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Missouri State Auditor

FOLLOW-UP REPORT ON AUDIT FINDINGS

City of Fairview

Report No. 2024-047

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City of Fairview

Follow-Up Report on Audit Findings

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*Includes selected findings



SCOTT FITZPATRICK
MISSOURI STATE AUDITOR

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

We have conducted follow-up work on certain audit report findings contained in Report No. 2022-099, *City of Fairview* (rated as Poor), issued in November 2022, pursuant to the Auditor's Follow-Up Team to Effect Recommendations (AFTER) program. The objectives of the AFTER program are to:

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

As part of the AFTER work conducted, we reviewed documentation provided by the City Clerk and held discussions with the Mayor and City Clerk to verify the status of implementation for the recommendations. Documentation provided by the city included Board meeting minutes, financial records, and other pertinent documents. This report is a summary of the results of this follow-up work, which was substantially completed from February through April 2024. While working with the city in conducting the follow-up work, we identified various new concerns related to the handling of customer utility payments. Additional work related to these concerns is planned and will be addressed in a subsequent letter to the Mayor and the Board of Aldermen.

A handwritten signature in black ink that reads "Scott Fitzpatrick". The signature is written in a cursive, flowing style.

Scott Fitzpatrick
State Auditor

City of Fairview

Follow-Up Report on Audit Findings

Status of Findings

1. Overpayments, Improper Use of City Funds, and Conflicts of Interest

The former City Clerk was overpaid \$3,351, the Board improperly spent \$120,252 of restricted funds from a city trust fund, and the city paid \$17,325 to a business that the former Mayor managed and owned in violation of city code related to conflicts of interest.

1.1 Overpayments to former City Clerk

The former City Clerk was overpaid \$3,351 from January 2020 through March 2021. The former City Clerk recorded more hours worked in the payroll system than she reported on her weekly timecards from January 2020 through March 2021. The former City Clerk did not sign most of her weekly timecards and her supervisor (the former Mayor) did not sign any of these timecards. The former City Clerk signed 30 of the 65 payroll checks issued to herself, including 24 of the 54 checks issued with overpayments. The former City Clerk paid herself on a weekly basis instead of a bi-monthly basis in violation of city code.

Recommendation

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

Status

In Progress

The Board is currently working with the Newton County Sheriff's Office. Per the Newton County Sheriff's Office, their investigative report was submitted to the Prosecuting Attorney on April 23, 2024.

1.2 Revocable Trust of John Q. Hammons

The Board improperly spent restricted funds from the Revocable Trust of John Q. Hammons, including building purchases, well pump repairs (subsequently repaid), and election costs. The Board also did not obtain appraisals for the building purchases and did not enter into adequately detailed rental agreements for the apartments located in the buildings.

Recommendation

The Board of Aldermen ensure trust funds are used in compliance with the terms of the trust, appraisals are performed for any property considered to be purchased in the future, and detailed written rental agreements are prepared and signed for all rental properties.

Status

Implemented

Invoices for all disbursements from the Trust were reviewed and determined to be reasonable and in accordance with the Trust requirements. Appraisals were not needed as no property was purchased during 2023. The city has a sufficiently detailed rental agreement with the United States Postal Service. The rental apartment in the post office building is now being used as the city's police department office and one of the 2 apartments in the grocery store



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building was incorporated into the grocery store and is no longer a rental. The other apartment in the grocery store building is currently vacant.

1.3 Conflicts of interest

The city paid \$17,325 to a company owned and managed by the former Mayor in violation of city code related to conflicts of interest, and the Board did not adequately monitor city activities for conflicts of interest. In addition, some of these checks were issued prior to the date of the related invoice.

Recommendation

The Board of Aldermen closely examine city transactions to identify conflicts of interest, and ensure disbursements are not made until after the invoices are received and properly approved.

Status

Partially Implemented

We did not note any conflicts of interest. The city has not created any procedures for identifying conflicts of interest. The Board is not provided with a listing of city disbursements; therefore, the Board is unable to closely examine transactions to identify conflicts of interest. Disbursement documentation did not include any Board review or approval. We did not note any checks issued prior to the date of the invoice.

