



Office of Missouri State Auditor
Nicole Galloway, CPA

FOLLOW-UP REPORT ON AUDIT FINDINGS

City of Sparta

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City of Sparta

Follow-Up Report on Audit Findings

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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

We have conducted follow-up work on certain audit report findings contained in Report No. 2016-094, *City of Sparta* (rated as Poor), issued in September 2016, pursuant to the Auditor's Follow-Up Team to Effect Recommendations (AFTER) program. The objectives of the AFTER program are to:

1. Identify audit report findings that require immediate management attention and any other findings for which follow up is considered necessary at this time, and inform the city about the follow-up review on those findings.
2. Identify and provide status information for each recommendation reviewed. The status of each recommendation reviewed will be one of the following:
 - Implemented: Auditee fully implemented the recommendation, either as described in the report or in a manner that resolved the underlying issue.
 - In Progress: Auditee has specific plans to begin, or has begun, to implement and intends to fully implement the recommendation.
 - Partially Implemented: Auditee implemented the recommendation in part, but is not making efforts to fully implement it.
 - Not Implemented: Auditee has not implemented the recommendation and has no specific plans to implement the recommendation.

As part of the AFTER work conducted, we reviewed documentation provided by city officials and held discussions with officials to verify the status of implementation for the recommendations. Documentation provided by the city included minutes of meetings, written policies and procedures, financial records, and other pertinent documents. This report is a summary of the results of this follow-up work, which was substantially completed during March and April 2017.

A handwritten signature in black ink that reads "Nicole R. Galloway".

Nicole R. Galloway, CPA
State Auditor

City of Sparta

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Status of Findings

1. Financial Condition

The Police, Park, and General Funds were in poor financial condition. The Board of Aldermen (Board) 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 were not complete and accurate, making it difficult to effectively monitor the condition of each fund.

The Police Fund carried a deficit balance for years and also owed more than \$200,000 to other city funds. In addition, the city owed a local bank for the purchase of a patrol vehicle, and city officials planned to use the Police Fund to make these payments.

As of June 30, 2015, the Park Fund balance was \$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.

The General Fund was in a weakened condition as a result of subsidizing the Police and Park Funds. 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.

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.

Status

Partially Implemented

The Board has taken steps to monitor the city's financial condition by budgeting all funds, eliminating deficit budgeting, and reviewing budget-to-actual information and bank balances at board meetings. The Board opened a separate certificate of deposit for utility deposits held in the General Fund to allow better tracking of these deposits and ensure the General Fund reflects only non-restricted funds. Board members also indicated they will continue to conservatively budget each fund to improve the fund financial condition.



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The Board eliminated some interfund obligations; however, city officials indicated there are no formal plans to repay or forgive remaining amounts owed. The Board passed two ordinances forgiving \$63,742 owed from the Police Fund to the General Fund and \$42,469 owed from the Police Fund to the Sewer Fund. The Police Fund is still expected to have a deficit balance as of June 30, 2017, and the Board continues to make payments for the vehicle purchase out of the Police Fund.

2.1 Financial Activity -
Establishment of funds
and bank accounts

The city did not account for funds in a consistent manner. In addition, the city maintained numerous bank accounts and more bank accounts than required. These issues resulted 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, and reported 7 funds in its audited financial statements. The city budgeted 3 funds in the year ended June 30, 2015, and 5 funds in the year ended June 30, 2016.

Recommendation

The Board of Aldermen 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.

Status

In Progress

The Board passed 2 ordinances in November 2015 establishing 8 funds for accounting purposes and 11 bank accounts (8 checking and 3 certificates of deposit). The fiscal year ended June 30, 2017, budget includes all 8 funds. The Board now receives fund balances and bank account balances as part of its board meeting packets. However, the city's June 30, 2016, audited financial statements and December 31, 2016, published semiannual financial statement did not include the Court Fund.

2.2 Financial Activity -
Restricted revenues

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

- The city did 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 penalties for late payment of utility bills and reconnection fees. City personnel deposited and recorded these receipts in the General Fund instead of the Water or Sewer Funds. Their use was not restricted.

Recommendation

The Board of Aldermen establish procedures to ensure restricted monies are used only for allowable purposes.



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Status

In Progress

At the time we conducted follow-up work in early March 2017, the Board had not established procedures to implement this recommendation. The City Clerk later provided a balance sheet dated March 31, 2017, that separately reported approximately \$132,000 in restricted monies received from Christian County for 3 road projects to allow for proper tracking. While motor vehicle related tax revenues, and utility late payment penalties and reconnection fees were not included on the updated report, the City Clerk indicated she is taking steps to separately track these restricted monies to ensure they are used for allowable purposes. The city received approximately \$69,000 in restricted motor vehicle related tax revenues during fiscal year ended June 30, 2016, according to the audited financial statements. The city received utility late payment penalties totaling approximately \$2,000 and reconnection fees totaling approximately \$699 in January and February 2017.

