

The seal of the Missouri State Auditor is circular and features a central figure holding a scale and a sword. The text around the seal reads "SEAL OF THE STATE AUDITOR" at the top, "JUSTICE WE STAND DIVIDED" in the middle, and "1820 MISSOURI 1892" at the bottom.

Nicole Galloway, CPA

Missouri State Auditor

FOLLOW-UP REPORT ON AUDIT FINDINGS

City of Edgar Springs

Report No. 2021-088

October 2021

auditor.mo.gov

City of Edgar Springs

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 Edgar Springs

We have conducted follow-up work on certain audit report findings contained in Report No. 2020-087, *City of Edgar Springs* (rated as Poor), issued in November 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 held discussions with the City Clerk and the Mayor 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 June, July, and August 2021.

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

Nicole R. Galloway, CPA
State Auditor

City of Edgar Springs

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Status of Findings

1. 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 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.

1.1 Budgets The budgets prepared for the years ended December 31, 2019, and December 31, 2020, did not contain all statutorily-required elements. The Board did not adequately monitor budget-to-actual receipts and disbursements because year-to-date budget-to-actual reports of financial activity were not presented to the Board.

Recommendation The Board of Aldermen prepare annual budgets that contain all information required by state law and ensure budgets are properly monitored.

Status **Partially Implemented**
In December 2020, the Board began reviewing monthly budget-to-actual reports.

The City Clerk could not provide us the official 2021 budget approved by the Board in December 2020. The various supporting documents for the 2021 budget provided for our review did not include all the statutorily-required elements of a budget, and none of the documents were the official budget.

1.2 Financial statements and accounting records The city's financial statements did not accurately reflect the financial activity of the city. The total beginning balance on the January 2019 financial statement did not agree to the total ending balance on the prior period financial statement submitted to the State Auditor's Office (SAO) or to the published semiannual financial statement. In addition, city officials did not agree reconciled bank account balances to the ending fund balances on the monthly financial statements. Also, the city did not maintain accurate accounting records, resulting in errors on monthly financial statements.

Recommendation The Board of Aldermen 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.

Status **Not Implemented**
The City Clerk indicated she does not reconcile the city's bank accounts. Bank reconciliations were prepared by the former City Treasurer until her resignation in August 2020, and no bank reconciliations have been prepared since that time. The Mayor indicated the Board does not review bank



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statements because they are not provided to them at Board meetings. Also, monthly reconciliation and comparison procedures are not performed of accounting records to ensure accounting transactions are properly recorded.

In addition, the financial statements prepared by the City Clerk are not accurate. The ending balance for all funds totaled \$30,270 on the December 2020 monthly financial statement and the ending balance on the semiannual financial statement published for the 6 months ended December 31, 2020, totaled \$25,532, resulting in a difference of \$4,738. The General Operations Fund ending balance of \$32,689 on the April 2021 financial statement did not agree to the General Operations Fund beginning balance of \$22,766 on the May 2021 financial statement, resulting in a difference of \$9,923.

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.

Recommendation

The Board of Aldermen ensure the city's published financial statements are complete, accurate, and contain all statutorily-required elements.

Status

Not Implemented

The city's semiannual financial statements published for the 6 months ended December 31, 2020, and the 6 months ended June 30, 2021, did not include beginning or ending fund balances or a detailed accounting of receipts and disbursements for each fund.

1.4 Filing of financial reports

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.

Recommendation

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

Status

Not Implemented

The city did not file an accurate and timely financial report with the SAO for the year ended December 31, 2020. This financial report, due by June 30, 2021, was not filed until July 8, 2021, the day after our visit to the city. The financial report submitted did not include the first 6 months of 2020 and consisted only of the published summary statement of revenues and expenditures for the last 6 months of 2020.

1.5 Annual audits

The city had not obtained annual audits of its sewer system as required by state law.



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

Status **Not Implemented**

The City Clerk indicated the city has not obtained an audit of the sewer system because the city cannot afford to pay for an annual audit.

2.1 Sewer System Controls and Procedures - Sewer rates Current sewer rates were not supported by a cost study or other documentation showing how the rates were determined.

Recommendation The Board of Aldermen 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.

Status **In Progress**

City officials performed a cost study in December 2020 to support the 2021 sewer rate increases, with plans to re-evaluate costs annually. The 2021 base rate is lower than the estimated base rate in the cost study. However, the Mayor indicated the Board plans to phase-in the base rate increase over a period of several years so that rates are increased gradually for customers rather than all at once.

