund balance          | \$ (200,089)                     | (173,104) | (141,041) | (18,156) |

<sup>1</sup> Information presented was obtained from independent audit reports.

The Police Fund also owed more than \$200,000 to other city funds and the city owed a local bank approximately \$19,000 related to the June 2015 purchase of a new patrol vehicle. City officials planned to use the Police Fund to make payments for the vehicle. According to the independent auditor's report for the year ended June 30, 2015, the Police Fund owed \$69,654 to the Water Fund, \$63,742 to the General Fund, \$54,768 to the Sewer Fund, and \$14,757 to the Street Fund and there was no formal plan for repayment. The Police Fund also owed the General Fund for approximately \$12,250 in department expenses and \$79,400 in payroll related expenses paid from the general checking account during the year ended June 30, 2015. Repayment of these amounts is not required, but the city has historically reimbursed the General Fund for all police department expenses paid. As of June 30, 2015, the available bank balance for all Police Fund accounts (see Appendix C) totaled \$5,156.



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Park Fund

As of June 30, 2015, the Park Fund balance was only \$5,445. The Park Fund rebounded from a June 30, 2012, deficit balance of \$(6,424), to a fund balance of \$35,117 as of June 30, 2014. However, revenues from the park sales tax significantly decreased in October 2014, when the tax rate dropped from 1/2 of 1 percent, to 1/4 of 1 percent, as required by the sales tax ballot language. In addition to the decreased revenue, the city completed a project to construct a walking trail at the park costing \$71,620. Also, the Park Fund owed the General Fund \$15,257, according to the independent auditor's report for the year ended June 30, 2015. As of June 30, 2015, the available bank balance for all Park Fund accounts (see Appendix C) totaled \$20,677.

General Fund

The General Fund is in a weakened condition as a result of subsidizing the Police and Park Funds. The following table shows the activity of the General Fund for fiscal years 2012 through 2015.

|                              | Year ended June 30, <sup>1</sup> |         |         |         |
|------------------------------|----------------------------------|---------|---------|---------|
|                              | 2015                             | 2014    | 2013    | 2012    |
| Beginning fund balance       | \$ 103,133                       | 130,997 | 147,717 | 201,071 |
| Revenues                     |                                  |         |         |         |
| Property and franchise tax   | 117,988                          | 117,853 | 112,058 | 107,421 |
| Motor fuel and vehicle taxes | 0                                | 0       | 63,148  | 53,031  |
| Fines and forfeitures        | 12,985                           | 16,924  | 24,762  | 1,035   |
| Grants                       | 0                                | 0       | 8,621   | 0       |
| Licenses, rent, and other    | 18,889                           | 19,611  | 11,797  | 4,877   |
| Transfer in                  | 8,938                            | 0       | 0       | 0       |
| Total revenues               | 158,800                          | 154,388 | 220,386 | 166,364 |
| Expenditures                 |                                  |         |         |         |
| General government           | 133,614                          | 124,694 | 224,356 | 211,095 |
| Streets                      | 0                                | 0       | 11,071  | 1,597   |
| Capital outlay               | 0                                | 0       | 1,679   | 7,026   |
| Transfer out                 | 0                                | 57,558  | 0       | 0       |
| Total expenditures           | 133,614                          | 182,252 | 237,106 | 219,718 |
| Ending fund balance          | \$ 128,319                       | 103,133 | 130,997 | 147,717 |

<sup>1</sup> Information presented was obtained from independent audit reports.

In addition, the General Fund owed the utility funds approximately \$81,000 for utility deposits, penalties, and connection fees originally deposited into the general checking account and recorded as receipts into the General Fund (see MAR findings numbers 2.2 and 6.2). For financial statement purposes, the receipts were later adjusted out of the General Fund and into the Water/Sewer Funds, but the city did not transfer actual funds between bank accounts and as a result, the financial statement balance does not reconcile to the bank account balance. Similar adjustments were likely made in other years. As of June 30, 2015, the available bank balance for all General Fund accounts (see Appendix C) totaled \$57,983.





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Conclusion

It is essential the Board address the financial condition of the Police, Park, and General Funds both in the immediate- and long-term future. To improve the financial condition the Board should reduce spending as much as possible, address interfund and other obligations, and evaluate controls and management practices to ensure efficient use of city resources. Activities of the city that operate at a loss should be carefully analyzed for ways to make them more cost effective.

Recommendation

The Board of Aldermen closely monitor the city's financial condition. Additionally, the Board of Aldermen should establish a plan to repay interfund obligations, and periodically review expenses of the city to ensure activities are operating efficiently and continue to be in the best interest of the city.

Auditee's Response

*The Board is aware of the financial situation of the Police, Park, and General Funds, and is working to correct this issue. The Police Fund has repaid some of what is owed to the General Fund. The Board adopted Ordinance No. 538, which eliminates \$63,472 as a receivable of the General Fund and a payable of the Police Fund. The Board plans to continue transferring available funds to the other funds owed by the Police Fund until the obligations are repaid. The city has adopted a very tight budget for the police department and will closely monitor all future activity. The Park Fund has repaid the amount due to the General Fund and was also given a very tight budget for current operations in light of the current conditions. With the repayment of these obligations and other actions taken, we believe the General Fund will stabilize, but will monitor it and all other funds to stop the deterioration of the funds and work toward recovery.*

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**2. Financial Activity**

The city has not established adequate accounting records or procedures and has failed to implement audit recommendations.

The city experienced significant turnover in several key management and financial positions during fiscal years 2016 and 2015, including City Clerk,<sup>1</sup> Deputy City Clerk/Court Clerk,<sup>2</sup> Utility Clerk,<sup>3</sup> and contracted Certified Public Accountants (CPA).<sup>4</sup> A summary of turnover in principal officials is detailed in the Organization and Statistical Information section.

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<sup>1</sup> The former City Clerk resigned in June 2015.

<sup>2</sup> The former Deputy City Clerk/Court Clerk resigned in June 2015.

<sup>3</sup> The former Utility Clerk resigned in December 2015.

<sup>4</sup> The city contracted with independent CPAs not associated with the financial statement audit to provide financial services. One CPA terminated services in January 2015, and the city contracted with another CPA in February 2015. The second CPA terminated services in August 2015.



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The Board is responsible for establishing funds and bank accounts. The former City Clerk, former Deputy City Clerk/Court Clerk, and former Utility Clerk were responsible for recording receipts into the accounting system. The former City Clerk and former Deputy City Clerk/Court Clerk also recorded disbursements and transfers into the accounting system. All 3 clerks made adjustments to the accounting system. The city contracted with CPAs not associated with the financial statement audit to complete monthly bank reconciliations and prepare monthly financial statements. Several adjustments in addition to those made by the clerks were often necessary to complete the reconciliations. Annually, the city contracts with an independent auditor to perform a financial statement audit. To complete this work, the independent auditor proposes transfers and other adjustments to be recorded in the accounting records by the city.

## 2.1 Establishment of funds and bank accounts

The city does not account for funds in a consistent manner. In addition, the city maintains numerous bank accounts and more bank accounts than required. These issues result in cumbersome and sometimes inaccurate record keeping. At June 30, 2015, the city maintained 20 bank accounts (17 checking and 3 certificates of deposit), recorded financial transactions for 10 funds within the accounting system, reported 7 funds in its audited financial statements, and budgeted 3 funds in the year ended June 30, 2015, and 5 funds in the year ended June 30, 2016.

