

Nicole Galloway, CPA

Missouri State Auditor

City of Edgar Springs

Report No. 2020-087

November 2020

auditor.mo.gov



Findings in the audit of the City of Edgar Springs

Budgets and Financial Reporting	City officials did not prepare complete annual budgets in accordance with state law or monitor budgets appropriately. They also did not prepare and maintain accurate financial statements and accounting records. City officials did not publish complete and accurate financial statements as required by state law, and did not file an accurate and timely financial report with the State Auditor's Office. The city has not obtained annual audits of its sewer system as required by state law.
Sewer System Controls and Procedures	Current sewer rates are not supported by a cost study or other documentation showing how the rates were determined. The city does not maintain a listing of refundable customer deposits held in the Wastewater Treatment bank account. The city's procedures for collecting delinquent sewer charges do not comply with city ordinance, sewer user contracts, or state law. In addition, the city ordinance does not agree with some requirements of the sewer user contract. The City Clerk makes adjustments to customer accounts without obtaining independent approval or maintaining any documentation supporting the adjustments. In addition, the Board does not review and approve all adjustments. The city did not retain sewer user contracts for some customers.
Accounting Controls and Procedures	The Board has not adequately segregated accounting duties or ensured documented supervisory or independent reviews of work performed by city officials are completed. The city's procedures for receiving and depositing monies are poor.
Disbursements	The Board's review and approval process for disbursements is not adequate. The city does not have a bidding policy and has not established policies for the selection of vendors providing professional services. In addition, written contracts were not always obtained for professional services. City officials could not provide supporting documentation for all disbursements.
Ordinances and Sunshine Law	City ordinances are not organized, complete, or up to date. The Board has not adopted a written policy regarding public access to city records as required by state law. City officials do not maintain adequate documentation of requests for records to show compliance with state law, and did not respond to requests timely. The city did not comply with state law regarding closed meetings. Minutes were not prepared for all meetings and minutes are not signed by the preparer or the Board.
Ticket Accountability	The police department has not developed adequate procedures to account for the numerical sequence of tickets and the ultimate disposition of tickets issued.
Excess Revenues	The city did not prepare and submit the financial report addendum containing excess revenues calculations to the State Auditor's Office as required by state law.

Electronic Communication Policies	The city has not developed records management and retention policies in compliance with the Missouri Secretary of State Records Services Division guidance, as approved by the Missouri Local Records Commission.
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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 Edgar Springs

Table of Contents

State Auditor's Report	2
------------------------	---

Management Advisory Report - State Auditor's Findings	
1. Budgets and Financial Reporting	4
2. Sewer System Controls and Procedures	7
3. Accounting Controls and Procedures	10
4. Disbursements	12
5. Ordinances and Sunshine Law	14
6. Ticket Accountability	17
7. Excess Revenues	18
8. Electronic Communication Policies	19

Organization and Statistical Information	21
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NICOLE GALLOWAY, CPA

Missouri State Auditor

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

The State Auditor was petitioned under Section 29.230, RSMo, to audit the City of Edgar Springs. We have audited certain operations of the city in fulfillment of our duties. The scope of our audit included, but was not necessarily limited to, the year ended December 31, 2019. The objectives of our audit were to:

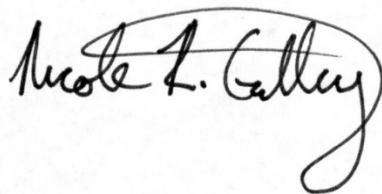
1. Evaluate the city's internal controls over significant management and financial functions.
2. Evaluate the city's compliance with certain legal provisions.
3. Evaluate the economy and efficiency of certain management practices and procedures, including certain financial transactions.

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 control that is significant to the audit objectives and assessed the design and implementation of such internal control to the extent necessary to address our audit objectives. 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, 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 Edgar Springs.

A handwritten signature in black ink, appearing to read "Nicole R. Galloway". The signature is fluid and cursive, with a large, sweeping loop on the right side.

Nicole R. Galloway, CPA
State Auditor

The following auditors participated in the preparation of this report:

Senior Director:	Randall Gordon, M.Acct., CPA, CGAP
Audit Manager:	Deborah Whitis, MBA, CPA, CIA, CFE
In-Charge Auditor:	Shannon Spicer, MBA
Audit Staff:	Terese Summers, MSAS, CPA

City of Edgar Springs

Management Advisory Report

State Auditor's Findings

1. Budgets and Financial Reporting

1.1 Budgets

City officials did not prepare complete annual budgets in accordance with state law or monitor budgets appropriately. They also did not prepare and publish complete and accurate financial statements, maintain accurate accounting records, file adequate financial reports timely, or obtain required audits for the city's sewer system.

City officials do not have adequate procedures to prepare or monitor budgets.