2.2 Sewer System Controls and Procedures - Sewer deposits The city did not maintain a listing of refundable customer deposits held in the Wastewater Treatment bank account.

Recommendation The Board of Aldermen 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.

Status **In Progress**

The city started preparing a listing of customer deposits, but it is not reconciled to the balance of deposits held because the listing is not yet complete. The City Clerk indicated she will continue working on this deposit listing as time permits. For the July 2021 listing, the city has determined the deposit amounts paid for 42 of the 101 active customers.



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2.3 Sewer System Controls and Procedures - Delinquent accounts

The city's procedures for collecting delinquent sewer charges did not comply with city ordinance, sewer user contracts, or state law. In addition, the city ordinance did 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, 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.

The \$100 reconnect fee in city ordinance did not agree to the \$50 reconnect fee in the sewer user contract. The sewer user contract also required the customer to pay all charges incurred with blocking the sewer (\$300 to \$400), but this was not authorized by city ordinance.

Recommendation

The Board of Aldermen 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.

Status

In Progress

The city developed a new sewer user agreement and contracts in August 2020 to indicate the city will place a lien on a property with delinquent sewer bills in accordance with Section 250.234, RSMo. The city has removed the portion of the agreement mandating reconnect fees.

City ordinance No. 66, established in November 2020, authorizes the city to turn over delinquent sewer accounts to the County Collector for collection with the city's real estate property taxes rather than filing a lien with the recorder of deeds as provided by Section 250.234, RSMo. However, the City Clerk indicated the city has not turned over any delinquent accounts to the County Collector since the new ordinance was established. The Mayor indicated they plan to change the ordinance to agree to the sewer user agreement.

2.4 Sewer System Controls and Procedures - Adjustments

The City Clerk made 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 did not review and approve all adjustments.

Recommendation

The Board of Aldermen review and approve all adjustments made to customer accounts and periodically compare adjustments posted to adjustments approved.



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Status

Partially Implemented

The City Clerk and the Mayor indicated an adjustment listing is presented to the Board monthly for review and approval. However, the Board's review and approval is not documented in the Board meeting minutes and the listing is not signed by a Board member indicating Board approval. In addition, a periodic comparison of adjustments posted to adjustments approved is not performed.

3. Accounting Controls and Procedures

Accounting controls and procedures needed improvement.

3.1 Segregation of duties

The Board had not adequately segregated accounting duties or ensured documented supervisory or independent reviews of work performed by city officials were completed.

Recommendation

The Board of Aldermen segregate the accounting duties. If proper segregation cannot be achieved, ensure documented independent or supervisory reviews of detailed accounting and bank records are performed.

Status

Not Implemented

Duties have not been segregated. As of August 2020, the City Clerk is now responsible for the duties of both the City Clerk and the City Treasurer. The Board or other city officials are not performing reviews of detailed accounting and bank records.

3.2 Receipting and depositing

The city's procedures for receipting and depositing monies were poor. Payments in the drop slot were not adequately safeguarded. City officials did not issue receipt slips for most monies received and there was no comprehensive record of individual sewer receipts. City officials did not account for the numerical sequence of receipt slips issued, and did not reconcile receipt records to deposit records. Checks and money orders received were not restrictively endorsed.

Recommendation

The Board of Aldermen 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.

Status

Partially Implemented

The City Clerk endorses checks and money orders at the time of receipt and the city installed a locked drop box in July 2021. However, the City Clerk no longer issues prenumbered receipt slips for any money received and there is



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no comprehensive record of individual receipts. There is no reconciliation of receipt records to deposit records.

4. Disbursements

City's procedures over disbursements needed improvement.

4.1 Review and approval process

The Board's review and approval process for disbursements was not adequate. The City Treasurer presented a list of disbursements to the Board but the Board generally did not review any invoices or any other documentation supporting the disbursements. The Board did not sign the disbursement listings to document approval and did not reconcile disbursement listings to payments issued.

Recommendation

The Board of Aldermen 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.

Status

Not Implemented

The City Clerk indicated the Board now signs the listing of disbursements at each meeting. However the City Clerk could not provide us any disbursement listings signed by the Board. There is no documented review of supporting documentation and no reconciliation of disbursements to payments issued.

4.2 Procurement procedures and contracts

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

Recommendation

The Board of Aldermen 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.

