

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, "WE STAND DIVIDED" in the middle, and "1820 MISSOURI 1892" at the bottom.

Nicole Galloway, CPA

Missouri State Auditor

City of Purcell

Report No. 2022-033

June 2022

auditor.mo.gov



Nicole Galloway, CPA
Missouri State Auditor

CITIZENS SUMMARY

Findings in the audit of the City of Purcell

| | |
|--|--|
| Misappropriated and Undeposited Money | From February 1, 2021, to April 12, 2021, at least \$3,233 was misappropriated or is missing from the city. During this period, the former Mayor Pro Tem improperly issued herself 4 checks totaling \$1,988, made a \$400 cash withdrawal from the city bank account, issued a \$200 check to a routine city vendor that she endorsed and deposited into her personal bank account, and issued a \$500 check to an individual that was cashed and the proceeds were divided between the individual (\$250) and the Mayor Pro Tem (\$250). In addition, she improperly recorded \$160 in adjustments to her utility account, and did not bill herself for an estimated \$70 of utility and trash services. The former Mayor Pro Tem also did not deposit at least \$165 in city cash receipts collected during this timeframe. |
| Oversight, Annual Audits, and Bonding | The former Board did not always adequately monitor the city's financial activity; review or compare checks written to supporting documents, such as invoices or bank statements; or require dual signatures on city checks. The city did not obtain an annual audit of its sewer system for the year ended December 31, 2020, as required by state law. The Mayor and board members who sign checks and have access to money held in bank accounts are not covered by a bond. |
| Financial Condition | The city is in poor financial condition. For the year ended December 31, 2020, the city's General account reconciled bank balance, which includes all city funds, was \$15,460, which is only slightly greater than the city's average monthly expenditures of \$14,778. Further, the Board is not adequately monitoring the city's financial condition, as it does not receive budget-to-actual information by fund or timely financial reports. |
| Accounting Controls and Procedures | The city's procedures for receipting, recording, and depositing money are poor. As a result, there is no assurance all money collected is properly receipted, recorded, and deposited. The city has not established adequate procedures to allocate salaries and wages to various city funds and ensure restricted money in those funds is only used for the intended purposes. Many city financial records were not properly retained. |
| Disbursements | The city does not always solicit bids or obtain written contracts in accordance with city code. In addition, contracts are not always entered into timely. City officials could not provide supporting documentation for some disbursements or their approval of those disbursements. The city did not retain credit card receipt slips for some credit card purchases and made duplicate payments to its credit card vendor. The city did not maintain adequate documentation to support all petty cash fund transactions in 2020 or update the petty cash fund ledger for 2021. |
| Utility System Controls and Procedures | Improper adjustments were made to the utility account of the former Mayor Pro Tem. The former Mayor Pro Tem did not perform a monthly reconciliation of amounts billed, payments received, and amounts unpaid for utility services due in March 2021. The city did not always file returns with the Department of Revenue (DOR) in a timely manner or remit all sales taxes collected related to water services provided. |

| | |
|--|---|
| Payroll | City officials did not maintain documentation to support all payroll transactions. |
| Budgets, Financial Reporting, and Maintenance Planning | The city did not prepare complete annual budgets or monitor budgets, file annual financial reports timely, publish semiannual financial statements in compliance with state law, or maintain a street maintenance plan. |
| Board Qualifications, Ordinances and Sunshine Law | Former Alderwoman Nancy Wilson was elected as a write-in candidate and took the oath of office in June 2020 while owing delinquent personal property taxes in violation of state law. She did not pay her 2018 and 2019 personal property taxes until July 31, 2020, and still owed 2020 delinquent personal property taxes as of April 12, 2021, when the Board voted to remove her from office. The city does not maintain an up-to-date official ordinance book. The city does not always comply with requirements of the Sunshine Law and controls were not always in place to ensure minutes were properly prepared and approved. The Board has not adopted a written policy regarding public access to city records as required by state law. |
| Electronic Communication Policy | The city has not developed a records management and retention policy in compliance with the Missouri Secretary of State Records Services Division guidance, as approved by the Missouri Local Records Commission. |
| Capital Assets | The city does not maintain records of its capital assets. Additionally, city personnel do not tag, number, or otherwise identify assets or perform annual physical inventories. |

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 Purcell

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NICOLE GALLOWAY, CPA

Missouri State Auditor

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

The State Auditor was petitioned under Section 29.230, RSMo, to audit the City of Purcell. We have audited certain operations of the city in fulfillment of our duties. The city engaged KPM CPAs & Advisors to audit the city's financial statements for the year ended December 31, 2019. To minimize duplication of effort, we reviewed the CPA firm's audit report. The scope of our audit included, but was not necessarily limited to, the year ended December 31, 2020. The objectives of our audit were to:

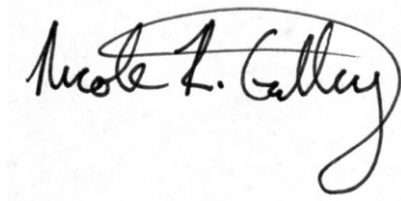
1. Evaluate the city's internal controls over significant management and financial functions.
2. Evaluate the city's compliance with certain legal provisions.
3. Evaluate the economy and efficiency of certain management practices and procedures, including certain financial transactions.
4. Determine the extent of money misappropriated and/or missing from the city.

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; analyzing comparative data obtained from external sources; and testing selected transactions. We obtained an understanding of internal control that is significant to the audit objectives and planned and performed procedures to assess 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, (3) the need for improvement in management practices and procedures, and (4) misappropriated money totaling \$3,068 and missing money totaling at least \$165. The accompanying Management Advisory Report presents our findings arising from our audit of the City of Purcell.

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

Nicole R. Galloway, CPA
State Auditor

City of Purcell

Introduction

Background

The State Auditor was petitioned to audit the City of Purcell in November 2020 and secured city records in March 2021, due to allegations that records might be removed from city hall and/or destroyed.

Nancy Wilson was elected to the Board of Aldermen in June 2020 and appointed Mayor Pro Tem in August 2020. After resignation of the Mayor in October 2020, Ms. Wilson became responsible for, among other duties, providing a second signature on city checks. Beginning in February 2021, after the resignation of various other city officials, Ms. Wilson also gained access to other financial activities including utility billing, collection, receipting, depositing, preparing disbursements (including payroll checks), and reviewing bank account activity.

On March 1, 2021, the State Auditor's Office (SAO) received the emails included in Appendix A. The first email accurately represents the correspondence sent from audit staff and acknowledged by Ms. Wilson at 8:53 a.m. The second email was sent to audit staff at 10:17 p.m. It included the same acknowledgement, but also included inaccurate and false information related to the audit work, including false allegations related to potential charges that may be filed. The SAO subsequently notified the city by letter on March 10, 2021, that the email was inaccurate, and clarified the purpose of the audit and authority of our office (see Appendix B).

On April 12, 2021, Mayor Pro Tem Wilson was removed from office by vote of the Board. On April 15, 2021, city officials provided documentation and filed a complaint with the Jasper County Sheriff's office (Sheriff's office) of alleged fraudulent checks issued to the former Mayor Pro Tem, an alleged improper withdrawal made by her, and improper adjustments made to her utility account.

A former city Alderman indicated "handwritten" utility billings were prepared by the former Mayor Pro Tem and mailed to customers with a March 2021 due date. These billings were not retained by the city so it was not possible to determine total receipts collected from the billings and if the receipts were all subsequently deposited.

A representative of the SAO, with the assistance of Sheriff's office personnel, attempted service of 2 subpoenas to individuals of interest; however, these individuals could not be located. Upon subsequent contact with these individuals, they chose to answer SAO questions by phone in lieu of providing testimony. In addition, SAO auditors recorded interviews with former board members, and contacted and requested former employees to provide copies of any city records in their possession.

The city's fiscal year is January 1 through December 31. The scope of our audit included, but was not necessarily limited to, the year ended December



City of Purcell
Introduction

31, 2020. After the identification of concerns regarding improper payments, improperly recorded utility adjustments, and unbilled utility charges, we applied limited audit procedures to city receipt, disbursement, and utility records for the period January 1, 2021, through April 12, 2021, (the time period the former Mayor Pro Tem was responsible for most financial activities of the city) to determine the amount of misappropriated and missing money, and the methods used to perpetrate and conceal the theft.

Criminal Investigation

Upon investigation of the complaint filed by city officials, the Sheriff's office determined that 5 checks totaling \$2,188 were endorsed by Ms. Wilson and deposited into her personal bank account. In addition, the Sheriff's office obtained video evidence that on April 2, 2021, Ms. Wilson withdrew \$400 from the city's General account. See Appendix C for details regarding these checks and the withdrawal.

On May 27, 2021, the Sheriff's office questioned and then arrested Ms. Wilson for a class D felony of stealing in the amount of \$2,588. In January 2022, Ms. Wilson pleaded guilty in circuit court to a class A misdemeanor of stealing and was sentenced to one year in jail, with a suspended execution of the sentence,¹ and 2 years unsupervised probation. She was also ordered to pay court costs of \$147 and restitution in the amount of \$2,588.² The defendant's \$2,600 cash bond was applied to restitution and court costs.

