



Office of Missouri State Auditor
Nicole Galloway, CPA

City of Hamilton



Nicole Galloway, CPA
Missouri State Auditor

CITIZENS SUMMARY

Findings in the audit of the City of Hamilton

Street Maintenance and Restricted Street Funds	The Board of Aldermen has not developed a formal maintenance plan to adequately maintain and repair city streets, as streets are currently in various states of disrepair.
Disbursements	The Board does not adequately monitor its activities for conflicts of interest. Competitive bids were not solicited for 2 separate construction projects performed by Alderman Trospen's company and public notice was not given as required by state law. Personal financial disclosure forms filed by the Mayor with the Missouri Ethics Commission were inaccurate due to not reporting amounts paid to his wife, and Alderman Trospen did not file his personal financial disclosure form for 2017. The Board did not ensure an affidavit of compliance certifying prevailing wages were paid on the sidewalk construction project was filed timely by Alderman Trospen's company for the project performed for the city during fiscal year 2017. Several city employees perform tasks related to multiple city functions, but the city has no documentation to justify the allocation of salaries and fringe benefit expenses to various funds. Numerous payments by cashier's check were made to the contractor on the swimming pool renovation project instead of a city check. In addition, these transactions did not go through the normal disbursement process. The Board does not require invoices to be marked paid or otherwise canceled.
Utility Controls and Procedures	The city's utility billings were not consistent with city ordinances pertaining to outside city limits connections. The Board has violated bond covenants for its water system bonds by transferring surplus water revenues to the General Fund since at least 2012. City personnel allowed some customers to avoid utility shut off by entering into promise to pay agreements without the Board's approval. Controls over adjustments posted to customer utility accounts need improvement. A listing of refundable customer water deposits held in the Water Fund is not prepared and the city does not maintain records of the deposit amounts being held in the Water Fund. City officials have not metered the treatment plant and do not perform monthly reconciliations of total gallons of water billed to gallons of water pumped.
Accounting Controls and Procedures	The Board has not adequately segregated accounting duties or ensured documented supervisory or independent reviews of work performed by city personnel are performed. The city's procedures for receipting and depositing are poor.
Sunshine Law	The Board did not comply with state law regarding closed meetings. Open meeting minutes did not document the specific reasons or section of law allowing the meetings to be closed for any of the 16 closed meetings held between July 1, 2016, and June 13, 2018. Some issues discussed in closed meetings were not allowable under the Sunshine Law. The Park Board failed to prepared minutes for 4 of the 8 open meetings held during the year ended June 30, 2018.

Electronic Data Security	The City Administrator and City Clerk share the user identification and password for a shared computer used for issuing receipt slips from the accounting system. Security controls are not in place to lock computers after a certain period of inactivity.
Budgeting Practices	City budgets do not include all statutorily required elements and the Park Fund was deficit budgeted in 2019.
City Library	Property taxes received by the city for the library are not distributed timely to the Library Board and the library's annual report for the year ended June 30, 2017 was not filed timely with the city.

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

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

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

City of Hamilton

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NICOLE GALLOWAY, CPA

Missouri State Auditor

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

The State Auditor was petitioned under Section 29.230, RSMo, to audit the City of Hamilton. We have audited certain operations of the city in fulfillment of our duties. The city engaged Conrad and Higgins, LLC, Certified Public Accountants, to audit the city's financial statements for the year ended June 30, 2017. To minimize duplication of effort, we reviewed the CPA firm's audit report. The scope of our audit included, but was not necessarily limited to, the year ended June 30, 2017. The objectives of our audit were to:

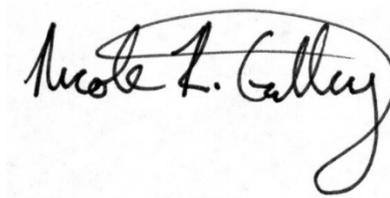
1. Evaluate the city's internal controls over significant management and financial functions.
2. Evaluate the city's compliance with certain legal provisions.
3. Evaluate the economy and efficiency of certain management practices and procedures, including certain financial transactions.

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 its audited financial report and was not subjected to the procedures applied in our audit of the city.

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

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:

Director of Audits:	Randall Gordon, M.Acct., CPA, CGAP
Audit Manager:	Todd M. Schuler, CPA
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City of Hamilton

Management Advisory Report

State Auditor's Findings

1. Street Maintenance Plan

The Board of Aldermen has not developed a formal maintenance plan to adequately maintain and repair city streets. During the 3 years ending June 30, 2018, the city had receipts of \$964,795 in the Street Fund. The cash balance for the fund as of June 30, 2018, was \$718,025, with \$368,060 representing the remaining balance of the proceeds from a lease purchase agreement entered into by the city to pay for a street project completed in the summer of 2018.

City streets are in poor condition but a formal maintenance plan for fixing streets utilizing the dedicated street revenues received by the city has not been developed. In addition to the motor-vehicle related revenues received from the state, the city also receives the proceeds of two 1/2-cent sales taxes restricted for streets. The first sales tax was passed in 1993 and has no expiration and can be used for any street related expenditure, such as street department personnel costs, maintenance, lighting, or snow removal. The second sales tax was passed in 2011 and was in effect until March 2017. A renewal of this tax was approved in 2016 and is in effect until March 2027. This sales tax can be used for capital improvement of streets, but cannot be used to pay for personnel costs of the street department.