Status

Partially Implemented

The city has not established formal bidding policies and procedures. The City Clerk indicated the city has been working on entering into written contracts with existing vendors, but could not locate documentation of new contracts or the evaluation and selection of the vendors utilized. The Mayor indicated when bids are needed, 3 written bids are required. During our review of Board meeting minutes for the months of February through May 2021, we did not see any purchases for which bidding would have been required.

4.3 Supporting documentation

City officials could not provide supporting documentation for all disbursements.



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Recommendation The Board of Aldermen require adequate, detailed supporting documentation be retained for all disbursements.

Status **Implemented**

The City Clerk indicated she is retaining adequate, detailed supporting documentation for all disbursements. We reviewed the file folder containing invoices paid during the first half of 2021 and it appeared all supporting documentation was retained.

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

5.1 Ordinances Ordinances were poorly maintained. An index of all ordinances passed and rescinded by the city was not maintained. City ordinance No. 60-A (related to sewer operations) had not been updated since 1991. The city did not have ordinances establishing the compensation for the City Clerk, City Treasurer, and Chief of Police. The city did not have ordinances establishing an employee travel policy, a conflict of interest policy, and procedures for credit and debit card usage and city hall rental.

Recommendation The Board of Aldermen ensure ordinances are maintained in a complete and well-organized manner, and establish an index of all ordinances passed and 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.

Status **Not Implemented**

The city has not begun implementing this recommendation. The City Clerk indicated she plans to get the ordinances organized electronically when she has time, but could not give any estimate of a time frame for this plan. The city has not established ordinances for the terms and compensation of all city officials and employees, or for policies and procedures for employee travel, conflict of interest, credit and debit card use, and city hall rental.

5.2 Public access policy The Board had not adopted a written policy regarding public access to city records as required by state law.

Recommendation The Board of Aldermen develop a written public access policy.

Status **Implemented**

The Board adopted ordinance No. 115 establishing a public access policy.



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5.3 Record requests

City officials did 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.

Recommendation

The Board of Aldermen ensure requests for information are responded to timely and maintain a public request log or other documentation to help ensure compliance with state law.

Status

Not Implemented

The City Clerk indicated the city opened a new email account for record requests and she plans to track the requests by conversation. However, she does not plan on maintaining a log or other documentation to help ensure compliance with state law. City ordinance No. 115 appointed the City Clerk as custodian of records and provided the city's mailing address, but did not provide the city's new email address as a method to submit requests for records. The City Clerk indicated the city has received about 100 record requests since the new email account was launched in the middle of 2020. However, the City Clerk did not provide any documentation to demonstrate record requests were responded to timely.

5.4 Closed meetings

Open meeting minutes did not document the specific reasons or section of law allowing the meeting to be closed, and 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 and roll call votes were not always recorded.

Recommendation

The Board of Aldermen 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.

Status

Partially Implemented

We reviewed the open and closed meeting minutes provided from February to May 2021. These open meeting minutes indicated a closed session was held each month. The February, April, and May 2021 open minutes stated the specific section of law allowing the meeting to be closed. However, the March 2021 open meeting minutes did not document the specific reasons or section of law allowing the meeting to be closed. Some topics (paid time off and payment of legal fees) discussed in 3 of the closed sessions were not allowable under the Sunshine Law. Roll call votes were not recorded in the closed minutes from February to April 2021, and the City Clerk could not locate the May 2021 closed meeting minutes.



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5.5 Meeting minutes

Minutes were not prepared for all meetings and minutes were not signed by the preparer or the Board.

Recommendation

The Board of Aldermen 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.

Status

Partially Implemented

We requested the signed minutes for all meetings held from February through May 2021. We received signed minutes for open meetings held on January 11, March 15, and April 12, and the emergency conference call on February 17, 2021. The minutes provided to us for open meetings held on February 22 and May 14, 2021, were not signed. Minutes for the 3 closed meetings held from February to April 2021 were not signed, and the closed meeting minutes for May 14, 2021, could not be located.

8. Electronic
Communication Policies

The city had 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.

Recommendation

The Board of Aldermen develop written records management and retention policies to address electronic communications management and retention to comply with Missouri Secretary of State Records Services Division Electronic Communications Guidelines.

Status

In Progress

The Mayor indicated he plans to draft a written records management and retention policy and present it to the Board for review in September 2021.