¹ A suspended execution of sentence is a process whereby a judge sentences a defendant but suspends the execution of the sentence and places the defendant on probation. If the conditions of probation are not met, the judge can revoke the probation and the defendant will then need to serve the full sentence.

² 21AO-CR00456 - State vs. Nancy M. Wilson

City of Purcell
 Management Advisory Report
 State Auditor's Findings

1. Misappropriated and Undeposited Money

From February 1, 2021, to April 12, 2021, at least \$3,233³ was misappropriated or is missing from the city. During this period, the former Mayor Pro Tem improperly issued herself 4 checks totaling \$1,988, made a \$400 cash withdrawal from the city bank account, issued a \$200 check to a routine city vendor that she endorsed and deposited into her personal bank account, and issued a \$500 check to an individual that was cashed and the proceeds were divided between the individual (\$250) and the Mayor Pro Tem (\$250). In addition, she improperly recorded \$160 in adjustments to her utility account, and did not bill herself for an estimated \$70 of utility and trash services. The former Mayor Pro Tem also did not deposit at least \$165 in city cash receipts collected during this timeframe.

Misappropriated money

The following table provides a summary of the amounts misappropriated from February 1, 2021, to April 12, 2021, and identifies the appendixes where specific details are reported, if applicable.

| Type of Misappropriation | Amount |
|--|-----------------|
| Improper checks (Appendix C) | \$ 1,988 |
| Improper cash withdrawal (Appendix C) | 400 |
| Improper check issued to city vendor (Appendix C) | 200 |
| Check cashed by payee and split with the former Mayor Pro Tem (Appendix C) | 250 |
| Improperly recorded utility account adjustments | 160 |
| Estimated utility and trash service not paid | 70 |
| Total | \$ 3,068 |

Improper checks with joint payee

In March 2021, the former Mayor Pro Tem improperly issued 4 checks, totaling \$1,988 with each payee line indicating a payee name and "or Nancy Wilson" as a joint payee. Former Mayor Pro Tem Wilson subsequently deposited these checks into her personal bank account as follows:

- Two of the 4 checks were issued to an individual "or Nancy Wilson." One check was for \$500 with the memo line indicating "City Bills & Cleaning." The second check was for \$488 and included the notation "Invoice & Reimbursement CPA" on the memo line. The other payee noted on the checks is the former Mayor Pro Tem's mother. We contacted this individual on November 2, 2021, and she indicated she was never employed by the city, did not provide any services to the city, and never saw or received the 2 checks that included her as a joint payee.
- The third check was issued to "CPA or Nancy Wilson" for \$500 with the memo line indicating "April Billing." We confirmed with the city's audit

³ Amounts presented in the report findings are rounded to the nearest dollar, whereas amounts presented in Appendix C are not rounded.



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

firm⁴ (CPA) that it performed no additional services for the city and no payments were received directly from the former Mayor Pro Tem.

- The fourth check was issued to an individual "and or Nancy Wilson" for \$500 with the memo line partially unreadable with only "invoice 3-21" legible. We were not able to locate the individual to discuss the details of this check.

All 4 of these checks were handwritten and signed in the scripted handwriting of the former Mayor Pro Tem. Two of the \$500 checks (issued to the Mayor Pro Tem's mother and the other individual) were endorsed in their names and the Mayor Pro Tem's name in the Mayor Pro Tem's scripted handwriting. The remaining 2 checks were only endorsed by the former Mayor Pro Tem in her scripted handwriting. All 4 of these checks were subsequently deposited into the former Mayor Pro Tem's personal bank account. We questioned 2 former board members regarding these 4 checks, and both indicated they did not approve these checks and were not notified by the former Mayor Pro Tem of the need to make these payments.

When questioned by the Sheriff's office regarding these checks, the former Mayor Pro Tem stated she could not remember the individuals or vendors listed as payees and the specific circumstances of these transactions. When asked why the checks were deposited into her personal bank account, the former Mayor Pro Tem indicated it was because she actually did the work of the individual payees and/or the check was a reimbursement for costs she had paid personally (i.e., "CPA" payee). However, no documentation was available to support this (e.g., timesheets or invoices).

Improper cash withdrawal

The former Mayor Pro Tem improperly withdrew \$400 on April 2, 2021, from the city's General account. When questioned by the Sheriff's office about this transaction, the former Mayor Pro Tem indicated the withdrawal was reimbursement for "gas mileage and everything that she has done for the last three months." However, no documentation was available to support the withdrawal (e.g., mileage log, timesheets, etc.).

Both former board members that we questioned regarding this withdrawal confirmed they knew nothing about this reimbursement to the former Mayor Pro Tem.

Improper check issued to routine city vendor

The former Mayor Pro Tem improperly issued a \$200 check on April 10, 2021, to a routine city vendor and then negotiated the check. The check was signed solely by the former Mayor Pro Tem, and the memo line of the check indicated "Invoice For Dig." The check was endorsed in the name of the

⁴ The CPA firm last audited the city for the year ended December 31, 2019.



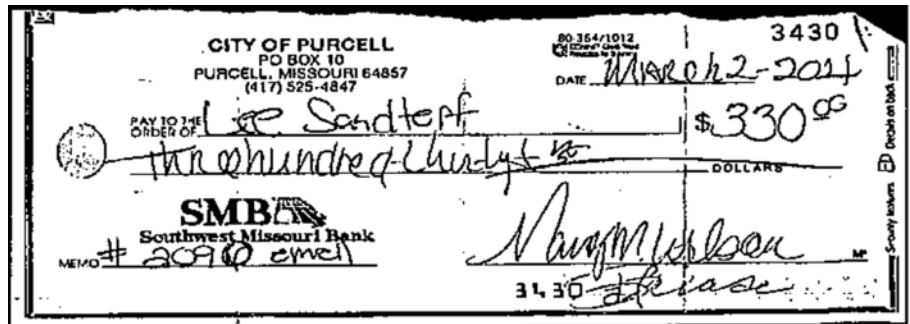
City of Purcell
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company and by the former Mayor Pro Tem in her scripted handwriting and deposited into the former Mayor Pro Tem's personal bank account.

When questioned by the Sheriff's office about this check the former Mayor Pro Tem indicated she paid the vendor out of her "own money" and then she reimbursed herself with this check. When further questioned about the circumstances of this transaction the former Mayor Pro Tem asked for an attorney.

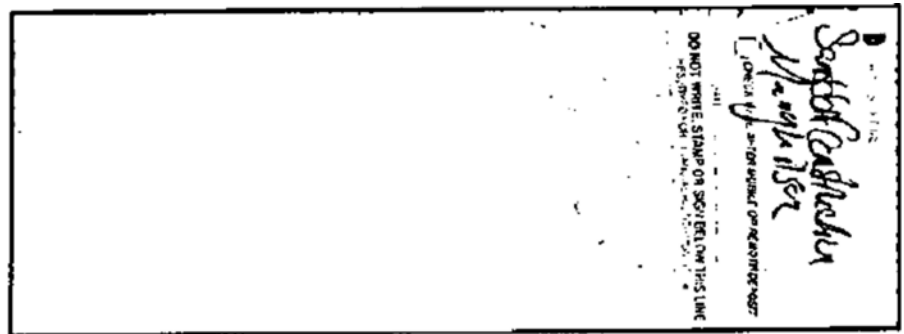
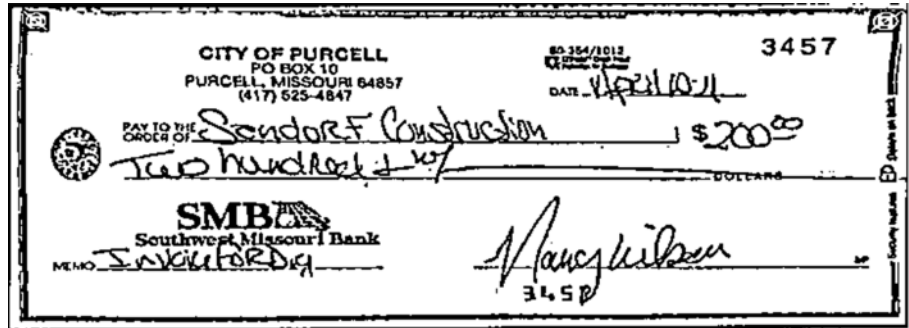
We compared the endorsement on the \$200 check to a check previously issued to the vendor and noted the endorsements differed. We contacted the vendor, and he indicated that he did not perform work for the city in the amount of \$200 during this timeframe, his name on the check was misspelled, and the company the check was made out to did not exist. He further confirmed he did not receive any payments directly from any city officials for city work, did not receive a city check in the amount of \$200 in April 2021, and did not endorse a city check back to the city or any city official.

The first check images presented below are the front and back of a proper city check to the vendor, while the next 2 images are the front and back of the improper city check. The city's bank account, routing number, and other bank information have been redacted.