We observed city streets in various states of disrepair, noting numerous potholes, cracking and crumbling pavement, and several areas where water pooled during heavy rains. A sidewalk project completed during fiscal year 2017, and other street projects completed prior to that were focused on the business district. The city hired an engineering firm in 2016 to help determine the scope of work for a project recently completed on primarily residential streets. However, the city has not prepared a formal maintenance plan to determine the estimated costs and the extent of work needed on all streets. The street improvements completed in August 2018 were predominately funded through a lease purchase agreement with a local bank for \$386,000, that requires monthly payments of \$6,972 through July 2023. City officials indicated additional street improvements will be made annually in the next few years, but the specific improvements have not been determined.

A formal maintenance plan should be prepared in conjunction with the annual budget and include a description of the streets needing maintenance, the type of work to be performed, an estimate of the quantity and cost of materials needed, the dates such work could begin, the amount of labor required to perform the work, and other relevant information. The plan should be included in the budget message and approved by the Board. In addition, a public hearing should be held to obtain input from city residents. Also, a long-term maintenance plan, including plans for the next 3 to 5 years, would benefit the city.

Recommendation

The Board of Aldermen establish a formal annual maintenance plan, in conjunction with a comprehensive long-term plan, for repairing and maintaining city streets that efficiently uses available resources. In addition,



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the Board should hold a public hearing to discuss streets improvements needed, along with potential methods of financing such improvements.

Auditee's Response

The Board recognizes although there is no statutory requirement for a long-term street maintenance plan having such a plan is a valuable management tool. The Board has in the past in public Board meetings reviewed the street projects for the year and permitted public input. However, the Board commits to preparing and adopting a 5-year street maintenance plan by the end of 2019. The Board further commits to holding one or more public hearings prior to adoption of the plan.

City staff have issued a Request for Qualifications to engineer firms to prepare a 5-year plan. Currently, the Board does not know whether the cost for hiring an engineering firm for such a project is feasible. In the meantime, the Street Superintendent has been requested to review the condition of all streets and make a report to the Board.

Once the street plan is adopted, the Board commits to a comprehensive review of all funding options, including, submitting a bond issue to the voters to determine the voter support for a major street project.

2. Disbursements

Controls and procedures over city disbursements need improvement.

2.1 Conflicts of interest and personal financial disclosures

The Board does not adequately monitor its activities for conflicts of interest. The city paid \$14,872 to Alderman Trosper's landscape services company for 2 separate construction projects during the year ended June 30, 2017, without properly soliciting bids as required by state law. The personal financial disclosure form was not properly completed by the Mayor and one Alderman did not complete a personal financial disclosure form during the year ended June 30, 2017.

Conflicts of interest

Competitive bids were not solicited for 2 separate construction projects performed by Alderman Trosper's company and public notice was not given as required by state law.

Alderman Trosper's company was selected to perform work on a storm drain project in February 2017. City personnel indicated bids for this project were solicited by telephone, but no documentation was maintained of the proposals received. The company was paid \$5,100 for the work on this project.

The Board also contracted with Alderman Trosper's company to complete a sidewalk replacement project in April 2017. A handwritten note submitted to the current City Administrator by the Public Works Supervisor dated April 12, 2017, indicated 2 contractors were contacted, but only one bid was received. However, no documentation could be provided to us of this bid. The current City Administrator indicated the bid was a verbal bid from Alderman



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Trosper and was not in writing. The supervisor was informed in a written note that 1 bid was not sufficient and to attempt to get additional bids. Eventually, 2 written bids were received for the project. One bid, dated April 20, 2017, was submitted by Alderman Trosper's company, and another bid dated April 27, 2017, was submitted from a different company. The bid of \$9,900 by Alderman Trosper's company was the lowest bid, and the firm was paid \$9,772 after the invoice was adjusted by the city for city materials used on the project.

A complaint was filed with the Missouri Ethics Commission (MEC) regarding these transactions and the MEC issued a findings of fact and conclusions of law regarding Alderman Trosper on June 6, 2018. The MEC found that Alderman Trosper violated Sections 105.458.1 and 105.458.2, RSMo, and a fine of \$14,872 was ordered. The fine would be reduced to \$1,500 if the fine was paid within 45 days which was done by Alderman Trosper.

Board members serve in a fiduciary capacity and have an obligation to the public to avoid the appearance of impropriety. Personal interests in business matters of the city could create actual or the appearance of conflicts of interest, and a lack of independence could harm public confidence in the Board and reduce its effectiveness. Sections 105.454 and 105.458, RSMo, prohibit financial transactions between the city and elected officials that involve more than \$500 per transaction or \$5,000 per annum, unless there has been public notice to solicit proposals and competitive bidding, provided the bid or offer accepted is the lowest received.

