

The seal of the Missouri State Auditor is circular and features the text "SEAL OF THE STATE AUDITOR" around the top edge and "MISSOURI 1820" around the bottom edge. In the center, it contains the motto "WE STAND DIVIDED" and a central emblem with a scale of justice and a sword.

Nicole Galloway, CPA

Missouri State Auditor

FOLLOW-UP REPORT ON AUDIT FINDINGS

City of Homestead Village

Report No. 2022-039

July 2022

auditor.mo.gov

City of Homestead Village

Follow-Up Report on Audit Findings

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*Includes selected findings



NICOLE GALLOWAY, CPA Missouri State Auditor

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

We have conducted follow-up work on certain audit report findings contained in Report No. 2021-119, *City of Homestead Village* (rated as Poor), issued in December 2021, pursuant to the Auditor's Follow-Up Team to Effect Recommendations (AFTER) program. The objectives of the AFTER program are to:

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

As part of the AFTER work conducted, we reviewed documentation provided by the city and held discussions with the Mayor and City Clerk to verify the status of the recommendations. Documentation provided by the city included Board meeting minutes, financial records, and other pertinent documents. This report is a summary of the results of this follow-up work, which was substantially completed during May and June 2022.

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

Nicole R. Galloway, CPA
State Auditor

City of Homestead Village

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Status of Findings

1. **Missing Money** The audit identified at least \$4,348 in recorded sewer receipts that were not deposited from January 1, 2018, to December 31, 2020. In addition, the former City Clerk falsified her 2019 customer ledger by indicating payments occurred on her account when they had not.

During this period, recorded cash receipts totaling at least \$4,228 were not deposited and 7 sewer receipts paid by check or money order, totaling \$280, were recorded in customer ledgers but could not be traced to a deposit. Four of these 7 receipts, totaling \$160, were recorded by the former City Clerk as check payments in her customer ledger from June through November 2019, but were not deposited. After this was discovered, the former City Clerk made a payment in October 2020, for \$888, representing payment on her sewer account from June 2019 through December 2020, and included late fees for delinquent months. This payment included the amounts due for the 4 months for which payments were recorded in her ledger but a payment was not actually made, totaling \$160.

The other 3 receipts that we could not trace to a deposit, totaling \$120, were recorded in customer ledgers in 2018, with no payment method documented. Each of these customers typically paid by either a check or money order. However, no check or money orders could be traced to a deposit and these payments were missing.

Recommendation The Board of Aldermen work with law enforcement officials regarding prosecution of the missing money and take the necessary actions to seek restitution for amounts missing.

Status **In Progress**

The City Clerk indicated the city has contacted county law enforcement officials and expressed its willingness to assist in any investigation or prosecution of the missing money. The city has filed a claim with its insurance company on the \$4,000 surety bond covering the former City Clerk, and the Mayor believes the city will recoup the full value of the bond.

2. **Accounting Controls and Procedures** Accounting controls and procedures needed improvement.

2.1 **Segregation and oversight** The Board had not adequately segregated accounting duties or ensured a documented supervisory or independent review over various financial accounting functions was performed.

Recommendation The Board of Aldermen segregate the accounting duties to the extent possible and implement appropriate reviews and monitoring procedures.



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Status

Partially Implemented

At each monthly Board meeting, the City Clerk provides the Board a copy of the bank statements, a listing of bills to be approved, and a delinquent sewer report. According to the City Clerk, bank reconciliations are reviewed by a designated Alderman selected to review the accounting records, although this review is not documented. No specific monitoring procedures have been developed for review of receipting and depositing functions.

2.2 Receipting, recording,
and depositing

Receipt slips were not issued for all money received and a receipt ledger was not maintained to document all payments received, along with the date paid and method of payment. The former City Clerk did not deposit sewer receipts intact or timely, sewer payments were not accurately recorded in customer ledgers, and the method and date of payment were not always indicated. The composition of receipts were not reconciled to the composition of deposits. Checks and money orders received were not restrictively endorsed upon receipt and were only endorsed when deposits were prepared.

Recommendation

The Board of Aldermen ensure receipt slips are issued for all payments received and are posted to a receipt ledger, the method of payment is indicated for all payments received, deposits are made timely and intact, and payments received are posted to customer ledgers accurately. In addition, ensure the composition of receipts is reconciled to the composition of deposits and checks and money orders are restrictively endorsed immediately upon receipt.

