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Missouri State Auditor

City of Dixon

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Missouri State Auditor

CITIZENS SUMMARY

Summary of findings in the audit of the City of Dixon

Misappropriated Money	From November 2013 through March 2020, money totaling at least \$18,910 was misappropriated from the city, including payroll overpayments made to the City Clerk for vacation leave, sick leave, severance pay, holiday pay, and inaccurate rates of pay. Between April 9, 2015, and March 13, 2020, the City Clerk was improperly paid \$9,345 for 600 hours of vacation leave in violation of city policy. The City Clerk overpaid himself \$3,026 for accrued sick leave upon retirement due to inaccurate leave records maintained by the City Clerk. The City Clerk paid himself \$2,639 more than allowed by policy for severance pay. The City Clerk paid himself \$2,695 for holidays in excess of those provided by ordinance. The City Clerk inaccurately recorded his hourly rate in the payroll system, resulting in \$1,205 in overpayments. In addition, questionable overtime payments and unsupported expense reimbursements were paid to the City Clerk.
Oversight and Segregation of Duties	The Board did not establish adequate oversight of the City Clerk or segregation of duties over the various financial accounting functions. The Board did not adequately monitor the city's payroll and employee reimbursement activity. The City Clerk also signed his own payroll and reimbursement checks and had access to a former Mayor's signature stamp.
Payroll Controls and Procedures	The City Clerk paid himself \$96,679 for overtime worked during his employment in violation of city ordinance. The city does not have ordinances establishing the amount of compensation of some city officials and employees. Ordinances and personnel policies are poorly maintained. Payroll was not adequately reviewed and approved by the Board. The City Clerk did not provide detailed monthly payroll reports for the Board's review. Bi-monthly/bi-weekly timesheets of the City Clerk were not always retained, and timesheets retained were not always signed by the City Clerk or supervisor to document approval and review of time worked. The City Clerk's personnel file did not contain documentation of changes in his pay rate during his employment. In addition, the City Clerk was paid hourly rates not supported by the rate of pay report generated from the city's accounting system. The City Clerk did not timely file 941 forms and remit applicable payroll taxes to the Internal Revenue Service (IRS).
Expense Reimbursements	The Board did not document its review and approval in meeting minutes or on supporting documentation of any of the 21 expense reimbursements totaling \$5,153 made to the City Clerk during his employment. In addition, supporting documentation was not maintained for 11 of these reimbursements, totaling \$2,407.

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 Dixon

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NICOLE GALLOWAY, CPA

Missouri State Auditor

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

We have audited certain operations of the City of Dixon as they relate to the city finances in fulfillment of our duties under Chapter 29, RSMo. Due to the concerns regarding misappropriated money, the State Auditor initiated the audit with the approval of the City of Dixon Board of Aldermen. The scope of our audit included, but was not necessarily limited to, the period of November 1, 2013, through March 31, 2020. The objectives of our audit were to:

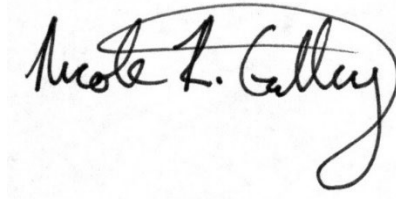
1. Evaluate the city's internal controls over significant management and financial functions.
2. Evaluate the city's compliance with certain legal provisions.
3. Evaluate the economy and efficiency of certain management practices and procedures, including certain financial transactions.
4. Determine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

Our methodology included reviewing minutes of meetings, written policies and procedures, financial records, and other pertinent documents; and interviewing various personnel of the city, as well as certain external parties; and testing selected transactions. We obtained an understanding of internal control that is significant to the audit objectives and 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) money misappropriated from the city totaling at least \$18,910. The accompanying Management Advisory Report presents our findings arising from our audit of the City of Dixon.

A handwritten signature in black ink, reading "Nicole R. Galloway". The signature is fluid and cursive, with a large loop at the end of the last name.

Nicole R. Galloway, CPA
State Auditor

City of Dixon

Introduction

Background

The former City Clerk of Dixon, Jessie Fleming, began employment November 6, 2013, and served until March 13, 2020, when he retired.

The City Clerk¹ was primarily responsible for the following city functions and records:

- Payroll - Employees prepared timesheets, and timesheets were submitted to the City Clerk for processing. The City Clerk recorded pay rates; hours worked, including overtime; holidays; and vacation and sick leave used or paid into the electronic accounting system. The City Clerk prepared, signed, and distributed payroll checks (including his own). The Mayor and/or Mayor Pro Tem also signed payroll checks. Employees were paid every two weeks.
- Disbursements - The City Clerk maintained supporting documentation of disbursements, including invoices, statements, and employee expense reimbursement forms; prepared, signed, and distributed checks; recorded payments in the electronic accounting system; and transferred money between bank accounts. The Mayor and/or Mayor Pro Tem also signed checks.
- Reporting - The City Clerk prepared Board meeting minutes and generated monthly financial reports from the accounting system for Board review.

In March 2022, the Missouri State Highway Patrol (MSHP) contacted the State Auditor's Office (SAO) and requested assistance with its investigation of overpayments made to the City Clerk. On April 8, 2022, the City of Dixon Board of Aldermen passed an ordinance formally requesting and authorizing an audit by the SAO, and the SAO subsequently agreed to conduct the audit under Chapter 29, RSMo.

On September 21, 2022, SAO auditors recorded an interview with the City Clerk. The SAO issued a subpoena to the City Clerk (see Appendix A) to compel him to produce records and documents related to his testimony. Appendix A includes redactions. These redactions are of information of a personal, privileged, or sensitive nature, and/or of information that is not directly related to the information requested in the subpoena. SAO auditors also recorded interviews with current and former Board members and requested copies of any city records they possessed that supported their statements.