Personal financial disclosures Personal financial disclosure forms filed by the Mayor with the MEC were inaccurate due to not reporting amounts paid to his wife, and Alderman Trosper did not file his personal financial disclosure form for 2017. Per city ordinance number 1650, financial disclosure statements are required to be filed with the city and MEC by Board members (or candidates for office) and certain municipal officials in accordance with state law. Personal financial disclosure statements (forms) filings with the MEC are required by Section 105.483, RSMo. The forms require disclosure of any transactions of more than \$500 between the city and the filer and/or family. However, the Mayor did not report a \$722 payment to his wife in 2016 and 8 payments to his wife, ranging from \$550 to \$625, during 2017 related to a cleaning contract with the city. A complaint was filed with the MEC regarding these transactions and the MEC issued a findings of fact and conclusions of law regarding the Mayor on January 11, 2019. The MEC found that the Mayor violated Sections 105.458.2 and 105.458.4, RSMo, and a fine of \$1,000 was ordered. The fine would be reduced to \$100 if the fine is paid within 45 days.

Alderman Trosper did not file a personal financial disclosure form for 2017, that was due by May 1, 2018. This form would have required disclosure of the payments made to him by the city for the contract labor performed during 2017.



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The Board's conflict of interest and financial disclosure policy and Sections 105.483 and 105.485.4(1)(a), RSMo, requires Board members and certain city employees to file financial disclosure statements to disclose any transaction in excess of \$500 during the year between the city and such person, or any person related to such person within the first degree of consanguinity or affinity.

2.2 Prevailing wages

The Board did not ensure an affidavit of compliance certifying prevailing wages were paid on the sidewalk construction project was filed timely by Alderman Trospers company for the project performed for the city during fiscal year 2017. State law requires this affidavit be filed by any contractor on a public works project prior to final payment being made by the public body. Work on the sidewalk was completed in June 2017, and final payment was made on June 28, 2017. A sunshine law request was made on November 28, 2017, by a citizen to obtain this affidavit. The Board required Alderman Trospers complete the affidavit and submit it after the sunshine request was received. The affidavit stating compliance with prevailing wages for the sidewalk project was signed, notarized, and submitted to the city on December 5, 2017.

Section 290.290.2, RSMo, requires "each contractor and subcontractor shall file with the contracting public body upon completion of the public work and prior to final payment therefor an affidavit stating that he had fully complied with the provisions and requirements of this chapter, and no public body shall be authorized to make final payment until such affidavit is filed therewith in proper form and order."

2.3 Allocations

Several city employees perform tasks related to multiple city functions, but the city has no documentation to justify the allocation of salaries and fringe benefit expenses to various funds. Public works employees perform various tasks such as street repairs, water meter readings, and sewer line maintenance and the City Administrator performs various administration functions that benefit each of these funds. During the year ended June 30, 2017, the city paid payroll and fringe benefits for the public works employees and the City Administrator from the following funds:

Fund	Amount
Sewer	\$ 48,439
Water	44,469
Street	31,661
Total	\$ 124,569

Allocations were made for the same employees in fiscal year 2018 but were calculated by charging the salary of the highest paid employee to the Water Fund, next highest paid employee to the Street Fund, and the lowest paid employee to the Sewer Fund. A part-time employee's salary was evenly split



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between the 3 funds. The City Administrator estimated how much of her salary should be allocated to each of the 3 funds.

We identified other disbursements where a portion of the cost was either allocated to the Street Fund or paid entirely from the Street Fund without adequate documentation. Lawn care service costs totaling \$21,852 during the 3 years ended June 30, 2018, were charged entirely to the Street Fund, and \$4,500 of the \$7,150 cost of the city's independent audit for the year ended June 30, 2017, was charged to the Street Fund with no explanation. In addition, \$1,112 of the cost to repair the city's brush hog (mower) was allocated to the Street Fund with no explanation.

The proper allocation of expenses is necessary for the Board to accurately determine the results of operations of specific activities, thus enabling the Board to establish the level of taxation and/or user charges necessary to meet all operating costs. To ensure restricted funds are used for intended purposes, the allocation of expenditures to city funds should be based on specific criteria, such as the number of hours worked by each employee, if possible, or by determining a reasonable basis to allocate costs for employees. Allocating disbursements to the Street Fund that are unrelated to maintenance of the streets and unallowable reduces the funds available for maintaining the streets.

2.4 Cashier's checks

Numerous payments by cashier's check were made to the contractor on the swimming pool renovation project instead of a city check. In addition, these transactions did not go through the normal disbursement process, were not included on the reports provided to the Board, and it is unclear whether the Board was aware of these payments.

The pool bond bank account was not set up to issue checks by the prior City Administrator. When invoices were submitted by the contractor or architect, the City Clerk would go to the bank to purchase cashier's checks from the pool bond bank account to make the payment. Of the \$399,018 spent on the project, \$369,036 was paid using cashier's checks. When the current City Administrator was hired she stopped this practice and changed the account to allow checks to be issued. The final payments to the contractor and the architect, totaling \$29,982, were made by city checks. Two signatures were used on the cashier's checks and included the City Clerk's signature, and either the signature of the Mayor, Billing Clerk, or the City Administrator. The cashier's checks ranged from \$832 to \$95,610. The proceeds of the bond issue and the payments made by cashier's checks were not included in the city's accounting system or the budget to actual documents reviewed by city personnel.

