



Office of Missouri State Auditor
Nicole Galloway, CPA

City of Glasgow



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Missouri State Auditor

CITIZENS SUMMARY

Findings in the audit of the City of Glasgow

Background

The former City Administrator, Kevin Atwood, was responsible for oversight of financial accounting functions, assisting the Mayor with various city activities, and providing general supervision of all city departments and functions. He was hired as a police officer in October 2000 and was promoted to Police Chief in January 2004. He was appointed City Administrator in May 2013, but continued to also serve as Police Chief.

Our office received an anonymous hotline call in August 2017 regarding concerns over credit card purchases and gun inventory issues. Our office initially referred the matter to the Department of Public Safety (DPS) for the Missouri State Highway Patrol (MSHP) to investigate, and notified the Howard County Prosecuting Attorney. Subsequently, the Howard County Prosecuting Attorney contacted the MSHP on September 19, 2017, and requested the MSHP to investigate.

The Board suspended the former City Administrator for 30 days with pay on October 19, 2017, and he submitted a letter of resignation that day, effective November 19, 2017.

The State Auditor's Office was contacted in November 2017 by the City Attorney to request an audit of the city, indicating city officials suspected possible misappropriation of funds and/or fraudulent activity, particularly regarding improper purchases and expense reimbursements. On December 4, 2017, the Board passed an ordinance formally requesting and authorizing an audit and the audit began on February 26, 2018.

Missing Monies

The audit identified an estimated \$3,248 in bulk water sales receipts for the period May 2013 through October 2017 that were not deposited. Improper and unsupported credit card payments were made by the city for the former City Administrator's personal credit card. The city paid a total of \$5,508 to the credit card company from May 2016 to August 2017 without any supporting documentation, and of that amount, \$3,917 pertained to transactions that were improper and personal in nature. The city recouped \$1,130 from the former City Administrator, but \$2,787 remains unpaid. In addition, a check for \$1,050 was issued to the former City Administrator in January 2017, supposedly to be used for "drug buy" money by a confidential informant. No evidence was provided to the city to indicate this money was used for a controlled drug buy or any other city purpose and is considered missing.

Disbursements

The former City Administrator made some purchases during 2017, including various electronic items and added phone lines, that were unnecessary and not a prudent use of city resources, costing the city over \$1,600 in unnecessary charges. The city lacks adequate procedures to account for fuel used by the public works and police departments, and did not require individual fuel tickets to be turned in for each purchase and no usage or fuel logs were required for any city vehicles. Citizen concerns were expressed to the city in October 2017 that the former City Administrator was using city fuel cards to purchase fuel for personal vehicles. Due to the lack of records

required by the city, it is difficult to determine if all fuel purchases were appropriate.

Clothing Allowance Program
and Gun Inventory

The city does not have adequate policies and procedures over a clothing allowance program offered to certain city employees, which allows the employees to repay the city for work-related equipment and uniforms, as well as personal items initially purchased by the city on their behalf. Several concerns were noted with this program including, allowing the purchase of personal items, not updating records accurately or timely, allowing high receivable balances or credit balances, using compensatory time earned as credit against amounts owed, and not ensuring proper taxes are paid. The city has failed to maintain inventory records of city guns and did not perform an annual inventory of city-owned guns. As a result, city personnel cannot account for all city-owned guns and the city's investigation of concerns expressed regarding gun purchases was more difficult.

Accounting Controls and
Procedures

The city had not established adequate segregation of duties and independent or supervisory reviews over the various financial accounting functions performed by the former City Administrator and his staff. In addition, the combination of the positions of City Administrator and Police Chief violated state law and created a potential conflict of interest.

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.

City of Glasgow

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NICOLE GALLOWAY, CPA

Missouri State Auditor

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

We have audited certain operations of the City of Glasgow as they relate to the city's finances in fulfillment of our duties under Section 29.200.3, RSMo. Due to concerns regarding missing monies and improper disbursements, the State Auditor initiated the audit with the approval of the City of Glasgow Board of Aldermen. The scope of our audit included, but was not necessarily limited to, the year ended June 30, 2017, and the period from July 1, 2017, through November 1, 2017. The objectives of our audit were to:

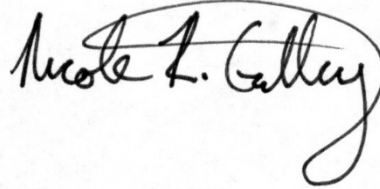
1. Evaluate the city's internal controls over significant management and financial functions.
2. Evaluate the city's compliance with certain legal provisions.
3. Evaluate the economy and efficiency of certain management practices and procedures, including certain financial transactions.
4. Determine the amount of missing monies and improper disbursements to the extent possible.

Our methodology included reviewing minutes of meetings, written policies and procedures, financial records, and other pertinent documents; interviewing various personnel of the city, as well as certain external parties; and testing selected transactions. We obtained an understanding of internal controls that are significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of applicable contract, grant agreement, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

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

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

For the areas audited, we identified (1) deficiencies in internal controls, (2) noncompliance with legal provisions, (3) the need for improvement in management practices and procedures, and (4) missing monies and improper disbursements totaling approximately \$7,100. The accompanying Management Advisory Report presents our findings arising from our audit of the City of Glasgow.

A handwritten signature in black ink that reads "Nicole R. Galloway". The signature is written in a cursive style with a large, looping flourish at the end of the name.

Nicole R. Galloway, CPA
State Auditor

The following auditors participated in the preparation of this report:

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City of Glasgow

Introduction

Background

The former City Administrator, Kevin Atwood, was responsible for oversight of financial accounting functions, assisting the Mayor with various city activities, and providing general supervision of all city departments and functions. He was hired as a police officer in October 2000 and was promoted to Police Chief in January 2004. He was appointed City Administrator in May 2013, but continued to also serve as Police Chief.