¹ The former City Clerk is referred to as the City Clerk throughout the remainder of this report.



City of Dixon Introduction

The city's fiscal year is October 1 through September 30. The scope our audit included, but was not necessarily limited to the period November 1, 2013, through March 31, 2020. We applied procedures to city disbursements (including payroll) to identify the amount of misappropriated money and methods used to perpetrate and conceal the theft.

City of Dixon

Management Advisory Report

State Auditor's Findings

1. Misappropriated Money

From November 2013 through March 2020, money totaling at least \$18,910 was misappropriated from the city, including payroll overpayments made to the City Clerk for vacation leave, sick leave, severance pay, holiday pay, and inaccurate rates of pay. In addition, questionable overtime payments and unsupported expense reimbursements were paid to the City Clerk as noted in Management Advisory Report (MAR) findings numbers 3.1 and 4.

The following table provides a summary of the amounts misappropriated and identifies the appendix where specific details are reported.

Description	Amount
Vacation pay (Appendix B)	\$ 9,345
Sick leave pay (Appendix B)	3,026
Severance pay (Appendix B)	2,639
Holiday pay	2,695
Inaccurate rate of pay	1,205
Total	\$ 18,910

Vacation pay

Between April 9, 2015, and March 13, 2020, the City Clerk was improperly paid \$9,345 for 600 hours of vacation leave in violation of city policy (see Appendix B).

Accrued vacation leave payments

The City Clerk issued himself 5 checks and was issued 1 direct deposit payment during 2015, 2016, 2017, and 2019 for accrued vacation leave totaling \$8,686 in violation of city ordinance and policy.

Ordinance number 463 stated vacation leave ". . . may be taken by the employee with pay at his or her regular, pro-rated salary or hourly rate. All vacation time must be taken by the employee within one (1) year after it is earned or **the right to use such time shall be forfeited.**" [Emphasis added.] In addition, the city's personnel policy stated, "An employee exceeding the maximum hours of accrued vacation on their anniversary date of each year will **lose** any hours exceeding the maximum carryover **unless specifically approved in writing** to the City Mayor prior to the end of the fiscal year. The written approval will state all terms and conditions of the approved **extension.**" [Emphasis added.] Neither Ordinance 463 nor the city's personnel policy provided for the payout of accrued vacation except upon separation, and the City Clerk did not obtain written approval for an extension from the Mayors² in office when these payments were made. Therefore, these payments are improper.

² Jeff Clark served as Mayor from October 29, 2012, to April 15, 2015; Shawn Wethington served as Mayor from April 15, 2015, to April 13, 2018; Betty Thilges served as Mayor Pro-Tem from April 18, 2018, to June 1, 2018, in absence of a Mayor; and Mycal "Mike" Brown served as Mayor from June 1, 2018, to April 15, 2019.



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

At least 4 of the 5 checks were signed by the City Clerk. We could not obtain the check image of the remaining check issued in 2015 from the city's bank to determine who signed the check and we could not determine who authorized the direct deposit. However, in a recorded interview with the City Clerk, he indicated he signed all city checks.

A signature stamp of the then Mayor³ was used for the second required signature on 3 of the 4 checks we obtained. That Mayor indicated in a recorded interview that the City Clerk had access to and used his signature stamp, and he did not recall reviewing or approving the 3 checks issued to the City Clerk during 2016 and 2017 for the payout of vacation leave. This same Mayor also indicated a detailed payroll report showing the hours and leave each employee was paid was not submitted for his or the Board's review and approval. Therefore, it is unlikely he or the Board were aware of details of payroll checks issued to the City Clerk.

The check stub of 1 of the 4 checks with an image issued to the City Clerk for vacation leave indicated, "Approved by Mayor Brown," as noted below.⁴ In a recorded interview with the City Clerk, he indicated this notation was made in his own handwriting.

FLEMING, JESSIE		ID#9004	CK# 44072	CHK	DATE: 1/17/19	PD THRU:	1/03/19	44072
PAY TYPE	RATE	HOURS	CURRENT	YTD	DEDUCTIONS	CURRENT	YTD	
HOURLY				1212.02	FEDERAL W/H			
OVERTIME				74.21	SOC SEC W/H			
HOLIDAY				527.68	MEDICARE W/H			
VACATION	16.49	120.00	1978.80	1978.80	STATE W/H			
					INSURANCE PRETX			
					LAGERS			
					Approved By Mayor Brown			
VACATION		.00			NET	1605.72	3014.39	
SICK		279.86			GROSS	1978.80	3792.71	
CITY OF DIXON								

³ Shawn Wethington served as Mayor from April 15, 2015, to April 13, 2018.

⁴ The redactions are of information of a personal, privileged, or sensitive nature.



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

In addition, as noted in the image below,⁵ the second required signature on his check (check number 44072) was the signature of the then Mayor Pro Tem⁶ and not Mayor Brown. During a recorded interview, the City Clerk did not explain why he would indicate Mayor Brown approved this payment on the check stub when the then Mayor Pro Tem signed the check.



In a recorded interview with the then Mayor Pro Tem, she indicated checks were sometimes brought to her workplace by the City Clerk for her to sign. She also indicated payroll stubs were not presented to the Board for review and approval. Therefore, it is unlikely the Mayor Pro Tem was aware of the details of this check upon signing.