The budgets prepared for the years ended December 31, 2019, and December 31, 2020, did not contain all statutorily-required elements. The budgets did not include the actual or budgeted amounts for the 2 preceding years or the city's indebtedness information. In addition, the budgets did not include the actual beginning and estimated ending cash balance for any funds, the estimated revenues and expenditures for each fund, a budget message, or a budget summary. In addition, the Board does not adequately monitor budget-to-actual receipts and disbursements because year-to-date budget-to-actual reports of financial activity are not presented to the Board. As a result, the Board is not using all available information to assist in effectively managing the city, and the public is not provided a complete overview of the city finances.

Section 67.010, RSMo, requires the budget to present a complete financial plan for the ensuing budget year and outlines the various information to be included in the budget. A complete budget should include the beginning available resources and a reasonable estimate of the ending available resources. Section 67.080, RSMo, provides that no expenditures of public monies should be made unless it is authorized in the budget. A complete and well-planned budget, in addition to meeting statutory requirements, serves as a useful management tool by establishing specific financial expectations for each area of city operations. It also assists in providing information to the public about city operations and current finances and in setting the tax levy and utility rates. Proper monitoring is necessary for the budget to be an effective management tool and to comply with state law.

1.2 Financial statements and accounting records

Financial statements

City officials did not prepare and maintain accurate financial statements and accounting records.

The city's financial statements did not accurately reflect the financial activity of the city. The total beginning balance of \$19,698 for all funds on the January 2019 monthly financial statement did not agree to the total ending balance of \$4,945 for all funds on the financial statement submitted to the State Auditor's Office (SAO) for the year ended December 31, 2018. It also did not agree to the total ending balance of \$12,073 for all funds on the semiannual financial statement published for the six months ended December 31, 2018. In addition, city officials do not agree reconciled bank account balances to the ending fund balances on the monthly financial statements. Reconciled bank account



City of Edgar Springs Management Advisory Report - State Auditor's Findings

balances totaled \$32,921 at December 31, 2019, while the ending fund balances on the December 2019 financial statement totaled \$25,532, resulting in a difference of \$7,389.

Accounting records

The city did not maintain accurate accounting records, resulting in errors on monthly financial statements. We noted untimely transfers, transfers classified as receipts, and unrecorded disbursements. City officials typically make sewer disbursements from the General Operations Fund bank account and later transfer monies from the Sewer (Wastewater Treatment) bank account to reimburse the General Operations Fund bank account; however, these transfers are not made during the month of the related disbursements. As a result, cash balances do not agree to fund balances. For example, sewer disbursements totaling \$6,351 incurred in November and December 2018, were recorded as Sewer Fund disbursements, but were paid from the General Operations Fund bank account. These monies were not transferred from the Wastewater Treatment bank account to the General Operations Fund bank account until February 2019, and were improperly classified as receipts in the General Fund on the February 2019 financial statement. We also noted check number 1005 for \$1,161 issued February 11, 2019, from the Wastewater Treatment bank account was omitted from the listing of monthly disbursements for each fund. As a result, it was not included in the Sewer Fund disbursements on the February 2019 financial statement. Because accounting records are used to prepare and verify the financial statements, it is important transactions are accurately and timely recorded.

To be of maximum assistance to the Board and to adequately inform the public, the city's financial statements and accounting records should accurately report financial activity and account balances. Monthly comparisons of reconciled bank account balances to ending fund balances on the financial statements help ensure transactions have been properly recorded, and increase the likelihood errors will be identified and corrected timely. Inaccurately recorded financial information makes it more difficult to detect loss, theft, or misuse of funds.

1.3 Published financial statements

City officials did not publish complete and accurate financial statements as required by state law. The 2 semiannual financial statements published for the year ended December 31, 2019, did not include beginning or ending fund balances or a detailed accounting of receipts and disbursements for each fund. Instead the city published summary statements of receipts and disbursements. As a result, citizens were not provided an accurate, detailed accounting of the city's financial activity.

Section 79.160, RSMo, requires the Board to prepare and publish semiannual financial statements that include a full and detailed account of the receipts, disbursements, and indebtedness of the city.



City of Edgar Springs
Management Advisory Report - State Auditor's Findings

1.4 Filing of financial reports	<p>City officials did not file an accurate and timely financial report with the SAO for the year ended December 31, 2019, as required by state law. This financial report, due by June 30, 2020, was not filed until August 3, 2020. The financial report submitted consisted of the 2019 budget and the published summary statement of revenues and expenditures for the 6 months ended December 31, 2019. The financial report submitted did not include the financial data for the first 6 months of 2019, beginning and ending fund balances, and the city's property tax levy as required by state regulations.</p> <p>Section 105.145, RSMo, requires each political subdivision to file annual reports of its financial transactions with the SAO. Section 105.145.5, RSMo, prohibits elected officials from continuing to receive compensation or processing disbursements after the deadline to submit the financial statement and until the financial statement is submitted to the SAO. Section 105.145.9, RSMo, allows political subdivisions to be fined \$500 per day for missing filing deadlines. In addition, 15 CSR 40-3.030, requires each political subdivision to file annual financial reports within 6 months of the end of the subdivision's fiscal year.</p>
1.5 Annual audits	<p>The city has not obtained annual audits of its sewer system as required by state law.</p> <p>Section 250.150, RSMo, requires the city to obtain annual audits of the sewer system and the cost be paid from revenues received from the system.</p>
Recommendations	<p>The Board of Aldermen:</p> <ol style="list-style-type: none">1.1 Prepare annual budgets that contain all information required by state law and ensure budgets are properly monitored.1.2 Prepare financial statements and accounting records that accurately reflect the financial activity of the city. In addition, the Board should establish monthly procedures to compare reconciled bank account balances to ending fund balances on the financial statements, and ensure accounting transactions are properly recorded.1.3 Ensure the city's published financial statements are complete, accurate, and contain all statutorily-required elements.1.4 Submit annual financial reports to the State Auditor's Office as required by state law.1.5 Obtain annual audits of the sewer system as required by state law.