Status

Partially Implemented

Receipt slips are now issued for all money received, and payments received are recorded in a manual receipt ledger and posted to a computerized utility accounting system. The method of payment is indicated on the receipt slips and receipt ledger and is also posted to the utility accounting system. Deposits are typically made weekly, but our review of April 2022 receipts and deposits showed receipts were not always deposited intact. One \$40 check received on April 15, 2022, was not included in any of the three deposits made on April 20, 2022, but was deposited on May 6, 2022. In addition, a \$40 check received in April 2022 was not accurately posted to a customer's subsidiary ledger in the utility accounting system. The Board has not yet implemented procedures to reconcile the composition of receipts to the composition of deposits. The Board has designated one of the Aldermen to perform a review of accounting records, including receipting and depositing records, but there is no documentation to show these reviews have begun. The City Clerk indicated checks and money orders are endorsed immediately upon receipt.

2.3 Bank reconciliations

The former City Clerk did not perform bank reconciliations for the city's 3 bank accounts. Check registers and the computerized accounting system were



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not accurate or kept up to date for these accounts, and as a result, accurate bank reconciliations could not be performed.

Recommendation

The Board of Aldermen ensure monthly bank reconciliations are prepared for all bank accounts and book balances are maintained and accurate.

Status

Implemented

The City Clerk is performing monthly bank reconciliations for all bank accounts. The city uses its new computerized accounting system to maintain book balances and prepare the reconciliations. We reviewed the April 30, 2022, bank reconciliations for all bank accounts and did not identify any concerns.

3.1 Sewer System Controls and Procedures - Late penalties and shut off procedures

Late penalties were not always charged in accordance with city ordinance and water services were not disconnected (shut off) in accordance with city ordinance and provisions of a contract with the Public Water Supply District providing water to the city's residents. In addition, the date water services were subject to disconnection per the city ordinance was different than the disconnection date printed on the customer sewer bills.

Recommendation

The Board of Aldermen ensure late penalties are charged in accordance with city ordinance and update the delinquent date reported on utility statements to agree with city ordinance and ensure it is consistently enforced. In addition, a record of shut offs should be maintained, along with any relevant documentation.

Status

Partially Implemented

The utility accounting system now used by the city allows late penalties to be assessed automatically and the City Clerk indicated she monitors the system to ensure penalties are assessed appropriately. The utility statements have been updated to show the correct delinquent date. The City Clerk indicated a sewer account balance report is provided to the Board monthly that shows the balance of each account. We reviewed the sewer account balance report printed as of April 26, 2022. It documented accounts sent delinquent notices, accounts with payment plans, and recent payments by customers on payment plans. This report was discussed by the Board at its April 26, 2022, meeting and the planned action for each delinquent account was documented. According to the City Clerk, delinquent notices were sent by regular and certified mail to the customers identified in the April Board meeting. The City Clerk provided an update to the Board at its May 31, 2022, meeting regarding the status of delinquent accounts. Some customers did not respond to the delinquent notices and some contacted the City Clerk to discuss their accounts but did not make a payment. However, shut off requests were not made for



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these customers and as of May 31, 2022, no shut offs have been requested by the city.

3.2 Sewer System Controls and Procedures - Delinquent accounts

The city did not perform monthly reconciliations of total billings, payments received, and amounts remaining unpaid for sewer services. Although delinquent amounts were recorded in customer ledgers, a summary of delinquent accounts was not prepared and provided to the Board for review.

At our request, a delinquent account listing was prepared as of June 15, 2020, and included both active and inactive accounts. Customer ledgers were not available to support some account balances listed and some ledgers were incomplete or inaccurate, and contained mathematical errors resulting in the actual delinquent balance being different than the balance indicated on the delinquent account listing. In addition, the delinquent account listing was incomplete.

Recommendation

The Board of Aldermen require monthly reconciliations be performed of the amounts billed to amounts collected and delinquent accounts, and review a listing of delinquent accounts periodically. In addition, ensure records of customer account activity and delinquent balances are complete, mathematically accurate, and reviewed by an independent person periodically.

Status

Partially Implemented

The Board has not developed procedures for a monthly reconciliation of the amounts billed to amounts collected and delinquent accounts, but the City Clerk indicated she is planning to perform this reconciliation in the future. The City Clerk indicated she provides a sewer account balance report to the Board monthly at its meetings that lists the current balance of all customer accounts. The Board upgraded to a computerized utility accounting system to help ensure customer account activity and delinquent balances are complete and mathematically accurate.