In addition, even if the payout of vacation leave had been allowed by ordinance or policy, several of the improperly issued checks for vacation leave exceeded the amount of vacation leave allowed to be accrued based on the City Clerk's years of service. Ordinance number 463 provided for an employee to accrue 40 hours of vacation leave during the first year of employment, 80 hours of vacation leave from the second year through the 14th year of employment, and 120 hours of vacation leave upon reaching the 15th year of employment. In addition, the city's personnel policy provided for an employee to accrue 40 hours of vacation leave during the first year of employment, 80 hours of vacation leave from the second year through the 10th year of employment, and 120 hours of vacation leave from the 10th year of employment to the 15th year of employment. The City Clerk was only employed 6 years at the time of his retirement, but issued himself checks for 120 hours of accrued vacation in 2016, 200 hours of accrued vacation in 2017, and 120 hours of accrued vacation in 2019, when ordinance and policy only

⁵ The redactions are of information of a personal, privileged, or sensitive nature.

⁶ Betty Thilges served as Mayor Pro Tem, and signed this check in absence of the Mayor.



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

Vacation leave payments
upon separation

allowed the accrual of 80 hours in each of those years based upon his years of service.

The City Clerk overpaid himself \$660 for 40 hours of accrued vacation upon separation. During his last 2 months of employment, the City Clerk issued himself three checks totaling \$1,980 (\$660 each) for a total of 120 hours (40 hours each) of vacation leave in violation of city ordinance and policy. The City Clerk issued himself a \$660 check for 40 hours of vacation on February 4, 2020, again on February 18, 2020, and then again on March 3, 2020. The City Clerk and the then Mayor⁷ signed these 3 checks. In recorded interviews, neither the City Clerk nor the then Mayor could explain why 3 separate checks were issued for vacation leave, why checks were issued prior to the City Clerk's date of separation on March 13, 2020, or why 120 hours of vacation was paid when ordinance and policy only allowed 80 hours based on the City Clerk's years of employment.

Ordinance 463 states, "An employee entitled to vacation leave who has resigned or whose services have been otherwise terminated, shall be entitled to receive reimbursement for all such accrued leave computed and paid on the basis of said employee's regular or hourly rate." City policy states, "An employee will be paid for all allowable accrued vacation upon separation." The City Clerk should have accrued only 80 hours of vacation leave on his anniversary date of November 6, 2019, in accordance with ordinance and policy, and he used no vacation leave (other than what he was paid) from November 6, 2019, through his separation date on March 13, 2020. In addition, in recorded interviews, a then Alderman (current Mayor)⁸ and the then Mayor⁷ indicated the Board (excluding the then Mayor) was not presented or made aware of these 3 checks issued to the City Clerk for vacation leave, until after the City Clerk's retirement.

Sick leave payment

The City Clerk overpaid himself \$3,026 for accrued sick leave upon retirement. The City Clerk issued himself a \$3,179 check on March 13, 2020, for payment of 192.76 hours of accrued sick leave based on amounts recorded in the city's accounting system; however, these records were not accurate. Our review and recalculation of the City Clerk's sick leave indicated his accrued sick leave balance was only 9.25 hours on March 13, 2020, and he should have only been paid \$153 upon retirement for sick leave. The City Clerk's incorrectly recorded sick leave in the accounting system is noted in the following table:

⁷ Allan Kuehl served as Mayor from April 15, 2019, until June 23, 2020.

⁸ Mike Null served as an Alderman from April 15, 2019, until June 23, 2020, Mayor Pro Tem/Alderman from June 23, 2020, until April 19, 2021, and as Mayor from April 19, 2021, to present.



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

Sick Leave Recorded in Accounting System

Year Ended December 31,	Sick Leave Accrued (1)	Sick Leave Used	Cumulative Sick Leave Balance
2013	16.00	5.84	10.16
2014	108.00	62.11	56.05
2015	112.00	72.99	95.06
2016	112.00	77.20	129.86
2017	132.00	40.00	221.86
2018	118.00	72.00	267.86
2019	144.00	154.10	257.76
2020	28.00	93.00	192.76
Total	770.00	577.24	

(1) Sick leave accrued was determined based upon the sick leave balance recorded at the beginning and ending of each year, and the amount of recorded sick leave used.

The city's personnel policy indicated, "An employee scheduled to work a regular 40-hour workweek will accrue sick leave at the rate of eight (8) hours per month," or 96 hours of sick leave for a full year of service, rather than the 108 to 144 hours per year claimed by the City Clerk. In addition, Ordinance 463 indicated, "Before the expiration of the ninety (90) day probationary period, employees will not be allowed any absences based upon sick leave," and the personnel policy also indicated, "sick leave does not accrue during the first 90 day probationary period." As a result, 24 hours of sick leave were recorded in the accounting system during the City Clerk's probationary period in violation of ordinance and policy. The City Clerk often made entries into the system indicating, "CHANGED THROUGH YEARLY ACCRUAL." However, it is unclear why these entries were made and they are not consistently included for the various sick leave entries. Further, calculation errors of sick leave were noted in the accounting system. As a result, of these differences, auditors recalculated the City Clerk's sick leave balances in the table below:

Sick Leave per Audit

Year Ended December 31,	Sick Leave Allowed (1)	Sick Leave Used	Sick Leave Balance
2013	0.00	5.84	(5.84)
2014	87.14	62.11	19.19
2015	96.00	72.99	42.20
2016	96.00	77.20	61.00
2017	96.00	40.00	117.00
2018	96.00	72.00	141.00
2019	96.00	154.10	82.90
2020	19.35	93.00	9.25
Total	586.49	577.24	

(1) The first and last month in which sick leave was allowed was prorated based on the days worked.