Our office received an anonymous hotline call in August 2017 regarding concerns over credit card purchases and gun inventory issues. Our office initially referred the matter to the Department of Public Safety (DPS) for the Missouri State Highway Patrol (MSHP) to investigate, and notified the Howard County Prosecuting Attorney. Subsequently, the Howard County Prosecuting Attorney contacted the MSHP on September 19, 2017, and requested the MSHP to investigate. The MSHP issued a subpoena to the city in October 2017 for various financial records, including copies of credit card statements and supporting documentation. The city provided the MSHP with various financial records related to the subpoena. In an October 9, 2017, closed meeting, the Board of Aldermen (Board) discussed concerns expressed about credit card usage with the former City Administrator. The Board suspended the former City Administrator for 30 days with pay on October 19, 2017, and he submitted a letter of resignation that day, effective November 19, 2017.

The State Auditor's Office was contacted in November 2017 by the City Attorney to request an audit of the city, indicating city officials suspected possible misappropriation of funds and/or fraudulent activity, particularly regarding improper purchases and expense reimbursements. On December 4, 2017, the Board passed an ordinance formally requesting and authorizing an audit and the audit began on February 26, 2018.

The city's fiscal year is July 1 through June 30. The scope of our audit included, but was not necessarily limited to, the year ended June 30, 2017, and the period from July 1, 2017, through November 1, 2017. We applied procedures to receipts, utility billings, and disbursements to identify the amount of missing monies and improper disbursements made by or on behalf of the former City Administrator.

City of Glasgow

Management Advisory Report

State Auditor's Findings

1. Missing Monies

The audit identified an estimated \$3,248¹ in bulk water sales receipts for the period May 2013 through October 2017 that were not deposited. See Appendix C for details regarding undeposited receipts. In addition, unsupported and improper disbursements were made by/to the former City Administrator.

Bulk water receipts

The city has an automatic water sales machine, which is a currency-operated machine that automatically dispenses water to customers who haul bulk water themselves. The machine is connected to the water system and dispenses gallons of water based on the amount of money inserted by customers (i.e., 25 cents will buy 40 gallons of water). A flow meter is also attached to the system to track the gallons sold. Each month, water department personnel read the meter and provide the reading to the City Collector. According to city personnel, the former City Administrator collected the monies from the currency machine beginning in May 2013, after his promotion to City Administrator, through October 2017, but was not always transmitting the monies to the City Collector for deposit. An employee in the water department collected the monies prior to May 2013, when a new meter was installed. Meter readings prior to December 2013 could not be located by city personnel, but it is reasonable to conclude the meter was at zero when installed. This meter was reported broken in July 2017 and was not replaced until December 2017. In November 2017, after the former City Administrator was suspended from his position (and ultimately resigned), water department personnel again began collecting the monies from the currency machine in addition to reading the meter.

Currently, two employees empty the currency machine together and verify the monies removed before transmittal of the meter reading and monies to the City Collector for deposit. The meter is not read on the same day the monies are removed from the machine, so a precise reconciliation of the amount transmitted to gallons of water sold cannot be performed.

According to city personnel, the former City Administrator was the only person with a key to the currency machine from May 2013 to October 2017. For the period May 2013 through February 2018, we estimated 649,600 gallons were pumped and sold at a cost of \$6.25 per 1,000 gallons, generating revenue of approximately \$4,060. This total includes an estimation of usage for the period July to December 2017 when the meter was broken.

Revenues generated while the former City Administrator was responsible for collections totaled approximately \$3,800, but records indicate only \$552 in cash was transmitted to the city for deposit. These transmittals were made

¹ Amounts presented in the report findings are rounded to the nearest dollar, whereas amounts presented in Appendix C are not rounded.



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Management Advisory Report - State Auditor's Findings

between August 2013 and January 2014. City records indicate no transmittals of cash from bulk water sales were made from February 2014 to October 2017. Three checks, totaling \$825, were received by the City Clerk in 2017 and posted to the system as bulk water sales receipts. The City Clerk indicated she posted the checks in that manner because she was instructed to do so by the former City Administrator. We determined two of the checks, totaling \$750, were actually deposits paid to the city by a contractor who needed to perform street cuts. We were unable to determine the purpose of the third check. It is possible the former City Administrator instructed the City Clerk to perform this miscoding to hide the shortage in the bulk water sales account.

From November 2017 to February 2018, when water department employees had taken over the duty of collecting monies from the currency machine, an estimated 41,600 gallons of water were sold, generating \$260 in sales. The amount collected and transmitted for deposit during that period was \$273. The difference of \$13 is likely a result of the estimates used in our calculations, and/or is a timing difference, as there is no documentation to show the last date the currency machine was emptied by the former City Administrator.

Based on meter readings taken by the city, transmittal and deposit records, and our estimation of water usage for the months the meter was broken, we determined an estimated \$3,248 in bulk water sales receipts was collected but not deposited and is missing. See Appendix C for details regarding meter readings, gallons used, calculated bulk water sales receipts, and transmittals to the city.

Improper and
unsupported credit card
charges

There were improper and unsupported credit card payments made by the city. The city paid a total of \$5,508 to a credit card company from May 2016 to August 2017 without any supporting documentation, and of that amount, \$3,917 pertained to transactions that were improper and personal in nature.

The payments were made toward a credit card in the former City Administrator's name. Five of the 12 payments made by the city were for even dollar amounts rounded to the nearest hundred (e.g., \$300, \$900, \$1,000). No support was submitted to city personnel, the Mayor, or a board member for any of the credit card payments.