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 Management Advisory Report - State Auditor's Findings



Check cashed by payee

On April 7, 2021, the former Mayor Pro Tem issued a \$500 check to an individual for "Mowing & Cleaning City Hall." The former Mayor Pro Tem was the only signor of the check. No supporting documentation was provided by the city to support this payment.

The Sheriff's office obtained bank surveillance video from April 7, 2021, and determined that the former Mayor Pro Tem accompanied the payee to the bank and the check was cashed. When questioned by the Sheriff's office, the former Mayor Pro Tem again indicated she did not remember who this person was or the specific circumstances of this transaction.

Both former board members that we questioned regarding this check indicated they had no knowledge of any services provided and did not approve this payment.

We contacted the payee, who indicated she was asked to clean the former Mayor Pro Tem's office. She also confirmed the former Mayor Pro Tem took her to the bank to cash the check and the former Mayor Pro Tem gave her \$250 cash and kept the remaining \$250 cash.

Improperly recorded utility adjustments

Adjustments totaling \$160 (\$80 each month) were improperly applied to the former Mayor Pro Tem's electronic utility account in January 2021 and February 2021. Both former board members that we questioned about these adjustments indicated they had no knowledge of nor did they approve the



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

adjustments. Current city officials subsequently adjusted the former Mayor Pro Tem's account in May 2021 to correct the account balance for these improper adjustments.

Estimated utility and trash service not paid

The former Mayor Pro Tem did not pay for utility and trash services that were due in March 2021. Her monthly billings for the year ended December 31, 2020, averaged approximately \$70; therefore, we estimated the utility and trash services not paid in March 2021 at \$70. As noted in the Background section, "handwritten" utility billings were prepared by the former Mayor Pro Tem and mailed to customers with a March 2021 due date. No manual utility bills were available for our review, and our review of all city bank deposits showed no payments made for utility and trash service from the former Mayor Pro Tem due in March.

Undeposited utility receipts

Utility receipts totaling \$165 received by the Mayor Pro Tem in March 2021 were not deposited and are missing. Additionally, 5 utility customers contacted city officials and indicated they made utility payments, totaling \$670, during the time period the former Mayor Pro Tem was handling utility receipts, but the receipts were not deposited.

For the \$165 in utility receipts collected, 2 utility customers provided supporting documentation to current city officials of utility payments made after they received subsequent billings with past due balances. These 2 payments were not recorded in the utility account system or deposited into the city's bank account. However, neither customer's payment was negotiated. One of these payments was made by a \$90 money order and receipted on March 28, 2021, as shown below. We confirmed with the bank of issuance that the money order was not negotiated and has since expired. The utility customer provided (1) a copy of a city receipt slip and (2) documentation of the purchase of a money order, which are shown below. The utility customer's name, and bank account and routing numbers have been redacted.

| | |
|---|---|
| Keep this portion for your records | |
| ----- | |
| Remit this portion with payment | R95 METER # 6689548 TOTAL DUE \$90.40 |
| paid 3-28-2021 | AMOUNT ENCLOSED |
| REMIT TO: PURCELL WATER DEPARTMENT P.O. BOX 156 | BILLING ADDRESS: [REDACTED] |
| | PAID 90.40 money order 430037 Nancy Wilson |



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CBT CHECKING WITHDRAWAL MOD/DL/DO
 DATE: 3/25/21
 AMOUNT: 90.40 MO. - 3.00 fee
 SIGNATURE: [Redacted]
 TOTAL: \$ 93.40
 #0000 03/25/2021 \$93.40

The remaining \$75 payment was made by check in March 2021. We confirmed with the utility customer that the check did not clear the customer's bank account, and due to the age of the check, it should no longer be negotiable. The city provided documentation of the next month's bill with the check number and amount of the customer's March payment notated at the top as shown below. The customer's name and address have been redacted.

PURCELL WATER DEPARTMENT
 PO BOX 156
 PURCELL, MO 64857
 417-525-4847

*March Bill! Check # 4734
 Amt: \$75.06*

| Please Return This Stub With Payment | |
|--------------------------------------|--------------------|
| DUE DATE | ACCT NUMBER |
| 05/20/2021 | 150 |
| AFTER DUE DATE | BY DUE DATE |
| \$140.49 | \$127.72 + \$52.66 |

AMOUNT DUE: [Redacted]
 SERVICE ADDRESS: [Redacted]

In May 2021, current city officials adjusted the utility accounts of these 2 customers based on the supporting documentation provided.

For the 5 additional utility customers who indicated they made payments totaling \$670 during the time period the Mayor Pro Tem was handling utility receipts, city officials subsequently adjusted the customers' accounts, similar to the other 2 payments discussed. We spoke with 4 of the 5 customers, who confirmed payments were made by cash (\$149), and check or money order (\$225); however, the customers could not provide documentation of the payments made (manual receipt slip or canceled check or money order). We could not contact the remaining customer who reportedly made a utility payment of \$296 during this time period. We also could not verify these payments were deposited into the city's bank account. Due to missing utility records, billings, and receipt slips during the time period when the former



City of Purcell
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Mayor Pro Tem handled utility billing, receipting, collecting, recording, and depositing duties, we could not determine the total amount of money received but not deposited, and it is possible additional money is missing.

Overall conclusion

The lack of segregation of duties and adequate controls, and the absence of proper oversight, as discussed in the remainder of this report, resulted in improper disbursements, the improper cash withdrawal, improperly recorded utility adjustments, and missing utility receipts going undetected.

Recommendation

The Board of Aldermen continue to work with law enforcement officials, as necessary, regarding the improper disbursements, improperly recorded utility adjustments, utility services not paid, and missing money, and obtain additional restitution, if possible.

Auditee's Response

We have worked with law enforcement. Restitution in the amount of \$2,588 has been received. We will be writing off the remaining \$480 the former Mayor Pro Tem owes.

2. Oversight, Annual Audits, and Bonding

The Board did not provide adequate oversight, obtain annual audits as required by state law, or bond city officials with access to city money.

2.1 Oversight and segregation of duties

The former Board⁵ did not establish adequate oversight or segregation of duties over the various financial accounting functions. The former Board did not always adequately monitor the city's financial activity; review or compare checks written to supporting documents, such as invoices or bank statements; or require dual signatures on city checks. Weaknesses identified throughout this report are significant and demonstrate a lack of segregation of duties and proper oversight by the former Board that led to the misappropriations and missing money noted in MAR finding number 1. The city's auditor also reported a segregation of duties finding in the audit report for the year ended December 31, 2019.

Proper segregation of duties helps ensure transactions are accounted for properly and assets are adequately safeguarded. If proper segregation of duties is not possible, timely supervisory or independent reviews of work performed and investigation into unusual items or variances is necessary. Good management practices require extensive and detailed oversight by the Board. Dual authorized signatures help provide assurance that checks

⁵ This refers to the Board of Aldermen in office during the period January 1, 2021, through April 12, 2021, (the time period the former Mayor Pro Tem was responsible for most financial activities of the city).



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

represent payment for legitimate city disbursements. Failure to require dual signatures on all checks is a significant control weakness and along with the lack of review of bank statements or canceled checks by anyone other than the former Mayor Pro Tem allowed the improper checks to be issued.

2.2 Annual audit

The city did not obtain an annual audit of its sewer system for the year ended December 31, 2020, as required by state law.

Section 250.150, RSMo, requires the city to obtain annual audits of the combined waterworks and sewerage system, and the cost of the audit is to be paid from revenues received from the system. Former board members indicated an annual audit was not obtained because the invoice for the 2019 audit was not paid in full until July 2021.

2.3 Bonding

The Mayor and board members, who sign checks and have access to money held in bank accounts, are not covered by a bond. Failure to properly bond individuals with access to funds exposes the city to risk of loss. Had the city obtained bond coverage, some of the improper payments and missing money may have been covered by a bonding company. The former Mayor indicated the positions of Mayor and board members generally do not handle receipts, so bond coverage was not deemed necessary.

Recommendations

The Board of Aldermen:

- 2.1 Segregate accounting duties to the extent possible and implement appropriate reviews and monitoring procedures. In addition, the Board should require dual signatures on all checks.
- 2.2 Obtain annual audits of the water and sewer system as required by state law.
- 2.3 Maintain bond coverage for all personnel with access to city money.

Auditee's Response

- 2.1 *We have put appropriate measures in place so the Board is informed of what is being done and how money is allocated. Bank statements, accounts payable reports, and aged billing reports are given to the Board on a monthly basis for full transparency, as well as any adjustments that are to be approved by the Board. Carbon copied and numbered receipt slips have also been put in place. There are 3 authorized signers on the checking account, and 2 signatures are required on all checks.*
- 2.2 *We are in the process of obtaining bids to seek an audit of the water and sewer system.*



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

2.3 *Bond coverage is currently being assessed and decided on by the Board.*

3. Financial Condition

The city is in poor financial condition. For the year ended December 31, 2020, the city's General account reconciled bank balance, which includes all city funds, was \$15,460,⁶ which is only slightly greater than the city's average monthly expenditures of \$14,778. Further, the Board is not adequately monitoring the city's financial condition, as it does not receive budget-to-actual information by fund or timely financial reports. As a result, the Board is not in a position to make financial decisions that could strengthen fund balances (see MAR finding numbers 8.1 and 8.2).