Appendix C documents funds reported in the various financial tools available to the city for planning and monitoring financial activity and the corresponding bank accounts for each fund. As shown in that appendix, the identified funds varied between the financial statements, accounting system, budget, and bank accounts, making tracking and accounting for fund balances difficult. In addition, our review of financial activity identified inconsistent recording of receipts and disbursements between these funds and bank accounts, including monies deposited into a bank account, but not recorded into the corresponding fund. These problems increase the risk restricted funds could be used for unrestricted purposes (see section 2.2). Further, all disbursements are issued from one checking account regardless of fund. To allocate these costs to various funds requires numerous transfers between bank accounts.

To simplify city records, reduce the number of account transfers, and minimize the risk of errors, the Board should review established funds; ensure those funds are properly accounted for, budgeted, and reported; and consider reducing the number of bank accounts.

## 2.2 Restricted revenues

The city has not established procedures to properly track and record various statutorily restricted monies.



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- The city does not have support to demonstrate restricted motor vehicle-related tax revenues recorded and deposited in the Police Fund are used for policing city roads. During the year ended June 30, 2015, the city received \$68,004 in motor vehicle-related tax revenues. Missouri Constitution, Article IV, Section 30(a) and 30(b), requires motor vehicle-related revenues apportioned by the state of Missouri be expended for road purposes only. The city deposited 10 percent of these monies into the Police checking account (recorded to the Police Fund) and the remainder into the General checking account (recorded to the Street Fund). In March 2013, the Attorney General issued a letter concluding "the motor vehicle fuel tax monies may not be used for law enforcement purposes in general--only that portion of law enforcement engaged in keeping the roads controlled, regulated, and in good order may be funded with these monies."
- During the year ended June 30, 2015, the city received \$15,491 in penalties for late payment of utility bills, and \$4,161 in reconnection fees. These receipts were deposited and recorded in the General Fund instead of the Water or Sewer Funds and the use of the receipts was not restricted. Section 250.150, RSMo, restricts the use of water and sewer monies for operating the systems, payment of bonds, establishment of a reserve, fulfillment of any agreements contained in ordinances, and payment of costs of improvements of such systems. In addition, city ordinance 447 restricts the use of water and sewer monies to utility operations, maintenance, and debt payments.

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

### 2.3 Corrective action

The city failed to implement recommendations made by the independent auditor who performed the city's financial statement audit for the year ended June 30, 2013. Weaknesses identified in that audit included deficit budgeting for the Police Fund, misuse of Water and Sewer Funds to subsidize Police Fund expenses, failure to amend the budget when needed, failure to properly allocate some revenues and expenses, and failure to adopt an investment policy. The city generally responded in agreement with the auditor's findings; however, the independent auditor repeated many of these findings in the city's financial statement audits for the years ended June 30, 2015, and 2014, and these findings are similar to those documented in our report. Many of these issues likely contributed to the city's poor financial condition.



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## 2.4 Adjustments

There is no independent review or approval of adjustments recorded in the accounting system by the former City Clerk, former Deputy City Clerk/Court Clerk, former Utility Clerk, and former contracted CPAs, and documentation supporting these changes to accounting records were not always maintained. During the year ended June 30, 2015, city employees or contractors recorded 36 adjusting journal entries, voided 18 transactions, deleted 20 transactions, and altered 5 transactions. The value of transactions affected by these actions totaled \$89,849. To ensure adjustments are valid, someone independent of receipting and recording functions should review and approve all adjustments and supporting documentation for all changes should be retained.

## Recommendations

The Board of Aldermen:

- 2.1 Review established funds, and ensure those funds are properly accounted for, budgeted, and reported. In addition, the Board of Aldermen should consider reducing the number of bank accounts.
- 2.2 Establish procedures to ensure restricted monies are used only for allowable purposes.
- 2.3 Implement audit recommendations timely.
- 2.4 Require supporting documentation and an independent review and approval of all adjustments.

## Auditee's Response

- 2.1 *In November 2015, the Board passed Ordinance numbers 525 and 526, which established 8 funds, 8 corresponding checking accounts, and 3 certificates of deposit, to be used for all internal financial accounting and reporting.*
- 2.2 *All motor vehicle-related tax revenues are now recorded and deposited into the Street Fund, and all utility related revenues are now recorded and deposited into the Water and Sewer Funds. The new Police Chief has developed an analysis of time/cost for "keeping the roads controlled, regulated, and in good order," and the Board will review and approve this analysis before approving any future allocation of motor vehicle-related tax revenues to the Police Fund.*
- 2.3 *We will consider all recommendations provided and will work to implement the recommendations.*
- 2.4 *The city is in the process of implementing new utility billing and court system software. New hardware has also been recently installed including a new server. Once implemented, the City Clerk*



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*will review the software's reporting options to determine the available reports to provide the necessary information to the Board, including a report of adjustments. This report will be included in the Board's packets prepared for regular session meetings, and will be reviewed and approved by the Board with other financial information from the existing accounting software (QuickBooks).*

### 3. Budgets and Financial Statements

City budgets do not include all elements required by state law and budget amendments were not properly documented or filed timely. In addition, published financial statements were untimely and inaccurate.

#### 3.1 Budgets

Budgetary procedures were not adequate and contributed to the city's poor financial condition.

##### Budget preparation

During fiscal years 2016 and 2015, the Board did not prepare a budget for each individual fund (see Appendix C); budgets did not always include a budget message, budget summary, the actual beginning and estimated ending cash balances; and budget documents were not always updated to present the most current actual financial information available. Budget documents are prepared before year end using estimates for some actual amounts; however, these estimates are not updated as actual information becomes available.

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.

##### Budget deficit

The Board has continually budgeted a deficit in the Police Fund. Missouri Constitution, Article VI, Section 26(a), and Section 67.010.2, RSMo, prohibit deficit budgeting.

##### Budget monitoring and amendments

The Board does not adequately monitor budget-to-actual receipts and disbursements, budget amendments were not completed timely, and some budget amendment documents had insufficient information. As a result, actual expenditures of the Park Fund at June 30, 2015, exceeded the budget by \$65,318 and actual expenditures of the General Fund at June 30, 2015, exceeded the amended budget by \$28,474.

On July 22, 2014, subsequent to fiscal year end, the Board approved an amendment for the year ended June 30, 2014, budget to adjust budgeted



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disbursements to agree to actual disbursements. Prior to the amendment, disbursements exceeded the original budgeted disbursements. In addition, the Board approved budget amendments for the year ended June 30, 2015, for the General, Water, and Sewer Funds on October 28, 2014, to reallocate payroll expenses for the former City Clerk and former Deputy City Clerk/Court Clerk. The budget amendments included revised payroll expenditures, but did not indicate how the changes impacted ending cash balances.

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.

### 3.2 Published financial statements

The city did not always publish timely and accurate financial statements. The financial statement for the 6 months ending June 30, 2014, was not published until December 31, 2014, and reported inaccurate information. The financial statement was revised and republished on February 11, 2015. The December 31, 2014, financial statement was originally published on February 18, 2015; however, the information was again published inaccurately and a revised statement was republished on March 4, 2015.

Section 79.160, RSMo, requires the Board prepare and publish semiannual financial statements that include a full and detailed account of the receipts, disbursements, and indebtedness of the city. To ensure compliance with this statute, the Board should require timely preparation of financial statements and review the statements for accuracy prior to publication.