Making payments by cashier's checks does not allow the normal checks and balances to be applied to the payment process. In addition, to ensure accounting records are complete and accurate and all payments made by the



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city are accounted for properly, all receipts and disbursements of city funds should be recorded in the accounting system.

2.5 Canceling invoices

The Board does not require invoices to be marked paid or otherwise canceled. Canceling invoices and other supporting documentation reduces the likelihood of duplicate payments and reduces the risk of loss, theft, or misuse.

Recommendations

The Board of Aldermen:

- 2.1 Refrain from entering into business transactions with related parties unless such services or transactions are properly bid in accordance with state law. In addition, financial disclosure statements should be accurately completed and filed by all Board members and city officials.
- 2.2 Ensure appropriate documentation is submitted in compliance with the prevailing wage law.
- 2.3 Ensure payroll costs are properly allocated to the applicable city funds and allocations are supported by adequate documentation.
- 2.4 Continue to ensure all payments made for city expenditures are done through the normal disbursement process and the receipt and disbursement of all city funds are included in the city's accounting system.
- 2.5 Ensure invoices are marked paid to prevent duplicate payments.

Auditee's Response

2.1 *Conflicts of interest*

The Board has adopted a new policy requiring all bids be publicly noticed on the city's website. This will eliminate the possible issue when a Board Member or other city official desires to submit a bid. The Board also now requires written documentation on smaller bids, which may be solicited by telephone.

In each case mentioned by the auditors, the Board did accept the low bid and did follow its local bidding ordinance requirements. The Board commits to requiring documentation on any bids awarded to a public official showing the Board has complied with Sections 105.454 and 105.458, RSMo.

Personal financial disclosures

The Board recognizes the importance of having its elected officials comply with the personal financial disclosure requirements. The



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Board commits to have the City Clerk, at least 30 days prior to the filing deadline, check that all required filings have been made. In addition, the Board will have the City Administrator meet with city officials each year to review the requirements so that inadvertent errors in the filings are not made. The Board also notes, in the case of the Mayor, amended filings were made to correct the reported errors.

2.2 *The Board commits to use the Missouri Department of Labor and Industrial Relations, Division of Labor Standards, public works checklist on all projects to make sure all documents are timely obtained. The incident mentioned was a technical violation and was not a case of failure to properly pay prevailing wages. Additionally, the state law is now changed to no longer require prevailing wages on projects under \$75,000.*

2.3 *The Board commits to provide better documentation on the allocation of costs. As the auditor is aware with a very small group of employees who do numerous jobs for the city, the allocation of such work, without requiring excessive non-productive time being expended to determine the proper allocation, is difficult.*

2.4 *City staff no longer follow the practice of using cashier's checks for payments. The Board commits to not using cashier's checks for payments of invoices in the future. The Board notes the auditor did not find any improper expenditure of funds but only found the payment process should be changed.*

2.5 *The Board commits to institute procedures for all invoices to be marked paid or canceled once payment has been made.*

3. Utility Controls and Procedures

Utility controls and procedures need improvement. The city collected approximately \$1 million in utility revenues during the year ended June 30, 2017.

3.1 Billing calculations

The city's utility billings were not consistent with city ordinances pertaining to outside city limits connections. The sewer rate charged to customers outside city limits was less than the rate set by city ordinance. In July 2016, the city increased sewer rates for customers both inside and outside the city limits, but city personnel indicated they failed to increase the sewer rate for 8 of the 9 customers outside the city limits. This error was identified by city personnel and fixed in September 2016. However, in January 2017, the Board again increased the sewer rate for outside the city limits. Test work performed on outside city limit customers for April 2017 indicated city personnel again failed to update the rate for 8 of the 9 customers outside the city limits. This error was identified and corrected by the city in June 2017. Additionally, in a review of 36 utility billings mailed in May 2017, 2 customers outside the city



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limits were inappropriately charged city sales tax. Per city ordinance number 1476, only customers inside the city limits are to be charged sales tax.

Utility rates should be charged in accordance with city ordinance to ensure utility customers are treated fairly and equitably.

3.2 PILOT fee

The Board has violated bond covenants for its water system bonds by transferring surplus water revenues to the General Fund since at least 2012. The city transferred \$36,547 and \$34,995 of water revenues to the General Fund in the years ended June 30, 2017, and 2018, respectively. The transfers were not a reimbursement of specific expenses or costs paid by the General Fund related to providing water service, but instead a payment in lieu of taxes (PILOT) based on 6 percent of the water total user charges, per city ordinance number 1205. The city has made these transfers for many years using the same percentage. Because these transfers represent a consistent revenue source for the General Fund, it is important for the Board to periodically re-evaluate their impact, not only on the General Fund budget, but also on water rates.

Article VI, Section 602 (g) of the 2017 bond agreement, Article VI, Section 602 (e) of the 2013A bond agreement, and Article VI, Section 602 (e) of the 2012 bond agreement prohibit the transfer of any surplus revenue for any purpose other than a system related expense and paying off the bond itself. In addition, the 2012 bond agreement states "So long as any of the Bonds remain Outstanding, no moneys derived from the operation of the System shall be diverted to general governmental or municipal functions." Failure to follow the bond covenants could result in the bondholders taking action to call the bonds.