According to city officials, the city hopes to finalize the sale of the water/sewer system, as approved by voters in August 2021, to a local utility company by June 2022, at which time the city's financial condition may stabilize. However, since city officials have not prepared complete budgets or financial projections, it is unclear whether these changes will be sufficient to significantly improve the city's financial situation.

It is essential the Board address the financial condition of the city in both the immediate and long-term future. In addition, the Board should reduce spending where possible, evaluate controls and management practices to ensure efficient use of resources, monitor detailed financial data that includes cash balances for each fund, and closely monitor budgets. Former board members were unaware of the city's financial condition due to a lack of financial reports for review.

Recommendation

The Board of Aldermen ensure it receives detailed financial data monthly, perform immediate and long-term planning, and closely monitor and take necessary steps to improve the city's financial condition.

Auditee's Response

We will be provided financial data at regular monthly meetings. The long term action plan for the budget is now pending the Board's review.

4. Accounting Controls and Procedures

Accounting controls and procedures need improvement.

⁶ The \$15,460 reconciled balance includes a bank balance of \$16,699 less \$1,239 in outstanding checks.



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Management Advisory Report - State Auditor's Findings

4.1 Receipting, recording and depositing

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

- Official prenumbered receipt slips were not issued for all payments received, the numerical sequence of the manual receipt slips issued was not accounted for, and manual receipt books were not always retained.

Only 2 manual receipt books were retained by the city from January 2020 through April 12, 2021. Receipt slips in the first receipt book were single unnumbered generic receipt slips. Receipt slips in the second book were similar, but prenumbered. Most of the receipt slip copies were torn out of the books so it was not possible to determine how many manual receipt slips were issued, if they were all subsequently posted to the accounting system, and if they were deposited into the city's bank accounts.

In addition, when reviewing city financial records, we found a notation in the city's utility system that an additional manual receipt book may have been used by former personnel in October 2020 to record a utility payment, as the receipt slip number noted did not match either of the receipt slip number sequences discussed above. City officials could not locate this receipt book.

- Utility receipts were not always recorded or timely recorded in the computerized utility system.

Our review of utility system reports indicated that during some time periods city personnel recorded utility and trash receipts in the system after the money was deposited. Receipts deposited August 21, 2020, were not recorded in the utility system until September 12, 2020. Also, a receipt received September 8, 2020, was not recorded in the utility system until December 21, 2020, and receipts received November 18, 2020, were not recorded in the utility system until December 7, 2020. Changes in city personnel occurred during these timeframes.

In addition, utility and trash receipts received from February 5, 2021, through April 12, 2021, totaling approximately \$7,100, were not recorded in the utility system when received. City officials have subsequently made numerous adjustments to customer utility accounts for prior unrecorded payments based on documentation (utility billings, receipt slips, canceled checks, etc.) provided by utility customers.

- Deposits were not always made timely. Deposits of utility receipts from March 1, through April 12, 2021, often included checks written a week or a month prior to the deposit.



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Failure to implement adequate receipting, recording, and depositing procedures increases the risk that loss, theft, or misuse of money will go undetected and accounting records will contain errors. To reduce this risk, procedures should be established to ensure all money received is properly receipted, recorded, and deposited. These poor receipting, recording, and depositing procedures helped conceal the theft that occurred. Former board members were unaware of the importance of properly receipting, recording, and depositing money.

4.2 Allocations and restricted funds

The city has not established adequate procedures to allocate salaries and wages to various city funds and ensure restricted money in those funds is only used for the intended purposes. City receipts are deposited into one bank account and allocated to various city funds through the accounting system; however, it is unclear what expense and revenue allocations the city actually made to various funds for the year ended December 31, 2020, because a timely financial report was not prepared and budget-to-actual information was incomplete.

Cost allocations

The city has no documentation to justify the allocations of salaries of the City Clerk, City Collector, and City Treasurer and wages of water/sewer and maintenance employees to the city's General, Road, Water, and Sewer Funds. None of these allocations are based on actual time spent or other documented criteria, or are allocated in the same manner. Instead, the allocations are based on estimates of time spent performing various duties and may not be accurate or appropriate uses of restricted funds. Allocations for the year ended December 31, 2019, are included in the table below (similar allocations for 2020, were not available):

| Employee | Year Ended December 31, 2019 | | | | |
|-------------|------------------------------|------|-------|-------|-------|
| | Fund by Percentage | | | | |
| | General | Road | Water | Sewer | Total |
| Wastewater | | | | | |
| Operator | 0.0 | 27.5 | 42.9 | 29.6 | 100 |
| Collector | 6.4 | 0.0 | 46.8 | 46.8 | 100 |
| Treasurer | 50.0 | 0.0 | 25.0 | 25.0 | 100 |
| City Clerk | 52.0 | 0.0 | 24.0 | 24.0 | 100 |
| Maintenance | 10.8 | 20.0 | 34.6 | 34.6 | 100 |

Restricted revenues

The Board did not budget 2020 sales tax revenues for use in its Road Fund as required. City voters approved a sales tax for which 50 percent of revenues are to be used for roads and 50 percent for capital improvements. However, the Board instead budgeted 50 percent in the Capital Improvement Fund and 50 percent in the Water Improvement Fund. Because a timely financial report and final budget-to-actual reports were not prepared for 2020 it is unclear to which fund the sales tax revenues were credited.



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Also, the city received approximately \$22,000, for the year ended December 31, 2020, from the Department of Revenue, which was the city's proportionate share of statewide sales taxes and motor-vehicle related revenue. These revenues are restricted for roads, but only \$3,400 was used for paving city roads. Similar revenues (\$22,010) and road improvements (\$2,904) were reported for the year ended December 31, 2019.

Based on the 2020 budget approved by the Board, the city intended to charge expenditures including insurance, legal fees, electric, salaries, and road supplies totaling \$17,000 to the Road Fund in 2020. However, because a timely financial report was not prepared (see MAR finding number 8.2) and budget-to-actual information by fund was incomplete (see MAR finding number 8.1), it is unclear what actual expenses were charged to the Road Fund in 2020, and if the restricted revenues were used for street related purposes as required. In 2019, similar expenditures charged to the Road Fund totaled \$24,724.

Conclusion

The proper allocation of expenses is necessary to accurately determine the results of operations of specific activities, thus enabling the city to establish the level of taxation and/or user charges necessary to meet all operating costs. To ensure restricted funds are used for intended purposes, the allocation of expenditures to city funds should be based on specific criteria, such as the number of hours worked by each employee, if possible, or by determining a reasonable basis to allocate costs from shared functions/employees benefiting multiple funds. In addition, Article IV, Sections 30(a) and 30(b), of the Missouri Constitution require motor-vehicle related receipts apportioned by the state of Missouri be disbursed for street related purposes only. Further, Section 250.150.1, RSMo, restricts the use of water and sewer funds for operating the systems, payment of bonds, establishment of a reserve, fulfillment of any agreements contained in ordinances, and payment of costs of improvements of such systems. Finally, the intended use of the restricted revenues should be accurately reflected in the city budget and their use monitored to ensure they are used for the required purpose. Former board members were unaware of the importance of documenting and reporting expense allocations to show spending restricted revenues was appropriate.

4.3 Record retention

As noted throughout the report, many city financial records were not properly retained. A manual receipt book, individual receipt slips, manual utility billing reports, and supporting documentation for February 2021 to March 2021 disbursements (including payroll) could not be located by the city.

Retention of records is necessary to ensure the validity of transactions and provide an audit trail. 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



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the destruction of records. Record retention schedules can be found on the Secretary of State's website.⁷ The former Mayor Pro Tem likely did not retain these documents to help conceal the misappropriations discussed in MAR finding number 1.

Recommendations

The Board of Aldermen:

- 4.1 Require the issuance of official prenumbered carbon copy receipt slips for all city receipts, ensure receipt slips are retained, and account for the numerical sequence of receipt slips. In addition, the Board of Aldermen should ensure utility and trash receipts are timely recorded in the computerized system and deposited timely and intact.
- 4.2 Ensure salaries and wages are allocated based on specific criteria and retain documentation to support the allocations to city funds. In addition, the Board of Aldermen should ensure city financial reports and budgets accurately reflect the use of the restricted revenues and monitor the use of those revenues for their required purpose.
- 4.3 Retain all records in accordance with state law.