## Recommendations

The Board of Aldermen:

- 3.1 Ensure budgets comply with state law. In addition, the Board of Aldermen should monitor budget-to-actual information, and prepare timely and detailed budget amendments prior to incurring the related expenditures.
- 3.2 Ensure timely and accurate publication of the city's semiannual financial statements as required by state law.

## Auditee's Response

- 3.1 *While we have made several improvements to our budgeting practices in the compilation of the fiscal year 2017 budget, we acknowledge some areas which still need improvement. We are working to address each area and will do our best to ensure compliance with state budget law in the future. With proper*



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*utilization of existing accounting system software, we will have access to budget-to-actual reports which will be provided to the Board for review and approval at least monthly. We will use these reports to monitor fund activity and to ensure budget amendments are complete and timely.*

3.2 *We will work to ensure financial statements are published timely and the information contained is accurate. We believe the implementation of the new system hardware and software will help with this issue.*

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## 4. Accounting Controls and Procedures

Numerous weaknesses exist with the city's accounting controls and procedures. During the year ended June 30, 2015, city receipts totaled nearly \$1.3 million for all funds. Of this amount, approximately \$890,000 was handled and processed by employees at City Hall. Other monies are deposited directly into the city's bank accounts by the payor.

### 4.1 Receipting, recording, transmitting, and depositing procedures

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

- The city does not issue official receipt slips for monies received or transmitted by other city departments. Generic manual receipt slips are issued when requested. In a review of monies deposited between November 1, 2014, and January 31, 2015, we identified 54 transactions totaling \$87,029 deposited by the city without the issuance of a receipt slip.
- The city does not always record the method of payment on receipt slips. In a review of 46 manual receipts slips issued between November 1, 2014, and January 31, 2015, we identified 10 receipt slips (22 percent) with no method of payment (i.e., cash, check, money order, etc.) denoted. In addition, original copies of some voided receipt slips were not retained.
- The city does not account for the numerical sequence of transaction numbers assigned by the city's computerized utility system. At our request, the system programmer provided a report of all transaction numbers processed during the year ended June 30, 2015. Our review identified 22,183 transactions with unique transaction numbers recorded during this period; however, gaps in the transaction number sequence indicate 7,691 missing transaction numbers. These items may be deleted or voided non-monetary transactions.
- City personnel do not record receipts into the computerized accounting system timely and the computerized accounting system allows users to



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backdate payments received in the system. Audit work identified receipts totaling \$2,656 were deposited on June 9, 2015; however, corresponding transactions were not recorded in the computerized accounting system until June 19, 2015. When recording these receipts, city personnel backdated the entries to June 9, 2015, in the accounting system.

- Deposits are not always made intact or timely. According to the former Utility Clerk, payments were sometimes held and cash refunds issued.
- City personnel do not reconcile the amount or composition of recorded receipts to the computerized accounting system or deposits.

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

#### 4.2 Bank reconciliations

Bank reconciliations were not always completed timely or accurately. At the time of our review in July 2015, the last completed bank reconciliation for any of the city's 17 checking accounts was for April 2015. Bank reconciliations are generally completed by the city's contracted CPA; however, the contractor was not available to complete this work.

Timely monthly bank reconciliations are necessary to ensure accounting records balance, transactions are properly recorded, and errors or discrepancies are detected and corrected timely.

#### 4.3 Bonding

The Mayor, Mayor Pro-Tem, and another Board Member, who signed checks and had access to monies held in bank accounts, were 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:

- 4.1 Issue official prenumbered receipt slips for all monies received, record the method of payment on receipt slips, and deposit receipts intact and timely. In addition, the Board of Aldermen should account for the numerical sequence of transaction numbers in the computerized utility system, record receipts in the computerized accounting system timely, and reconcile the amount and composition of receipts to the computerized accounting system and deposits. Also, all refunds should be made by check.
- 4.2 Ensure bank reconciliations are completed timely and accurately.





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## Auditee's Response

4.3 Maintain bond coverage for all personnel with access to city monies.

4.1 *Receipt slips are now issued for all monies. Utility payment receipts are issued through the new utility software and manual receipt slips are used for all other payments received. All receipt slips indicate method of payment, are issued in numerical sequence, and that sequence is accounted for at the time of deposit. Deposits are made intact each day, and are reconciled in composition and amount to the receipts. Deposits are recorded in the accounting system the same day or day after and backdating information is no longer allowed. All refunds now go through the disbursement process, are approved by the Board, and made by check.*

4.2 *Bank reconciliations have been caught up and are now completed monthly.*

4.3 *The city plans to obtain a blanket bond for all employees and elected officials in the future.*

## 5. Payroll Controls and Procedures

Significant improvement over payroll controls and procedures is needed. The city disbursed approximately \$256,000 in wages during the year ended June 30, 2015.

### 5.1 Payroll procedures

Payroll functions are not segregated and there is not a sufficient review of time records and payroll functions. We noted errors with time and leave records and documentation to support payroll transactions was not always adequate.

- The former City Clerk was primarily responsible for all payroll functions, including receiving time records, processing her own payroll, entering time and leave data into the payroll system, preparing payroll checks, and preparing and distributing employee W-2 forms. Payroll records were not reviewed by the Board or someone independent of the payroll function.

The former City Clerk did not always prepare documentation to support her own payroll transactions and there was no review of her payroll. We reviewed 27 payroll disbursements to the former City Clerk, and determined she did not prepare or retain timesheets or other support for 9 of the payments. These disbursements include pay for 46 hours of overtime worked. We also identified incorrect payroll calculations in 5 of the other 18 disbursements, which included pay for 35 hours of sick leave she had not accrued. Due to the extent of the former City Clerk's responsibilities over payroll, a supervisory review of the former City Clerk's time and leave records was essential and would likely have detected the errors.



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- Timesheets were not prepared or maintained for all employees and prepared timesheets were not always signed by the employee or his/her supervisor to document approval of time worked and leave used. The city has not established any other method for the approval of overtime, compensatory time, or leave used; therefore, supervisory approval of timesheets is necessary.

Proper segregation of duties helps ensure all payroll transactions are accounted for properly and assets are adequately safeguarded. If proper segregation of payroll duties cannot be achieved, a periodic independent review of the records should be performed and documented. Signed and approved time records are necessary to document hours worked, substantiate payroll disbursements, monitor hours worked and leave taken, and demonstrate compliance with the Fair Labor Standards Act (FLSA).

## 5.2 Personnel ordinances and policies

The city did not have ordinances to address some significant issues and did not always comply with established ordinances. The city also had not adopted a personnel manual or other needed policies.

- The city does not calculate accrued vacation leave as required by ordinance. Ordinance 13-001 states vacation leave is to be accrued on the first day of each calendar year; however, city employees have been accruing vacation leave on employment anniversary dates. As a result, some employee vacation leave balances are inaccurate.
- Nonworking time (vacation, sick leave, compensatory time taken, and holidays) is included in total hours worked when determining the amount of overtime earned by employees, which is not required by the FLSA. As a result, the city has been paying more overtime to employees than required. The city does not have an ordinance or policy that addresses the hours to be considered when calculating overtime or compensatory time. During the year ended June 30, 2015, the city paid \$12,851 in overtime compensation to 9 employees.
- The city's paid holiday ordinance is not complete and does not specify the number of hours paid for each employee. As a result, employees received one paid holiday not allowed by city ordinance and some employees were paid for 10 hours for each holiday while others only 8 hours.