3.3 Sewer System Controls and Procedures - Partial payments

The city did not have an ordinance regarding partial payments by customers and while a formal policy addressing this topic was adopted by the Board, it was not always followed. In addition, partial payments were made without entering into a written payment agreement and without Board approval.

Recommendation

The Board of Aldermen establish an ordinance formalizing the policy and procedures allowing customers to make partial payments, and include obtaining a written payment agreement.



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Status

In Progress

The City Clerk indicated the Board is working on a draft of a comprehensive updated sewer ordinance that will include language to address partial payments and written pay agreements. This ordinance revision was discussed at the May Board meeting and the minutes indicate the Board will be receiving the ordinance for consideration in the near future.

4.1 Budgets, Published
Financial Statements,
and Financial Reporting
- Budgets

City officials did not prepare annual budgets for city funds for the years ended December 31, 2020, 2019, and 2018, as required by state law.

Recommendation

The Board of Aldermen prepare annual budgets for all funds that contain all information required by state law.

Status

Partially Implemented

The Board adopted a budget for the year ended December 31, 2022, but it was not approved until March 2022. The budget only contained one year of actual data for prior years for each fund, instead of two years, and did not clearly document the actual or estimated ending cash balances, but otherwise contained all information required by state law.

5. Disbursements

Disbursements procedures needed improvement.

5.1 Disbursement review
and approval

The Board's review and approval of disbursements were not adequately documented. In addition, invoices were not signed or initialed by the Board.

Recommendation

The Board of Aldermen review and document approval of all disbursements and supporting documentation.

Status

Implemented

A list of bills and invoices supporting each disbursement are presented to the Board monthly for review and approval. The City Clerk indicated invoices are typically reviewed by all Board members, and are initialed by the Mayor to indicate approval. Invoices reviewed to support the May 2022 list of bills were all initialed by the Mayor. We also noted approval of the list of bills is documented in the meeting minutes each month.

5.2 Contract labor and
employee classifications

The city did not have contracts with the company that maintained the sewer system or the City Attorney and did not document the reasons for classifying the City Clerk as an independent contractor rather than an employee. The city did not prepare and file 1099 forms with the Internal Revenue Service (IRS)



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for amounts paid to the City Attorney and the former City Clerk in 2019. The city did not withhold payroll and income taxes from payments made to the former City Clerk, totaling \$6,200, during 2019.

Recommendation

The Board of Aldermen obtain and retain written contracts for services that specify the services to be rendered and the manner and amount of compensation to be paid and ensure 1099 forms are issued in accordance with IRS regulations. The Board should also ensure all persons hired by the city are properly classified as employees or contract employees in compliance with state and federal laws and regulations, and all compensation paid is subject to income and payroll taxes and properly reported.

Status

Partially Implemented

Written contracts with the current Sewer Operator and City Attorney were reviewed and included appropriate detail. The City Clerk provided copies of 1099 forms issued to the Sewer Operator and the City Clerk for 2021. No action has been taken yet by the Board regarding classifications of city contractors/employees and the City Clerk is still classified as a contractor.

6.1 Sunshine Law - Closed meetings

Open meeting minutes did not document the specific reasons or section of law allowing the meeting to be closed for any of the 8 closed meetings held between January 1, 2018, and December 31, 2019. In addition, several meeting notices and agendas did not include a statement that a closed meeting would be held or did not include the specific section of law allowing the closed meeting. Some topics discussed and voted on in closed meetings were not allowable under the Sunshine Law.

Recommendation

The Board of Aldermen ensure proper notification and agendas for public meetings are posted, specific reasons for closing a meeting are documented in the open minutes, and only topics allowed by state law are discussed in closed meetings.

Status

Implemented

The Board constructed a bulletin board in front of city hall to post notifications and agendas for public meetings. The City Clerk provided us tentative agendas for Board meetings held from January to April 2022. She indicated the agendas are posted in advance on the bulletin board as notification for upcoming meetings. No closed meetings were held by the Board from January through May 2022, but the City Clerk indicated if a closed meeting is necessary, the specific reason for closing a meeting will be documented with any motion to close a meeting and the discussion will be limited to allowable topics.