3.3 Promise to pay

City personnel allowed some customers to avoid utility shut off by entering into promise to pay agreements without the Board's approval. The City Clerk indicated that a memo is saved to the customer's utility account documenting the reason for an extension. City personnel do not review these agreements to ensure they are enforced and their use is not approved by the Board. The Board does not have a policy or ordinance addressing the use of promise to pay agreements.

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

3.4 Adjustments

Controls over adjustments posted to customer utility accounts need improvement. Adjustments are sometimes needed to change a customer account balance, including waiving a penalty fee or reducing a balance due to water leaks. The City Clerk is not required to obtain independent approval for adjustments posted to the utility account prior to making the change. We



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noted adjustments totaling \$991 for the March and April 2017 customer billings that were not independently reviewed and approved. Because the City Clerk also prepares billings and receives and posts payments to customer's utility accounts, the ability to make adjustments without proper oversight increases the risk of loss, theft, or misuse of funds.

To ensure adjustments to utility accounts are valid and approved, adjustment transactions should be approved before they are made and the posted adjustments should later be compared to the list of approved adjustments.

3.5 Customer water deposits

A listing of refundable customer water deposits held in the Water Fund is not prepared and the city does not maintain records of the deposit amounts being held in the Water Fund. As a result, a listing of deposits is not reconciled to deposits being held.

Effective October 2015, the customer water deposit for residential properties is \$150 for property owners and \$300 for renters. For commercial properties, the deposit is based upon twice the estimated amount of 30 days services requested for new users, and can be adjusted to twice the actual average monthly usage as necessary. The city currently has approximately 840 water accounts. The deposit amount held for each customer is documented in his/her individual account record in the system.

Refundable customer water deposits are restricted funds held for customers. To ensure all deposits received from customers are accounted for properly, the Board should determine the deposit amounts being held in the Water Fund, require an accurate list of deposits held by the city be prepared monthly, and reconcile the list to the record of deposits held in the Water Fund monthly. In addition, performing such reconciliations provides the city assurance the Water Fund account balance is sufficient to cover customer deposit liabilities and ensure the deposits are not used for water operations.

3.6 Water usage reconciliations

City officials have not metered the treatment plant and do not perform monthly reconciliations of total gallons of water billed to gallons of water pumped. We requested information from the city to attempt to perform such a reconciliation, but sufficient information was not available to perform the calculation.

Monthly reconciliations of gallons of water billed to gallons of water pumped are necessary to help detect significant water loss or other problems and ensure all water use is properly billed.

Recommendations

The Board of Aldermen:

- 3.1 Ensure utility rates are billed in accordance with city ordinance.



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- 3.2 Ensure any future payments from water revenues to the General Fund represent reimbursement of actual costs of operating the water system.
- 3.3 Review the use and necessity of promise to pay agreements and consider discontinuing the practice or develop an ordinance or formal policy about the use of such agreements.
- 3.4 Ensure all adjustments are properly approved and compared to actual changes posted to the computer system.
- 3.5 Determine the amount of customer deposits held in the Water Fund bank account and develop procedures to track the balance of those funds. Ensure a list of customer deposits is prepared and reconciled to the balance of deposits held monthly and differences are promptly investigated.
- 3.6 Ensure all water use is properly metered, gallons of water pumped is reconciled to gallons billed monthly, and significant differences are promptly investigated.

Auditee's Response

- 3.1 *The Board commits to carefully check all users to be sure that any rate increases are properly made and rates charged are in accordance with ordinances.*
- 3.2 *The Board has charged a 6 percent fee to recover costs of other city funds from the water department. The Board recognizes it should have used a more detailed method of computing such costs instead of estimating such costs at 6 percent. The Board commits at least annually to review and document the actual costs to the General Fund, Street Fund, or other funds of the city for the water department, and will only recover those documented costs from the restricted funds.*
- 3.3 *The city's promise to pay procedure was used to prevent utility cutoffs to customers and assist customers in avoiding disconnection and reconnection fees. The Board recognizes the need for a formal policy for such procedure to guide its employees as to when a customer is eligible for the program. The Board commits to adopt a formal policy on this program and will have a list of any such agreements reviewed by the Board at least quarterly.*
- 3.4 *The Board agrees better controls should be in place. The Board commits to require all adjustments be approved by both the City Clerk and the City Administrator prior to being made. In addition, the Board commits to have the Mayor or a Board Member, at least*



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monthly, compare the posted adjustments with the list of approved adjustments.

3.5 *The Board now realizes the software system does provide a separate accounting of customer deposits. However, the Board commits to have a separate bank account for all deposits so the Mayor and Board can easily determine the amount of these restricted funds. In addition, the Board commits to have the City Clerk and City Administrator, on alternating months, reconcile the funds in the deposit account with the records of customer deposits.*

3.6 *The Board has already included in the next phase of its long-term water project the installation of a water meter at the water plant. The water the city purchases from the Public Water Supply District is currently metered. The Board will ensure a reconciliation of gallons purchased to gallons sold is performed monthly and will investigate any significant differences identified.*

4. Accounting Controls and Procedures

Accounting controls and procedures need improvement. During the year ended June 30, 2017, city receipts totaled approximately \$2.5 million for all funds. Of this amount, approximately \$1.95 million was handled and processed by employees at City Hall. The other monies were directly deposited into the city's bank accounts.

