



# Scott Fitzpatrick

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Missouri State Auditor

City of Waverly

Report No. 2024-041

May 2024

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**Scott Fitzpatrick**  
Missouri State Auditor

# CITIZENS SUMMARY

## Findings in the audit of the City of Waverly

### Accounting Controls and Procedures

The Board of Aldermen has not adequately segregated accounting duties or ensured a documented supervisory or independent review over various financial accounting functions is performed. Several city employees perform tasks related to multiple city functions, but the city has no documentation to justify the allocation of salaries and fringe benefit expenses to various funds, totaling approximately \$230,000, during the year ended June 30, 2022.

### Utility System Controls and Procedures

Non-monetary adjustments posted to the utility system for inaccurate meter readings or to reduce a balance due to water leaks are not reviewed and approved by an independent person and documentation of reasons for adjustments is not always retained. During the year ended June 30, 2022, a total of 32 non-monetary adjustments, totaling approximately \$8,000, were posted to the utility system. The City Clerk does not perform monthly reconciliations of total billings, payments received, and amounts remaining unpaid for utility services. Late penalties are not always charged and utility services are not shut off in accordance with ordinances. A review of 25 accounts between July 2021 and June 2022 found late fees were not charged appropriately for 10 of the 15 accounts that made payments more than 20 days after the close of the billing period, and disconnections were not performed for 5 of the 5 accounts that made payments more than 30 days after the close of the billing period. Utility rates and fees charged to city employees were not consistent with city ordinances. City employees are not billed the base rate (first 1,000 gallons) for water or sewer usage (a combined value of \$49.54 per month for each employee), and several city employees were also not billed a trash fee, primacy fee, or franchise fee (combined value of \$9.92 per month for each applicable employee, but increased to \$16.09 in June 2022). The total amount employees were not charged during the year ended June 30, 2022, was \$3,059. The city does not maintain a listing of refundable customer water deposits or records of the deposit amounts being held in the Water Fund.

### Sunshine Law

Open meeting minutes did not document the specific reasons or section of law allowing the meetings to be closed or document the Board's votes to go into closed meetings for any of the 17 closed meetings held from July 1, 2021, to August 8, 2023. Some topics discussed in closed meetings were not allowable under the Sunshine Law. Some topics discussed that were not allowed included which city fund should pay for the police department utility costs, personnel policies regarding employee leave, and the city's social media page.

### Budgeting Procedures

The city's budgets for the years ended June 30, 2022, and 2023, did not include all statutorily-required information. The budgets did not include a budget message, budget summary, or actual and estimated amounts for the 2 preceding years. In addition, the amended budget for the year ended June 30, 2022, did not include the actual beginning and estimated ending cash balances. The Board does not adequately monitor budget-to-actual receipts and disbursements. Actual disbursements exceeded budgeted amounts for the General Fund by \$61,770 and the Street Fund by \$11,046 for the year ended June 30, 2022. Budget amendments were not prepared and approved until near or after the end of the fiscal year.

Compensation Ordinance, Employee Handbook, and Bonuses	The Board does not have a compensation ordinance establishing the amount of compensation of city officials and employees. In addition, documentation was not provided to support the Board's approval of the pay raises given to employees on January 1, 2022. The Board did not follow the employee handbook regarding vacation leave usage and payout of unused vacation leave. In addition, the Board did not update the employee handbook to reflect changes in the city's procedures. The Board approved year-end bonus payments to all full-time employees in violation of the Missouri Constitution. The city paid a total of \$3,050 in year-end bonus payments to the 4 full-time and 2 part-time employees in November 2021, with employees receiving bonuses ranging from \$250 to \$750. The city paid \$15,650 in year-end bonus payments between December 2013 and November 2021.
Electronic Data Security	The city has not established adequate user identification and password controls to reduce the risk of unauthorized access to city computers and data. The city does not store data backup files at an off-site location. Instead, the city maintains backup files in city hall.
Electronic Communication Policy	The city has not developed a records management and retention policy that includes electronic communication 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.

In the areas audited, the overall performance of this entity was **Fair**.\*

\*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.

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# City of Waverly

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**SCOTT FITZPATRICK**  
MISSOURI STATE AUDITOR

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

The State Auditor was petitioned under Section 29.230, RSMo, to audit the City of Waverly. We have audited certain operations of the city in fulfillment of our duties. The city engaged Westbrook & Co., P.C., Certified Public Accountants (CPAs), to audit the city's financial statements for the year ended June 30, 2022. 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 June 30, 2022. 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.