City of Edgar Springs
Management Advisory Report - State Auditor's Findings

Auditee's Response

- 1.1 *The annual budget has been revamped and now contains all information required by state law. The Board will monitor budget-to-actual reports of financial activity monthly.*
- 1.2 *Financial statements and accounting records will be monitored so they will show the accurate amounts and reconciliations of bank balances and fund balances will be done monthly to ensure transactions are recorded properly.*
- 1.3 *The Board will make sure that published financial statements are complete, accurate, and comply with state statutes.*
- 1.4 *The annual financial reports will be reported to the State Auditor's Office on time as required by state law.*
- 1.5 *An annual audit of the sewer system will be done to comply with state statutes.*

2. Sewer System Controls and Procedures

2.1 Sewer rates

Sewer system controls and procedures need improvement. According to the city's accounting records, the city collected approximately \$60,500 for sewer services and customer deposits during the year ended December 31, 2019.

Current sewer rates are not supported by a cost study or other documentation showing how the rates were determined. The city's sewer billing structure charges customers on the public water supply a per-gallon rate based on the number of gallons of water used. For sewer customers with private water wells, the city bills a flat rate. The Board increased the per-gallon rates charged to customers on the public water supply in July 2018 and the flat rate charged to customers with private wells in July 2019.

Section 67.042, RSMo, provides that fees may be increased if supported by a cost study that shows the increase is necessary to cover costs of providing the service. To ensure sewer rates are appropriately set, city officials should perform and document a detailed cost study of the city's sewer costs, including depreciation, and establish rates to cover the total cost of operations without generating excessive profits.

2.2 Sewer deposits

The city does not maintain a listing of refundable customer deposits held in the Wastewater Treatment bank account. The city currently requires new customers to pay a \$100 refundable deposit. City officials were not sure when customer deposits started being charged, and indicated customer account records did not indicate if a customer deposit was being held.

Refundable customer sewer deposits are restricted funds held for customers. To ensure all deposits received from customers are accounted for properly,



City of Edgar Springs Management Advisory Report - State Auditor's Findings

the Board should determine the deposit amounts being held in the Wastewater Treatment account, require an accurate list of deposits held by the city be prepared monthly, and reconcile the list to the deposit amounts held in the Wastewater Treatment bank account monthly. Performing such reconciliations provides the city assurance the Wastewater Treatment bank account balance is sufficient to cover customer liabilities and ensures the deposits are not used for sewer operations.

2.3 Delinquent accounts

The city's procedures for collecting delinquent sewer charges do not comply with city ordinance, sewer user contracts, or state law. In addition, the city ordinance does not agree with some requirements of the sewer user contract.

The city improperly assessed a special tax to be collected with city real estate property taxes for 12 delinquent sewer accounts totaling \$5,190 plus an additional \$900 for lien filing fees. In addition, the city did not properly notify land owners of liens placed on property and did not limit the rental property owner's liability when the sewer account was held by the occupant to the first 90 days of delinquent charges as required by state law. We noted 4 sewer bills for one account in which the landowner's name was added retroactively to the sewer bills in the accounting system immediately prior to filing a lien and assessing a special tax for delinquent sewer fees. The invoices were originally issued to the tenant, who was responsible for the account. While no written notice was given to 4 landowners of special assessments, one of these landowners indicated the city made a courtesy call and allowed her to pay the city directly for delinquent sewer fees, canceling the special assessment.

Additionally, the city ordinance does not agree with some requirements of the sewer user contract. The \$100 reconnect fee in city ordinance does not agree to the \$50 reconnect fee in the sewer user contract. The sewer user contract also requires the customer to pay all charges incurred with blocking the sewer (\$300 to \$400), but this is not authorized by city ordinance.