The former City Administrator started using a credit card to purchase items in April 2016. City personnel indicated they initially believed this was a city credit card, but later determined it was a personal credit card in the name of the former City Administrator. Monthly statements were addressed directly to the former City Administrator at city hall. The City Clerk indicated she prepared payment vouchers for the credit card disbursements at the direction of the former City Administrator, who told her how much to pay. The City Clerk indicated she prepared payment vouchers for all 12 payments made to



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the credit card company; however, only 5 vouchers were available for our review. The City Clerk indicated the other vouchers were removed from city records by the former City Administrator. Our review of the 5 vouchers available showed that 3 were signed by the Mayor and there was no evidence he questioned the lack of supporting documentation for the amounts paid. The other 2 were signed by the former City Administrator.

Questions were raised by members of the public regarding the even-dollar-amount payments to the credit card vendor and the city's independent auditor also raised questions regarding these payments and lack of support for them. The Missouri State Highway Patrol (MSHP) investigation included a review of credit card charges. The MSHP obtained copies of the statements and prepared a schedule of charges by vendor. This listing was provided to the city, which in turn provided it to our office. The listing shows purchases made by the former City Administrator totaling \$6,413, including \$811 to Amazon Marketplace, \$1,099 to Amazon.com, \$107 for H&R Block training, and \$591 for Xbox Live subscriptions. The city paid a total of \$5,508 to the credit card vendor. Based on discussions with city personnel, we determined \$1,591 from the MSHP listing appeared to be legitimate city expenses. The city recouped \$1,130 from the former City Administrator through payroll deductions and his clothing allowance, leaving the balance of personal charges not repaid at \$2,787. The city should seek reimbursement of this amount.

Similarly, payments made to a vendor used for supplies and uniform purchases were not always supported by actual invoices, sometimes only statements were provided. While these disbursements appeared reasonable and related to city operations, there should have been adequate support to justify approval for such payments.

Without actual invoices, the city cannot determine if the purchases were for legitimate work-related items or were personal items that should have been paid for by the employees. The lack of documentation supporting the credit card payments should have caused suspicion and alerted the Board to the misappropriation.

All disbursements should include proper supporting documentation and be approved by the board to ensure the obligations were actually incurred and the disbursements represent appropriate use of public funds.

Drug buy money

A check for \$1,050 was issued to the former City Administrator on January 25, 2017, supposedly to be used for "drug buy" money by a confidential informant. The former City Administrator received approval for this transaction from the Mayor. The City Clerk prepared a payment voucher documenting the various city accounts to which she was instructed to post the check by the former City Administrator. Those accounts were petty cash

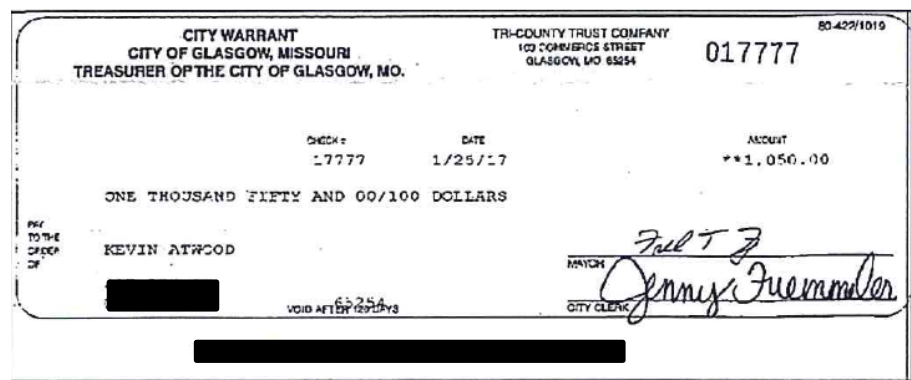


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accounts for police, city hall, streets, water plant, and drug buy, with \$200 charged to each account except drug buy was charged \$250. This payment voucher was signed by the Mayor.

When the Deputy Police Chief was informed of this transaction in September 2017, he indicated he contacted the Howard County Drug Unit to determine if any controlled drug buys had been coordinated with the former City Administrator, and was informed no such buys had been coordinated. No evidence was provided to the city to indicate the money was spent for a controlled drug buy or for any other city purpose, or that it was returned to the city. Due to the lack of support for this transaction, this money is considered missing and should be repaid.

Following is an image of the check. The payee's address and the city's bank account and routing numbers have been redacted.



ck#:17777, Amt:\$1,050.00, Date:1/26/2017

Overall conclusion

The lack of segregation of duties, inadequate controls, and the absence of proper oversight by the Board, as discussed in the remainder of this report, resulted in missing bulk water receipts, and unsupported and improper disbursements.

Recommendation

The Board of Aldermen work with law enforcement officials regarding criminal prosecution for the missing cash receipts and improper disbursements, and take the necessary actions to obtain restitution. In addition, supporting documentation should be obtained to support all disbursements.

Auditee's Response

We will work with law enforcement officials regarding criminal prosecution and will take necessary action to obtain restitution if possible. We have already changed procedures regarding disbursements and will ensure supporting documentation is reviewed and maintained for all disbursements in the future.



2. Disbursements

Significant weaknesses exist in the controls and procedures over disbursements.

2.1 Questionable purchases

Some purchases were unnecessary and not a prudent use of city resources.

In July 2017, the former City Administrator purchased a tablet computer with a new cellular phone line for internet service. A second phone line was added for himself and a new phone was purchased for that line, along with a smart watch and watch adapter, apparently for his personal use. The City Clerk indicated she questioned him about the increased charges when the July 2017 phone bill arrived, but was told the increased charges were caused by purchasing new phones for his and several other city phone lines. She indicated he did not mention the additional costs were for additional phone lines for himself, a smart watch, or a tablet. Around the same time the former City Administrator was suspended, and based on other concerns raised, the cellular phone provider was contacted and it was determined the additional charges incurred during the second half of 2017 were partially due to the purchases listed above. The city canceled the extra phone lines, but had to pay off the installment balances still due for the new devices, which totaled \$1,180, in December 2017. The monthly charges associated with the additional two unnecessary service lines were \$313 from July to December 2017.