2.4 Financial Activity -
Adjustments

There was 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.

Recommendation

The Board of Aldermen require supporting documentation and an independent review and approval of all adjustments.

Status

Not Implemented

The Board has not taken steps to implement this recommendation. City officials indicated no supporting documentation for adjustments is maintained and no independent review or approval of adjustments is performed.

3. Budgets and Financial
Statements

City budgets did 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. We noted the following issues:

- During fiscal years 2016 and 2015, the Board did not prepare a budget for each individual fund; 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.



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- The Board continually budgeted a deficit in the Police Fund.
- The Board did not adequately monitor budget-to-actual receipts and disbursements, budget amendments were not completed timely, and some budget amendment documents had insufficient information.

Recommendation

The Board of Aldermen 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.

Status

Partially Implemented

We reviewed the fiscal year ended June 30, 2017, budget. It did not include a budget message, budget summary, or actual beginning cash balances for funds. Each fund also had an inaccurate estimated ending cash balance because the calculations did not include the beginning cash balance. The city did not budget any fund at a deficit.

The Board now monitors budget-to-actual receipts and disbursements at Board meetings. The Board approved 2 budget amendments during the fiscal year ended June 30, 2017. The Board approved both amendments timely with sufficient information.

3.2 Published financial statements

The city did not always publish timely and accurate financial statements.

Recommendation

The Board of Aldermen ensure timely and accurate publication of the city's semiannual financial statements as required by state law.

Status

Partially Implemented

The city published the financial statement for the year ended June 30, 2016 on August 17, 2016, but did not include the General and Court Funds. On September 7, 2016, the city republished that financial statement and included the General Fund. The city published the semiannual financial statement for the 6 months ending December 31, 2016, on February 8, 2017, but did not include the Court Fund.

4. Accounting Controls and Procedures

Numerous weaknesses existed with the city's accounting controls and procedures.

4.1 Receipting, recording, transmitting, and depositing procedures

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



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We identified the following weaknesses. City personnel did not:

- Issue official receipt slips for monies received or transmitted by other city departments. They issued generic manual receipt slips when requested.
- Always record the method of payment on receipt slips.
- Account for the numerical sequence of transaction numbers assigned by the city's computerized utility system.
- Record receipts into the computerized accounting system timely and the computerized accounting system allowed users to backdate payments received in the system.
- Always make deposits intact or timely. They sometimes held payments and issued cash refunds.
- Reconcile the amount or composition of recorded receipts to the computerized accounting system or deposits.

Recommendation

The Board of Aldermen 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.

Status

Partially Implemented

City personnel have different procedures for utility payments received and other monies received, such as dog tags and business license fees. We reviewed 10 deposits for non-utility monies made in January 2017 and noted city personnel continue to use generic manual receipt slips and do not issue receipt slips for all monies received. In some cases, city personnel use the dog tag forms as receipts; however, the method of payment is not documented and the forms are not reviewed when deposits are made. City personnel still are not ensuring all non-utility monies received are deposited intact and timely.

All utility receipts are now recorded in the computerized utility system including the method of payment and reconciled to the composition of the deposit. We reviewed 8 utility deposits made in January and February 2017 and verified the composition of the receipts agreed to the deposits and the deposits occurred timely. However, city personnel still do not reconcile the



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amount and composition of utility deposits to the utility receipts recorded in the accounting system.

City personnel still are not accounting for the numerical sequence of transaction numbers in the computerized utility system. In addition, receipts from the utility system still are not recorded in the computerized accounting system timely. City personnel indicated all refunds are now made by check.

4.2 Bank reconciliations
Recommendation

Bank reconciliations were not always completed timely or accurately.

The Board of Aldermen ensure bank reconciliations are completed timely and accurately.

Status

In Progress

The City Clerk is now responsible for completing the bank reconciliations and performs the reconciliations monthly. We reviewed the January 2017 and February 2017 reconciliations. They were performed more timely, but did not include a list of liabilities for each account.

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.

Recommendation

The Board of Aldermen maintain bond coverage for all personnel with access to city monies.

Status

Implemented

The city purchased a bond to cover all city employees effective April 2017.

5.1 Payroll Controls and Procedures - Payroll procedures

Payroll functions were not segregated and no one performed 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 the payroll including her own payments, 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 wage payments and no one reviewed the payments she received.