City ordinance No. 60-A article 5, section 4, requires the city to discontinue service to customers with delinquent accounts and requires customers to pay all delinquent fees and a \$100 reconnect fee before service can be restored. In addition, section 5 of the ordinance states the owner and occupant shall be jointly and severally liable for the delinquent amount, and allows the city to file a lien that may be enforced by suit or foreclosure. Per the sewer user contract, the city will install a sewer plug if delinquent accounts are not paid and the customer must pay all sewer charges, late fees, charges incurred for blocking sewer (\$300 to \$400), and a \$50 reconnect fee before service can be restored. Section 250.234, RSMo, allows the city to file a lien against the property, enforceable by suit or foreclosure. However, Section 250.140.2, RSMo, requires the city to make a good faith effort to notify the owner of the premises receiving such service of the delinquency and the amount thereof.



City of Edgar Springs Management Advisory Report - State Auditor's Findings

In addition, it limits the land owner's liability to no more than 90 days when the account is held by the occupant and not the owner.

2.4 Adjustments

The City Clerk makes adjustments to customer accounts, including writing off charges caused by water leaks, filling swimming pools, billing errors, and waiving late fees, without obtaining independent approval or maintaining any documentation supporting the adjustments. In addition, the Board does not review and approve all adjustments. The same employee receives payments and posts payments and billing adjustments to customer accounts, including her own account, with no independent supervisory review. As a result, there is an increased risk of loss, theft, and misuse of funds occurring without being detected.

To ensure adjustments to sewer accounts are valid and authorized, adjustment transactions should be approved before they are made in the computerized system and the posted adjustments should later be compared to the list of approved adjustments. Review and approval of adjustments by the Board is necessary to ensure adjustments are proper.

2.5 User contract retention

The city did not retain sewer user contracts for some customers. City officials could not locate 5 of the 12 sewer user contracts requested for review.

Retention of written contracts is necessary to ensure contractual duties and responsibilities can be enforced and to prevent misunderstandings. Section 109.270, RSMo, provides that all records made or received by an official in the course of his/her public duties are public property and are not to be disposed of except as provided by law. In addition, Section 109.255, RSMo, provides that the Local Records Board issue directives for the destruction of records. Record retention schedules can be found on the Secretary of State's website.¹

Recommendations

The Board of Aldermen:

- 2.1 Ensure a statement of costs is prepared to support sewer rate increases and document formal reviews of sewer rates periodically to ensure revenues are sufficient to cover all costs of providing these services.
- 2.2 Determine the amount of customer deposits held in the Wastewater Treatment 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 promptly investigate any differences.

¹ <<https://www.sos.mo.gov/archives/localrecs/schedules>>



City of Edgar Springs
Management Advisory Report - State Auditor's Findings

	<p>2.3 Ensure procedures for delinquent sewer collection comply with city ordinance, sewer user contracts, and state laws. In addition, ensure the requirements of the city ordinance and the sewer user contract are in agreement.</p> <p>2.4 Review and approve all adjustments made to customer accounts and periodically compare adjustments posted to adjustments approved.</p> <p>2.5 Retain sewer user contracts in accordance with state law.</p>
Auditee's Response	<p>2.1 <i>A cost analysis will be done for the sewer system to review the rates and costs to ensure that revenues are sufficient to maintain the costs of providing these services.</i></p> <p>2.2 <i>The Board will review records to determine the amount of customer deposits paid and that amount will be moved to the newly created sewer savings account. A list of customer deposits will be maintained and reconciled to the balance of customer deposits held in the sewer savings account monthly. Any differences will be investigated.</i></p> <p>2.3 <i>A new ordinance has been put in place that agrees with the new sewer user contracts to comply with state laws regarding delinquent sewer account collection.</i></p> <p>2.4 <i>The Board has implemented procedures to review and approve all adjustments at monthly Board meetings and to periodically compare adjustments posted to those approved.</i></p> <p>2.5 <i>New sewer contracts have been drawn up and the customers have been asked to fill them out; the contracts will be retained and updated as needed to comply with state law.</i></p>

3. Accounting Controls and Procedures

3.1 Segregation of duties

Accounting controls and procedures need improvement. According to the city's monthly receipts registers, the city received approximately \$142,000 for the year ended December 31, 2019.

The Board has not adequately segregated accounting duties or ensured documented supervisory or independent reviews of work performed by city officials are completed. Prior to February 2020, the City Clerk was responsible for receiving, recording, depositing, and disbursing all monies and preparing bank reconciliations and financial reports. Beginning in February 2020, with the appointment of a City Treasurer, duties were split between the City Clerk and City Treasurer. The City Clerk is responsible for sewer billing, receiving, recording, and preparing deposits. The City Treasurer is responsible for making deposits and preparing disbursements,



City of Edgar Springs Management Advisory Report - State Auditor's Findings

bank reconciliations, and financial statements. Reviews of detailed accounting and deposit records, bank reconciliations, and financial statements are not performed by other city officials or the Board.

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.