Strict compliance with personnel ordinances is necessary to ensure employees are properly compensated. In addition, detailed written ordinances or policies are necessary to provide guidance to city employees, provide a basis for proper compensation, and avoid misunderstanding.



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### 5.3 Contracted labor

The city did not document the reasons for classifying one Board member and two temporary employees as independent contractors rather than employees. The city did not withhold payroll and income taxes from payments made to these individuals. All other Board members were classified as employees. Proper classification of employees is necessary to ensure compliance with various state and federal laws and regulations. The failure to withhold and properly report payroll and income taxes for city employees makes the city potentially subject to additional tax liabilities along with penalties and interest. Also, Section 105.300, RSMo, defines an elected or appointed officer or employee of a political subdivision as an employee for Social Security and Medicare tax purposes. For employees, the Internal Revenue Service requires employers to report compensation on W-2 forms and withhold and remit income and payroll taxes.

### Recommendations

The Board of Aldermen:

- 5.1 Adequately segregate payroll duties or, at a minimum, ensure a documented periodic review of these functions is performed by someone independent of the payroll functions. In addition, the Board of Aldermen should ensure timesheets are prepared, properly signed, approved and retained for all employees, and the information is reviewed for accuracy prior to entry into the accounting system.
- 5.2 Adopt necessary personnel ordinances and/or policies, and ensure compliance with those ordinances and policies.
- 5.3 Ensure persons are properly classified as employees or independent contractors in compliance with state and federal laws and regulations, and all employee compensation paid is subject to proper withholdings and properly reported.

### Auditee's Response

- 5.1 *Due to the limited number of city employees available to complete these tasks, the Board and Mayor will apply additional oversight to payroll procedures to ensure all transactions are appropriate. Currently, all employees are required to complete and sign a timesheet. All supervisors review and sign off on their employees timesheets. The review and approval of supervisor's timesheets has not been completed regularly, but the Mayor plans to review and sign supervisor timesheets each pay period in the future.*
- 5.2 *We will review our current ordinances and adopt any updated or new personnel ordinances necessary.*
- 5.3 *All Board members are now paid as employees and are subject to proper withholdings. While we do not have any contracted*



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*employees at this time, we will ensure future contracted employees are properly classified.*

## 6. Utility Controls and Procedures

We noted significant weaknesses in utility operations. The city provided utility services to approximately 850 customers during June 2015. According to the city's profit and loss statement, the city collected approximately \$295,000 for water service and connection fees, \$235,000 for sewer services and fees, \$89,000 for trash service, and \$15,000 for penalties during the year ended June 30, 2015.

### 6.1 Segregation of duties

The Board did not segregate duties or perform adequate reviews of the work performed by the former Utility Clerk. The former Utility Clerk was responsible for all aspects of the utility billing process, including creating customer utility accounts; preparing bills; receiving, recording, and depositing customer payments; and posting entries in the utility system.

In addition, the former Utility Clerk posted adjustments to customer accounts, including writing off accounts deemed uncollectible and applied customer deposits to final billings, without obtaining independent documented approval or maintaining adequate documentation to support the reason for some adjustments. During the year ended June 30, 2015, the former Utility Clerk made 863 adjustments to customer accounts totaling \$25,828 (\$8,195 positive, \$17,633 negative). City ordinances do not allow some adjustments made including removing minimum charges on active accounts with no water usage during the month and prorating charges for trash service. There is no documentation the Board approved any of the adjustments made during the year ended June 30, 2015.

Proper segregation of duties is necessary to ensure all transactions are accounted for properly and assets are adequately safeguarded. In addition, requiring someone independent of receipting and recording functions to review and approve adjustments made would help ensure all adjustments are valid.

### 6.2 Utility deposits

The city does not periodically reconcile customer utility deposit balances reported in the utility system to the General Fund available cash balance or the city accounting records. The city collects a \$125 deposit from new water and sewer customers and deposits the monies in the General checking account. At our request, the former Utility Clerk printed a report of deposits held as of June 30, 2015, from the utility system. The report totaled \$61,055. The utility system report could not be reconciled to the \$79,356 in customer deposits recorded in the accounting system as of June 30, 2015, or the General checking available bank balance of \$53,059 at June 30, 2015, indicating a significant shortage in funds available to meet utility deposit liabilities. The General checking account shortage may be, in part, the result



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of approximately \$90,000 in unreimbursed Police Fund expenses paid from this checking account, as discussed in MAR finding number 1.

Periodic reconciliation of the customer utility deposit balances to city accounting records and the available cash balance should be completed to ensure sufficient funds are available for potential utility deposit liabilities. Such reconciliations would allow for prompt detection of discrepancies.

### 6.3 Promise to pay

City personnel allowed some customers to avoid utility shut off by signing a promise to pay agreement without the Board's approval. The former Utility Clerk indicated customers signed a promise to pay agreement to document an extension to pay the balance due on their utility account and she provided these agreements to the Mayor for review and approval. However, some amounts due did not agree to current account balances, customers who did not pay the balance due on the agreed upon date were not always disconnected, and the Mayor's review and approval was not always documented. In addition, the Board was not aware of the use of these agreements. The city does not have a policy or ordinance addressing the use of promise to pay agreements.

To ensure the city applies consistent procedures for past due accounts, the Board should review the use and necessity of promise to pay agreements and consider discontinuing the practice or develop an ordinance or formal policy about the use of such agreements if continued.

### 6.4 Penalties and shut off procedures

City procedures do not comply with city ordinances when assessing late penalties and discontinuing utility services. The city prints and mails billings at the end of each month. Billings show payment is due by the 15th of the following month. If payment is not received, a 10 percent penalty is assessed on the 16th; however, city ordinances indicate users have until the end of the month (30 days) to pay the bill before a penalty is assessed.

City personnel print delinquent notices on or near the 22nd of each month. These notices are mailed before the accounts are considered delinquent by city ordinances and the notices do not provide the required 10 days for payment or request of hearing, as the ordinances require. Also, the former Utility Clerk indicated the Mayor and former Deputy City Clerk/Court Clerk established and followed a shut off schedule each year to ensure shut off days did not coincide with municipal division proceedings or holidays and did not fall on a Monday or Friday. This schedule was not presented to the Board for review and approval, and did not comply with the requirements of the ordinances.

Ordinances 14-015 and 468 state payments are due when billings for services are made and any payment not received within 30 days after the billing is made shall be considered delinquent and incur a penalty of 10



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percent. When any bill is 30 days or more in default, services can be shut off following due notice allowing 10 days to pay and opportunity for hearing. If no payment or appeal is received within the 10 day period, the city may shut off services. Failing to enforce city ordinances results in inconsistent application of penalties and shut off procedures and reduces the incentive for customers to make timely payments.

## Recommendations

The Board of Aldermen:

- 6.1 Segregate the duties of the Utility Clerk. At a minimum, there should be a documented review of city utility records including adjustments.
- 6.2 Periodically reconcile customer deposits per accounting records to the available cash balance for customer deposits and promptly investigate any differences.
- 6.3 Review the use and necessity of promise to pay agreements and consider discontinuing the practice or develop an ordinance or formal policy about the use of such agreements if continued.
- 6.4 Ensure compliance with utility ordinances regarding late fees and service shut off.