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

Accounting records showed the City Clerk sometimes recorded 4 hours of sick leave during each 2-week pay period for a total of 8 hours a month in compliance with policy. However, our review of the accounting records showed the City Clerk improperly recorded 4 hours of accrued sick leave twice in the electronic accounting system on several of the same dates, and sometimes improperly recorded 4 hours of accrued sick leave just a few days after the initial recording of accrued sick leave. As a result, for 16 months the City Clerk improperly recorded 12 hours of accrued sick leave, for another 6 months he improperly recorded 16 hours of accrued sick leave, for 2 other months he improperly recorded 20 hours of accrued sick leave, and for 1 month he improperly recorded 22 hours of accrued sick leave instead of the 8 hours per month allowed by policy. Several other instances were noted in which sick leave accrued was recorded improperly. All of these discrepancies are included in the Sick Leave Recorded in Accounting System table above.

The personnel policy stated, "Full time employees will also receive payment of up to 240 hours of sick leave he has on the official City records at the time of retirement."

Severance payment

The City Clerk issued himself a \$3,958 check for 240 regular hours of work on February 27, 2020, but city policy only provided for the payment of 80 hours of severance pay or \$1,319 upon retirement, resulting in an overpayment of \$2,639. The City Clerk and then Mayor⁹ signed this check. During recorded interviews, the City Clerk and the then Mayor indicated this check for 240 regular hours worked represented a severance payment; however, neither could explain why the check was issued prior to the City Clerk's date of separation on March 13, 2020, or why it was more than allowed by city policy.

During the same recorded interview, the then Mayor also indicated he consulted various entities specializing in payroll issues regarding the amount to pay the City Clerk in severance pay; however, he had no documentation to support any guidance provided.

The City Clerk responded to a subpoena with guidance that had been provided to him for calculation of the severance payment. This guidance indicated, "For example, a severance contract could include a severance pay term granting one week's pay for each year of service to the employer. Although not required, some employers may also offer other severance benefits, such as job counseling or payment of COBRA expenses, as part of an overall severance 'package.'" He also indicated that this information was found on "the web." Using this guidance, he calculated his severance payment as 40 hours (1 week) for each of his 6 years of service, or 240 hours. However, our

⁹ Allan Kuehl served as Mayor from April 15, 2019, until June 23, 2020.



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

research¹⁰ noted immediately following the language provided in the City Clerk's guidance there is a statement that, "No set amount of severance pay is required unless the severance pay is required by a union contract, **company policy manual**, or some other employment contract. Severance pay is frequently based on length of service." [Emphasis added.] The city's personnel policy indicated "Full-time employees upon retirement from the City service will be entitled to severance pay equal to two (2) weeks actual salary at the time of retirement" or 80 hours (40 hours for each of the 2 weeks) of severance pay. The policy also indicated, "This applies to retirement only when City employees have attained 20 continuous years of service or meet the requirements for pension benefits under the provisions of the various City pension plans." We confirmed with the city's pension plan provider that the City Clerk met the requirements for pension benefits.

In recorded interviews, a former Alderman (current Mayor)¹¹ and the then Mayor¹² indicated the Board (excluding the then Mayor) was not presented or made aware of the severance payment, until after the City Clerk's retirement.

Holiday pay

The City Clerk paid himself \$2,695 for holidays in excess of those provided by ordinance during the period he was employed as follows:

¹⁰ Legal Aid at Work, *Severance Agreement and Release of Claims Fact Sheet*, is available at <<https://legalaidatwork.org/factsheet/severance-agreement-and-release-of-claims-fact-sheet/#:~:text=For%20example%2C%20a%20severance%20contract,an%20overall%20severance%20%E2%80%9Cpackage.%E2%80%9D%3E>>, accessed November 30, 2022.

¹¹ Mike Null served as an Alderman from April 15, 2019, until June 23, 2020, Mayor Pro Tem/Alderman from June 23, 2020, until April 19, 2021, and as Mayor from April 19, 2021, to present.

¹² Allan Kuehl served as Mayor from April 15, 2019, until June 23, 2020.



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

Date of Check	Recognized Holidays During Pay Period	Number of Holiday Hours Paid	Number of Holiday Hours per Ordinance	Number of Holiday Hours Overpaid	Hourly Rate of Pay (1)	Amount of Overpayment
01/08/20	Christmas Day, New Year's Day	24	16	8	\$16.49	\$ 132
10/29/19	Columbus Day	8	0	8	16.49	132
01/08/19	Christmas Day, New Year's Day	32	16	16	16.49	264
10/17/18	Columbus Day	8	0	8	16.49	132
09/19/18	Labor Day	12	8	4	16.49	66
04/04/18	None	8	0	8	16.49	132
01/10/18	Christmas, New Year's Day	20	16	4	16.49	66
12/26/17	None	4	0	4	16.49	66
10/18/17	Columbus Day	8	0	8	16.49	132
09/20/17	Labor Day	24	8	16	15.49	248
07/12/17	Independence Day	16	8	8	15.49	124
01/23/17	Martin Luther King, Jr. Day	16	8	8	15.49	124
01/09/17	Christmas Day, New Year's Day	24	16	8	15.49	124
12/27/16	None	4	0	4	15.49	62
10/17/16	Columbus Day	8	0	8	15.49	124
09/20/16	Labor Day	16	8	8	14.75	118
01/12/16 (2)	New Year's Day	16	8	8	12.25	98
09/23/15	Labor Day	16	8	8	12.25	98
01/14/15	New Year's Day	12	8	4	11.75	47
01/02/15	Christmas	24	8	16	11.75	188
10/23/14	Columbus Day	8	0	8	11.25	90
01/15/14	New Year's Day	12	8	4	10.75	43
01/03/14	Christmas Day	16	8	8	10.75	86
Total		336	152	184		\$2,695

(1) Hourly rate of pay according to rate of pay reports from the city's accounting system.

(2) Payroll records could not be located for October through December 2016 to determine if any additional inappropriate hours for holidays were paid.