Auditee's Response

- 4.1 *We are now recording all payments received in a carbon-copy prenumbered receipt book. Carbon copy receipt slips will be retained for a minimum of 3 years and issued in numerical sequence. We are striving to enter all payments in the computer systems in a timely fashion. The city office has limited hours of operation; therefore, funds are deposited intact as soon as time is allowed.*
- 4.2 *We are in the process of building a procedure that will be transferred into an ordinance for allocating actions. As we no longer have water/sewer and maintenance employees, these payments to employees are not addressed at this time. In the future, if city employees are to be hired, an hourly time clock/work sheet will be established to maintain strict payroll controls. We will show quarterly where money is going from each fund and match up with employees hourly duties.*
- 4.3 *We are putting record retention procedures in place. Records can be destroyed including burning or shredding on-site after 3 years by an independent contractor after proper bid procedure is conducted. Any documents having personal information must be destroyed so it cannot be recreated. We will document what is destroyed, when, and*

⁷ <<https://www.sos.mo.gov/archives/localrecs/schedules>>, accessed April 1, 2022



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including the time period of such documents. We will also contact the Secretary of State for applicable destruction time frames.

5. Disbursements

City disbursement procedures need improvement. From January 2020 through April 2021, the city made non-payroll disbursements totaling \$174,503, including \$2,971 in purchases with a credit card. We judgmentally⁸ selected and tested 16 disbursements totaling approximately \$22,982.

5.1 Procurement procedures and contracts

The city does not always solicit bids or obtain written contracts in accordance with city code. In addition, contracts are not always entered into timely.

The city did not solicit bids or proposals for sewer system repairs from 2 different vendors (totaling \$14,047), sludge removal (\$5,300), audit services (\$6,600), road paving (\$3,400), or excavation/water line repair (\$2,655). In addition, the city did not have written contracts with 5 of these vendors.⁹

Also, the city's trash service contract expired in January 2020, and the Board did not enter into a new contract until December 2020 with the existing vendor. From February 2020 through November 2020, the same vendor continued to provide trash services at a cost of approximately \$15,000 to the city until the new contract was signed.

A former Alderwoman indicated the city used most of these vendors often, and they were the only vendors that would perform work for the city. She also confirmed the audit services vendor had been used for several years.

City Code,¹⁰ Section 25.080, indicates all supplies and services shall be competitively bid when possible. In addition, City Code, Section 25.090, indicates all supplies and services exceeding \$2,000 "shall be purchased by formal, written contract from the lowest responsible bidder, after due notice inviting proposals." City code does not address the selection of vendors providing services to the city as a sole source.

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 and/or best bidders. Competitive bidding also helps ensure all parties are given an equal opportunity to participate in city business. In addition, written contracts are necessary to ensure all parties are aware of their duties and responsibilities,

⁸ Due to the nature of the sample, the results cannot be projected to the population.

⁹ The city only had a contract with its audit services provider.

¹⁰ The references to the City Code in this report are based on the City Code that was provided during the audit. Because the ordinance book has not been updated (See MAR finding number 9.2), the ordinances cited in this report may not be the most current or complete versions.



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prevent misunderstandings, and ensure city funds are used appropriately and effectively. Section 432.070, RSMo, requires contracts for political subdivisions to be in writing.

5.2 Supporting documentation and review

City officials could not provide supporting documentation for some disbursements or their approval of those disbursements. Our review showed supporting documentation was not maintained for all 25 non-payroll disbursements totaling \$18,157 made from February 1, 2021, through April 7, 2021 (including improper and questionable disbursements discussed in MAR finding number 1). Supporting documentation was subsequently obtained for some of these disbursements directly from applicable vendors. In addition, as noted in MAR finding number 1, two former board members indicated they were not aware of some of the disbursements.

To ensure obligations were incurred and amounts paid are proper, all disbursements should be reviewed, approved, and supported by itemized vendor invoices or other detailed documentation with payment information clearly indicated. The former Mayor Pro Tem likely did not retain some of these documents to help conceal the misappropriations in MAR finding number 1. It is unclear why she did not retain supporting documentation for other expenditures.

5.3 Credit card receipt and payment

The city did not retain credit card receipt slips for some credit card purchases and made duplicate payments to its credit card vendor.

- City officials could not locate receipt slips for 2 of 11 transactions, totaling \$142, included on the city's October 2020 credit card statement.
- The city made duplicate payments, totaling \$307, to the city's credit card vendor in March 2021. As of July 2021, the city's account maintained a credit balance of \$248 as a result of the duplicate payments.

Credit card purchases are inherently more risky than other purchases because credit card purchases are or can be made prior to proper approval. That risk and the potential for fraud and misuse increases even more when internal controls and proper procedures are lacking. Detailed supporting documentation improves the city's ability to review charges and provides better documentation of the items purchased to ensure charges are reasonable. In addition, canceling invoices and other supporting documentation reduces the likelihood of duplicate payments.

5.4 Petty cash fund

The city did not maintain adequate documentation to support all petty cash fund transactions in 2020 or update the petty cash fund ledger for 2021. For the year ended December 31, 2020, a receipt for a petty cash purchase on January 2, 2020, totaling \$43 for stamps was not retained. A note on the petty cash ledger indicated the city failed to get a receipt slip for the purchase. Petty



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cash purchases in 2020 totaled \$136. In addition, the petty cash ledger was not updated when replenished in the amount of \$50 on January 12, 2021.

To ensure all activity of the petty cash fund is properly accounted for documentation should be retained to support all disbursements from the fund. In addition, the city should maintain a complete petty cash ledger documenting receipts, disbursements, and the balance of the petty cash fund.

Recommendations

The Board of Aldermen:

- 5.1 Ensure bids or proposals are obtained when applicable and enter into timely written contracts defining services provided and benefits received.
- 5.2 Maintain adequate supporting documentation for all disbursements and ensure invoices are adequately reviewed and approved prior to payment of invoices.
- 5.3 Retain receipt slips for all credit card purchases and ensure invoices are marked paid to prevent duplicate payments.
- 5.4 Retain adequate documentation of all petty cash disbursements and maintain a complete petty cash fund ledger.

Auditee's Response

- 5.1 *We are putting best practices in place to accept bids for any and all projects. If a bid cannot be received, said reasons shall be documented (i.e. only one person submitted a bid). We will also enter into timely written contracts defining services provided and benefits received.*
- 5.2 *All invoicing for any services and disbursements done (in any amount) is reviewed and approved by the Board and will be retained.*
- 5.3 *We no longer have a credit card.*
- 5.4 *We will maintain a ledger for petty cash disbursements and receipt slips, and the Board will approve replenishment of the funds when appropriate. We may discontinue the petty cash fund.*

6. Utility System Controls and Procedures

Utility system controls and procedures need improvement. The city provided utility services to approximately 188 monthly customers during the year ended December 31, 2020. According to the city's accounting records and utility system, the city received payments for water, sewer, and trash services totaling approximately \$149,000 from January 2020 through April 2021.



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6.1 Adjustments

As previously noted in MAR finding number 1, improper adjustments were made to the utility account of the former Mayor Pro Tem.

Typically, with Board approval, city personnel record non-monetary adjustments to waive customer late charges, adjust usage for inaccurate meter readings, or reduce a balance due to water leaks. According to the utility system, during the period of January 2020 through April 2021, 522 adjustments were made to customer accounts for a total net reduction of \$338,876. No explanation or reason was documented in the utility system for some of the adjustments. As noted in MAR finding number 1, the former Mayor Pro Tem adjusted her account by \$160¹¹ without Board approval or documentation to support the reason for the adjustment. From May through August 2021, city officials also subsequently made 56 adjustments to customer utility accounts, totaling \$6,345, for prior unrecorded payments made during the time period manual billing reports were used when the former Mayor Pro Tem was handling utility billings and collections. These adjustments included the \$835 of undeposited utility receipts mentioned in MAR finding number 1 and \$5,510 of utility receipts that were deposited, but not recorded in the utility system during this time period. The adjustments were made based on records (utility billings, receipt slips, canceled checks, etc.) provided by utility customers. City officials could not provide supporting documentation for all the monetary adjustments upon our request.

A listing of all adjustments is not generated and compared to approved adjustments. As a result, there is an increased risk of theft and misuse occurring without being detected. To ensure adjustments are valid and approved, all adjustment transactions need to be approved before they are made in the computer system and the account adjustments should later be compared to the list of approved adjustments. Review and approval of adjustments by an independent person is necessary to ensure adjustments made are proper. The former Mayor Pro Tem likely did not request Board approval for adjustments to her account to help conceal the misappropriation noted in MAR finding number 1.

6.2 Utility system billings

The former Mayor Pro Tem did not perform a monthly reconciliation of amounts billed, payments received, and amounts unpaid for utility services due in March 2021. These billings were handwritten and not prepared from the city's utility system. We analyzed customer historical payments and compared those to payments made in March and April 2021, and noted as many as 20 of the 188 customers (including the former Mayor Pro Tem) may not have paid their March 2021 utility bill. Since copies of the handwritten

¹¹ The former Mayor Pro Tem's adjustments are included in the 522 total adjustments made to customer accounts from January 2020 through April 2021.



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bills were not retained, we could not determine if these customers were not billed and did not pay, or if their payments were misappropriated.