## Auditee's Response

- 6.1 *Due to the limited number of city employees available to complete these tasks, the Board will apply additional oversight to utility procedures to ensure all transactions are appropriate. Currently, the City Clerk completes a documented review of receipts and deposits for utility monies. Once the implementation of the new utility software is complete, the Board will receive reports of utility system activity, including a report of adjustments, in the Board's packets for review and approval with other financial information.*
- 6.2 *The city is working to transfer all utility deposit information into the new utility software system. Once this is complete, the City Clerk and Utility Clerk will work to reconcile the new software system to reports generated from the old software system. After they ensure this information is complete and accurate, they will reconcile the new utility software system to the accounting system and will continue to complete this reconciliation periodically. In the meantime, the city has set aside \$55,000 in a certificate of deposit identified as utility deposits and once the true balance of utility deposits has been determined, will adjust this as necessary.*



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6.3 *The city has established a formal policy for promise to pay agreements and has developed a tracking system to ensure compliance with that policy.*

6.4 *In January 2016, the Board passed Ordinance 528 which reconciled city ordinance regarding late fees and service shut off with city procedures.*

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## 7. Capital Projects

The city's monitoring and tracking of capital projects, procurement of engineering services, and review of prevailing wage documentation need improvement. During the year ended June 30, 2015, the city began, continued, and/or completed several capital projects including road improvements, a new water tower and infrastructure, and a walking trail.

### 7.1 Monitoring and tracking

The city did not monitor or track project costs to ensure proper usage of restricted funds. In February 2014, the city entered into an intergovernmental agreement with Christian County accepting \$41,185 for use on the Vanilla Bean low water crossing project. Our review of city disbursements determined the city spent \$39,779 as of September 2015 on this project. The project was completed in June 2015 and no additional expenses are expected. As a result, the city did not use \$1,406 of the money received and it should be returned to the county.

In addition, the agreement required the city to provide accounting records for this project to the county auditor for inspection on a quarterly basis. The city did not provide any records to the county. Without adequate monitoring and tracking procedures, the city cannot ensure compliance with contractual requirements. Had the city adequately monitored this project and tracked disbursements, the unspent funding could have been identified.

### 7.2 Engineering services

The city did not solicit statements of qualifications from at least three engineering firms as required by statute. In June 2011, the city hired an engineering firm for the new water system infrastructure project. The city only reviewed qualifications from two firms. In addition, disbursement records show the city used the selected engineering firm for other unrelated projects without reevaluating statements of qualifications. During the year ended June 30, 2015, the city paid the engineering firm \$142,089. Sections 8.287 and 8.291, RSMo, provide requirements for obtaining, evaluating, and negotiating engineering services.

### 7.3 Prevailing wage

The Board did not receive documentation from the contractor for the walking trail project to demonstrate compliance with prevailing wage provisions as required by the contract. The contract required the contractor submit certified payroll information for on-site employees. This vendor was also a subcontractor for a road maintenance project and again did not submit this documentation. In addition, Sections 290.210 to 290.340, RSMo, and 8 CSR 30-3.010, provide requirements regarding prevailing wages.



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## Recommendations

The Board of Aldermen:

- 7.1 Establish procedures to monitor projects and track project costs. In addition, the Board of Aldermen should ensure compliance with contractual agreements and return unspent monies to the county.
- 7.2 Comply with state law when procuring engineering services.
- 7.3 Ensure adequate documentation is submitted to substantiate prevailing wages are paid on construction projects as required by contract and state regulation.

## Auditee's Response

- 7.1 *As future projects occur, the city will monitor and track project costs appropriately. We will also ensure compliance with all contractual agreements and will talk to the Christian County Commission about the remaining balance of the intergovernmental grant for the Vanilla Bean project to see if that money can be used for a new Vanilla Bean project.*
- 7.2 *In the future, we will comply with state law when procuring engineering services.*
- 7.3 *In the future, we will ensure documentation is submitted and reviewed to substantiate prevailing wages are paid as required.*

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## 8. Disbursements

City disbursement controls and procedures need improvement. During the year ended June 30, 2015, the city disbursed more than \$1.1 million.

### 8.1 Oversight and approval process

The oversight and approval process for disbursements and transfers between bank accounts is not adequate.

#### Oversight

The former Deputy City Clerk/Court Clerk was responsible for all disbursement duties including receiving invoices from vendors; entering invoices into the accounting system for payment; compiling the list of bills and allocations/transfers for presentation to the Board; printing, signing and mailing checks; and processing transfers between bank accounts. No one performed a subsequent independent review of disbursements. In addition, the former Deputy City Clerk/Court Clerk had signature authority on all bank accounts held by the city, and only one signature was required for checks.

#### Approval of bills

The list of bills approved by the Board was not complete or compared to approved invoices and actual checks written. The lists approved by the Board during the year ended June 30, 2015, did not include payroll and payroll liability disbursements totaling approximately \$214,000 and electronic disbursements totaling approximately \$163,000 and listed some





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inaccurate amounts. Disbursements not presented to the Board represented approximately 34 percent of total disbursements.

Transfers

Disbursement allocations lists were not complete and accurate and not compared to actual transfers. The former Deputy City Clerk/Court Clerk prepared these lists to support transfers between funds and presented them, along with a list of bills, to the Board at each meeting.

The disbursement allocations lists approved by the Board during the year ended June 30, 2015, did not include 116 transfers (totaling \$217,850) of 221 transfers (totaling \$729,713) that occurred. In addition, some amounts listed were not accurate, or the transfer was made from the wrong account. Also, city personnel did not complete 45 transfers timely. For example, the transfer of the March 2014 police department payroll disbursement allocation from the Police checking account to the General checking account did not occur until November 13, 2014. In some instances, transfers could not be completed due to insufficient balances in bank accounts. The Board was not notified of these situations when they arose.

Approval of invoices

The city did not require department heads to document their review and approval of invoices and did not require documentation acknowledging receipt of goods or services. The lack of review resulted in the city failing to note higher than contracted rates charged, overpaying for attorney services, failing to take early payment discounts available, paying sales tax, and reimbursing employees incorrect amounts for travel expenses.

Conclusion

Proper segregation of duties and adequate oversight of accounting functions helps ensure all transactions are accounted for properly and assets are adequately safeguarded. To ensure disbursements and transfers are appropriate, the Board should ensure the disbursement information approved is complete and a comparison of the information to approved invoices, checks written, and transfers completed is documented.

8.2 Procurement procedures

The city's procurement procedures do not always comply with the City Code and the city did not require the Park Board President to abstain from evaluating bids when the appearance of a conflict of interest existed.

- The city did not always solicit and review three bids prior to purchase. City personnel did not solicit bids for 6 of 27 disbursements reviewed including health insurance (\$33,085), fuel (\$13,100), vehicle repairs (\$5,027), propane (\$2,360), basketball court sealant (\$643), and Easter eggs (\$630). Also, personnel only solicited two bids for purchases of fireworks (\$4,999) and volleyball equipment (\$1,404). City Code Section 135.140 requires the city to solicit three competitive bids for purchases of supplies and services over \$500.