Ordinance 463 allows the following holidays be recognized by the city: New Year's Day, Martin Luther King, Jr. Day, Presidents' Day, Memorial Day, Independence Day, Labor Day, Veterans' Day, Thanksgiving Day, Day after Thanksgiving, and Christmas Day.

A conflicting personnel policy indicated the following additional holidays would be recognized by the city: Columbus Day, half day for Dixon Cow Days, and half day for Christmas Eve. However, because the personnel policy was not adopted as an ordinance, Ordinance 463 supersedes the personnel policy. In addition, the City Clerk stated that he did not refer to the policy when he determined the holidays to be paid. Had the personnel policy been adopted as a city ordinance, the City Clerk would still have been overpaid approximately \$1,388 for 96 improper holiday hours.



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

Inaccurate rate of pay

The City Clerk inaccurately recorded his hourly rate in the payroll system, resulting in \$1,205 in overpayments.

The City Clerk incorrectly recorded his hourly rate of pay for some pay periods as \$14.25 in the payroll system instead of \$12.25 from November 19, 2015, to January 12, 2016, resulting in overpayments of at least \$1,025. The City Clerk was overpaid \$340 with a check issued on November 19, 2015, \$423 with a check issued on December 3, 2015, and \$262 with a check issued on January 12, 2016. City records could not be located for 2 other checks issued during December 2015, and as a result, additional overpayments could have been made during this time period. According to a rate of pay report from the city's accounting system, the City Clerk was to be paid an hourly rate of pay of \$12.25 from April 5, 2015, to January 13, 2016.

In addition, the City Clerk incorrectly recorded his hourly rate of pay as \$371.06 per hour instead of \$11.75 per hour in the accounting system for 0.50 hours of work in December 2014, resulting in an overpayment of \$180, as shown below:¹³

HOURS	RATE	METH	TYP	EXTEND MAX	C-CTR ID	AUTO	FREQ	TIME BASIS	CL	FED	SS	MED	ST	PEN	OTH	LOC	DED	OT CK CD	ACCRUE OT RATE
PAID THRU: 11/28/2014																			
9004 FLEMING, JESSIE																			
P	.13	371.06	H	46.38	100	REG	REG	HOURLY PAY	3										.0000
P	4.22	17.62	H	74.33	100	OT	OVERTIME		3									1	.0000
P	4.00	11.75	H	47.00	100	HOLI	HOLIDAY PAY		3										.0000
P	.13	371.06	H	46.38	600	REG	REG	HOURLY PAY	3										.0000
P	.13	371.06	H	46.38	300	REG	REG	HOURLY PAY	3										.0000
P	.11	371.06	H	46.39	500	REG	REG	HOURLY PAY	3										.0000
P	4.22	17.62	H	74.33	600	OT	OVERTIME		3									1	.0000
P	4.22	17.62	H	74.33	300	OT	OVERTIME		3									1	.0000
P	4.21	17.62	H	74.34	500	OT	OVERTIME		3									1	.0000
P	4.00	11.75	H	47.00	600	HOLI	HOLIDAY PAY		3										.0000
P	4.00	11.75	H	47.00	300	HOLI	HOLIDAY PAY		3										.0000
P	4.00	11.75	H	47.00	500	HOLI	HOLIDAY PAY		3										.0000
P	16.69	11.75	H	196.05	100	1 HOUR	HOURLY	A	2	3									.0000
P	16.69	11.75	H	196.05	600	1 HOUR	HOURLY	A	2	3									.0000
P	16.69	11.75	H	196.05	300	1 HOUR	HOURLY	A	2	3									.0000
P	16.67	11.75	H	196.05	500	1 HOUR	HOURLY	A	2	3									.0000
D		41.64	A	2	41.64	100	8 CAFR	CAFETERIA PLAN	A	1	3								.0000
HOURS	GROSS	FEDERAL	SOCIAL	SEC	STATE	LOCAL	MEDICARE	NET	BK	CHECK	NO	CHECK	DATE	MAN	CK	MAN	TAX	UPD	QTR
100.11	1455.06							1147.59	1	37848	12/05/2014	N	N	Y	4				

Conclusion

When questioned during a recorded interview regarding potential overpayments of vacation hours, sick leave hours, severance pay, and holidays, the City Clerk stated, "I'm willing to redo that" (vacation), "I mean if I overcharged myself with leave I will pay that back that's no biggie" (vacation), "I will correct that" (sick leave), "I don't have a problem repaying it back" (severance pay), "I'd say it's an error, I'll correct the error, I'll pay it, I don't have a problem" (holidays), and "Any discrepancies that you feel is

¹³ These redactions are of information of a personal, privileged, or sensitive nature.



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wrong, I don't have a problem making it right" (holidays). When we asked during the recorded interview if the City Clerk would be willing to pay all the overpayments back, he responded, "Yes, I don't have a problem with it." 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 these overpayments, as well as questionable overtime and unsupported reimbursements (see MAR finding numbers 3.1 and 4) going undetected.

Recommendation

The Board of Aldermen work with law enforcement officials regarding criminal prosecution of the overpayments and take the necessary actions to obtain restitution.

Auditee's Response

We will work with law enforcement officials regarding criminal prosecution of the overpayments and take the necessary actions to obtain restitution.

2. Oversight and Segregation of Duties

The Board did not establish adequate oversight of the City Clerk or segregation of duties over the various financial accounting functions. The Board did not adequately monitor the city's payroll and employee reimbursement activity. As noted in MAR finding number 1, the City Clerk also signed his own payroll and reimbursement checks and had access to a former Mayor's signature stamp.

The City Clerk's signature on checks to himself was 1 of the 2 required signatures. Allowing the City Clerk to sign his own checks while also allowing access to a signature stamp for the other required signature negates the controls intended by requiring 2 signatures on all checks. Additional weaknesses identified throughout this report are significant and demonstrate a lack of segregation of duties and proper oversight by the Board that led to the misappropriations noted in MAR finding number 1.