We also identified a pair of earphones purchased in July 2017 and included on the phone bill totaling \$129. It is unclear for whom these were purchased and they are not in the city's possession. The city reduced the number of phone lines from eight to four in December 2017. The former City Administrator was required to return the additional devices when he was suspended on October 19, 2017. City officials indicated the tablet is locked and they do not know the password so it is not usable to the city. They also indicated the smart watch that was returned to the city was not the same model watch that was purchased with city funds.

Taxpayers have placed a fiduciary trust in the Board to spend public funds in a necessary and prudent manner. These expenditures were not a necessary use of city resources.

2.2 City fuel and vehicle usage

The city lacks adequate procedures to account for fuel used by the Public Works and Police Departments. The city purchases gasoline using fuel cards at a local business. During the period July 1, 2016, through June 30, 2018, the city disbursed a total of \$20,849 for fuel charged on fuel cards.

The Public Works Department has 3 fuel cards (1 card assigned to each of the 3 employees) and the Police Department has 3 cards assigned to it for checkout by officers to use as needed. While the former City Administrator had a vehicle assigned for business use, he did not have a separate card



City of Glasgow
Management Advisory Report - State Auditor's Findings

assigned for his use. However, city personnel indicated the former City Administrator had duplicates of all city fuel cards, along with the associated personal identification numbers (PINs). The city did not require individual fuel tickets to be turned in for each purchase and no usage or fuel logs were required for any city vehicles, making it difficult to determine if all fuel purchases were for city vehicles.

In mid-October 2017, shortly before the former City Administrator was suspended (and ultimately resigned), the Deputy Police Chief investigated a call from a citizen that the former City Administrator was using a city fuel card to fuel his personal vehicle. Photographs are taken at the vendor pumps at the time a card is swiped, so photographs were requested from the vendor by the Deputy Police Chief for fuel purchases made on the day in question (October 14, 2017). For one of the three fuel purchases that day, there was a photo of an employee other than the former City Administrator. The remaining two transactions, which were both charged to a public works fuel card, showed a blank image, appearing as though the camera was covered to avoid the photo. The Deputy Police Chief informed us that when he began working for the city the former City Administrator told him that a photograph is taken of the card user at the pump, while other city employees we spoke with indicated they were not aware a photograph was taken each time a card was used.

We reviewed monthly credit card fuel billings from July 2016 through June 2018 and found the total average monthly fuel cost from July 2016 through November 2017, when the former City Administrator had access to fuel cards, was \$949. After his resignation in November 2017, average monthly fuel costs dropped to \$674 for the period December 2017 to May 2018. City personnel were unable to provide any explanation for this significant decrease in fuel usage. There was no change in the number of vehicles being fueled through cards, except that the one driven by the former City Administrator was no longer being used. However, since fuel use dropped over 100 gallons per month, it is unlikely the decrease in usage is attributable to just that one change. Also, since usage/mileage logs are not maintained for any city vehicles we are unable to determine how much the former City Administrator's vehicle was used.

We also reviewed purchases made on weekends with the public works fuel cards, because use of Police Department fuel cards on weekends would be expected. Public works employees do not typically work on weekends unless there is a city emergency. We contacted public works employees to discuss how often they worked weekends. The workers we spoke with recalled only a few instances in which weekend work was required, although the Public Works Supervisor did indicate he had worked a few weekends in the last year and a half and would not have recorded it on a timesheet because he is a salaried employee.



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The period of our review was July 2016 through November 2017. We identified 22 purchases of fuel, totaling \$778, made on weekends when payroll records did not indicate overtime was worked by public works employees. We contacted the fuel vendor and requested photographs from the pump for these questionable uses of the fuel cards. The vendor indicated new cameras were installed sometime in early 2017 and the picture quality was much better after that, so only photographs after May 2017 were made available to us. Of the 22 items requested, 11 photographs were provided by the vendor for purchases from June 2017 through October 2017. Three photographs showed city employees purchasing fuel, 1 photograph showed a partial image of a person buying fuel (which city personnel identified as the former City Administrator), and 7 photographs were blank giving the appearance that the camera was covered by the card user.

Due to the lack of records required by the city for fuel purchases, it is difficult to determine if all fuel purchases were appropriate. Requiring fuel tickets be signed by the user, submitted to the City Clerk, and reconciled to invoices helps provide assurance that the fuel billed was charged by city employees and fuel expenses were reasonable and necessary. Failure to account for fuel purchases could result in loss, theft, or misuse going undetected. Without complete and detailed usage/mileage logs, the city cannot effectively monitor the appropriateness of vehicle use and ensure fuel costs are reasonable.

Recommendations

The Board of Aldermen:

- 2.1 Ensure purchases are reasonable and prudent uses of public funds. In addition, the Board should evaluate whether to pursue reimbursement of unnecessary charges from the former City Administrator.
- 2.2 Establish adequate records and procedures to effectively monitor vehicle and fuel use. Fuel tickets should be submitted to the City Clerk and reconciled to fuel invoices. Usage/mileage logs should be maintained for all vehicles and compared to fuel use.

Auditee's Response

- 2.1 *We agree and are in the process of instituting procedures to ensure all purchases are reasonable and prudent uses of public funds. In addition, we will discuss with our city attorney the possibility of seeking reimbursement of the unnecessary charges. We are currently attempting to sell the electronics and phone equipment that was purchased in order to recoup city funds. We plan to research if there is any way to unlock the tablet so we can sell it also.*
- 2.2 *We are in the process of updating our records involving fuel and vehicle usage and are currently establishing policies to monitor vehicle and fuel usage. Fuel tickets are now required to be submitted and usage and mileage logs are now being maintained. The City*



Clerk will begin reconciling usage and purchase invoices monthly with oversight provided by the Mayor.

