



Nicole Galloway, CPA

Missouri State Auditor

FOLLOW-UP REPORT ON AUDIT FINDINGS

City of Center

Report No. 2021-075

September 2021

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City of Center

Follow-Up Report on Audit Findings

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*Includes selected findings



NICOLE GALLOWAY, CPA
Missouri State Auditor

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

We have conducted follow-up work on certain audit report findings contained in Report No. 2020-070, *City of Center* (rated as Poor), issued in September 2020, pursuant to the Auditor's Follow-Up Team to Effect Recommendations (AFTER) program. The objectives of the AFTER program are to:

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

As part of the AFTER work conducted, we reviewed documentation provided by the City Clerk and the city's depository bank and held discussions with city officials to verify the status of implementation for the recommendations. Documentation provided by the city included Board meeting minutes, financial records, and other pertinent documents. This report is a summary of the results of this follow-up work, which was substantially completed during May and June 2021.

Nicole R. Galloway, CPA
State Auditor

City of Center

Follow-Up Report on Audit Findings

Status of Findings

1. **Misappropriated Money** Between January 1, 2015, and July 3, 2019, at least \$316,887 was misappropriated from the city. During this period, the former City Clerk used city money to pay personal credit card bills totaling \$206,343 and obtained \$1,997 in credit card rewards points related to transactions paid for from city funds. The former City Clerk made improper payments using city money for health insurance coverage totaling at least \$62,013 and personal expenses totaling at least \$35,547. The former City Clerk also made improper payroll disbursements to herself totaling \$3,580 and did not deposit at least \$7,407 in cash receipts.

The City Clerk made another 247 disbursements, totaling \$87,692, that had no supporting documentation and were considered questionable based on discussions with city officials.

In addition, the former City Clerk falsified Board financial reports and lists of bills prepared for Board meetings. The Mayor and some Board members indicated the former City Clerk provided various financial records for review at Board meetings, but the information provided was not consistent. Only 8 months of account balance reports, and 7 months of bills to be paid lists were available for our review. The account balance reports we reviewed misreported the majority of the bank account balances and helped conceal the depletion of the Sewer Fund account by the former City Clerk. Numerous disbursements were missing from the lists of bills reviewed, including most payroll transactions and the improper disbursements identified.

Recommendation

The Board of Aldermen continue to work with law enforcement officials regarding criminal prosecution of the improper disbursements and missing money. The Board should also review the questionable, unsupported disbursements and work with law enforcement officials regarding criminal prosecution of any personal purchases. The Board should take necessary action to obtain restitution for all improper disbursements and missing money. The Board should also ensure all disbursements are necessary and prudent uses of public funds.

Status

Implemented

In November 2020, a federal grand jury indicted the former City Clerk and she was charged with wire fraud and federal program theft. She plead guilty to those charges in June 2021 and sentencing is scheduled for October 2021. The city took action in early 2020 to file a lien on the sale of the former City Clerk's home and in May 2020, the city received a \$99,054 settlement after the home was sold. In October 2020, the city received \$25,000 from its insurance company for payment on the former City Clerk's performance bond. The city also filed suit against the former City Clerk in the Tenth Judicial Circuit Court, Ralls County, and in January 2021, obtained a judgment in the amount of \$316,887.



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Board procedures now require either the Mayor or a specific Alderman to sign each check, in addition to the City Clerk. Both the Mayor and the Alderman indicated they review supporting documentation prior to signing any checks and they ensure all disbursements are necessary and valid uses of city money. In addition, copies of the computer generated check registers for each fund are provided at monthly Board meetings for Board members to review.

2. Oversight and Annual Audits

The Board did not establish adequate oversight of the former City Clerk or obtain annual audits as required by state law.

2.1 Oversight and segregation of duties

The Board did not establish adequate segregation of duties or supervisory reviews over the various financial accounting functions performed by the former City Clerk, which included various receipting, disbursement, and payroll handling functions. The Board also did not perform an adequate review of the documentation provided by the former City Clerk. In addition, accounting system access was limited and checks only required one signature prior to August 2019.