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- The city did not require the Park Board President to abstain from evaluating the bid of a family member and did not document an explanation when the lowest bid was not accepted. The Park Board received bids of \$60,593, \$70,455, and \$80,197 for construction of a walking trail. The vendor who bid \$70,455 is owned by a family member of the Park Board President. This relationship was not disclosed in the Park Board minutes and the minutes did not document the Park Board President abstained from the evaluation process. The Park Board recommended the city award the contract to this vendor and the Park Board President presented all 3 bids to the Board along with the recommendation. The Board accepted the Park Board's recommendation and contracted with the vendor without documenting its review of the apparent conflict. According to the Board President, both the apparent conflict and the explanation for not selecting the lowest walking trail bid were discussed in detail during the meeting; however, this discussion was not documented in the meeting minutes. The Board also did not document a detailed explanation for not selecting the lowest of 6 bids received in November 2014 for utility software (\$25,156). The city received bids of \$1,605, \$9,688, \$11,345, \$19,550, \$25,156, and \$25,540 for the software. City Code Section 135.120 requires all bids be accepted by the Board and a detailed explanation to support the accepted bid if it is not the lowest bid.
- The city did not enter into a written contract for the purchase of patrol vehicle cameras (\$8,945) or with the municipal judge (\$6,150). City Code Section 135.080 requires a written contract for supplies and services over the amount of \$5,000.

In addition to being required by city code, the routine use of a competitive procurement process for major purchases ensures the city has made every effort to receive the best and lowest price and all interested parties are given an equal opportunity to participate in city business. Business relationships that impair independence of those in a position to influence the use of city funds reduce the effectiveness of controls and decision making and harm public confidence. 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 be in writing.

### 8.3 Professional services

Professional services are obtained without benefit of a competitive selection process. While the City Code requires bids for purchases of goods and services over \$500 and contracts for purchases of goods and services over \$5,000, the code does not distinguish the handling of professional services from other services. Professional services retained during the year ended June 30, 2015, without the benefit of competitive selection included property and liability insurance brokerage services (\$23,611), attorney



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services (\$13,438), and sewer plan supervision services (\$11,365). In addition, the city did not competitively solicit banking services.

Periodically soliciting proposals for professional services helps ensure all parties are given an equal opportunity to participate in city business, helps provide a range of possible choices, and allows the Board to make better-informed decisions to ensure necessary services are obtained from the best qualified provider, taking expertise, experience, and/or cost into consideration.

#### 8.4 Supporting documentation and timely disbursement

The city did not obtain adequate documentation to support some disbursements, and some disbursements were not paid timely. During the year ended June 30, 2015, the city paid an engineer \$140,868 for a water project and a contractor \$65,470 for a road project without detailed invoices to support charges. Invoices paid did not include hours of service to allow the city to recalculate the invoice and ensure the amount charged was accurate. In addition, receipts for some fuel purchases were not retained, and some travel expense documentation did not include sufficient detail. Also, the former City Clerk paid some invoices several months late. To ensure obligations are actually incurred and amounts paid are proper, all disbursements should be supported by paid receipts, itemized vendor invoices or other detailed documentation, and procedures should be in place to ensure bills are paid timely.

#### 8.5 Trash

Disbursements to the city's trash collection service vendor did not comply with contract requirements, resulting in a potential liability of \$7,647. On March 28, 2012, the city contracted with a trash collection service vendor to provide services to city residents for 3 years. City officials renewed this contract on April 1, 2015, for another 5 years. Both contracts state the vendor will provide the city with a bill and the city shall pay the bill within 10 days, or shall be subject to late fees. However, the city does not pay the billed amount. Instead, city officials complete a worksheet to determine the amount they will pay based upon the number of accounts with trash collections for the month according to the utility system. This amount was always less than the amount billed, and review of the invoices shows an account balance would be held for several months and then written off by the vendor. During the year ended June 30, 2015, the city was billed \$82,414, but only paid \$74,767, resulting in a potential \$7,647 liability. Ensuring contract compliance helps ensure unnecessary liabilities are avoided.

### Recommendations

The Board of Aldermen:

- 8.1 Segregate accounting duties or ensure documented supervisory or independent reviews of the disbursement records are performed. In addition, the Board of Aldermen should develop procedures to



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ensure the lists of bills and allocations provided for approval are accurate, including a comparison of actual expenditures to lists approved, and transfers are completed timely. The Board of Aldermen should also ensure all invoices are initialed or signed by an employee to indicate acceptance of goods or services and approval of invoiced amounts.

- 8.2 Solicit bids, enter into written contracts, and when applicable, document explanations for not selecting the lowest bidder as required by City Code. The Board of Aldermen should also ensure appointed and elected officials avoid participation in the decisions that could result in the appearance of or actual conflicts of interest.
- 8.3 Solicit proposals for professional services and consider establishing a policy to address the procurement of professional services.
- 8.4 Obtain adequate supporting documentation for all disbursements and implement procedures to ensure bills are paid timely.
- 8.5 Ensure contracts are monitored and payments made in accordance with contract terms.

## Auditee's Response

- 8.1 *Due to the limited number of city employees available to complete these tasks, the Board will apply additional oversight to the disbursement process to ensure all transactions are appropriate. The City Clerk will review available disbursement reports, including a report of bills payable, allocations, and transfers. This report will be included in the Board's packets prepared for regular session meetings, and will be reviewed and approved by the Board with other financial information. Also in the future, the City Clerk will require approval of all invoices by the department head and Mayor prior to payment.*
- 8.2 *We plan to review the current ordinances and update the information to best fit the needs of the city. We will ensure compliance with our current and future ordinances. We will enter into written contracts when required and will document why the lowest bidder is not selected. With regards to the reported conflict of interest, we do not believe a conflict existed between the Park Board President and the vendor. We will take steps to ensure any future actual or appearance of conflict is properly handled.*
- 8.3 *We will consider implementing separate procedures for professional services when we review the other purchasing ordinances of the city and, in the future, we will solicit proposals for professional services.*



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8.4 *The new City Clerk requires adequate supporting documentation before payment of any invoice and ensures all invoices are paid timely.*

8.5 *We have worked with the vendor to develop a new procedure to determine the amount to be paid to this vendor. Under these new procedures, the city bills the customer as always and then pays the vendor the amount billed, less the amount of administrative fee charged. The Board will ensure future contracts are accurate and properly monitored.*

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## 9. Electronic Data Security

Controls over city computer systems are not sufficient. As a result, city records are not adequately protected and are susceptible to unauthorized access or loss of data.

### 9.1 User identifications and passwords

Various city personnel and a contracted CPA share the user identification and password for administrative access to the accounting system. The password is not required to be changed on a regular basis.

While a user identification and password are required to authenticate access, the security of these logon credentials is dependent upon keeping them confidential. Allowing certain users to share administrative logon credentials increases the risk of unauthorized access and/or changes to the system and records and does not provide assurance access is limited to only those individuals who need access to perform their job responsibilities. User identifications should be unique to each person and passwords should be confidential and changed periodically to reduce the risk of a compromised password and unauthorized access to and use of computers and data.

### 9.2 Security controls

Security controls are not in place to lock computers after a specified number of failed logon attempts or after a certain period of inactivity. Logon attempt controls lock the capability to access a computer after a specified number of consecutive invalid logon attempts and are necessary to reduce the risk of unauthorized individuals from continually attempting to logon to a computer by guessing passwords. Inactivity controls are necessary to reduce the risk of unauthorized individuals accessing an unattended computer and having potentially unrestricted access to programs and data files. Without effective security controls, there is an increased risk of unauthorized access to systems and the unauthorized use, modification, or destruction of data.