3.2 Receipting and depositing

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

- Payments in the drop slot are not adequately safeguarded. The city has a drop slot on the side of the city building for customers to submit payments after hours. Monies collected through the drop slot fall into a basket in the front office that is accessible by the public during business hours and all city officials during business and non-business hours. The drop slot should be secured to ensure access to payments is limited to personnel responsible for processing payments.
- City officials do not issue receipt slips for most monies received. Receipt slips are only issued if a receipt slip is requested. Sewer receipts and bank deposits are recorded in the computerized accounting system, but there is no comprehensive record of individual receipts.
- City officials do not account for the numerical sequence of receipt slips issued, and do not reconcile receipt records to deposit records. Generally, city officials deposit the monies on hand without reconciling to receipt records.
- Checks and money orders received are not restrictively endorsed.

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

Recommendations

The Board of Aldermen:

- 3.1 Segregate the accounting duties. If proper segregation cannot be achieved, ensure documented independent or supervisory reviews of detailed accounting and bank records are performed.
- 3.2 Ensure the drop slot is secured, require issuance of receipt slips for all monies received, account for the numerical sequence of receipt slips issued, reconcile receipt records to deposit records, and restrictively endorse checks and money orders at the time of receipt.



City of Edgar Springs
Management Advisory Report - State Auditor's Findings

Auditee's Response

- 3.1 *All financials and bank records will be reviewed and approved by a member of the Board, and these reviews will be documented.*
- 3.2 *The Board will be working to make the drop slot for payments more secure and will develop procedures over receipts as recommended.*

4. Disbursements

4.1 Review and approval process

City procedures over disbursements need improvement. According to the city's monthly expense registers, the city disbursed \$119,530 for the year ended December 31, 2019.

The Board's review and approval process for disbursements is not adequate. The City Treasurer (who was formerly the City Clerk) prepares manual checks for payment of invoices and presents a list of disbursements to the Board at each meeting. Although meeting minutes may document discussion of specific purchases and a vote of the Board to approve the disbursements, the Board generally does not review any invoices or any other documentation supporting the disbursements. In addition, the Board does not sign the disbursement listings to document approval and does not reconcile disbursement listings to payments issued. Disbursement listings presented to the Board in 2019 totaled \$53,467, or 45 percent of the \$119,530 actually disbursed. We reviewed 25 disbursements for the year ended December 31, 2019, and 13 of these disbursements (52 percent) were not on the disbursement listing presented to the Board.

To adequately document the Board's review and approval of disbursements, a complete and detailed listing of disbursements should be signed or initialed by Board members to denote their approval, and retained with the official minutes. In addition, the Board or someone independent of the disbursement process should review supporting documentation before payment is made and reconcile approved disbursements to payments issued. Failure to properly review all invoices and supporting documentation and document authorizations increases the possibility of inappropriate disbursements.

4.2 Procurement procedures and contracts

The city does not have a bidding policy and has not established policies for the selection of vendors providing professional services. In addition, written contracts were not always obtained for professional services. The city did not:

- Solicit bids or document the vendor selection process for street repairs. In addition, the city did not document the vendor selection process for building repairs. Both projects were related to Federal Emergency Management Agency grants totaling \$27,484 and \$10,009,² respectively.

² The city did not complete the building repairs and returned unused grant funds of \$6,479 in May 2019.



City of Edgar Springs
Management Advisory Report - State Auditor's Findings

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- Solicit proposals for professional services including legal (\$10,721) and banking services.
 - Obtain contracts for legal services paid to the former City Prosecutor or for sewer testing services and fuel card services.

The federal grant award requires the city to have a documented procurement policy that complies with applicable federal, state, and local regulations, and publicly solicit competitive bids. To ensure compliance the city should document the solicitation of bids and the evaluation and selection of vendors.

Formal bidding procedures for major purchases or services provide a framework for economic management of city resources and help ensure the city receives fair value by contracting with the lowest or best bidders. Competitive bidding also helps ensure all parties are given an equal opportunity to participate in city business. Formal bidding procedures should be sufficiently detailed and include requirements for documenting the process of awarding a bid.

Soliciting proposals for professional services is a good business practice, helps provide a range of possible choices, and allows the city to make better-informed decisions to ensure necessary services are obtained from the best qualified provider after taking expertise, experience, and cost into consideration. Written contracts are necessary to ensure all parties are aware of their duties and responsibilities and to prevent misunderstandings. Section 432.070, RSMo, requires that contracts for political subdivisions must be in writing.

4.3 Supporting documentation

City officials could not provide supporting documentation for all disbursements. Our review determined supporting documentation was not maintained for 4 of 25 disbursements (16 percent) reviewed for the year ended December 31, 2019.

To ensure obligations were actually incurred and amounts paid are proper, all disbursements should be supported by paid receipt slips, itemized vendor invoices, or other detailed documentation with payment information clearly indicated.

Recommendations

The Board of Aldermen:

- 4.1 Review and document approval of all disbursement listings and retain with Board minutes. In addition, ensure an independent review of supporting documentation is performed before payment is made and reconcile approved disbursements to payments issued.