3. Clothing Allowance Program and Gun Inventory

The city does not have adequate policies and procedures over a clothing allowance program offered to certain city employees. This program allows employees to repay the city for work-related equipment and uniforms, as well as personal items initially purchased by the city on their behalf. In addition, the city has failed to maintain inventory records of city guns and as a result, city personnel cannot account for all city guns.

3.1 Clothing allowances

The city provides a clothing allowance, but formal policies and procedures for the program do not exist and numerous problems were identified with its use. The former City Administrator (who also served as the Police Chief) and police officers received a \$120 quarterly clothing allowance, and the City Clerk and City Collector each received a \$250 annual clothing allowance. Some of these employees had the city make work-related purchases of clothing, equipment, or other uniform items for them directly, along with some purchases of personal items unrelated to work.

The City Clerk maintained manual receivable records (spreadsheets) to track the balances owed by the employees for the purchases made. Clothing allowances were paid to the former City Administrator and police officers quarterly; however, if an amount was shown as owed to the city on an employee's spreadsheet the allowance was used to reduce the amount owed rather than being paid to the employee through payroll. If the quarterly allowance payment was insufficient to fully repay the amount due, then a payroll deduction was also withheld from each paycheck until the amount was repaid. The City Clerk also had a spreadsheet to track personal purchases made by the city on her behalf, but she used payroll deductions to repay amounts owed and did not have her clothing allowance credited to her spreadsheet similar to police department employees. The City Collector did not have the city make purchases on her behalf and thus did not have a spreadsheet. The City Clerk and City Collector received their clothing allowance payments in December of each year.

The city refers to this as a clothing allowance, but our review shows this program operated as an employee loan or savings program. We identified several concerns regarding purchases made and balances carried by employees.

- No formal policies or procedures exist to govern how this program works, such as what type of purchases are allowable, limits on amounts that can be spent, who must approve the purchase, and how repayment will be handled.



City of Glasgow
Management Advisory Report - State Auditor's Findings

- The program is not limited to the purchase of work-related items. We identified numerous personal items purchased by the city for various employees. The city purchased several guns for the former City Administrator and police officers, along with various clothing items, such as sweatshirts and polo shirts. The City Clerk used city-owned gift cards, valued at \$1,200 according to city personnel, to buy home remodeling supplies from a home improvement store. Only \$1,110 was added to her clothing allowance spreadsheet and it is unclear how the remaining \$90 was used. There were also numerous personal purchases for the City Clerk from an office supply store.
- The city has not developed adequate procedures to ensure personal purchases made by the city on behalf of an employee were included on an employee's spreadsheet. Some purchases of personal items made on behalf of the former City Administrator were not added to his spreadsheet timely. When the Deputy Police Chief (later appointed Police Chief after the former City Administrator/Police Chief resigned) began investigating city gun purchases made in recent years and trying to inventory city-owned guns, he identified at least 2 gun purchases not charged to the former City Administrator. One of these guns was purchased by the city in September 2016 and the other in August 2011, but were not added to the former City Administrator's spreadsheet until October 2017 due to the Deputy Police Chief's investigation.

Also added to the former City Administrator's spreadsheet in October 2017 were personal purchases made using his credit card that were paid by the city (see Management Advisory Report (MAR) finding number 1), and a holster and mounted aiming light paid for by a city check. These items, although purchased in preceding years, had not previously been identified for reimbursement to the city. All amounts added to the former City Administrator's spreadsheet were repaid by his resignation date through payroll deductions. It is unclear if the failure to add these to the spreadsheet was an oversight or intentional, but the lack of adequate procedures contributed to the problem.

- Spreadsheets do not always provide sufficient detail to indicate what was actually purchased. Each entry provides only the vendor name and total amount added. Invoices supporting amounts purchased from various vendors related to this program are not filed separately.
- Receivable balances maintained for some city employees utilizing the program were allowed to get very high. Balances for the former City Administrator were as high as \$2,800 at one point and were above \$2,000 for extended periods of time. If all his personal purchases had been added to his spreadsheet timely, the balance could have potentially been even higher at times. Most employees utilized payroll deductions to help



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Management Advisory Report - State Auditor's Findings

reduce their balances, but the deductions were typically small amounts (e.g., \$25 per pay period) and did not appear to be based on the significance of the balance carried. From 2013 to mid-2016, the former City Administrator had a \$25 deduction taken out each pay period, even though the balance due was substantial during that time period. Our review of the former City Administrator's spreadsheet for the period March 2013 to November 2017 showed his receivable balance ranged from \$60 to \$2,839. Beginning in September 2014, the balance owed was in excess of \$1,000 almost every month, and in many months the balance rose to above \$2,000. To repay these amounts due, payroll withholdings started at \$25 per paycheck, but were increased to \$75 per paycheck in July 2016 as the balance continued to increase. Eventually the balance reached over \$2,800 shortly before the City Administrator was suspended, causing the city to withhold significant portions of his final three paychecks, totaling \$2,094, upon his resignation to recoup amounts due.

Similarly, balances for several other employees were in excess of \$500 on numerous occasions and the City Clerk had a balance in excess of \$1,000 at one point. One employee had a balance due to the city in excess of \$400 for almost a year. Even though \$25 deductions were taken from each paycheck during that period, repayment of his balance was not done timely and eventually the city had to withhold \$570 from his final paycheck upon his resignation as a full-time officer to obtain repayment.

- Some employees continued to have withholdings taken from each paycheck, regardless of purchase activity, resulting in credit balances to the employees. In 2 instances, individuals left city employment with a credit balance that the city had to pay them upon their resignation.
- Multiple instances were noted in which compensatory time earned was used to give employees credit on their clothing allowance spreadsheet for amounts owed, rather than handling these payments through the normal city payroll process. As a result, these amounts were not subject to payroll withholdings and were not reported on the respective W-2 forms.
- Procedures have not been established to ensure proper taxes are paid. Internal Revenue Service (IRS) regulations were not followed regarding clothing allowances. Employees receiving a clothing allowance do not submit invoices or itemized expense reports to support the allowances, nor were the allowances reported on their W-2 forms. While some employees are using the clothing allowance to repay the city for work-related equipment and uniform purchases, others are clearly using it to repay the city for personal items and thus, should be paying income taxes on the clothing allowances received. Also, the practice of having the city



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purchase personal items to be repaid later allowed employees to avoid paying applicable sales taxes.