Monthly reconciliations are necessary to ensure accounting records balance, transactions are properly recorded, and errors or discrepancies are detected timely. While the utility system can generate this information, it was not used. Had a reconciliation been performed and provided to the Board for review, these discrepancies may have been detected. Former board members and city officials indicated staff had resigned during this timeframe and the former Mayor Pro Tem prepared the handwritten billings likely to help conceal the misappropriations discussed in MAR finding number 1.

6.3 Sales tax

The city did not always file returns with the Department of Revenue (DOR) in a timely manner or remit all sales taxes collected related to water services provided. City officials did not remit sales taxes collected during 2020 to the DOR until October 2021, resulting in interest and penalties of \$261.

Section 144.080, RSMo, requires sales tax collections be reported and remitted to the DOR on a monthly or quarterly basis, depending on the amounts collected. Additionally, penalties may be assessed under Section 144.250, RSMo, because of the city's failure to remit these sales taxes. Pursuant to 12 CSR 10-110.955(3)(B), sales by the state of Missouri and its political subdivisions are subject to tax. City officials indicated they were not aware of these requirements or that sales taxes were not being remitted to the state.

Recommendations

The Board of Aldermen:

- 6.1 Ensure all adjustments to utility accounts are properly approved and compared to actual changes posted to the computer system, and documentation of all adjustments is retained.
- 6.2 Ensure monthly reconciliations are performed of amounts billed to amounts collected and delinquent.
- 6.3 Ensure sales taxes collected are reported and remitted timely.

Auditee's Response

- 6.1 *We approve all adjustments to billing at monthly meetings. Once American Water takes over the water/sewer utility system, the city absolves all responsibility for any changes in billing.*
- 6.2 *We will approve all reconciliations of amounts billed to amounts collected and delinquent.*
- 6.3 *We will run reports quarterly and file returns with the Department of Revenue and remit sales taxes collected.*



7. Payroll

City officials did not maintain documentation to support all payroll transactions.

- City officials did not have sufficient documentation (e.g., timesheet or ordinance) to support a \$500 payment made to the City Clerk/Treasurer on December 1, 2020, with the memo line of the check indicating "Bonus-extra duties." The only documentation maintained to support the additional payment was a series of 6 sticky notes prepared and signed by the former Mayor Pro Tem that indicated:

I made dicission [sic] to pay Annie extra \$500 for all the extra work on her doing all H₂O Bills all the ADjustments getting all the minutes prior clerk did not due [sic] all the extra calling of changing passwords-computer work, scanning Bill that were paid by prior clerk and collector. She had to work many hours & DAYS to catch the City Hall Bills & Books UP to Date that WAS gone OR not Done. Also we only had one computer to use & TOOK ADVice of State Auditor & allowing few people in City Business till [sic] end of AuDit."

The Board meeting minutes did not discuss the additional duties or the payment. The City Clerk/Treasurer was also paid her regular monthly salary of \$700 in December 2020, in accordance with city ordinance.

- City officials could not provide timesheets to support a hourly maintenance employee's final payroll check, totaling \$548, in February 2021.
- City officials could not provide payroll reports to support a \$705 payment to the Internal Revenue Service for federal payroll taxes in March 2021.

Without timesheets or other documentation the city cannot ensure hours worked and payments made to employees are proper. Timesheets or other documentation should be signed by the employees and reviewed and approved by their supervisors. In addition, the Internal Revenue Code requires employers to file a 941 form by the last day of the month following the end of the quarter, along with payment of Social Security and Medicare taxes withheld from employees and the employer's share, as well as federal income taxes withheld. It is unclear why the former Mayor Pro Tem did not retain supporting documentation for these transactions.

Recommendation

The Board of Aldermen ensure adequate documentation is retained to support all payroll transactions.

Auditee's Response

All positions are salaried at this time and paid monthly. No bonuses will be paid. We will use a timesheet for any extra income and will not approve



retroactively. We will retain documentation of all payroll payments. There is no need for timesheets at this time. However, a process will be in place for final signature of payroll approval.

8. Budgets, Financial Reporting, and Maintenance Planning

The city did not prepare complete annual budgets or monitor budgets, file annual financial reports timely, publish semiannual financial statements in compliance with state law, or maintain a street maintenance plan.

8.1 Budgets

The Board does not have adequate procedures to prepare or monitor budgets.

Preparation

The city did not prepare a budget for the year ended December 31, 2021. There was no evidence in Board meeting agendas or minutes indicating a budget was adopted and approved for that year. In addition, the budget prepared for the year ended December 31, 2020, did not include all required elements. The budget documents did not include a budget message, actual or budgeted amounts for the 2 preceding years (only 2019 was included), the actual beginning and estimated ending cash balance for each fund, the city's indebtedness information, or a budget summary.

A complete and well-planned budget, in addition to meeting statutory requirements, can serve as a useful management tool by establishing specific financial expectations for each area of city operations. It also assists in determining tax levies and utility rates and informing the public about city operations and current finances. Section 67.010, RSMo, requires the budget present a complete financial plan for the ensuing budget year and sets specific guidelines for the information to be included in the budget. In addition, Section 67.080, RSMo, provides that no expenditures of public funds should be made unless it is authorized in the budget. Current and former board members were not aware of the importance of these requirements.

Monitoring

The Board does 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 during most of 2020 and a final budget-to-actual report was not prepared for the year ended December 31, 2020.

As a result, the Board does not have all available information to assist in effectively managing the city, and the public is not provided a complete overview of the city finances. Proper monitoring is necessary for the budget to be an effective management tool. Current and former Boards were not aware of the importance of monitoring budget-to-actual activity.



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8.2 Financial reporting

The city did not file a financial report with the SAO for the year ended December 31, 2020, until November 23, 2021, resulting in a fine of \$39,544.

Section 105.145, RSMo, requires each political subdivision to file an annual report of its financial transactions with the SAO. Under 15 CSR 40-3.030, each political subdivision must file its annual financial report within 6 months of the end of the subdivision's fiscal year. 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, provides that political subdivisions that fail to timely file the annual financial statement with the State Auditor shall be subject to a fine of \$500 per day. In addition, current and former Boards were not aware of the importance of these requirements.

8.3 Published financial statements

The city did not publish semiannual financial statements as required by state law for the year ended December 31, 2020, or the first 6 months of 2021. As a result, information regarding the city's financial activity and condition was not available to all citizens.

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. Current and former Boards were not aware of this requirement.

8.4 Street maintenance plan

City officials have not developed a formal annual maintenance plan for city streets. Formal, approved, street maintenance plans, prepared along with the budget with citizen input, that include a description of the streets needing maintenance, the type of work to be performed, an estimate of the quantity and cost of materials needed, the dates such work could begin, the amount of labor required to perform the work, and other relevant information serve as a useful management tool and provide greater input into the overall budgeting process.

A plan provides a means to continually and more effectively monitor and evaluate the progress made in the repair and maintenance of streets throughout the year. Current and former Boards had informal plans for street repairs, but were not aware of the importance of developing, updating, and monitoring a formal street maintenance plan.

Recommendations

The Board of Aldermen:

- 8.1 Prepare annual budgets that contain all information required by state law and ensure budgets are adequately monitored.



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- 8.2 Submit annual financial reports to the State Auditor's Office as required by state law.
- 8.3 Publish semiannual financial statements as required by state law.
- 8.4 Establish a formal annual street maintenance plan.

Auditee's Response

- 8.1 *We will adopt a budget and approve in the Board minutes. The budget will include actuals from the previous two years, and expectations for that year's budget. The budget will also have a message of what the Board hopes to do in that budget year. The budget will also have actual cash balances for previous two years and any debt, beginning cash balances for the budget year, and end of year budget summary along with projected ending balances.*
- 8.2 *The Board is aware of the timeline of financial statements. Financial statement distribution and data reporting will be completed annually with the State Auditor's office within 6 months of the calendar year end.*
- 8.3 *We will post fund activity in the newspaper (or on bulletin board) and list expenditures. This should fulfill the legal requirement for posting a semiannual financial statement. Accounts payable reporting is being given to the Board for transparency monthly to help prepare a yearly financial statement.*
- 8.4 *A list of streets in need of repair will be prepared by taking a road inventory for improvements. We will start implementing the plans for repair working within the yearly road funds allocated for repairs.*

9. Board Qualifications, Ordinances, and Sunshine Law

Procedures over board qualifications, ordinance codification, and Sunshine Law compliance need improvement.

9.1 Board qualifications

Former Alderwoman Nancy Wilson was elected as a write-in candidate and took the oath of office in June 2020 while owing delinquent personal property taxes. She did not pay her 2018 and 2019 personal property taxes until July



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31, 2020, and still owed 2020 delinquent personal property taxes as of April 12, 2021,¹² when the Board voted to remove her from office.

Section 79.250, RSMo, states, "No person shall be elected or appointed to any office who shall at the time be in arrears for any unpaid city taxes, or forfeiture or defalcation in office." Procedures to review for potentially unqualified persons holding office are necessary to ensure the city and its board members comply with applicable laws. Former board members indicated they were unaware of the importance of these requirements.

9.2 Ordinances

The city does not maintain an up-to-date official ordinance book. Various ordinances were approved by the Board for the year ended December 31, 2020, but not codified. The most recent ordinance codified was approved in August 2018.