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 and variances is necessary. Good management practices require extensive and detailed oversight by the Board. Dual independent authorized signatures help provide assurance that checks represent payment for legitimate city disbursements. To effectively strengthen internal controls, one individual should not be performing all accounting duties related to processing disbursements (including payroll) and also have unrestricted access to a signature stamp. Board members were not aware of the importance of providing adequate oversight, ensuring dual independent authorized signatures are on all checks, and restricting access to the signature stamp.

A similar condition was noted in our prior report, No. 2015-007, *City of Dixon*, issued in February 2015 and in our follow-up report, No. 2015-89,



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Follow-Up Report On Audit Findings City of Dixon, issued in September 2015.

Recommendation

The Board of Aldermen segregate accounting duties to the extent possible, implement appropriate reviews and monitoring procedures, require dual independent signatures on all checks, and establish proper controls over signature stamps.

Auditee's Response

We have segregated accounting duties to the extent possible, have implemented appropriate reviews and monitoring procedures, require dual independent signatures on all checks (no one signs their own checks), and we no longer have any signature stamps.

3. Payroll Controls and Procedures

Significant improvement over payroll controls and procedures is needed. As noted in MAR finding number 1, we reviewed the City Clerk's payroll during his employment from November 6, 2013, through March 13, 2020.

3.1 Ordinances and personnel policies

The City Clerk did not always follow city ordinances and/or personnel policies, and ordinances are not complete.

- The City Clerk did not always follow city ordinances and/or personnel policies regarding compensation, vacation and sick leave, severance pay, and holidays, as noted in MAR finding number 1.
- The City Clerk paid himself \$96,679 for overtime worked during his employment in violation of city ordinance.

Ordinance number 249 only allowed for compensatory time to be earned and subsequently taken off for any overtime worked. In contrast, the city's personnel policy provided for the payment of overtime for hours worked in excess of 40 hours in a work week or for hours worked in excess of 8 hours in a work day. However, city ordinance prevails over personnel policies. The City Clerk's timesheets indicated that he typically recorded overtime when he worked over 40 hours in a work week, which complies with the policy, but not the ordinance. As a result of the inconsistencies in ordinance and policy, these overtime payments are questionable.

- The city does not have ordinances establishing the amount of compensation of some city officials and employees.
- Ordinances and personnel policies are poorly maintained. Some ordinances were not complete, and ordinances or personnel policies were contradictory or inconsistent.

Because ordinances passed by the Board to govern the city and its residents have the force and effect of law, it is important they are complete and



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followed. In addition, complete, consistent, and updated ordinances and personnel policies documenting approved compensation, leave, severance pay, holidays, and overtime help ensure equitable treatment and prevent misunderstandings. Section 79.270, RSMo, authorizes the Board to fix the compensation of city officials and employees by ordinance. The Board indicated it was unaware of the importance of updating city ordinances and personnel policies.

A similar condition was noted in our prior report, No. 2015-007, *City of Dixon*, issued in February 2015.

3.2 Board review and approval process

Payroll was not adequately reviewed and approved by the Board. The City Clerk did not provide detailed monthly payroll reports for the Board's review. The only payroll information provided to the Board was summarized in a financial report that did not include any details such as rate of pay, number of hours, type of hours, or leave balances. Former Board members and former Mayors indicated they signed payroll checks, but did not review detailed payroll reports or timesheets showing the hours worked, holidays, or leave earned and taken by the City Clerk.

By reviewing monthly payroll reports, documenting this review, and periodically questioning and reviewing supporting documentation, the Board can help safeguard against possible loss or misuse of funds. Had the Board reviewed payroll reports, the overpayments noted in MAR finding number 1 could have been questioned. The Board indicated it was unaware of the importance of performing and documenting a payroll review, and of approval processes.

3.3 Timesheets

Bi-monthly/bi-weekly timesheets of the City Clerk were not always retained, and timesheets retained were not always signed by the City Clerk or supervisor to document approval and review of time worked.

Timesheets were not retained for 51 of 166 of pay periods from November 6, 2013, through March 13, 2020. The City Clerk also did not sign 94 of his 115 timesheets, and his supervisors (former Mayors) did not sign 101 of the 115 timesheets. The Board indicated it was unaware of the importance of reviewing the City Clerk's timesheets and related payments.

Without adequate timesheets, the city cannot ensure hours worked are properly documented. To ensure the accuracy of the hours worked, timesheets should be signed by the employees and reviewed and approved by a supervisor.

3.4 Personnel files and pay rates

The City Clerk's personnel file did not contain documentation of changes in his pay rate during his employment. In addition, as noted in MAR finding



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number 1, the City Clerk was paid hourly rates not supported by the rate of pay report generated from the city's accounting system.

To ensure documentation is maintained of all personnel actions, personnel files containing, at a minimum, documentation of the board's authorization for hiring the employee, the employee's authorized pay rate, and any subsequent changes in pay rate are necessary. Without adequate personnel records, there is less assurance payments to employees are properly authorized. Board members were not aware of the importance of ensuring pay rates were documented in employee personnel files.

3.5 Payroll taxes

As noted in the prior audit and follow-up reports, both issued in 2015, the City Clerk did not timely file 941 forms and remit applicable payroll taxes to the Internal Revenue Service (IRS). The City Clerk did not timely remit applicable payroll taxes for 10 of the 11 quarters from January 2016 to September 30, 2018, resulting in assessments of penalties and interest totaling \$9,493. The City Clerk also did not file form 941 for the first quarter of 2017 (due on April 30, 2017) until April 5, 2018, resulting in penalties and interest of \$1,671.