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; and performing sample testing using haphazard and judgmental selection, as appropriate. The results of our sample testing cannot be projected to the entire populations from which the test items were selected. 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 this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the 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 a reasonable basis for our findings and conclusions based on our audit objectives.

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, and (3) the need for improvement in management practices and procedures. The accompanying Management Advisory Report presents our findings arising from our audit of the City of Waverly.

A handwritten signature in black ink that reads "Scott Fitzpatrick". The signature is written in a cursive style with a large, stylized "S" and "F".

Scott Fitzpatrick  
State Auditor

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# City of Waverly

## Management Advisory Report

### State Auditor's Findings

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#### **1. Accounting Controls and Procedures**

Accounting controls and procedures need improvement. Accounting records indicate the city received approximately \$1.2 million in tax, utility, and other receipts during the year ended June 30, 2022.

##### **1.1 Segregation and oversight**

The Board has not adequately segregated accounting duties or ensured a documented supervisory or independent review over various financial accounting functions is performed.

The City Clerk and Assistant City Clerk are responsible for most financial duties of the city including receipting money, preparing deposits, posting transactions to the accounting system, preparing invoices for payment, making disbursements, preparing monthly bank reconciliations, transferring money between bank accounts, and preparing financial reports for Board meetings. The City Clerk is also responsible for preparing and adjusting utility bills, monitoring accounts receivable, and preparing payroll. The Mayor indicated the Board does review bank reconciliations, but this review is not documented. No independent review of receipt slips issued to amounts deposited is performed. The Mayor stated she thought the review procedures the Board had established were adequate, and they had not considered additional review procedures until we brought this to her attention.

Proper segregation of duties helps ensure all transactions are accounted for properly and assets are adequately safeguarded. If proper segregation of duties cannot be achieved, documented independent or supervisory reviews of accounting and bank records are needed.

##### **1.2 Cost allocations**

Several city employees perform tasks related to multiple city functions, but the city has no documentation to justify the allocation of salaries and fringe benefit expenses to various funds, totaling approximately \$230,000 during the year ended June 30, 2022.

Public works employees perform various tasks such as street repairs, water meter readings, sewer line maintenance, and park maintenance and mowing. The City Clerk and Assistant City Clerk perform various administrative functions that benefit each of the city funds. The city allocates the Public Works supervisor's salary equally between the General, Park,<sup>1</sup> Street, Water, and Sewer Funds, while the Assistant City Clerk has her salary split equally between the General, Water, and Sewer Funds. The full-time Public Works employee is paid solely from the Water Fund, while the 3 part-time Public Works employees are all solely paid from the Sewer Fund. The City Clerk is

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<sup>1</sup> The financial activity related to parks is tracked within the Park Fund throughout the year, but is combined with the General Fund for financial reporting purposes.



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solely paid from the General Fund. No documentation is maintained to justify the allocation for any of these city employees.

The proper allocation of expenses is necessary to accurately determine the results of operations of specific activities, thus enabling the Board 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 expenses to city funds should be based on specific criteria, such as the number of hours worked by each employee, if possible, or by determining another reasonable basis to allocate costs for employees. City officials indicated they were unaware of the importance of allocating these costs to the appropriate funds.

## Recommendations

The Board of Aldermen:

- 1.1 Segregate the accounting duties to the extent possible and implement appropriate reviews and monitoring procedures.
- 1.2 Allocate expenses to city funds based on specific criteria and retain documentation to support the allocations.

## Auditee's Response

- 1.1 *We agree and will develop review procedures to monitor accounting duties.*
- 1.2 *We have already had some employees begin tracking time to establish a base for allocations and will ensure an analysis is completed for all employees by the end of the next fiscal year.*

## 2. Utility System Controls and Procedures

### 2.1 Non-monetary adjustments

Utility system controls and procedures need improvement. According to the city's accounting records, the city collected approximately \$765,000 for water, sewer services, trash services, and utility deposits during the year ended June 30, 2022.