- The manner in which employees utilized clothing allowances was allowed to expand into more of a loan or savings program for employees. This resulted in additional and unnecessary recordkeeping and monitoring on the part of the city. Lending money to employees in this manner violates constitutional provisions against lending credit to individuals.

This program should be limited to only work-related purchases if it continues to be operated in this manner. If the clothing allowance provided is insufficient to repay the city for items purchased, the city should be promptly repaid any amounts due. A written policy is necessary to establish and document what is allowed to be purchased under this program and to ensure approval is obtained for any purchases made. Policies and procedures related to this program should be reviewed to ensure all relevant purchases are properly reimbursed and to ensure employees are not abusing the program for personal gain. IRS regulations require employee business expenses not accounted for to the employer be considered gross income and payroll taxes be withheld from the undocumented payments. Article VI, Section 23 of the Missouri Constitution specifically prohibits political subdivisions of the state from lending credit or granting public money to any corporation, association, or individual.

3.2 Gun inventory

Numerous guns were purchased for police officers through their clothing allowance in recent years and city personnel did not perform an annual inventory to ensure city-owned guns were accounted for properly. Due to the lack of a written policy or procedures for the clothing allowance program and other concerns identified in section 3.1, the city's investigation of concerns expressed about the purchase of guns was made more difficult. City personnel believe several city-owned guns are missing.

The former City Administrator and several police officers had the city purchase guns for them in recent years, which were then added to their clothing allowance spreadsheet to allow them to reimburse the city for the purchases over time. Based on the poor records maintained by the city for these gun purchases, it is unclear whether the guns were service-related or purchased for personal use. Between April 2013 and October 2017, the former City Administrator purchased 8 guns, costing a total of \$5,070, through this program. One of these guns had to be returned by the former City Administrator after investigation by the Deputy Police Chief discovered it was an automatic weapon which can only be owned by a law enforcement agency or the military. The others are believed to have been purchased by the former City Administrator and resold to private citizens or kept for personal use.



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Another entry on the former City Administrator's spreadsheet indicates 2 guns were purchased from a public works employee in September 2016 for \$600, but it appears no guns were actually purchased. We discussed this transaction with the public works employee who indicated the former City Administrator asked him to say some guns were purchased by the city from him for \$600 and to cash the check and give the funds to the former City Administrator, which he did. The amount of the supposed purchase was added to the former City Administrator's spreadsheet and was later repaid. It appears this transaction was essentially a cash advance from the city to the former City Administrator, facilitated by creating a story about buying guns.

The Deputy Police Chief attempted to sort through invoices for gun purchases to determine what guns should have been on hand within the police department and was unable to locate all weapons purchased. In several instances, upon questioning the former City Administrator, the Deputy Police Chief determined a gun was not on hand and should be added to the spreadsheet maintained for the former City Administrator as the purchase of a personal weapon requiring repayment to the city. The gun purchase invoices we reviewed do not clearly indicate if the guns were purchased as city service weapons or for personal use. The Deputy Police Chief believes as many as 3 weapons purchased by the city, and not paid for by an employee, are missing.

In addition, the practice of having the city purchase guns and then allowing city employees to purchase for personal use allows officers to avoid paying all applicable taxes on the purchases. City purchases of guns are exempt from federal excise taxes.

The Board should determine whether to continue operating this program. The overall lack of records related to gun purchases increases the likelihood that this program will be abused and city-owned guns will not be accounted for properly. To ensure all city owned guns are properly accounted for, periodic inventories of all city-owned guns should be performed.

Recommendations

The Board of Aldermen:

- 3.1 Develop a written policy for the clothing allowance program, make a determination if the allowance is necessary for all employees, and ensure all items purchased are work related. In addition, ensure employees submit itemized reports of uniform clothing purchases or report the allowance payments as other income on the W-2 forms. In addition, ensure policies are established so that constitutional provisions are not violated and all appropriate taxes are paid.
- 3.2 Determine if the city will continue to provide service-related weapons through the clothing allowance program and ensure periodic inventories of city-owned guns are performed.



Auditee's Response

- 3.1 *We plan to discuss the continuance of this program with our City Attorney. If continued, we will develop necessary policies and procedures to govern the program in accordance with constitutional provisions, which will include who is eligible, what type of purchases are allowable, and what type of records need to be maintained to support any purchases made. We will ensure IRS regulations are followed based on whatever decision is made.*
- 3.2 *We will discuss this recommendation with our Police Chief and City Attorney and determine an appropriate course of action. If continued, applicable policies and procedures will be developed. In addition, we will ensure inventories of all city-owned guns are performed periodically.*

4. Accounting Controls and Procedures

4.1 Lack of oversight

The city has not established adequate oversight procedures. In addition, the Board combined city positions, creating a potential conflict of interest, in violation of state law.

The city had not established adequate segregation of duties and independent or supervisory reviews over the various financial accounting functions performed by the former City Administrator and his staff.

The City Clerk and City Collector were each responsible for all accounting functions of the city, to be performed at the direction of the former City Administrator. The former City Administrator also had the ability to perform all accounting functions. However, duties were not assigned with any consideration of segregation or reviews.