### 9.3 Contingency plan and backup data

The city has not developed a formal, written contingency plan for resuming normal business operations and recovering computer systems and data in the event of a disaster or other extraordinary situations. In addition, the city does not regularly back up data or periodically test backup data to ensure essential data can be restored, and does not always store backup data at a secure off-site location.



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A formal, written contingency plan should be prepared, and periodically tested and updated as needed to address actions for restoring computer systems should a disaster or other extraordinary situation occur. In addition, completing regular data backups and periodically testing the backup data helps ensure current data is available to be restored and is complete and reliable. Storing backup data in a secure off-site location provides increased assurance city electronic records could be restored if necessary.

## Recommendations

The Board of Aldermen:

- 9.1 Require unique user identifications, restrict administrative access to the accounting system to necessary employees based on job functions, and require passwords remain confidential and be changed periodically.
- 9.2 Implement security controls to lock computers after a specified number of incorrect logon attempts or after a certain period of inactivity.
- 9.3 Develop a formal, written contingency plan that is periodically tested, evaluated, and updated as needed. The Board of Aldermen should also require data to be backed up regularly, tested on a periodic basis, and stored in a secure off-site location.

## Auditee's Response

- 9.1 *With the ongoing implementation of new software and hardware and hiring of new employees, prior issues with administrative access have been resolved, all employees have been assigned separate user identifications, and confidential passwords are changed periodically.*
- 9.2 *With the ongoing implementation of the new software and hardware, all computers lock after a specified number of logon attempts or after a certain period of inactivity.*
- 9.3 *The city will work to develop a disaster recovery plan and will work to ensure backups are completed regularly and are stored off-site, once the new utility and hardware systems are completely implemented.*

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## 10. Ordinances and Sunshine Law

Improvement is needed in ordinances and public record requests.

### 10.1 Ordinances

City ordinances are not complete or organized. While ordinances appear to have been codified in 2005, the ordinances passed since are not maintained in a centralized location and there is no up-to-date official ordinance book.



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The index of all ordinances passed and rescinded by the city is also not up to date.

Because ordinances passed by the Board to govern the city and its residents have the force and effect of law, it is important ordinances be current, complete, and organized. The lack of an ordinance index makes it more difficult for the city to determine which ordinances are active or have been rescinded.

## 10.2 Records policy and requests

The Board has not adopted a formal policy regarding public access to city records. A formal policy would establish guidelines for the city to make requested records available to the public and ensure any records requests are handled consistently and in compliance with state law. At a minimum, such a policy should identify a person to contact, provide an address to mail such requests, and establish fees that may be assessed for providing copies of public records. In addition, while we did not identify specific concerns with the tracking of Sunshine Law requests, the city does not maintain a log of public records requests to ensure all requests are handled in compliance with the Sunshine Law.

Section 610.023, RSMo, lists requirements of making records available to the public, and Section 610.026, RSMo, allows the city to charge fees for providing access to and/or copies of public records and provides requirements related to fees. Section 610.028, RSMo, requires a written policy regarding release of information under the Sunshine Law. To ensure compliance with state law, the district should document sufficient information in a log to determine if requests are adequately and timely completed. Necessary information includes, but is not limited to, the date of request, a brief description of the request, the date the request is completed or why the request cannot be completed and any associated cost.

## Recommendations

The Board of Aldermen:

- 10.1 Ensure city ordinances are maintained in a complete, well-organized, and up-to-date manner; new ordinances are passed when appropriate; and an index of all ordinances passed and rescinded is established.
- 10.2 Develop written policies regarding access public access to city records and establish a public request log.

## Auditee's Response

- 10.1 *The city completed a new codification in late 2015, and the new City Clerk maintains an indexing system for all new ordinances passed and rescinded.*
- 10.2 *The Board will work on adopting a formal policy regarding Sunshine Law requests and the new City Clerk will develop a*



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*tracking system to account for all requests received and all city responses.*



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# City of Sparta

## Organization and Statistical Information

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The City of Sparta is located in Christian County. The city was incorporated in 1885 and is currently a fourth-class city. City operations include utility services (water, sewer, and trash), police, maintenance of streets, and the city park. The city employed 4 full-time employees and 2 temporary part-time employees on June 30, 2015.

### Mayor and Board of Aldermen

The city government consists of a mayor and 4-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 June 30, 2015, are identified below. The Mayor is paid \$300 per month and the Board of Aldermen members are paid \$600 per year. The compensation of these officials is established by ordinance.

Michael Younker, Mayor  
Joseph Valade, Alderman  
Jarrett Iorg, Alderman  
Jason Stephens, Alderman  
Stephen Otten, Alderman

### Other Principal Officials

The City Treasurer; City Attorney; Chief of Police; Water, Street and Sewer Superintendent; and Deputy City Clerk are appointed positions. The City Clerk is elected by the Board at the first meeting following the mayoral election. The city experienced significant turnover prior to and during the audit. The city's principal officials at June 30, 2015, are identified below:

Vacant, City Treasurer (1)  
Harry Styron, City Attorney  
Lyndle Spencer, Chief of Police (2)  
Richard Roland, Water, Street and Sewer Superintendent  
Vacant, City Clerk (3)  
Vacant, Deputy City Clerk (4)

(1) The city has not historically appointed a City Treasurer.

(2) Lyndle Spencer was appointed Director of Operations in April 2015 and Chief of Police in June 2015. He served in this position until August 2015. Police Sergeant Andrew Spencer served as Chief of Police from August 2015 until December 2015. The Chief of Police position remained vacant until April 2016, when Trampus Taylor was appointed. The city no longer has a Director of Operations.

(3) Lana Wilson served as City Clerk from June 2013 until June 2015. A temporary part-time clerk was hired until a full-time replacement could be located. Sharon Mickey was appointed City Clerk in July 2015.

(4) Kamera Anderson served as Deputy City Clerk and Court Clerk from May 2012 until June 2015.

### Financial Activity

A summary of the city's financial activity for the year ended June 30, 2015, (obtained from the City of Sparta Independent Auditor's Report) and a summary of the city's established funds and bank accounts for the years ended June 30, 2016, and 2015, (obtained from city financial records) follows:

**CITY OF SPARTA, MISSOURI**  
**STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES -**  
**(MODIFIED CASH BASIS)**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2015**