Controls over non-monetary adjustments posted to customer utility accounts need improvement. Non-monetary adjustments are any transactions for which no money is received; however, the account balance (amount due) in the utility system is changed. The City Clerk posts non-monetary adjustments in the utility system to adjust usage for inaccurate meter readings or to reduce a balance due to water leaks. During the year ended June 30, 2022, a total of 32 non-monetary adjustments, totaling approximately \$8,000, were posted to the utility system.

Non-monetary adjustments posted to the system are not reviewed and approved by an independent person and documentation of reasons for adjustments is not always retained. City code 715.020 related to non-monetary adjustments states Board approval is not required unless 2 prior





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adjustments have been made to the account by the City Clerk in a given year. Because the City Clerk is responsible for collecting utility payments and has the ability to alter or delete individual utility account information, there is an increased risk that unsupported or unauthorized changes could be made in the utility system.

In addition, a comparison of approved adjustments to adjustments actually made to the system is not performed by an independent person. The City Clerk indicated adjustments are often discussed with the Board, but documentation is not retained.

An independent review of all non-monetary adjustments, including comparing approved adjustments to actual changes posted to the computer system, would help ensure all such transactions are necessary and properly handled.

## 2.2 Utility reconciliation

The City Clerk does not perform monthly reconciliations of total billings, payments received, and amounts remaining unpaid for utility services. The City Clerk indicated she was unaware of a specific report in the system designed to perform this reconciliation or the need to do it.

Monthly reconciliations are necessary to ensure all accounting records balance, transactions have been properly recorded, and any errors or discrepancies are detected timely. A periodic review by the Board of a listing of all delinquent amounts would help ensure adequate follow-up procedures are performed.

## 2.3 Late penalties and shut off procedures

Late penalties are not always charged and utility services are not shut off in accordance with ordinances. The city bills approximately 345 utility customers monthly.

We judgmentally selected 25 accounts between July 2021 and June 2022 (2 to 3 accounts from each monthly billing cycle) and noted late fees were not charged appropriately for 10 of the 15 accounts that made payments more than 20 days after the close of the billing period, and disconnections were not performed for 5 of the 5 accounts that made payments more than 30 days after the close of the billing period. The City Clerk stated she was not aware of the city code requirements and was allowing 30 days before late fees were charged and 35 days before disconnections were performed.

City code 700.070 states, "Service bills not paid by the 20th shall be subject to a ten percent (10%) late charge. Failure of the owner to submit a service bill shall not excuse the water user from his/her obligation to pay for the water used when the bill is submitted. Failure to pay a bill by the 30th day following the close of the period for which service was rendered shall result in the



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disconnection of the service and such disconnection shall be made without the necessity of notice to the water user."

Allowing customers to receive service without paying reduces the incentive to make payments, reduces city receipts, and could impact the utility rates for other paying customers. To ensure all customers receive equitable treatment and city revenue is maximized, procedures need to be established to ensure penalty provisions in the ordinance are enforced and any variance from the ordinance is properly approved.

## 2.4 Utility rates and fees

Utility rates and fees charged to city employees were not consistent with city ordinances. City employees are not billed the base rate (first 1,000 gallons) for water or sewer usage (a combined value of \$49.54 per month for each employee), and several city employees were also not billed a trash fee, primacy fee, or franchise fee (combined value of \$9.92 per month for each applicable employee, but increased to \$16.09 in June 2022).

The City Clerk provided Board minutes from a January 17, 2015, closed meeting as justification for this change in rates, but those minutes indicate the Board only approved waiving the base rate for water and sewer usage, and did not waive any trash, primacy, or franchise fees for employees. The minutes also indicated this employee discount should be considered part of the employee's raise for the year. The city does not track the value of the employee discount and does not include those amounts as wages on the employee's W-2 forms. The utility rate ordinances have not been updated to reflect this discount for employees. In addition, the rate charged to employees for the water usage in excess of the base charge was not updated when the rate was increased in May 2019, resulting in an additional discount for employees. The water rate for usage in excess of 1,000 gallons was increased from \$10.75 to \$11.15 per 1,000 gallons used.

The total amount employees were not charged during the year ended June 30, 2022, was \$3,059. The City Clerk indicated it was an oversight that rates for employees were not updated in 2019 and she did not know a change to the ordinances was necessary for employee discounts to be valid.