The lack of procedures and an independent review of payroll records and transactions allowed this problem to occur without detection for an extended time period. 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 the employee and the employer's share, as well as federal income taxes withheld.

Recommendations

The Board of Aldermen:

- 3.1 Ensure city ordinances and personnel policies are followed, establish the compensation of all city officials and employees by ordinance, and ensure ordinances and personnel policies are maintained in a complete and well-organized manner.
- 3.2 Ensure detailed payroll reports are prepared and compared to employee timesheets, and the Mayor's and Board's reviews of the payroll reports are documented.
- 3.3 Ensure timesheets are retained and properly signed and approved, and reviews of timesheets are performed to ensure the propriety of payroll payments.
- 3.4 Ensure pay rates are documented in personnel files for all city employees.



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Auditee's Response

- 3.5 Establish procedures to ensure payroll taxes are filed and remitted to the appropriate taxing entity timely.
- 3.1 *We will ensure city ordinances and personnel policies are followed. We will establish the compensation of all city officials and employees by ordinance in the next 6 months. We re-codified ordinances on August 1, 2022, and eliminated any inconsistencies between ordinances and personnel policies.*
- 3.2 *We will ensure detailed payroll reports are prepared and compared to timesheets, and the Mayor and Board will document their review of payroll reports at each monthly meeting.*
- 3.3 *The employee, the employee's supervisor, and the Mayor now sign and review all timesheets. We will retain and make all timesheets available to the Board at monthly meetings.*
- 3.4 *We will ensure pay rates are documented and retained in personnel files for all city employees.*
- 3.5 *We have established procedures to ensure payroll taxes are remitted timely and will establish a procedure to ensure payroll tax forms are filed timely.*

4. Expense Reimbursements

The Board did not document its review and approval in meeting minutes or on supporting documentation of any of the 21 expense reimbursements totaling \$5,153 made to the City Clerk during his employment. In addition, supporting documentation was not maintained for 11 of these reimbursements, totaling \$2,407, as noted in the table below:

Check Date	Check Number	Purpose per Accounting Records	Check Amount
04/09/2014	36736	Wi-Fi router	\$ 130
04/17/2014	36817	Clerk's computer	105
05/01/2014	36874	Dell computer/office 2013	700
05/13/2015	38565	External hard drive police department	119
05/27/2016	40350	Thumb drives for Council	59
10/20/2016	40969	Computer for police department	520
10/27/2016	40993	Computer for police department	470
02/09/2017	41475	Reimbursement for records	33
06/02/2017	41956	Travel reimbursement	101
10/30/2017	42513	Sewer plant and Court Clerk toner	124
03/01/2018	43009	Thermal paper rolls/overnight paperwork	46
Total			\$2,407



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

In addition, other expense reimbursements made to the City Clerk were questionable. For example, a mileage reimbursement form was completed in a former City Clerk's name¹⁴ containing expenses for a trip taken on November 13, 2013, but the mileage was reimbursed to the City Clerk on December 3, 2013. He was reimbursed for 52 miles for this trip to attend training in St. Roberts, Missouri when the mileage to and from Dixon was only 36 miles.

Also, at least 20 of the 21 reimbursement checks were signed by the City Clerk. We could not obtain a check image of the remaining check issued in 2015 to determine who signed the check. However, in a recorded interview the City Clerk indicated he signed all city checks. A signature stamp of the then Mayor¹⁵ was also used for the second required signature on 8 of the 20 reimbursement checks with images. The then Mayor indicated in a recorded interview, that the City Clerk had access to and used his signature stamp, and he did not recall subsequently reviewing or approving documents in which his signature stamp was used.

Failure to properly review all invoices and supporting documentation increases the possibility of inappropriate disbursements. Additionally, authorization for payment should be clearly indicated. Requiring dual independent authorized signatures and limiting access to signature stamps help provide assurance that checks represent payment for legitimate city disbursements. Board members indicated they were not aware of the importance of retaining, reviewing, and approving supporting documentation of expense reimbursements, ensuring dual independent authorized signatures are on all checks, and restricting access to signature stamps.

A similar condition was noted in our prior report, No. 2015-007, *City of Dixon*, issued in February 2015.

Recommendation

The Board of Aldermen maintain adequate supporting documentation for all expense reimbursements, and ensure invoices are adequately reviewed and approved.

Auditee's Response

We have limited the number of expense reimbursements, are maintaining supporting documentation for any reimbursements paid, and are reviewing and approving all reimbursements.

¹⁴ James Poucher was the City Clerk from January 9, 2012, through November 18, 2013.

¹⁵ Shawn Wethington served as Mayor from April 15, 2015, to April 13, 2018.

City of Dixon

Organization and Statistical Information

The City of Dixon is located in Pulaski County. The city was incorporated in 1889 and is currently a fourth-class city. The city employed 14 full-time employees and 1 part-time employee on March 13, 2020. City operations include utility services (water, sewer, and trash), police, maintenance of streets, a library, and a city park.

The Mayor and Board of Aldermen

The city government consists of a mayor and 6-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 is paid \$200 per month and Board of Aldermen members are paid \$100 per month. The Mayor and Board of Aldermen at March 13, 2020, are identified below.

Allan Kuehl, Mayor (1)
Trevor Warnol, Alderman
Mary Wiles, Alderwoman
Anthony Campbell, Alderman
Mike Null, Alderman (2)
Barbara Thomas, Alderwoman
Diane Shultz, Alderwoman (3)

- (1) Mike Null currently serves as Mayor.
- (2) Stacey Yoakum currently serves as Alderwoman.
- (3) Wesley Wilfong currently serves as Alderman.

Other Principal Officers

The City Collector, City Clerk, and Court Clerk are appointed positions. These officials at March 13, 2020, are identified below.