City of Edgar Springs
Management Advisory Report - State Auditor's Findings

Auditee's Response	<p>4.2 Establish formal bidding policies and procedures, periodically solicit proposals for professional services, and ensure the solicitation for bids and proposals and the evaluation and selection of vendors is documented. In addition, enter into written contracts for services received.</p> <p>4.3 Require adequate, detailed supporting documentation be retained for all disbursements.</p> <p>4.1 <i>The Board now reviews invoices and documents approval of all disbursement payments at monthly Board meetings. Records will be periodically reviewed to ensure payments issued were approved.</i></p> <p>4.2 <i>The Board will establish formal bidding policies and procedures, and periodically solicit proposals for professional services. Solicitation and selection evaluations will be documented and written contracts will be entered into for services received.</i></p> <p>4.3 <i>The Board will ensure adequate documentation is kept on file for all disbursements.</i></p>
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5. Ordinances and Sunshine Law

5.1 Ordinances

City ordinances are not organized, complete, or up to date. In addition, the Board did not always comply with the Sunshine Law.

City ordinances are not organized, complete, or up to date.

- Ordinances are poorly maintained. Many ordinances are old and not updated. In addition, an index of all ordinances passed and rescinded by the city is not maintained, making it difficult to determine which ordinances remain in effect.
- City ordinance No. 60-A has not been updated since 1991 and does not authorize the per-gallon rate structure currently billed to sewer customers. In addition, the city's sewer ordinance does not authorize the \$100 refundable customer deposit charged to new customers.
- The city does not have ordinances establishing the compensation for the City Clerk, City Treasurer, and Chief of Police.
- The city does not have ordinances establishing an employee travel policy and a conflict of interest policy.
- The city does not have ordinances establishing procedures for credit and debit card usage and city hall rental.



City of Edgar Springs Management Advisory Report - State Auditor's Findings

Because ordinances passed by the Board to govern the city and its residents have the force and effect of law, it is important ordinances be complete and organized and in compliance with state laws. In addition, ordinances documenting approved salary amounts help ensure equitable treatment and prevent any misunderstandings. Section 79.270, RSMo, authorizes the Board to fix the compensation of all city officials and employees by ordinance.

5.2 Public access policy

The Board has not adopted a written policy regarding public access to city records as required by state law. A written policy regarding public access to city records would establish guidelines for the city to make records available to the public. This policy should identify a person to contact, provide an address to mail such requests, and establish fees that may be assessed for providing copies of public records.

Section 610.023, RSMo, lists requirements for making records available to the public. Section 610.026, RSMo, allows the city to charge fees for providing access to and/or copies of public records and provides requirements related to fees. Section 610.028, RSMo, requires a written policy regarding release of information under the Sunshine Law.

5.3 Record requests

City officials do not maintain adequate documentation of requests for records to show compliance with state law. In addition, the city did not respond to any records requests from March 18 to June 9, 2020.

- The city does not maintain a log of records requests. The city was unable to produce a record of dates requests were made, when records were provided, or communications related to these requests.
- City officials did not respond to record requests timely. On March 18, 2020, the former Mayor closed city hall to the public due to the Coronavirus Disease 2019 (COVID-19) pandemic and directed the City Clerk to only process and bill sewer payments. City hall reopened to the public and the City Clerk resumed responding to records requests when the former Mayor resigned on June 9, 2020.

Section 610.023, RSMo, provides that each request for access to public records shall be acted upon as soon as possible, but in no event later than the end of the third business day following the date the request was received by the custodian of records. To ensure compliance with state law, the city should document adequate information in a log to determine if requests are completed timely and all requests are adequately filled. Necessary information includes, but is not limited to, the date of request, a brief description of the request, the date the request is completed or reason why the request cannot be completed, and any associated costs of fulfilling the request.



City of Edgar Springs
Management Advisory Report - State Auditor's Findings

5.4 Closed meetings

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

- Open meeting minutes did not document the specific reasons or section of law allowing the meeting to be closed for any of the 6 closed meetings held in 2019. In addition, the vote of each member approving to enter into a closed meeting was not documented.
- Some topics discussed in closed session were not allowable under the Sunshine Law. For example, the Board discussed paid time off for employees, mowing, cleanup and maintenance at sewer department, and the trimming of trees on roadways.
- Roll call votes were not always recorded. The closed meeting minutes for the February 11, 2019, meeting indicate the Board agreed on a personnel matter discussed, but the roll call votes were not documented.

Section 610.022, RSMo, requires the reason and the specific section allowed by law for going into a closed session be entered into the minutes, and prohibits the discussion of any business not directly related to the specific reason announced. Additionally, Section 610.015, RSMo, requires any votes taken during a closed meeting shall be taken by roll call.

5.5 Meeting minutes

Minutes were not prepared for all meetings and minutes are not signed. On December 16, 2019, a meeting was held by the Board to discuss sewer repairs. The city did not give notice or record and maintain minutes for this meeting. City officials indicated this was not a Board meeting because the Board members present were acting in their capacity as volunteer backup sewer operators. In addition, meeting minutes are not signed by the preparer or the Board. Without signatures, there is less assurance the minutes are a true and unaltered record of matters discussed and actions taken during the meeting.