Charging utility rates in accordance with city ordinance helps ensure utility customers are treated fairly and equitably. In addition, the failure to withhold and properly report payroll and income taxes for city employees receiving utility services at a reduced cost makes the city potentially subject to additional tax liabilities along with penalties and interest. For employees, IRS regulations require employers to report compensation on W-2 forms and withhold and remit income and payroll taxes. Similarly, Chapter 143, RSMo, includes requirements for reporting wages and withholding state income taxes.



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**2.5 Customer water deposits** The city does not maintain a listing of refundable customer water deposits or records of the deposit amounts being held in the Water Fund. As a result, a listing of deposits cannot be reconciled to deposits held.

City code 700.190 states the water meter deposits are \$50 for homeowners and \$150 for renters. Utility records indicate the city had 345 active utility accounts as of June 30, 2022. The City Clerk indicated she was not aware such a reconciliation was necessary.

Refundable customer water deposits are restricted funds held for customers. Maintaining an accurate list of deposits held by the city and reconciling monthly to the balance of deposits held in the Water Fund would help ensure all deposits received from customers are accounted for properly. It also provides assurance the restricted balance of water deposits held in the Water Fund is sufficient to cover customer deposit liabilities and ensure the deposits are not used for water operations.

## Recommendations

The Board of Aldermen:

- 2.1 Ensure all non-monetary adjustments are properly approved and compared to actual changes posted to the computer system, and documentation of reasons for all the adjustments is retained.
- 2.2 Ensure monthly reconciliations are performed of amounts billed to amounts collected and delinquent accounts and investigate any differences.
- 2.3 Ensure late penalties are charged and utility service is shut off in accordance with city ordinance.
- 2.4 Ensure utility rates are billed in accordance with city ordinance. If employee discounts are continued, the value of any such discounts should be included on the employees' W-2 forms as taxable wages.
- 2.5 Determine the amount of customer deposits held in the Water Fund bank account and develop procedures to track the balance of those funds. Ensure a list of customer deposits is prepared and reconciled to the balance of deposits held monthly and differences are promptly investigated.

## Auditee's Response

- 2.1-2.2 *We agree and have already implemented these recommendations.*
- 2.3 *We plan to update the ordinance to agree with the current practices regarding late penalties and shut off procedures.*



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2.4 *We agree and will ensure rates are charged in accordance with ordinance. We will review employee discounts and make a decision in the next few months and if continued, we will ensure they are reported on employees' W-2 forms.*

2.5 *We have already developed a process to track the balance of water deposits and are reconciling to the balance held in the Water Fund.*

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### 3. Sunshine Law

The Board did not always comply with Sunshine Law requirements for closed meetings.

#### Reasons for closed meetings

Open meeting minutes did not document the specific reasons or section of law allowing the meetings to be closed or document the Board's votes to go into closed meetings for any of the 17 closed meetings held from July 1, 2021, to August 8, 2023. The Mayor indicated she was not aware this needed to be listed in the open minutes.

Section 610.022.1, RSMo, requires public bodies announce the specific reasons allowed by law for going into a closed meeting and to enter the vote and reason into the minutes.

#### Allowable topics

Some topics discussed in closed meetings were not allowable under the Sunshine Law. Some topics discussed that were not allowed included which city fund should pay for the police department utility costs, personnel policies regarding employee leave, and the city's social media page. The City Clerk indicated the Board believed discussions of these topics were allowed to be closed under the Sunshine Law, but could not provide us a specific statute section that allowed their closure.

Section 610.021, RSMo, provides that the discussion topics and actions in closed meetings should be limited to only those specifically allowed by law.

#### Recommendation

The Board of Aldermen ensure specific reasons for closing a meeting are documented in the open minutes, a vote is taken to go into a closed meeting, and only topics allowed by state law are discussed in the closed meetings.

#### Auditee's Response

*We agree and will implement this recommendation.*

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### 4. Budgeting Procedures

The Board did not prepare complete budgets in compliance with state law or monitor budgets to avoid overspending.

#### 4.1 Budgets

The city's budgets for the years ended June 30, 2022, and 2023, did not include all statutorily-required information. The budgets did not include a budget message, budget summary, or actual and estimated amounts for the 2 preceding years. In addition, the amended budget for the year ended June 30,



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2022, did not include the actual beginning and estimated ending cash balances. The City Clerk indicated she was not aware of these requirements.

Section 67.010, RSMo, requires the budget to present a complete and accurate financial plan for the ensuing budget year and sets specific guidelines for the format. 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 setting tax levies and informing the public about city operations and current finances.