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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.

Recommendation

The Board of Aldermen 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.

Status

Implemented

We reviewed timesheets for one pay period in January 2017 and one pay period in February 2017. All employees, including the current City Clerk, now complete and sign a timesheet each pay period. Supervisors review timesheets for accuracy and sign them to document their review. The City Clerk then inputs the information into the city's payroll software system and the Mayor reviews the system generated Payroll Summary Report each pay period. In addition, the Board receives a Payroll by Class report in Board packets. Each Board member signs one copy of the report. This report is retained. We verified that timesheets were properly completed, approved, and retained.

5.2 Payroll Controls and Procedures - 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 did not calculate accrued vacation leave as required by ordinance.
- Nonworking time (vacation, sick leave, compensatory time taken, and holidays) was included in total hours worked when determining the amount of overtime earned by employees, resulting in the city paying more overtime than required.
- The city's paid holiday ordinance was not complete and did not specify the number of hours paid for each employee.

Recommendation

The Board of Aldermen adopt necessary personnel ordinances and/or policies, and ensure compliance with those ordinances and policies.

Status

In Progress

City officials have drafted a personnel manual. City officials indicated they are actively working on its completion, but the date of formal adoption of the manual is still uncertain.



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The March 2017 Board packets indicated the Board is in the process of adopting a new vacation ordinance clarifying how vacation leave is accrued. The City Clerk indicated the city no longer includes nonworking time when determining overtime earned. City officials indicated the Board is in the process of updating the paid holiday ordinance to clarify the number of hours paid for each employee and adding Christmas Eve as a paid holiday.

6.1 Utility Controls and
Procedures -
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.

Recommendation

The Board of Aldermen segregate the duties of the Utility Clerk. At a minimum, there should be a documented review of city utility records including adjustments.

Status

Implemented

At the time of our follow-up work, the Utility Clerk was still responsible for all aspects of the utility billing, but various city officials now conduct documented reviews of city utility records. The City Clerk verifies deposits made by the Utility Clerk through ensuring the amount and composition of the deposits matches the utility system receipt report. The Board now reviews all adjustments made to customer accounts. The system generated listing of adjustments is provided to the Board, signed by the Board members and Mayor, and retained. We reviewed the process and verified independent reviews were completed for February 2017 utility deposits and adjustments.

In March 2017, the city hired a part-time employee to assist the Utility Clerk. City officials plan to segregate some of the Utility Clerk's duties once the employee is fully trained while continuing the independent reviews recently implemented.

6.2 Utility Controls and
Procedures - Utility
deposits

City personnel did not periodically reconcile customer utility deposit balances reported in the utility system to the General Fund available cash balance or the city accounting records.



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Recommendation

The Board of Aldermen periodically reconcile customer deposits per accounting records to the available cash balance for customer deposits and promptly investigate any differences.

Status

Not Implemented

City personnel do not reconcile customer deposits per accounting records to available cash balance for customer deposits.

6.4 Utility Controls and Procedures - Penalties and shut off procedures

City procedures did not comply with city ordinances when assessing late penalties and discontinuing utility services.

Recommendation

The Board of Aldermen ensure compliance with utility ordinances regarding late fees and service shut off.

Status

Implemented

The Board approved the Utility Billing Collection Policy Statement and Procedures effective April 2016, and Ordinance 543, which clarifies how late fees and service shut off are handled, effective October 2016. City officials indicated they now assess late fees and shut off service in accordance with the policy and ordinance. We reviewed accounts shut off during February 2017. City personnel assessed all penalties and shut off services in accordance with the policy and ordinance.

7.2 Capital Projects - Engineering services

The city did not solicit statements of qualifications from at least three engineering firms as required by statute.

Recommendation

The Board of Aldermen comply with state law when procuring engineering services.

Status

Implemented

The city has had only one new project requiring engineering services since the audit. Board meeting minutes document the Board reviewed the qualifications of three engineering firms as required by statute.

7.3 Capital Projects - 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 and state regulation.



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Recommendation

The Board of Aldermen ensure adequate documentation is submitted to substantiate prevailing wages are paid on construction projects as required by contract and state regulation.

Status

Implemented

City officials now ensure they receive adequate prevailing wage documentation. In February 2016, the Board entered into a contract with an independent contractor to perform excavation, hauling, and general street and utility maintenance services. The contractor submits detailed invoices monthly and includes the required prevailing wage information. We reviewed the January 2017 information and noted no problems.

8. Disbursements

City disbursement controls and procedures needed improvement.