Section 610.010.5, RSMo, defines a public meeting as any meeting of a public governmental body at which any public business is discussed, decided, or public policy formulated. Sections 610.020.1 and 610.020.2, RSMo, provide the requirements for the meeting notice and that the notice must be posted at least 24 hours before the meeting. Section 610.020.7, RSMo, requires meeting minutes be maintained as a record of business conducted and to provide an official record of Board actions and decisions. The meeting minutes should be signed by the preparer and subsequently approved by the Board to provide an independent attestation that the minutes are a correct record of the matters discussed and actions taken during the meeting.

Recommendations

The Board of Aldermen:

- 5.1 Ensure ordinances are maintained in a complete and well-organized manner, and establish an index of all ordinances passed and



City of Edgar Springs
Management Advisory Report - State Auditor's Findings

rescinded. The Board should establish, by ordinance, the terms and compensation of all city officials and employees, and policies and procedures for employee travel, conflict of interest, credit and debit card use, and city hall rental.

- 5.2 Develop a written public access policy.
- 5.3 Ensure requests for information are responded to timely and maintain a public request log or other documentation to help ensure compliance with state law.
- 5.4 Ensure the specific section of law allowing the meeting to be closed is announced publicly and recorded in the minutes, discussion is limited to business directly related to the specific reason announced, and votes taken in closed session are recorded by roll call.
- 5.5 Ensure minutes are maintained for all meetings, and ensure meeting minutes are signed by the preparer and the Mayor or a Board member after approval.

Auditee's Response

- 5.1 *The Board is in the process of updating ordinances as recommended. Ordinances are now kept in order and there is an updated index. Ordinances are also now kept electronically.*
- 5.2 *The Board will develop a public access policy.*
- 5.3 *Requests for information are now taken care of in a timely manner in compliance with state law. Documentation of such will be maintained.*
- 5.4 *All closed meetings will be announced in a timely manner and recorded in the minutes with the proper state statute showing the reason for the closed meeting. Discussions in closed meetings will be limited to the reason stated and any votes taken will be recorded by roll call.*
- 5.5 *Meeting minutes are now kept by both paper copy and electronically, and are now being signed by both the preparer and the Mayor at the time of approval.*

6. Ticket Accountability

The police department has not developed adequate procedures to account for the numerical sequence of tickets and the ultimate disposition of tickets issued.

Police officers issue manual tickets and the department maintains an electronic record of manual tickets issued. Tickets issued are periodically



City of Edgar Springs Management Advisory Report - State Auditor's Findings

picked up by the City Prosecutor who determines whether to dismiss a ticket or file it with the municipal court (held at the circuit court) for processing. However, there are no procedures to account for the numerical sequence and ultimate disposition of all tickets issued to ensure tickets have been handled properly. The City Prosecutor indicated city officials declined her offer to provide the city a report of the disposition of tickets issued.

Tickets are not always recorded or recorded timely in the department's electronic record system. Our review of all ticket numbers entered into the electronic record system during the year ended December 31, 2019, identified 56 gaps in sequence. However, 25 of these tickets were issued in 2018, leaving 31 unaccounted for tickets in 2019. We also noted that of the 191 tickets issued during 2019, 170 tickets issued from February through December 2019 were not recorded in the electronic record system until December 29, 2019.

Our review of 60 ticket numbers in the sequence utilized by officers during February and September 2019, included 13 of the 31 unaccounted for tickets. Three of these tickets had been voided, 6 tickets were filed with the municipal court, and 1 ticket was dismissed by the City Prosecutor. Neither the Chief of Police nor the City Prosecutor could account for the disposition of the remaining 3 tickets.

Without properly accounting for the numerical sequence and ultimate disposition of tickets issued, the department cannot be assured all tickets are properly accounted for or submitted for processing to the municipal court.

Recommendation

The Board of Aldermen ensure tickets are entered timely into the electronic record system. In addition, the Board should work with the City Prosecutor to ensure the numerical sequence and ultimate disposition of all tickets (including voided tickets) are accounted for properly.

Auditee's Response

The Board plans to fully implement the recommendation.

7. Excess Revenues

The city did not prepare and submit the financial report addendum containing excess revenues calculations to the SAO as required by state law.

Section 479.359, RSMo, requires cities to submit to the SAO an addendum to the city's annual financial report containing an accounting of annual general operating revenue; total revenues from fines, bond forfeitures, and court costs for municipal ordinance violations and minor traffic violations; and the percent of annual general operating revenue from fines, bond forfeitures, and court costs for municipal ordinance violations and minor traffic violations. Code of State Regulations, 15 CSR 40-3.170, requires the city to submit the addendum to the SAO within 6 months of the city's fiscal year end. The city's addendum for 2019 was due by June 30, 2020.



City of Edgar Springs
Management Advisory Report - State Auditor's Findings

To ensure compliance with state law, city officials should implement procedures to promptly prepare and submit the addendum annually to the SAO.