4.1 Segregation of duties

The Board has not adequately segregated accounting duties or ensured documented supervisory or independent reviews of work performed by city personnel are performed. The City Clerk is responsible for receipting, recording, and depositing monies, along with writing checks and performing bank reconciliations. Reviews of the detailed accounting and bank records are not performed by other city personnel or Board members.

Proper segregation of duties helps ensure all transactions are accounted for properly and assets are adequately safeguarded. If proper segregation of duties cannot be achieved, documented independent or supervisory reviews of accounting and bank records should be performed.

4.2 Receipting and depositing

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

- City personnel do not always receipt payments received by check to the accounting system timely and checks are not always restrictively endorsed immediately upon receipt. During our cash count performed on April 5, 2018, we identified 4 checks, totaling \$183, that had not been receipted to the accounting system and had not been restrictively endorsed at the time of the count.



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- Deposits are not always made timely. During March 2017, one deposit, totaling \$16,596, contained receipts held up to 5 business days before being deposited. Six other deposits, ranging from \$4,000 to \$11,000, contained receipts held for 2 to 3 business days before deposit.
- City personnel do not account for the numerical sequence of receipt slips issued by the city's computerized receipting system.
- The composition of receipt slips issued is not reconciled to the composition of deposits by an independent person.

Failure to implement adequate receipting and depositing procedures increases the risk that loss, theft, or misuse of monies will go undetected.

Recommendations

The Board of Aldermen:

- 4.1 Segregate the accounting duties of the city personnel. If proper segregation cannot be achieved, ensure documented independent or supervisory reviews of detailed accounting and bank records are performed.
- 4.2 Ensure checks are receipted and restrictively endorsed immediately upon receipt and receipts are deposited timely. In addition, the Board should account for the numerical sequence of transaction numbers, and ensure the composition of receipts is reconciled to the composition of deposits by an independent person.

Auditee's Response

4.1 *A full segregation of duties is impossible with the City Clerk and City Administrator as the only employees responsible for receipts and deposits and expenditures. The Board agrees some independent review would be beneficial. The Board commits by the end of 2019 to have a Board member or an outside accountant review the detailed accounting and bank records on a monthly basis.*

4.2 *City staff have implemented a new procedure to promptly receipt to the accounting system all monies received. Restrictive endorsements are applied to the checks when receipted.*

The Board has implemented a procedure to require all funds be deposited within no more than 1 business day of receipt.

The Board commits to account for the numerical sequence of receipt slips issued by the accounting system.



The Board commits to require the composition of all deposits be reconciled with the composition of receipt slips by a person other than the person creating the deposits.

5. Sunshine Law

The Board and Park Board procedures for complying with the Sunshine Law need improvement.

5.1 Closed meetings

The Board did not comply with state law regarding closed meetings.

Reasons for closing meetings Open meeting minutes did not document the specific reasons or section of law allowing the meetings to be closed for any of the 16 closed meetings held between July 1, 2016, and June 13, 2018. In addition, most meeting notices and agendas included a statement that a closed meeting would be held, in the event the Board wanted to enter closed session, and the statement generally included the same list of potential discussion matters.

Section 610.022, RSMo, of the Sunshine Law, requires public bodies announce the specific reasons allowed by law for going into a closed session and to enter the vote and reason into the minutes. The section also limits discussion topics and actions in closed meetings to only those specifically announced prior to closure.

Allowable topics

Some issues discussed in closed meetings were not allowable under the Sunshine Law. For example, closed meeting minutes indicated the Board discussed utility connections outside city limits on November 9, 2016, and April 12, 2017, in a closed meeting. In addition, the Board also discussed the acceptance of a donation of property to the city on April 12, 2017, in a closed meeting.

Section 610.021, RSMo, provides that the discussion topics and actions in closed meetings should be limited to only those specifically allowed by law.

5.2 Park Board meetings

The Park Board failed to prepared minutes for 4 of the 8 open meetings held during the year ended June 30, 2018. The Park Board did not maintain meeting minutes from July 2016 to December 2016 and it is unclear if any meetings were held during that period.

Section 610.020, RSMo, requires meeting minutes be maintained as a record of business conducted and to provide an official record of actions and decisions.

Recommendations

The Board of Aldermen:

- 5.1 Ensure specific reasons for closing a meeting are documented in the open minutes and ensure only topics allowed by state law are discussed in closed Board meetings.



Auditee's Response

5.2 Work with the Park Board to ensure minutes are prepared and retained for all meetings.

5.1 *The Board respectfully denies that it does not comply with the Sunshine Law. The agendas list the basis for the Board to go into closed meetings and if a closed meeting is to be held the reasons for the meeting are included in the motion to close the meeting. The Board commits to have the motions for closed meetings to include only those statutory reasons for which the meeting will be held and not include statutory reasons that are inapplicable.*

The Board has not discussed topics not allowable by law. The issue on utility connections dealt with legal matters and involved discussions between the Board and its legal counsel. The issue on property involved a proposed sale to the city, which is a permitted topic. It appears the minutes may not have fully documented the permitted topics. The Board commits to ensuring the minutes clearly and fully document the topics discussed.