Recommendation

The Board of Aldermen segregate accounting duties to the extent possible and implement appropriate reviews and monitoring procedures over the city's financial activity.

Status

Partially Implemented

At each monthly Board meeting, the City Clerk provides the Board a fund balance report, the check register from the accounting system, and a copy of the bank statements. The Mayor and Alderman that sign checks indicated they review supporting documentation for each disbursement before signing the checks, although they do not document these reviews. The City Clerk does not provide bank reconciliations to the Board and no specific monitoring procedures have been developed yet for review of receipting or payroll. The Mayor did indicate he reviews the City Clerk's time sheet regularly. The Board stated it will develop a process for an independent review of bank reconciliations and other receipting and payroll documentation in the near future.

2.2 Annual audits

The city did not obtain annual audits as required by state law and city officials did not know when the last audit of city finances occurred.

Recommendation

The Board of Aldermen obtain annual audits of the sewerage system as required by state law.



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Status

In Progress

The City Clerk contacted at least four auditing firms in May 2021 to obtain financial audit proposals and received one proposal for services in June 2021. The Board is currently in negotiations with this accounting firm and intends to enter into a contract for an audit soon.

3.1 Accounting Controls
and Procedures -
Receipting, reconciling,
and depositing

The city's procedures for receipting, recording, and depositing payments received were not adequate. As a result, there was no assurance all money collected was properly receipted, recorded, and deposited. Receipt slips were not issued for all payments received. Deposit slips did not include the individual receipts composing deposits and other deposit records did not include the composition of the receipts. No one independent of the receipting process accounted for the numerical sequence of receipt slips or reconciled the composition of receipts to the composition of deposits. Checks and money orders were not restrictively endorsed immediately upon receipt.

Recommendation

The Board of Aldermen ensure all money collected is properly receipted. Ensure the numerical sequence of receipt slips is properly accounted for and reconcile the composition of receipts to the composition of deposits. Ensure checks and money orders are restrictively endorsed upon receipt. Ensure deposit slips or other records identify the individual receipts composing deposits.

Status

Partially Implemented

Manual receipt slips are now issued for all monies received and payments received are recorded in the computerized accounting system. City personnel now restrictively endorse checks and money orders immediately upon receipt and maintain records indicating the receipts included in each deposit. The Board has not implemented procedures to account for the numerical sequence of receipt slips issued or reconcile the composition of receipts to the composition of deposits. The Board indicated it will develop procedures for one of the Aldermen or the Mayor to periodically perform these duties.

3.2 Accounting Controls
and Procedures - Bank
reconciliations

The former City Clerk did not perform monthly bank reconciliations for any city bank accounts. In addition, the Mayor indicated the former City Clerk did not provide himself or the Board bank reconciliations to review and approve.

Recommendation

The Board of Aldermen perform monthly bank reconciliations of all bank accounts timely and ensure supervisory reviews of bank reconciliations are documented.



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Status

Partially Implemented

The city now uses one bank account for all city funds. The City Clerk began performing monthly reconciliations of this account in March 2021; however, these reconciliations are not provided to the Board and no other supervisory review is performed. We reviewed the March 31, 2021, bank reconciliation and did not identify any significant concerns.

4. Payroll

Significant weaknesses existed in the city's payroll controls and procedures.

4.1 Compensation

The city did not maintain documentation of approved pay rates or changes to pay rates in employee personnel files and the compensation for city officials and employees was not set by ordinance as required. In addition, the city did not have adequate controls and procedures in place to ensure payroll disbursements for the Mayor and Aldermen were consistent and accurate.

Recommendation

The Board of Aldermen ensure pay rates are documented, approved, and established by ordinance as required for all city employees and officials and are maintained.

Status

Partially Implemented

The Board passed an ordinance in February 2020 to set the compensation for the Board of Aldermen and Mayor, but has not passed an ordinance to set the rate of pay for other city employees. The Board now documents approval of any hourly raises for city employees in meeting minutes. We noted the Board's approvals of pay raises to the Police Chief in October 2020 and the Assistant City Clerk in April 2021 were documented in minutes.