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 current and complete. Former board members acknowledged the ordinance book had not been updated for recent changes but did not provide a reason for this.

9.3 Sunshine law

The city does not always comply with requirements of the Sunshine Law and controls were not always in place to ensure minutes were properly prepared and approved. We noted the following concerns with minutes for meetings held from January 2020 through April 12, 2021.

- City officials could not locate minutes for open meetings held on February 10, 2020, January 25, 2021, and February 25, 2021. In addition, city officials could not provide dates for any additional meetings that may have been held from January 1, 2021, through April 12, 2021 (the time period the former Mayor Pro Tem was responsible for most activities of the city).
- Closed meeting minutes were not prepared for the 5 closed sessions referenced in open meeting minutes.
- The Board failed to specify the reasons for closing a meeting in the open meeting minutes for 4 of the 5 closed meetings held, and the agendas for 2 of these 4 closed meetings also did not cite the specific reasons for closure.

¹² Jasper County, Missouri, Collector of Revenue, Real Estate Tax Search is available at <<https://www.jaspercountycollector.com/wrapper4.php?page=1&PHPSESSID=eh9mffj42muo53m2nbvkd7re52>>, accessed September 9, 2021.



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In addition, one additional agenda included a statement indicating "WE HOLD THE RIGHT TO CLOSE THIS MEETING AT ANYTIME IF THE NEED CALLS," which is insufficient notice of the vote to close. Also, the open meeting minutes related to this meeting agenda did not indicate a closed session was held.

- The preparer did not sign the meeting minutes and the date the Board approved the meeting minutes was not included for 15 open meetings to indicate minutes were properly documented and approved.

Former city officials indicated that the meeting minutes book went missing after a break in at city hall, and many of the meeting minutes provided for our review were unofficial copies maintained by former board members. Former board members were unaware of the requirements for closed sessions.

Section 610.020.7, RSMo, states minutes of open and closed meetings shall be taken and retained by the public governmental body. Section 610.022.2 RSMo, requires that the governmental body give notice of the time, date, and place of a vote to close a meeting, as well as the reason for holding it by specific reference in the meeting minutes. The meeting minutes should be signed by the preparer and 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 meetings.

9.4 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. The Board indicated it was unaware of all these requirements.

Recommendations

The Board of Aldermen:

- 9.1 Establish procedures to ensure aldermen possess the qualifications required for holding office.
- 9.2 Ensure the city's official ordinance book is complete and updated timely.



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Auditee's Response

- 9.3 Maintain complete and accurate meeting minutes for all meetings and ensure meeting minutes are signed by the preparer and approved by the Board. In addition, the Board of Aldermen should ensure specific reasons for closing a meeting are documented in the agendas and open meeting minutes.
- 9.4 Develop a written public access policy.
- 9.1 *Policies and procedure are being drafted and will be approved by the Board for full transparency. Prior to taking the oath of office, the City Clerk will contact the Jasper County Collector of Revenue to review the candidate's tax status.*
- 9.2 *We will organize and update the ordinance book.*
- 9.3 *City meetings are now conducted in an appropriate manner in accordance with state statute. We will maintain minutes, and keep open and closed minutes. If we go into closed session, we will cite the state statute for the need for closing the meeting and be detailed.*
- 9.4 *A public access policy has been written and approved by the Board. Citizens may attend all Council meetings except closed meetings. Access to all public information is available during business hours, copies of such documents can be purchased for 10 cents per page.*

10. Electronic Communication Policy

The city has not developed a records management and retention policy 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.

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.¹³

Development of a written policy to address the use of electronic communications is necessary to ensure all documentation of official business of the city is retained as required by state law. The Board indicated it was

¹³ 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 March 1, 2022.



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

unaware of the record retention requirements and the electronic communications guidelines.

Recommendation

The Board of Aldermen develop a written records management and retention policy to address electronic communications management and retention to comply with Missouri Secretary of State Records Services Division electronic communications guidelines.

Auditee's Response

All records, as well as communication will be written, approved, and scanned into electronic storage. We have a policy and procedure for records that includes electronic transfer of information to the state. We are in the process of working on an internal information technology (IT) secure network.

11. Capital Assets

The city does not maintain records of its capital assets. Additionally, city personnel do not tag, number, or otherwise identify assets or perform annual physical inventories. As a result, assets are more susceptible to theft or misuse.

Adequate capital asset records and procedures are necessary to provide controls over city property, to safeguard city assets that are susceptible to loss, theft, or misuse; and to provide a basis for proper financial reporting and insurance coverage. Former board members were not aware of the importance of maintaining capital asset records or performing annual physical inventories.

Recommendation

The Board of Aldermen ensure complete and detailed capital asset records are maintained that include all pertinent information for each asset such as tag number, description, cost, acquisition date, location, and subsequent disposition. The Board of Aldermen should also ensure city personnel properly tag, number, or otherwise identify all applicable city property and conduct and document an adequate annual inventory that documents all capital assets with the pertinent information.

Auditee's Response

We will develop an inventory system for electronic input and accountability. A detailed list of all city property will be inventoried and labeled. Such a list will be maintained in the office and updated regularly with newly purchased or newly removed items. Tagging with a label or stamped number for identification will be performed for all inventoried items.

City of Purcell

Organization and Statistical Information

The City of Purcell is located in Jasper County. The city was incorporated in 1903 and is currently a fourth-class city. The city employed 4 part-time employees on December 31, 2020.

City operations include utilities (water, sewer, and trash) and street maintenance. The city included on the August 3, 2021, ballot a question whether or not to sell the water/sewer utility to Missouri American Water for the sum of \$200,000. Voters approved the sale. According to city officials, they plan to finalize the sale of the water/sewer system to Missouri American Water by June 2022.

Mayor and Board of Aldermen

The city government consists of a mayor and a 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, 2020, are identified below. The Mayor is paid \$55 per month and Aldermen are paid \$25 for attending the first meeting of each month as set by ordinance. In addition, the Mayor and Aldermen are also paid \$5 for each additional special meeting held during each month as set by ordinance.

| | |
|---------------------------------|-----------------------------|
| Nancy Wilson, Mayor Pro Tem (1) | June 2020 to April 2021 |
| Dorothy Haddock, Alderwoman | April 2019 to April 2021 |
| Kathleen Mann, Alderwoman (2) | November 2020 to April 2021 |
| Carl "Bud" Crease, Alderman (3) | November 2020 to April 2021 |

- (1) The position of Mayor was vacant from November 2020 until April 2021, when Kelsey Freelend was elected. Jerry Welch was previously appointed Mayor Pro Tem in September 2019, elected Mayor in June 2020, and resigned in October 2020. Nancy Wilson was elected as an Alderwoman in June 2020, filling the previously vacant position, and appointed as the Mayor Pro Tem in August 2020. On April 12, 2021, Nancy Wilson was removed from her position as Alderwoman and Mayor Pro Tem.
- (2) Judy Welch served as alderwoman until her resignation in October 2020. Kathleen Mann was appointed to replace her in November 2020 and served in the position until Echo Valdez was elected April 2021.
- (3) Kelsey Freelend served as Alderwoman until her resignation in October 2020. Morigin Smiles was appointed to replace her and served one month. Carl "Bud" Crease was appointed to replace Morigin Smiles in November 2020 and served in the position until Janet "Shelly" Jolly was elected April 2021.

Financial Activity

A summary of the city's financial activity, prepared by the city, for the year ended December 31, 2020, follows.



City of Purcell
Organization and Statistical Information

City of Purcell
Schedule of Receipts, Disbursements, and Changes in Cash
Year ended December 31, 2020

| | General Account | Water Deposit Account | Total |
|------------------------------------|--------------------|-----------------------------|----------------|
| RECEIPTS | \$ | | |
| Receipts | 178,330 | 1,400 | 179,730 |
| Transfers in | 517 | - | 517 |
| Total Receipts | <u>178,847</u> | <u>1,400</u> | <u>180,247</u> |
| DISBURSEMENTS | | | |
| Disbursements | 177,338 | 123 | 177,461 |
| Transfers out | - | 517 | 517 |
| Total Disbursements | <u>177,338</u> | <u>640</u> | <u>177,978</u> |
| RECEIPTS OVER(UNDER) DISBURSEMENTS | <u>1,509</u> | <u>760</u> | <u>2,269</u> |
| CASH BALANCE, DECEMBER 31, 2019 | <u>15,190</u> | <u>9,663</u> | <u>24,853</u> |
| CASH BALANCE, DECEMBER 31, 2020 | \$ <u>16,699</u> | <u>10,423</u> | <u>27,122</u> |

City of Purcell

Supporting Documentation of Falsified Email and Misappropriated Money

The following appendixes provide supporting documentation for the falsified email, letter to city regarding falsified email, and misappropriated money as discussed in the Background section and MAR finding number 1 and are summarized in the following table:

| Appendix | Type of Supporting Documentation |
|----------|--|
| A | Falsified Email |
| B | Letter to City Regarding Falsified Email |
| C | Misappropriated Money |



Appendix A
City of Purcell
Falsified Email

Original Email

Pamela Allison

From: Nancy Wilson <fluffypotato1@icloud.com>
Sent: Monday, March 1, 2021 8:53 AM
To: Pamela Allison
Subject: Re: City of Purcell

Yes ma'am thank u

On Mar 1, 2021, at 8:48 AM, Pamela Allison <pamela.allison@auditor.mo.gov> wrote:

Ms. Wilson,

As discussed on the phone this morning, Kyle Goodin will meet you tomorrow (3/2/21) at 10 a.m. at city hall to obtain records and a data dump of the utility system and accounting software.