8.1 Oversight and approval process

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

- The former Deputy City Clerk/Court Clerk was responsible for all disbursement duties including receiving vendor invoices; 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 city bank accounts, and checks for each account only required one signature.
- The list of bills approved by the Board was not complete or compared to approved invoices and actual checks written.
- Disbursement allocation lists were not complete and accurate and not compared to actual transfers.
- 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.

Recommendation

The Board of Aldermen 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 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.



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Status

Implemented

The City Clerk continues to handle most of the disbursement duties; however, documented supervisory or independent reviews of the disbursement records are performed. Checks now require 2 signatures and the City Clerk is not one of the authorized signors.

At each meeting the Board compares the list of bills to the actual expenditures and documents their review. The City Clerk provides the Board a list of bills, along with invoices and the checks written so the Board can verify the amount to be paid and payee are correct. Board members sign the list to show approval and 2 board members sign the checks. We reviewed the January 2017 canceled checks and noted each had 2 signatures.

Fewer transfers are now needed with the decrease in the number of bank accounts. If a transfer between bank accounts is needed, the Mayor reviews and approves a transfer form and the Board is provided a list of transfers made at its next meeting. We reviewed the transfer forms for January and February 2017 and verified they were approved by the Mayor.

Allocations between funds are reviewed by the Board. For example, the Payroll by Class report reviewed and signed by the Board indicates the amount of payroll from each fund.

Employees are now required to initial or sign invoices to verify the goods were received and the amount to be paid is correct. We reviewed a sample of paid invoices. Each invoice included the proper approval.

8.2 Procurement procedures The city's procurement procedures did not always comply with the City Code. We identified the following concerns:

- City personnel did not solicit and review 3 bids prior to purchasing health insurance, fuel, vehicle repairs, propane, basketball court sealant, and Easter eggs. City personnel only solicited 2 bids for the purchase of fireworks and volleyball equipment. City Code Section 135.140 requires solicitation of 3 competitive bids for purchases of supplies and services over \$500.
- City officials 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. 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.



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- The city did not enter into written contracts for the purchase of patrol vehicle cameras or with the municipal judge. City Code Section 135.080 requires a written contract for supplies and services over the amount of \$5,000.

Recommendation

The Board of Aldermen 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.

Status

Partially Implemented

City officials do not always solicit bids as required. We reviewed a listing of expenditures for January and February 2017. We noted that fuel and propane purchases were not bid. Additionally, we chose 5 expenditures to review for supporting documentation, with 4 of 5 requiring bids. No bid documentation could be provided for those purchases, which totaled \$5,449. In addition, Park Board meeting minutes documented 3 bids for Easter eggs and the Board approved the low bid (\$720). However, Park Board meeting minutes did not document bids to support the awards of \$1,442 for exercise equipment or \$2,452 for 4 new park benches.

The Board has not entered into a contract with the municipal judge.

The city is in the process of adopting a new procurement policy. The draft copy of the procurement policy includes a conflict of interest statement, and city officials stated they have already begun avoiding conflicts of interest. We did not identify any conflicts of interest for the expenditures reviewed.

8.3 Professional services

City officials obtained professional services without benefit of a competitive selection process. While the City Code required bids for purchases of goods and services over \$500 and contracts for purchases of goods and services over \$5,000, the code did not distinguish the handling of professional services from other services.

Recommendation

The Board of Aldermen solicit proposals for professional services and consider establishing a policy to address the procurement of professional services.

Status

Not Implemented

The Board still does not solicit proposals for professional services. The draft copy of the new procurement policy does not address the procurement of professional services. We noted professional services purchases for sewer



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plant supervision, liability insurance, and legal work paid for and approved by the Board in January or February 2017 did not have proposals solicited.

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.

Recommendation

The Board of Aldermen obtain adequate supporting documentation for all disbursements and implement procedures to ensure bills are paid timely.

Status

Implemented

The City Clerk indicated bills are now approved for payment at the next board meeting following their receipt. From a listing of expenditures for January and February 2017, we reviewed 5 expenditures and found adequate supporting documentation, including detailed invoices and approval by the appropriate city employees, for all 5. Also, based on the invoice dates, city personnel paid the bills 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. The contract stated 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 did not pay the billed amount. Instead, city officials completed a worksheet to determine the amount they would 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 showed an account balance would be held for several months and then written off by the vendor.

Recommendation

The Board of Aldermen ensure contracts are monitored and payments made in accordance with contract terms.

Status

Implemented

City personnel worked with the trash collection vendor to develop new procedures and now pays the amount billed less an administrative fee. We reviewed the amount paid to the vendor for December 2016 and January 2017. The amount paid agreed to the invoices. City officials indicated they will properly monitor and comply with the terms of any future contracts.