No oversight of receipting procedures or deposits was performed by an independent person and oversight by the Board was insufficient. For receipting functions performed by the former City Administrator himself, such as bulk water sales collections, no procedures were in place to ensure funds were transmitted and deposited, and questions were not asked by city staff regarding discrepancies. As discussed in MAR finding number 1, various weaknesses existed with posting transactions to the accounting system and transmittals of funds collected. There is no evidence the Mayor or members of the Board were notified of discrepancies. Independent oversight of receipt and deposit functions by an independent person is necessary because receipt reports provided to the Board at meetings are not intended to be detailed enough for Board members to determine if a particular receipt was actually deposited.

While the Board did receive a detailed listing of each disbursement that showed the vendor, amount, and fund from which each payment was made, the Board was apparently not asking questions or seeking explanation for any



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of the questionable disbursements listed, such as credit card payments. The payments made to the credit card company for the former City Administrator's credit card were included on the listings, but there is no evidence that the Board questioned any of those payments, even though several were for rounded dollar amounts and the city did not have a credit card. In addition, the Board should have been aware, that invoices and/or statements from the credit card company were not available for review because the Mayor approved several payment vouchers without supporting invoices or statements. Furthermore, while checks do require two signatures, the signers other than the City Clerk do not review supporting documentation for each check before signing it, and the numerical sequence of checks issued is not accounted for by an independent person. These weaknesses are significant and demonstrate a lack of proper oversight by the Board.

The Board should take steps to ensure it is adequately monitoring city accounting functions and records, and the financial activity of various city funds. To safeguard against possible loss or misuse of funds, internal controls should provide reasonable assurance that all transactions are accounted for properly and assets are adequately safeguarded.

The lack of adequate controls and the absence of proper oversight by the Board allowed unsupported and questionable payments, improper personal purchases, and missing monies to occur. If proper controls and oversight procedures had been in place, it is likely some of the problems noted in this report would have been detected more timely and/or prevented.

4.2 Combined positions

The combination of the positions of City Administrator and Police Chief violated state law and created a potential conflict of interest.

The former City Administrator was initially hired as a city police officer in October 2000 and promoted to Police Chief in January 2004. The Board appointed him as City Administrator in May 2013, but he also continued to serve as the Police Chief until his resignation in November 2017. The City Administrator was responsible for oversight of financial accounting functions and for providing general supervision of the various departments and functions of the city (including the police department). The combination of these positions represented a violation of state law and resulted in potentially conflicting duties.

Section 77.044, RSMo, states that a city administrator shall devote his full time to the performance of the duties of his office. Statutes require the city administrator's position be full time, and therefore, would prohibit this combination of positions.



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Recommendations

The Board of Aldermen:

- 4.1 Segregate accounting duties to the extent possible and implement appropriate reviews and monitoring procedures.
- 4.2 Ensure any future City Administrator does not serve in a dual role capacity.

Auditee's Response

- 4.1 *We will work together to develop appropriate independent oversight procedures for all city accounting functions performed by city staff.*
- 4.2 *We are not currently planning to fill this position; however, in the event we do hire another City Administrator, we will not hire an individual in a dual role capacity.*

City of Glasgow

Organization and Statistical Information

The City of Glasgow is located in Howard and Chariton Counties. The city was incorporated in 1836 and is currently a fourth-class city. The city employed 9 full-time employees and 24 part-time employees on June 30, 2017.

City operations include utility services (water, sewer, and trash), police, maintenance of streets, and parks.

Mayor and Board of Aldermen

The city government consists of a mayor and 6-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, 2017, are identified below. The Mayor is paid \$300 per month and the Board of Aldermen members are paid \$25 per meeting. The compensation of these officials is established by ordinance.

Fred Foley, Mayor
Chris Damron, North Ward Alderman
Cheryl Adams, North Ward Alderwoman
Kirk Biere, Central Ward Alderman
Kendrick Davis, Central Ward Alderman
Don White, South Ward Alderman
James (J.Y.) Miller, South Ward Alderman

Other Principal Officials

The City Administrator, City Clerk, City Collector, and Police Chief are appointed positions. The City Attorney is a contracted position. The City's principal officials at June 30, 2017, are identified below:

Kevin Atwood, City Administrator/Police Chief (1)
Jenny Fuemmeler, City Clerk
Flora Emmerich, City Collector
Randall Barron, City Attorney

(1) Kevin Atwood resigned November 19, 2017. Charlie Polson was appointed Police Chief on December 18, 2017. The City Administrator position was not filled and remains vacant.

Financial Activity and Supporting Documentation

Appendixes A and B present a summary of the city's financial activity for the year ended June 30, 2017. The information was obtained from the city's independent financial statement audit report.

Appendix C provides supporting documentation of missing monies from the currency-operated bulk water sales machine.

CITY OF GLASGOW, MISSOURI
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2017

	General Fund	Street Fund	Library Fund	Other Governmental Funds	Total Governmental Funds
REVENUES COLLECTED					
Taxes	\$ 381,541	\$ 95,944	\$ 36,932	\$ 103,174	\$ 617,591
Licenses and permits	10,457	-	-	-	10,457
Charges for services	5,186	-	-	16,267	21,453
Fines and penalties	-	-	-	2,030	2,030
Donations	-	-	51,052	519	51,571
Miscellaneous	15,849	4,311	3,334	17,556	41,050
Total Revenues Collected	413,033	100,255	91,318	139,546	744,152
EXPENDITURES PAID					
General government	166,571	-	-	19,789	186,360
Public safety	163,962	-	-	-	163,962
Street	-	87,503	-	-	87,503
Culture and recreation	-	-	107,293	83,227	190,520
Debt service	-	-	-	39,575	39,575
Capital outlay	5,730	-	-	22,912	28,642
Total Expenditures Paid	336,263	87,503	107,293	165,503	696,562
Excess (Deficit) of Revenues Collected over Expenditures Paid	76,770	12,752	(15,975)	(25,957)	47,590
Other Financing Sources (Uses)					
Interfund transfers in (out)	(10,660)	(5,000)	-	20,660	5,000
Total Other Financing Sources (Uses)	(10,660)	(5,000)	-	20,660	5,000
Excess (Deficit) of Revenues Collected over Expenditures Paid and Other Sources (Uses)	66,110	7,752	(15,975)	(5,297)	<u>\$ 52,590</u>
Fund Balance, beginning of year	162,225	61,127	115,207	354,033	
Fund Balance, end of year	<u>\$ 228,335</u>	<u>\$ 68,879</u>	<u>\$ 99,232</u>	<u>\$ 348,736</u>	