Should your plans change, please call me at the number below before 5 p.m. today.

Thank you.

Pamela Allison, CPA, CFE
Missouri State Auditor's Office
Supervisory Manager of the
Public Corruption and Fraud Division
(417) 895-6519

CONFIDENTIALITY CLAUSE:

This e-mail and any attachments are intended only for those to which it is addressed and may contain information which is privileged, confidential, and prohibited from disclosure or unauthorized use under applicable law. If you are not the intended recipient of this e-mail, you are hereby notified that any use, dissemination, or copying of this e-mail or the information contained in this e-mail is strictly prohibited by the sender. If you have received this transmission in error, please return the material received to the sender and delete all copies from your system.

-----Original Message-----

From: Nancy Wilson <fluffypotato1@icloud.com>
Sent: Thursday, February 25, 2021 11:43 PM
To: Pamela Allison <pamela.allison@auditor.mo.gov>
Subject: City of Purcell

All the items you all told us to keep under lock and key when the clerk treasure and collector resigned they left it all along with all keys to the city and since I nor the one remaining alderman have any legal council we would like for you all to come pick it all up please



Appendix A
City of Purcell
Falsified Email

Falsified Email

Pamela Allison

From: Nancy Wilson <fluffypotato1@icloud.com>
Sent: Monday, March 1, 2021 10:17 PM
To: Pamela Allison
Subject: Re: City of Purcell

On Mar 1, 2021, at 8:53 AM, Nancy Wilson <fluffypotato1@icloud.com> wrote:

Yes ma'am thank u

On Mar 1, 2021, at 8:48 AM, Tamela
<tamela.pallison@auditor.state.mo.gov> wrote:

Ms. Wilson,

As discussed on the phone this morning, Kyle Cook will meet you tomorrow (3/2/21) at 7 a.m. to obtain city records and a data dump. Also to download all audio and video recording of meeting from Feb25 2021, have written documentation of all false statements and defamation. The citizens on social media that verbally assaulted you and who are continuing to do so. Per our conversation once this report is started you will have to follow through with charges. Our tech company did she the election pre vote and poll along with slander will also set charges on the city of Purcell for no legal protection. Have list of names addresses and phone numbers ready for Sergeant Kim she will have Adult stocking and terroristic acts added in Jasper County.

Should your plans change, please call me at the number below before 5 p.m. today.

Thank you.

Pamela Allison, CPA, CFE
Missouri State Auditor's Office
Supervisory Manager of the
Public Corruption and Fraud Division
(417) 895-6519

CONFIDENTIALITY CLAUSE:

This e-mail and any attachments are intended only for those to which it is addressed and may contain information which is privileged, confidential, and prohibited from disclosure or unauthorized use under applicable law. If you are not the intended recipient of this e-mail, you are hereby notified that any use, dissemination, or copying of this e-mail or the information contained in this e-mail is strictly prohibited by the sender. If you have received this transmission in error, please return the material received to the sender and delete all copies from your system.

-----Original Message-----

From: Nancy Wilson <fluffypotato1@icloud.com>
Sent: Thursday, February 25, 2021 11:43 PM
To: Pamela Allison <pamela.allison@auditor.mo.gov>
Subject: City of Purcell



Appendix A
City of Purcell
Falsified Email

All the items you all told us to keep under lock and key when the clerk treasure and collector resigned they left it all along with all keys to the city and since I nor the one remaining alderman have any legal council we would like for you all to come pick it all up please



Appendix B
City of Purcell
Letter to City Regarding Falsified Email



NICOLE GALLOWAY, CPA
Missouri State Auditor

March 10, 2021

Nancy Wilson, Mayor Pro Tem
And
Board of Aldermen
City of Purcell
P.O. Box 10
Purcell, MO 64857

Dear Mayor Wilson and Board,

I am writing to you related to the City of Purcell audit the State Auditor's Office will be performing pursuant to section 29.230, RSMo, that we originally notified you of in a letter dated November 20, 2020. Since that notification, we have received frequent communication that it is necessary to secure the records of the city.

In addition, on March 1, 2021, this office received the attached emails. This office had intended to send a staff auditor to the city to obtain records and data from the utility and accounting software. This office had to change its plans at the last minute and the staff auditor was unable to pick up the records on that day. This office was able to pick up the documents on March 5, 2021.

The first attached email accurately represents the correspondence sent from our office from Audit Manager Pamela Allison. The email includes an acknowledgement from 8:53 a.m. by Mayor Wilson to Audit Manager Pamela Allison that the auditor would be arriving on March 2 at 10 a.m.

The second email from 10:17 p.m. is a forwarded email of that same acknowledgement that appears to have been altered to state that "Kyle Cook" will arrive at 7 a.m. to obtain the records. The forwarded email with the email sender address of "Tamela.Pallison@auditor.mo.gov" did not come from the State Auditor's Office or any of its personnel. None of this office's employees, however, are named Kyle Cook. In addition, the forwarded email contains inaccurate and false information related to the work of this office, including false allegations related to having to follow through with charges that may be filed.

The purpose of the audit is to obtain an independent review of the condition of the city. The State Auditor will make recommendations for any findings that appear in the report. The State Auditor's Office is not a law enforcement agency and does not have the authority to arrest individuals. If concerns are noted during an audit that have criminal implications, those concerns are referred to the appropriate law enforcement agency for investigation and it is at that agency's discretion whether any arrests occur and if criminal charges are filed. The Board should also contact law enforcement if it determines any crime has possibly occurred.

Official correspondence from this office will be sent from Pamela Allison, Audit Manager or Kelly Davis, Assistant Audit Director. If you receive any further communication that appears to be from



Appendix B
City of Purcell
Letter to City Regarding Falsified Email

our office and discusses criminal prosecution or you wish to verify, please contact Pamela Allison at 573-751-4213.

Sincerely,

A handwritten signature in cursive script, appearing to read "Kelly Davis".

Kelly Davis
Assistant Director of Audits

Appendix C
City of Purcell
Misappropriated Money

| Check Date | Check Number | Payee, as Shown on Canceled Check (1) | Amount | Purpose as Shown in Check Memo Line, if Provided (1) | Check Signers | Check Endorsements |
|---|--------------|---|-----------------|--|-----------------|--------------------------------|
| <u>Improper checks with joint payee noted as "or Nancy Wilson"</u> | | | | | | |
| 03/04/2021 | 3450 | Former Mayor Pro Tem's mother "or Nancy Wilson" | \$ 500.00 | City Bills & Cleaning | Nancy M. Wilson | Nancy M. Wilson (2) |
| 03/16/2021 | 3484 | Former Mayor Pro Tem's mother "or Nancy Wilson" | 488.00 | invoice & Reimbursement CPA | Nancy M. Wilson | Nancy M. Wilson |
| 03/30/2021 | 3488 | "CPA or Nancy Wilson" | 500.00 | April Billing | Nancy M. Wilson | Nancy M. Wilson |
| 03/31/2021 | 3454 | (3) Individual "and or Nancy Wilson" | 500.00 | ~ invoice 3-21 (4) | Nancy M. Wilson | Individual and Nancy M. Wilson |
| | | | <u>1,988.00</u> | | | |
| <u>Improper cash withdrawn</u> | | | | | | |
| 04/02/2021 | N/A | Cash Withdrawal | <u>400.00</u> | N/A | (5) | N/A |
| <u>Improper check issued to routine city vendor that was negotiated by Nancy Wilson</u> | | | | | | |
| 04/10/2021 | 3457 | (3) Company name | <u>200.00</u> | Invoice For Dig | Nancy Wilson | Company name and Nancy Wilson |
| <u>Check cashed by the payee and split with the former Mayor Pro Tem</u> | | | | | | |
| 04/17/2021 | 3460 | Individual | <u>250.00</u> | (6) Mowing & Cleaning City Hall | Nancy M. Wilson | Individual |

N/A Not applicable

- (1) These details are presented exactly as they are listed in the source documents, unless otherwise indicated.
- (2) A secondary endorsement appears to indicate the former Mayor Pro Tem's mother.
- (3) Checks were issued out of order.
- (4) Portions of the memo line of the check, noted by a ~ symbol, were unreadable. Thus, the wording is not known.
- (5) Cash withdrawal ticket indicated "City of Purcell Reimbursement" and was signed by Nancy M. Wilson.
- (6) Check was negotiated for \$500, with half (\$250) retained by Nancy Wilson.