5.2 *The Board commits to monitoring the Park Board to ensure if meetings are held minutes will be prepared and filed with the City Clerk.*

Auditor's Comment

5.1 While the reasons for the closed meetings may be discussed verbally by the Board when making motions to close a meeting, the specific reason for the closure has not been documented in the open minutes as required by state law.

6. Electronic Data Security

The Board has not established sufficient controls to reduce the risk of unauthorized access to computer systems and electronic data. As a result, city records are not adequately protected and are susceptible to unauthorized access or loss of data.

6.1 User identifications and passwords

The City Administrator and City Clerk share the user identification and password for a shared computer used for issuing receipt slips from the accounting system. While each has access to the receipt function on assigned work computers, which have unique user identification and passwords, receipting is typically done on the shared computer since that computer is the only one with the capability to print prenumbered receipt slips.

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



unique to each person and passwords should be confidential and changed periodically to reduce the risk of a compromised password and unauthorized access to and use of computers and data.

6.2 Security controls

Security controls are not in place to lock computers after a certain period of inactivity. Inactivity controls are necessary to reduce the risk of unauthorized individuals accessing an unattended computer and having potentially unrestricted access to programs and data files. Without effective security controls, there is an increased risk of unauthorized access to systems and unauthorized use, modification, or destruction of data.

Recommendations

The Board of Aldermen:

- 6.1 Require unique user identifications for each computer and require passwords remain confidential and be changed periodically.
- 6.2 Implement security controls to lock computers after a certain period of inactivity.

Auditee's Response

- 6.1 *Because of restrictions on the computer used for issuing receipts the Board does not view the limited sharing of a password for that computer as a significant security risk. However, the Board commits to check with its software vendor to determine if unique passwords for that computer are possible.*
- 6.2 *The Board commits to check with its vendor to determine if time sensitive lockouts can be added to restrict access to programs and data files.*

7. Budgeting Practices

City budgets do not include all statutorily required elements and the Park Fund was deficit budgeted in 2019.

The 2018 budget did not include the actual beginning and estimated ending cash balances for each fund and information regarding the city's indebtedness. The 2019 budget listed actual beginning and estimated ending cash balances for each fund, but still did not include information on indebtedness. While the General Fund has provided funding to the Park Fund totaling \$68,000 during 2017 and 2018, the Park Fund continues to have negative year end cash balances. The Board budgeted a \$10,000 transfer from the General Fund in 2019, but the estimated ending cash balance at June 30, 2019, for the Park Fund was (\$37,861).

Section 67.010, RSMo, requires the budget to present a complete and accurate financial plan for the ensuing budget year, outlines the various information to be included in the budget, and prohibits deficit budgeting. A complete and well-planned budget, in addition to meeting statutory requirements, can serve



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as a useful management tool by establishing specific financial expectations for each area of city operations. It also assists in setting tax levies and informing the public about city operations and current finances.

Recommendation

The Board of Aldermen prepare accurate annual budgets that contain all information required by state law and discontinue approving deficit budgets.

Auditee's Response

The Board commits to adding the items noted to its annual budget and will discontinue approving deficit budgets in the future.

8. City Library

Property taxes received by the city for the library are not distributed timely to the Library Board and the library's annual report was not timely filed with the city.

City library property tax receipts are held in the custody of both the city and the Library Board. The city receives the library's property tax distribution from the Caldwell County Collector monthly but only distributes the money to the Library Board twice a year. As of May 1, 2018, the city was holding \$36,830 due to the library. This money should be disbursed to the Library Board monthly, in accordance with state law. The Library Board maintains its own bank accounts and approves and pays bills associated with operating the library.

In addition, state law requires the librarian file an annual report with the Library Board stating the condition of the library and its services, all amounts received and from what sources, and the amount of money spent and for what purpose. This report is to be filed with the Board of Aldermen and the State Library. The report for the year ending June 30, 2017 was not filed with the city as required. After we discussed this issue with city officials, they received the fiscal year 2017 report from the Library Board.

Section 182.200, RSMo, provides all monies received by the city for a city library shall be disbursed to the Library Board Treasurer at least monthly. In addition, Section 182.210, RSMo, states the librarian, within 8 weeks after the close of the fiscal year, shall make an annual report stating the condition of the library and its services on the last day of the fiscal year, the various sums of money received from the library fund and from other sources, and how the moneys have been expended and for what purposes. This report shall be submitted to the governing body of the city.

Recommendation

The Board of Aldermen ensure all monies received for the library are disbursed monthly and the annual report is filed with the city as required.

Auditee's Response

The Board has already implemented a policy to disburse library tax monies received to the Library Fund on a monthly basis.



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**Auditee's Overall
Response**

The Board commits to requiring the City Librarian to file the report timely with the City Clerk.

The city appreciates that the auditor's findings did not find any fraud, embezzlement, or other similar loss of funds. Additionally, almost all of the findings are to assist the City of Hamilton Board of Aldermen and city staff in improving its operations and controls, which the Board is committed to implement within a reasonable time.