## 4.2 Monitoring

The Board does not adequately monitor budget-to-actual receipts and disbursements. Actual disbursements exceeded budgeted amounts for the General Fund by \$61,770 and the Street Fund by \$11,046 for the year ended June 30, 2022. In addition, the City Clerk did not timely prepare, and the Board did not timely approve, budget amendments for the year. The City Clerk indicated budget amendments are typically done near the city's fiscal year end to adjust budgeted amounts to agree to actual disbursements.

Actual disbursements exceeded the original amounts budgeted for the General Fund and Street Fund by \$5,149 and \$41,665, respectively, as of June 30, 2022. After the fiscal year end, the City Clerk prepared an amended budget that was approved by the Board on July 11, 2022. Although the General Fund had already been overspent, budgeted disbursements were decreased by \$56,621, which increased the amount of overspending to \$61,770. Although the Street Fund amendment increased budgeted disbursements by \$30,619, disbursements still exceeded the budgeted amount by \$11,046. The budgets were not amended for the correct amounts due to numerous misstatements identified during the city's financial statement audit, including approximately \$46,000 spent using donation or grant money that had been improperly coded to receipt accounts, rather than disbursement accounts. There were also issues with the way transfers among city bank accounts were posted when multiple city funds shared the cost of an item. The City Clerk indicated the amendments were prepared based on the disbursement amounts shown in the accounting system as of the date of the amendments. She indicated the adjusting journal entries, suggested by the city's financial auditor, were necessary to correct the misstatements and coding errors. The journal entries caused the actual disbursement amounts to change for several city funds, including the General Fund and Street Fund. The amendments were prepared before these journal entries were posted.

Section 67.040, RSMo, requires political subdivisions to keep disbursements within amounts budgeted and allows for budget increases, after the governing body officially adopts a resolution setting forth the facts and reasons. In addition, Section 67.080, RSMo, provides that no disbursements of public money be made unless it is authorized in the budget. Proper monitoring and



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amending prior to disbursing funds is necessary for the budget to be an effective management tool and to comply with state law.

## Recommendations

The Board of Aldermen:

- 4.1 Prepare annual budgets that contain all information required by state law.
- 4.2 Monitor disbursements to ensure they do not exceed budgeted amounts and prepare any necessary budget amendments timely.

## Auditee's Response

- 4.1 *We agree and will ensure the fiscal year 2025 budget is in compliance with state law.*
- 4.2 *We will develop procedures to monitor budget-to-actual disbursements monthly and will ensure amendments are completed timely in the future. We will seek guidance on timely entering adjusting journal entries that are necessary at the end of the fiscal year.*

## 5. Compensation Ordinance, Employee Handbook, and Bonuses

The Board does not have a compensation ordinance, did not always follow the employee handbook, and paid employees a year-end bonus.

### 5.1 Compensation ordinance

The Board does not have a compensation ordinance establishing the amount of compensation of city officials and employees. In addition, documentation was not provided to support the Board's approval of the pay raises given to employees on January 1, 2022. Salaried employees received a 3 percent increase and hourly employees received an increase of \$1 per hour.

City code 115.050 requires, and Section 79.270, RSMo, authorizes, the Board to fix the compensation of city officials and employees by ordinance. Ordinances documenting approved salary amounts help ensure equitable treatment and prevent misunderstandings. The Board indicated it was unaware of the importance of a city ordinance in establishing salaries.

### 5.2 Employee handbook

The Board did not follow the employee handbook regarding vacation leave usage and payout of unused vacation leave. In addition, the Board did not update the employee handbook to reflect changes in the city's procedures.



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Several employees were allowed to carry over vacation leave from one year to the next, although the employee handbook includes a policy indicating vacation leave will be used the year it is earned or the employee will be paid for the vacation leave not taken. The City Clerk provided minutes from a Board meeting held in December 2018 in which the Board voted to approve employees carrying over unused vacation and compensatory time from one year to the next as the reason this was allowed. The Board also discussed this issue at a November 9, 2022, meeting and voted to allow employees to carry over 80 hours of unused vacation and compensatory time and any hours above 80 hours would be paid to the employee. The employee handbook has not been updated since January 1, 2014, and does not contain any provisions related to compensatory time.

A complete, consistent, and updated employee handbook documenting leave policies would help ensure equitable treatment and prevent misunderstandings. The Board indicated it was unaware of the importance of updating the employee handbook.