Luella Mentzer, City Collector (1)
Jessie Fleming, City Clerk (2)
Kathy Smith, Court Clerk

- (1) Miranda McLendon served from November 16, 2020 until March 9, 2021, Misty Shelton served from March 13, 2021 until April 11, 2022, and Avirona Medley currently serves as City Collector.
- (2) Glenda Pennington served from March 13, 2020, until February 1, 2021, Deanna Burns served as Interim City Clerk from February 1, 2021 until May 4, 2021, Miranda McLendon served as City Clerk from May 4, 2021 until December 21, 2021, and Deanna Burns currently serves as City Clerk.

City of Dixon

Supporting Documentation of Misappropriated Money

The following appendixes provide supporting documentation for the misappropriated money discussed in MAR finding number 1 and are summarized in the following table.

Appendix	Type of Supporting Documentation
A	State Auditor Subpoena - Jessie Fleming
B	Overpayments to City Clerk



Appendix A
City of Dixon
State Auditor Subpoena - Jessie Fleming



Office of Missouri State Auditor

Information of a personal, privileged, or sensitive nature, and/or information that is not directly related to the information requested in the subpoena has been redacted.

SUBPOENA

To: **Jessie Fleming**
[REDACTED]

YOU ARE COMMANDED AND REQUIRED to appear personally before the State Auditor or her representative, Pamela Allison, at the Landers State Office Building, 143 Park Central Square, Springfield, MO. 65806, at 10:30 a.m. on Wednesday, October 5, 2022, for purposes of providing testimony, and producing for examination, copying, and interrogation the records and documents described in Exhibit A attached to this Subpoena.

In lieu of appearance, you may ship the records responsive to this subpoena to the Missouri State Auditor to the attention of Ethan Evans at 301 W. High St., Room 880, Jefferson City, MO 65102 or email the records to Ethan.Evans@auditor.mo.gov.

ISSUED this 20th day of September, 2022, pursuant to Section 29.235.4(1), of the Revised Statutes of Missouri.

Nicole Galloway
Missouri State Auditor

I served the foregoing subpoena by hand delivery on this 21st day of September, 2022.



Appendix A
City of Dixon
State Auditor Subpoena - Jessie Fleming



Office of Missouri State Auditor

EXHIBIT A

You are to preserve for production and inspection, and then appear as instructed on the attached subpoena and produce for inspection and examination, the following items in your possession or under your control:

All documents or other records, in whatever form, whether hard copy or electronic, pertaining or belonging to the City of Dixon for the time period of November 2013 to March 2020.

This request includes, but is not limited to, the following:

1. Timesheets, pay checks, pay stubs, bank statements, leave records, personnel policies, and any and all payroll records for services provided to the City of Dixon from November 2013 until March 2020;
2. Any and all documents related to your testimony during the interview held on September 21, 2022.

This request for records includes all materials that exist in paper ("hard copy") or electronic form (including but not limited to records and data maintained on computers, tablets, smart phones, external electronic storage drives, thumbnail drives, remote servers or back up tapes). All information requested in the items above are subject to inspection, review and copying by the state auditor. Section 29.235.4(1), RSMo.

Appendix B
City of Dixon
Overpayments to City Clerk

							Overpayments				
Check Date	Check Number	Purpose of Payment (2)	Hours Claimed	Pay Rate (2)	Gross Pay	Supported Payments (3)	Vacation Pay	Severance Pay	Sick Leave Pay	Total Overpayments	
04/09/2015	38350	(4) Regular, overtime, vacation and sick leave	147.01	\$ 12.25	\$ 1,905.73	1,415.73	490.00	0.00	0.00	490.00	
12/03/2015	Direct deposit	(5) Regular, overtime, holiday, and vacation leave	199.59	14.25	3,012.24	1,872.24	1,140.00	0.00	0.00	1,140.00	
11/14/2016	41116	(6) Regular, overtime, holiday, vacation and sick leave	232.25	15.49	3,756.33	1,897.53	1,858.80	0.00	0.00	1,858.80	
08/10/2017	42247	Vacation leave	80.00	15.49	1,239.20	0.00	1,239.20	0.00	0.00	1,239.20	
11/15/2017	42591	Vacation leave	120.00	16.49	1,978.80	0.00	1,978.80	0.00	0.00	1,978.80	
01/17/2019	44072	Vacation leave	120.00	16.49	1,978.80	0.00	1,978.80	0.00	0.00	1,978.80	
02/04/2020	45156	Vacation leave	40.00	16.49	659.60	659.60	0.00	0.00	0.00	0.00	
02/18/2020	45191	Vacation leave	40.00	16.49	659.60	659.60	0.00	0.00	0.00	0.00	
02/27/2020	45204	Severance	240.00	16.49	3,957.60	1,319.20	0.00	2,638.40	0.00	2,638.40	
03/03/2020	47013	Vacation leave	40.00	16.49	659.60	0.00	659.60	0.00	0.00	659.60	
03/13/2020	47052	Sick leave	192.76	16.49	3,178.61	152.53	0.00	0.00	3,026.08	3,026.08	
Total Payments \$					22,986.11	7,976.43	9,345.20	2,638.40	3,026.08	15,009.68	

(1) All payroll checks included dual signatures, including that of the former City Clerk, Jessie Fleming.

(2) Purpose and pay rate as shown on the payroll history report.

(3) Supported payments include regular, holiday, and sick hours paid at the pay rate noted and overtime hours paid at time and a half.

(4) Hours claimed includes 17.12 hours of overtime paid at time and a half.

(5) Hours claimed includes 23.59 hours of overtime paid at time and a half.

(6) Hours claimed includes 20.5 hours of overtime paid at time and a half.