City of Hamilton

Organization and Statistical Information

The City of Hamilton is located in Caldwell County. The city was incorporated in 1868 and is currently a fourth-class city. The city employed 11 full-time and 3 part-time employees on June 30, 2017.

City operations include utilities (water, sewer and trash), law enforcement services, street maintenance, and recreational facilities (parks and pool).

Mayor and Board of Aldermen

The city government consists of a mayor and 4-member board of aldermen. The members are elected for 2-year terms. The mayor is elected for a 2-year term, presides over the board of aldermen, and votes only in the case of a tie. The Mayor and Board of Aldermen, at June 30, 2017, are identified below. The Mayor is paid \$450 per month, and Board of Aldermen members \$150 per month. The compensation of these officials is established by ordinance.

Winford Gilliam, Mayor
Travis Trosper, Alderman (1)
Cameron Fast, Alderman
Danny Alexander, Alderman
Sherria Kavanaugh, Alderwoman (2)

- (1) Travis Trosper resigned in October 2018 and Misty Doan was appointed to this position in November 2018.
- (2) Replaced by Keith Gilbert who was elected in April 2018.

Other Principal Officials

The City Administrator and City Clerk are appointed positions. The city's principal officials at June 30, 2017, are identified below:

Jean Van Iperen, City Administrator
Debra Davis, City Clerk (1)
Robert Cowherd, City Attorney
April Locke, Police Chief

- (1) Debra Davis resigned in October 2018 and was replaced by Crystal Dorrel in November 2018.

Financial Activity

Appendix A and B present a summary of the city's financial activity for the year ended June 30, 2017. We obtained this information from the city's audited financial statements.

City of Hamilton, Missouri
Combined Statement of Revenues, Expenditures
and Changes in Net Position
All Government Fund Types
For the Year Ended June 30, 2017

	<u>Governmental Fund Types</u>			<u>Totals Primary Government</u>
	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>(Memorandum Only)</u>
Revenues:				
Property taxes	\$ 134,676	\$ 40,625	\$ 66,069	\$ 241,370
Franchise taxes	105,711	-	-	105,711
Intergovernmental	-	72,528	-	72,528
Rent	2,310	-	-	2,310
Interest income	898	457	410	1,765
Administrative fees	36,547	-	-	36,547
Sales taxes	233,845	229,340	-	463,185
Licenses, permits & fees	13,035	10,214	-	23,249
Library	701	-	-	701
Operations	-	56,904	-	56,904
Bond proceeds	-	-	116,395	116,395
Grant proceeds	-	73,360	-	73,360
Other	9,923	5,783	-	15,706
Total revenues	<u>537,646</u>	<u>489,211</u>	<u>182,874</u>	<u>1,209,731</u>
Expenditures:				
General funds:				
General operations	222,048	-	-	222,048
Police department	259,712	-	-	259,712
Library	1,784	-	-	1,784
Museum	6,599	-	-	6,599
Debt service	-	-	92,263	92,263
Street	-	320,052	-	320,052
Park	-	119,907	-	119,907
Economic development	-	4,149	-	4,149
Municipal court	-	5,447	-	5,447
Total expenditures	<u>490,143</u>	<u>449,555</u>	<u>92,263</u>	<u>1,031,961</u>
Excess (deficiency) of revenues over (under) expenditures	<u>47,503</u>	<u>39,656</u>	<u>90,611</u>	<u>177,770</u>
Other financing sources (uses)				
Operating transfers in	3,138	52,100	-	55,238
Operating transfers out	(52,100)	(3,138)	-	(55,238)
Total other financing sources (uses)	<u>(48,962)</u>	<u>48,962</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing (uses)	<u>(1,459)</u>	<u>88,618</u>	<u>90,611</u>	<u>177,770</u>
Net position, July 1, 2016	<u>143,852</u>	<u>120,615</u>	<u>81,983</u>	<u>346,450</u>
Net position, June 30, 2017	<u>\$ 142,393</u>	<u>\$ 209,233</u>	<u>\$ 172,594</u>	<u>\$ 524,220</u>

The accompanying notes to the basic financial statements are an integral part of this statement.

**Combined Statement of Revenues, Expenses and Changes in
Net Position- All Proprietary Funds
For the Year Ended June 30, 2017**

	Combined Water & Sewer Funds
Operating revenues:	
Charges for services	\$ 1,021,497
Taxes	213,033
Penalties and connections	1,400
Other	2,275
Total operating revenues	1,238,205
Operating expenses:	
Depreciation	164,981
Salaries and benefits	120,805
Material and supplies	154,181
Professional services	(5,892)
Solid waste	107,614
Repairs and maintenance	209,634
Other operating expenses	71,962
Total operating expenses	823,285
Operating income	414,920
Nonoperating revenues (expenses):	
Grant income	216,014
Interest income	2,487
Interest expense & fiscal charges	(39,589)
Total nonoperating revenues	178,912
Income before operating transfers	593,832
Operating transfers:	
Operating transfers out	-
Total operating transfers	-
Net income	593,832
Net position, July 1, 2016	3,021,381
Net position, June 30, 2017	\$ 3,615,213

The accompanying notes to the basic financial statements are an integral part of this statement.