### 5.3 Bonuses

The Board approved year-end bonus payments to all full-time employees in violation of the Missouri Constitution. The city paid a total of \$3,050 in year-end bonus payments to the 4 full-time and 2 part-time employees in November 2021, with employees receiving bonuses ranging from \$250 to \$750. The city paid \$15,650 in year-end bonus payments between December 2013 and November 2021. These payments represent bonus compensation for services previously rendered. The Board indicated employees were required to come to a special meeting, which they believed was sufficient to justify the additional payment; however, this meeting consisted of a brief discussion of employee work ethics, and appeared to be an attempt to circumvent constitutional provisions prohibiting employee bonuses.

Payments for services previously rendered are in violation of Article III, Section 39(3), Missouri Constitution and contrary to Attorney General's Opinion 72-1955 (June 14, 1955), which states, ". . . a government agency which derives its power and authority from the Constitution and laws of this state would be prohibited from granting extra compensation in the form of bonuses to public officers or servants after the service has been rendered."

## Recommendations

The Board of Aldermen:

- 5.1 Establish the compensation of all city officials and employees by ordinance, and ensure documentation for employee pay increases is maintained.
- 5.2 Review and update policies in the employee handbook, as necessary, and ensure compliance with the policies.



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Management Advisory Report - State Auditor's Findings

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## Auditee's Response

- 5.3 Discontinue paying employee bonuses.
- 5.1 *We agree and will establish compensation ordinances and ensure documentation for employee pay increases is maintained.*
- 5.2 *We agree and have implemented this recommendation. We will ensure compliance with policies in the future.*
- 5.3 *We have discontinued paying employee bonuses.*

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## 6. Electronic Data Security

Controls over the city computers are not sufficient. As a result, city records are not adequately protected and are susceptible to unauthorized access or loss of data.

### 6.1 User identification and passwords

The city has not established adequate user identification and password controls to reduce the risk of unauthorized access to city computers and data. The City Clerk and Assistant City Clerk share a user identification and password for the accounting system. As a result, there is no assurance that the user listed in the system as posting a transaction is the person who posted it. In addition, these employees are not required to change passwords periodically for the accounting system and the utility system. The City Clerk indicated she was not aware of the importance of unique user names and passwords or the need to periodically change them.

While a user identification and password are required to authenticate access, the security of these logon credentials is dependent upon keeping them confidential and requiring users to enter their unique user identification and password when switching users. Allowing certain users to share the accounting system without logging off and back on with their unique user identification and password, and not requiring passwords to be periodically changed, increases the risk of unauthorized access and/or changes to the system and records, and reduces assurance that access is limited to only those individuals who need access to perform their job responsibilities. User identifications should be unique and confidential and passwords should be changed periodically to reduce the risk of a compromised password and unauthorized access to and use of the accounting system and data.

### 6.2 Data backup

The city does not store data backup files at an off-site location. Instead, the city maintains backup files in city hall. The City Clerk indicated that city officials believed this procedure was sufficient. Off-site storage would provide reasonable assurance data could be recovered even if city hall files were lost.





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## Recommendations

The Board of Aldermen:

- 6.1 Require employees to have unique user identifications and passwords and change passwords periodically.
- 6.2 Ensure backup files are stored at a secure, off-site location.

## Auditee's Response

- 6.1 *We will develop a policy requiring specific user identification and passwords for each employee and will ensure passwords are changed periodically in the future.*
- 6.2 *We will determine an off-site location for storing backup files.*

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## 7. Electronic Communication Policy

The city has not developed a records management and retention policy that includes electronic communication 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.<sup>2</sup>

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 members indicated they were 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

*We will research the necessary records that need to be maintained and will create a records management and retention policy to comply with guidelines.*

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<sup>2</sup> 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 14, 2024.

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# City of Waverly

## Organization and Statistical Information

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The City of Waverly is located in Lafayette County. The city was incorporated in 1882 and is currently a fourth-class city. The city employed 4 full-time employees and 1 part-time employee on June 30, 2022. The city's population was 784 in 2020, according to the U.S. Census Bureau.

City operations include utility services (water, sewer, and trash), police, maintenance of streets, and parks.