| REVENUES:   | General<br>Fund   | Police<br>Fund      | Park<br>Fund    | Street<br>Fund   | Total<br>Governmental<br>Funds |
|---|-------------------|---------------------|-----------------|------------------|--------------------------------|
| <b>Taxes:</b>   |                   |                     |                 |                  |                                |
| Property taxes  | \$ 60,810         | \$ -                | \$ -            | \$ -             | \$ 60,810                      |
| Franchise taxes   | 56,002            | -                   | -               | -                | 56,002                         |
| Sales taxes   | -                 | 127,511             | 54,872          | 17,518           | 199,901                        |
| Financial institutional tax                                       | 1,176             | -                   | -               | -                | 1,176                          |
| <b>Intergovernmental revenues:</b>                                |                   |                     |                 |                  |                                |
| Missouri motor fuel taxes   | -                 | 6,800               | -               | 61,204           | 68,004                         |
| Christian County  | -                 | -                   | -               | 40,152           | 40,152                         |
| Licenses & permits  | 3,006             | -                   | -               | -                | 3,006                          |
| Fines & forfeitures   | 12,985            | 56,449              | -               | -                | 69,434                         |
| Activities  | -                 | -                   | 2,019           | -                | 2,019                          |
| Rental income   | 15,715            | -                   | 775             | -                | 16,490                         |
| Interest  | 91                | 3                   | 27              | 86               | 207                            |
| Grants  | -                 | 1,500               | -               | -                | 1,500                          |
| Miscellaneous   | 77                | 992                 | 1,343           | 9,813            | 12,225                         |
| Total Revenues  | <u>149,862</u>    | <u>193,255</u>      | <u>59,036</u>   | <u>128,773</u>   | <u>530,926</u>                 |
| <b>EXPENDITURES</b>   |                   |                     |                 |                  |                                |
| <b>Current:</b>   |                   |                     |                 |                  |                                |
| General government  | 112,082           | -                   | -               | -                | 112,082                        |
| Police  | -                 | 211,295             | -               | -                | 211,295                        |
| Court   | 21,532            | -                   | -               | -                | 21,532                         |
| Street  | -                 | -                   | -               | 31,635           | 31,635                         |
| Park  | -                 | -                   | 17,088          | -                | 17,088                         |
| Capital outlay  | -                 | 8,945               | 71,620          | 29,355           | 109,920                        |
| Total Expenditures  | <u>133,614</u>    | <u>220,240</u>      | <u>88,708</u>   | <u>60,990</u>    | <u>503,552</u>                 |
| <b>EXCESS (DEFICIT) OF REVENUES OVER<br/>(UNDER) EXPENDITURES</b> | 16,248            | (26,985)            | (29,672)        | 67,783           | 27,374                         |
| <b>OTHER SOURCES AND (USES)</b>                                   |                   |                     |                 |                  |                                |
| Transfer (out)  | -                 | -                   | -               | (8,938)          | (8,938)                        |
| Transfer in   | 8,938             | -                   | -               | -                | 8,938                          |
| <b>NET CHANGE IN FUND BALANCE</b>                                 | 25,186            | (26,985)            | (29,672)        | 58,845           | 27,374                         |
| <b>FUND BALANCES - BEGINNING (DEFICIT)</b>                        | <u>103,133</u>    | <u>(173,104)</u>    | <u>35,117</u>   | <u>10,278</u>    | <u>(24,576)</u>                |
| <b>FUND BALANCES - ENDING (DEFICIT)</b>                           | <u>\$ 128,319</u> | <u>\$ (200,089)</u> | <u>\$ 5,445</u> | <u>\$ 69,123</u> | <u>\$ 2,798</u>                |

**CITY OF SPARTA, MISSOURI**  
**STATEMENT OF REVENUES, EXPENSES**  
**AND CHANGES IN NET POSITION - PROPRIETARY FUNDS**  
**(MODIFIED CASH BASIS)**  
**FOR THE YEAR ENDED JUNE 30, 2015**

|  | <u>Waterworks</u> | <u>Sewer</u>        | <u>Refuse Fund</u> | <u>Total</u>        |
|--|-------------------|---------------------|--------------------|---------------------|
| <b>OPERATING REVENUES:</b>                     |                   |                     |                    |                     |
| Charges for services                           | \$ 310,646        | \$ 235,359          | \$ 89,052          | \$ 635,057          |
| Miscellaneous                                  | 169               | 7                   | -                  | 176                 |
| <b>Total Revenue</b>                           | <u>310,815</u>    | <u>235,366</u>      | <u>89,052</u>      | <u>635,233</u>      |
| <b>OPERATING EXPENSES:</b>                     |                   |                     |                    |                     |
| Wages, taxes and benefits                      | 54,243            | 61,580              | -                  | 115,823             |
| Insurance                                      | 19,377            | 11,554              | -                  | 30,931              |
| Contractual services                           | 11,121            | 21,279              | 75,450             | 107,850             |
| Repairs and maintenance                        | 7,581             | 30,805              | -                  | 38,386              |
| Utilities                                      | 30,200            | 42,676              | -                  | 72,876              |
| Depreciation                                   | 12,494            | 163,798             | -                  | 176,292             |
| <b>Total Operating Expenses</b>                | <u>135,016</u>    | <u>331,692</u>      | <u>75,450</u>      | <u>542,158</u>      |
| <b>NET OPERATING INCOME (LOSS)</b>             | <u>175,799</u>    | <u>(96,326)</u>     | <u>13,602</u>      | <u>93,075</u>       |
| <b>NON-OPERATING REVENUES (EXPENSES):</b>      |                   |                     |                    |                     |
| Interest income                                | 103               | 50                  | 30                 | 183                 |
| Grants   | 126,781           | -                   | -                  | 126,781             |
| Interest expense                               | -                 | (65,967)            | -                  | (65,967)            |
| <b>Total Non-Operating Revenues (Expenses)</b> | <u>126,884</u>    | <u>(65,917)</u>     | <u>30</u>          | <u>60,997</u>       |
| <b>CHANGE IN NET POSITION</b>                  | 302,683           | (162,243)           | 13,632             | 154,072             |
| <b>NET POSITION, BEGINNING-(RESTATED)</b>      | <u>396,314</u>    | <u>2,250,778</u>    | <u>3,854</u>       | <u>2,650,946</u>    |
| <b>NET POSITION, ENDING</b>                    | <u>\$ 698,997</u> | <u>\$ 2,088,535</u> | <u>\$ 17,486</u>   | <u>\$ 2,805,018</u> |

Appendix C

City of Sparta

Established Funds and Bank Accounts

|   | Governmental Funds |                        |                 |                       |                  |    |                |               |              |                 |             | Proprietary Funds |                |                       |                        |    |                |                       |                      |                  |  |
|---|--------------------|------------------------|-----------------|-----------------------|------------------|----|----------------|---------------|--------------|-----------------|-------------|-------------------|----------------|-----------------------|------------------------|----|----------------|-----------------------|----------------------|------------------|--|
| Financial Statement Audit Report year ended June 30, 2015 | Park Fund          |                        | Police Fund     |                       | General Fund     |    |                |               |              |                 | Street Fund |                   | Refuse Fund    | Water Fund            |                        |    |                | Sewer Fund            |                      |                  |  |
| Accounting System   | Park Fund          | Park Donation Fund     | Police Fund     | Police Grant Fund     | General Fund     |    | Court Fund     |               |              | Street Fund     |             | Trash Fund        | Water Fund     |                       |                        |    | Sewer Fund     |                       |                      |                  |  |
| Bank Accounts   | Park Checking      | Park Donation Checking | Police Checking | Police Grant Checking | General Checking | CD | Court Checking | Bond Checking | JEF Checking | Street Checking | CD          | Trash Checking    | Water Checking | Project Debt Checking | Project Grant Checking | CD | Sewer Checking | Bond Reserve Checking | Rep. & Ext. Checking | Project Checking |  |
| Funds budgeted for year ended June 30, 2015               | Park Fund          |                        | General Fund    |                       |                  |    |                |               |              |                 |             |                   |                | Water/Sewer Fund      |                        |    |                |                       |                      |                  |  |
| Funds budgeted for year ended June 30, 2016               | Park Fund          |                        | Police Fund     |                       | General Fund     |    |                |               |              |                 | Water Fund  |                   |                |                       | Sewer Fund             |    |                |                       |                      |                  |  |