4.2 Timesheets

No one could provide documentation that the former City Clerk prepared timesheets during the audit period and no one performed a documented review and approval of the former Police Chief's timesheets.

Recommendation

The Board of Aldermen ensure timesheets are prepared, approved, and maintained for all city employees.

Status

Partially Implemented

Timesheets are now prepared and maintained for all city employees, but they are not reviewed and approved by any member of the Board or the Mayor. The Mayor indicated he reviews the City Clerk's timesheets, but does not document his review.

4.3 Questionable payroll differences

Additional questionable payroll disbursements, totaling \$6,348, were made to the former City Clerk and former Police Chief. A comparison of payroll disbursements to available accounting system reports identified payroll



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disbursements in excess of recorded payroll. The Board did not establish adequate oversight of the former City Clerk's payroll procedures, which may have allowed the difference in actual disbursements and amounts reported to go undetected.

Recommendation

The Board of Aldermen ensure reviews of payroll records are performed to ensure the propriety of payroll payments, and review the questionable payroll disbursements and consider working with law enforcement officials regarding criminal prosecution of the questionable disbursements.

Status

Partially Implemented

The Board indicated a willingness to work with law enforcement officials regarding these questionable disbursements, but indicated additional investigation is unlikely considering the former City Clerk has already pled guilty to the federal charges. The Board has not established procedures to ensure the propriety of payroll records beyond the Mayor's undocumented review of the City Clerk's timesheets.

**5. Financial Reporting,
Published Financial
Statements, and Budgets**

The city did not comply with state law relating to submitting annual financial reports, publishing financial statements, and preparing complete annual budgets.

5.1 Financial reporting

Neither the Board nor the former City Clerk submitted a financial report to the State Auditor's Office (SAO) as required by state law for the years ended December 31, 2018, 2017, or 2016. As a result, the state imposed fines totaling \$157,000 as of July 2019, as provided in Section 105.145, RSMo. In July 2019, the Mayor sent a letter to the Missouri Department of Revenue (DOR) indicating the city's records were in the possession of the SAO as of July 10, 2019, and the city could not produce a financial statement. As a result the city stopped incurring fines as of July 11, 2019.

Recommendation

The Board of Aldermen submit annual financial reports to the State Auditor's Office as required by state law.

Status

In Progress

The City Clerk filed a financial report for the five years ended December 31, 2019, with the SAO on May 27, 2020. The city requested the DOR reduce or eliminate the fine amount owed by the city due to the fraud committed by the former City Clerk, but the DOR indicated it lacked legal authority to make an adjustment. As of May 3, 2021, according to DOR records, the city owes a remaining fine of \$139,640. The city filed its year ended December 31, 2020, financial report late, on July 21, 2021, but did not incur additional fines.



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5.2 Published financial statements

City officials did not publish semiannual financial statements as required by state law. The Mayor indicated he believed the former City Clerk was publishing the statements, but he contacted the local newspaper and determined they had not been published during the audit period. As a result, information regarding the city's financial activity and condition was not available to all citizens.

Recommendation

The Board of Aldermen publish semiannual financial statements as required by state law.

Status

Not Implemented

The city has not published semiannual financial statements since the release of our audit report in September 2020. The city published a statement for the periods January 1 to June 30, 2020, in August 2020, but the city has not published statements for the periods July 1, 2020, to December 31, 2020, or January 1, 2021, to June 30, 2021.

5.3 Budgets

The city's budgets did not contain all statutorily required elements and the Board did not approve the annual budgets timely.

Recommendation

The Board of Aldermen prepare annual budgets that contain all information required by state law and approve the budget prior to the beginning of the fiscal year.

Status

Not Implemented

While the Board adopted a budget for the year December 31, 2021, it did not include all information required by state law. The 2021 budget did not include a budget message or summary of funds, actual or estimated actual receipts and disbursements for the 2 preceding years, or actual beginning or estimated ending cash balances for each fund. In addition, the Board approved the 2021 budget in January 2021, after the beginning of the fiscal year.