### Mayor and Board of Aldermen

The city government consists of a mayor and 4-member board of aldermen. The board 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 June 30, 2022, are identified below. The Mayor is paid \$100 for the first meeting and \$25 for each additional meeting during the month, and Board of Aldermen members are paid \$75 for the first meeting and \$25 for each additional meeting during the month.

Barbara Schreiman, Mayor (1)  
Jerry Gipe, Alderman (2)  
Jodi Miller, Alderwoman (3)  
Richard W. Dodson Jr., Alderman (4)  
Eddie Chiddix, Alderman (4)

- (1) Re-elected in April 2024 for a 2-year term.
- (2) Lindsey Jones was elected in April 2024 for a 2-year term, replacing Jerry Gipe.
- (3) Jodi Miller resigned from the Board in May 2023. Joe Frazier was appointed in July 2023 to complete the unexpired term and was elected to the Board in April 2024 for a 2-year term.
- (4) Re-elected in April 2023 for a 2-year term.

### Financial Activity

A summary of the city's financial activity obtained from the city's audited financial statements for the year ended June 30, 2022, follows:



City of Waverly  
Organization and Statistical Information

**CITY OF WAVERLY, MISSOURI**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES - MODIFIED CASH BASIS - GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2022**

	GENERAL FUND	SPECIAL REVENUE FUND STREET FUND	TOTAL GOVERNMENTAL FUNDS
<b>REVENUES:</b>			
Sales and use tax	\$ 173,303	\$ 26,598	\$ 199,901
Franchise tax	71,596	-	71,596
Gas and motor vehicle tax	-	37,228	37,228
Property tax	50,237	20,114	70,351
Fines	11,470	-	11,470
Rural fire revenue	22,641	-	22,641
Other revenue	27,942	2,941	30,883
Licenses and permits	1,520	1,085	2,605
Interest income	135	70	205
Grants and contributions	21,714	392	22,106
Total Revenues	<u>380,558</u>	<u>88,428</u>	<u>468,986</u>
<b>EXPENDITURES:</b>			
General city government	146,884	-	146,884
Public safety	116,751	-	116,751
Street maintenance	-	120,383	120,383
Parks maintenance	72,468	-	72,468
Capital outlay:			
Public safety	21,189	-	21,189
Debt service:			
Principal	3,451	3,451	6,902
Interest	231	231	462
Total Expenditures	<u>360,974</u>	<u>124,065</u>	<u>485,039</u>
Net change in fund balance	19,584	(35,637)	(16,053)
Fund balance, beginning	<u>141,015</u>	<u>115,210</u>	<u>256,225</u>
Fund balance, ending	<u>\$ 160,599</u>	<u>\$ 79,573</u>	<u>\$ 240,172</u>

See accompanying notes to the basic financial statements.



City of Waverly  
Organization and Statistical Information

**CITY OF WAVERLY, MISSOURI**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION - MODIFIED CASH BASIS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2022**

	WATER FUND	SEWER FUND	TOTAL
<b>OPERATING REVENUES:</b>			
Charges for services	\$ 438,282	\$ 207,294	\$ 645,576
Trash fees	30,075	-	30,075
<b>Total Operating Revenues</b>	<b>468,357</b>	<b>207,294</b>	<b>675,651</b>
<b>OPERATING EXPENSES:</b>			
System expenses	347,922	141,053	488,975
Trash services	28,901	-	28,901
<b>Total Operating Expenses</b>	<b>376,823</b>	<b>141,053</b>	<b>517,876</b>
<b>Operating Income</b>	<b>91,534</b>	<b>66,241</b>	<b>157,775</b>
<b>Nonoperating Revenues (Expenses):</b>			
Franchise tax	2,484	-	2,484
Interest revenue	1,840	56	1,896
Grant revenue	85,363	-	85,363
Capital outlay	(86,307)	(293)	(86,600)
Debt service:			
Principal	(35,838)	(37,215)	(73,053)
Interest and fees	(36,890)	(29,875)	(66,765)
<b>Total Nonoperating Revenues (Expenses)</b>	<b>(69,348)</b>	<b>(67,327)</b>	<b>(136,675)</b>
Change in net position	22,186	(1,086)	21,100
Net Position, beginning of year	121,428	287,003	408,431
Net Position, end of year	<b>\$ 143,614</b>	<b>\$ 285,917</b>	<b>\$ 429,531</b>

See accompanying notes to the basic financial statements.