Recommendation

The Board of Aldermen ensure the addendum is prepared annually and submitted to the State Auditor's Office by the statutory due date.

Auditee's Response

The excess revenues addendum will be completed and submitted by the statutory due date.

8. Electronic Communication Policies

The city has not developed records management and retention policies in compliance with the Missouri Secretary of State Records Services Division guidance, as approved by the Missouri Local Records Commission. This guidance recommends government entities have a policy on electronic messaging, including text messages, email, and other third party platforms.

City officials do not always use city email accounts when conducting city business. Some city business communications were transmitted by personal email accounts or by text messages from personal cell phones. In addition, city personnel indicated they receive and respond to record requests through email but could not provide documentation of requests made and fulfilled during 2019. As a result, electronic communications may not be retained in accordance with state law.

Section 109.210(5), RSMo, defines a public record as "documents, books, papers, photographs, maps, sound recordings or other material, regardless of physical form or characteristics, made or received pursuant to law or in connection with the transaction of official business." Section 109.270, RSMo, provides that all records made or received by an official in the course of his/her public duties are public property and are not to be disposed of except as provided by law. Section 109.255, RSMo, provides that the Local Records Board issue directives for the destruction of records. The guidelines for managing electronic communications records can be found on the Secretary of State's website.³

To ensure compliance with state law, the Board should develop written policies to address the use of personal email, social media and message accounts, and management and retention of electronic communications.

Recommendation

The Board of Aldermen develop written records management and retention policies to address electronic communications management and retention to

³ Missouri Secretary of State Records Services Division, *Electronic Communications Records Guidelines for Missouri Government*, May 14, 2019, is available at <<https://www.sos.mo.gov/CMSImages/LocalRecords/CommunicationsGuidelines.pdf>>, accessed August 27, 2020.



City of Edgar Springs
Management Advisory Report - State Auditor's Findings

comply with Missouri Secretary of State Records Services Division Electronic Communications Guidelines.

Auditee's Response

The Board will develop written records management and retention policies for electronic communications to comply with state laws.

City of Edgar Springs

Organization and Statistical Information

The City of Edgar Springs is located in Phelps County. The city was incorporated in 1974 and is currently a fourth-class city. The city employed 6 part-time employees on December 31, 2019.

City operations include sewer services, street maintenance, parks, and law enforcement services.

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 December 31, 2019, are identified below. The Mayor and Board of Aldermen receive no compensation.

Keith Gallion, Mayor (1)
Rick Brewer, Alderman (2)
V. Butch Lucas, Alderman (3)
Terry Austin, Alderman (4)
Jack Newman, Alderman (5)

- (1) Keith Gallion resigned in June 2020, and the Board voted Terry Austin to be the Mayor.
- (2) Replaced by Richard Lewis, who was elected⁴ in June 2020.
- (3) V. Butch Lucas resigned in March 2020, and the Board appointed Ron Clift as Alderman in June 2020.
- (4) Terry Austin resigned after the Board voted him to be the Mayor, and the Board appointed Jack Newman as Alderman in June 2020.
- (5) Replaced by Rick Brewer, who was elected⁴ in June 2020.

Other Principal Officials

The City Clerk, City Treasurer, and Chief of Police are appointed positions. The City Treasurer position was vacant during 2019. The city's principal officials at December 31, 2019, are identified below:

Rachel Lucas, City Clerk
Joe Hohner, Chief of Police
Brandi Baird, City Attorney/City Prosecutor

Financial Activity

A summary of the city's financial activity, prepared using the city's bank statements, for the year ended December 31, 2019, follows:

⁴ Due to the COVID-19 pandemic, the April 2020 municipal election was postponed until June 2020.

City of Edgar Springs
 Schedule of Receipts, Disbursements, and Changes in Cash Balances
 Year Ended December 31, 2019

	General Operations Fund Account	Police Account	Wastewater Treatment Account	Fundraiser/Government Funds Account (3)	Total
(1) RECEIPTS	\$ 109,598	15,216	57,493	5,142	187,449
(1) DISBURSEMENTS	102,267	11,334	48,298	2,000	163,899
RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>7,331</u>	<u>3,882</u>	<u>9,195</u>	<u>3,142</u>	<u>23,550</u>
(2) CASH BALANCE, JANUARY 1, 2019	5,303	0	4,067	0	9,370
CASH BALANCE, DECEMBER 31, 2019	<u>\$ 12,634</u>	<u>3,882</u>	<u>13,262</u>	<u>3,142</u>	<u>32,920</u>

- (1) Receipts and disbursements presented include transfers between funds.
- (2) The General Operations Fund Account includes activity of the General, Street, and Federal Grant Funds during 2019; and the Police Fund prior to June 2019. Bank accounts opened May 30, 2019, for the Police and Fundraiser/Government Funds include related receipt and disbursement activity from that point forward.
- (3) Includes \$2,642 sewer revenues erroneously deposited into this account in December 2019. These monies were transferred to the Wastewater Treatment Account in January 2020.