CITY OF GLASGOW, MISSOURI
COMBINED WATERWORKS AND SEWERAGE SYSTEM FUND
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2017

	Business-Type Activities Combined Waterworks and Sewerage System
Operating revenues:	
Charges for services	\$ 573,261
Miscellaneous income	3,494
Total operating revenues	<u>576,755</u>
Operating expenses:	
Personnel services	237,869
Commodities	188,324
Depreciation	72,502
Total operating expenses	<u>498,695</u>
Net operating income	<u>78,060</u>
Nonoperating revenue (expense):	
Investment income	22,820
Bond issue costs	(21,250)
Interest expense	(130,069)
Net nonoperating revenue (expense)	<u>(128,499)</u>
Net income (loss) before transfers	<u>(50,439)</u>
Interfund transfers in (out)	<u>(5,000)</u>
Total capital contributions and transfers	<u>(5,000)</u>
Net income	(55,439)
Net position - beginning of year	<u>2,778,792</u>
Net position - end of year	<u>\$ 2,723,353</u>

Appendix C

City of Glasgow
Supporting Documentation - Undeposited Bulk Water Sales Receipts

Monies Collected by the Former City Administrator				
Date	Meter Reading	Gallons Used (times 100)	Calculated Receipts (\$6.25 per 1000 gallons)	Monies Transmitted to the City
12/12/2013 A	1019	101,900	\$ 636.88	\$ 432.00 B
1/10/2014	1103	8,400	52.50	120.00
2/18/2014	1187	8,400	52.50	
3/11/2014	1466	27,900	174.38	
4/10/2014	1531	6,500	40.63	
5/12/2014	1707	17,600	110.00	
6/12/2014	1800	9,300	58.13	
7/11/2014	1919	11,900	74.38	
8/8/2014	2008	8,900	55.63	
9/12/2014	2076	6,800	42.50	
10/8/2014	2147	7,100	44.38	
11/8/2014	2245	9,800	61.25	
12/10/2014	2344	9,900	61.88	
1/7/2015	2444	10,000	62.50	
2/10/2015	2530	8,600	53.75	
3/12/2015	2650	12,000	75.00	
4/10/2015	2774	12,400	77.50	
5/13/2015	2839	6,500	40.63	
6/13/2015	2920	8,100	50.63	
7/13/2015	3007	8,700	54.38	
8/11/2015	3105	9,800	61.25	
9/10/2015	3190	8,500	53.13	
10/13/2015	3285	9,500	59.38	
11/9/2015	3353	6,800	42.50	
12/15/2015	3481	12,800	80.00	
1/8/2016	3570	8,900	55.63	
2/11/2016	3677	10,700	66.88	
3/10/2016	3755	7,800	48.75	
4/11/2016	3895	14,000	87.50	
5/13/2016	4029	13,400	83.75	
6/8/2016	4157	12,800	80.00	
7/11/2016	4391	23,400	146.25	
8/11/2016	4626	23,500	146.88	
9/1/2016	4769	14,300	89.38	
10/13/2016	4835	6,600	41.25	
11/11/2016	4919	8,400	52.50	
12/6/2016	4989	7,000	43.75	
1/10/2017	5107	11,800	73.75	
2/7/2017	5165	5,800	36.25	
3/9/2017	5299	13,400	83.75	
4/10/2017	5403	10,400	65.00	
5/10/2017	5520	11,700	73.13	

Appendix C

City of Glasgow
Supporting Documentation - Undeposited Bulk Water Sales Receipts

Monies Collected by the Former City Administrator

Date	Meter Reading	Gallons Used (times 100)		Calculated Receipts (\$6.25 per 1000 gallons)	Monies Transmitted to the City
6/13/2017	5640	12,000		75.00	
7/11/2017	Not available	11,000	C	68.75	
8/15/2017	Not available	11,000	C	68.75	
9/15/2017	Not available	11,000	C	68.75	
10/15/2017	Not available	11,000	C	68.75	
Total		608,000		\$ 3,800.00	\$ 552.00

	Collections	Shortage
Total estimated collections	\$ 3,800.00	
Collections transmitted to the city		(552.00)
Total collections unaccounted for	\$ 3,248.00	

Monies Collected by the Water Department

Date	Meter Reading	Gallons used (times 100)		Calculated Receipts (\$6.25 per 1000 gallons)	Monies Transmitted to the City
11/15/2017	Not available	11,000	C	\$ 68.75	\$ 44.50
12/15/2017	Not available	11,000	C	68.75	104.25
1/1/2018	115	11,500		71.88	71.00
2/1/2018	196	8,100		50.63	53.25
Total		41,600		\$ 260.00	\$ 273.00

	Excess Collections
Total estimated collections	\$ 260.00
Collections transmitted to the city	(273.00)
Total excess collections	\$ (13.00)

- A The flow meter was installed sometime in May 2013, but actual meter readings from June through November 2013 were not maintained.
- B Transmittals were made on August 6, 2013, for \$131, September 13, 2013, for \$221, and November 19, 2013, for \$80.
- C This is estimated usage because the flow meter was broken during this time. The estimated usage is based on total gallons sold from January 2014 to June 2017 (462,100) divided by months (42), or approximately 11,000 gallons per month. Applying the cost of \$6.25 per thousand gallons results in a calculated revenue estimate of \$68.75 per month. A new meter was installed on December 15, 2017.