2. Payroll Controls and Procedures

Significant improvement over payroll controls and procedures was needed.

2.1 Timecards and leave records

Timecards were not always signed by the employee or supervisor to document approval and review of time worked, and leave records maintained did not always adequately track the hours of vacation leave earned and used, and any remaining balances.

Recommendation

The Board of Aldermen ensure timecards are properly signed and approved, employee leave balances are properly tracked and monitored, and reviews of timecards are performed to ensure the propriety of payroll payments.

Status

Not Implemented

From our review of the November 2023 timecards, we noted that none of the timecards were signed by the employee or approved by the supervisor. Additionally, timecards were not required for all city employees and the formats for the timecards were not consistent for all employees. The City Clerk indicated a leave balance report is not maintained. There is no indication the Board reviews the monthly payroll report.

2.2 City code

The former City Clerk did not always follow city code regarding vacation leave, compensation, and related employees. The Board also did not have



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	ordinances establishing the amount of compensation of any city officials and employees.
Recommendation	The Board of Aldermen follow city code and establish the compensation of all city officials and employees by ordinance as authorized by statute.
Status	Not Implemented We could not determine if the city was following the city code regarding vacation leave as a leave balance report is not maintained. The Mayor and City Clerk both indicated they do not have ordinances establishing the amount of compensation for city officials and employees. Currently, there are no related employees working for the city.
2.3 Cost allocations	The city had no documentation to justify the allocation of the City Clerk's compensation to the various city funds.
Recommendation	The Board of Aldermen allocate disbursements to city funds based on specific criteria and retain documentation to support the allocation.
Status	Not Implemented The city does not have an ordinance or specific criteria for allocating the City Clerk's salary. The Mayor and City Clerk both indicated the City Clerk's salary is now paid from the city's Water Fund.
3. Accounting Controls and Procedures	Accounting controls and procedures needed improvement.
3.1 Oversight and segregation of duties	The Board had not established adequate segregation of duties or supervisory reviews over the various financial accounting functions performed by the City Clerk.
Recommendation	The Board of Aldermen segregate accounting duties to the extent possible and implement appropriate reviews and monitoring procedures.
Status	Not Implemented The City Clerk indicated accounting duties have not been segregated. The Board has not implemented appropriate reviews and monitoring procedures.
3.2 Depositing and receipting	The former City Clerk and former City Treasurer did not always deposit receipts intact and timely, and rental deposits for the John Q. Hammons Community Center were not always received or deposited.



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Recommendation The Board of Aldermen ensure all money received is deposited intact and timely, and receipt slips are issued for all money received. In addition, determine the status of the rental deposits on hand and deposit or return them to the payer.

Status **Not Implemented**

Deposits were not made intact or timely, and receipt slips were not issued for all money received, during November 2023. The City Clerk indicated the status of rental deposits is not monitored.

3.3 Bank accounts The city maintained an excessive number of bank accounts.

Recommendation The Board of Aldermen evaluate and reduce the number of bank accounts.

Status **In Progress**

The city has reduced the number of checking accounts from 24 to 12.

4. Disbursements Controls and procedures over disbursements needed improvement.

4.1 Procurement procedures and contracts City officials did not always solicit bids or proposals as required by city code, and did not always enter into written contracts. The city did not file a 1099 form for asphalt work performed.

Recommendation The Board of Aldermen follow formal bidding policies and procedures as required by city code, enter into written contracts prior to beginning work as required by state law, and ensure 1099 forms are issued in accordance with IRS regulations.

Status **Not Implemented**

The City Clerk provided documentation of Board meeting minutes in May 2023 where the Board opened, reviewed, and awarded bids for water and wastewater treatment services, maintenance services, and trash services. However, no documentation was retained by the city that bids were advertised as required by city code. The city did not have a written contract for water and wastewater treatment services. The city did not issue any 1099 forms for these services for 2023.

4.2 Credit cards The city did not monitor credit card limits, adequate supporting documentation was not retained for some credit card purchases, and some disbursements made were not a necessary and prudent use of public funds.



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Recommendation

The Board of Aldermen review and adjust credit card limits, require adequate, detailed supporting documentation be retained for all disbursements, and ensure all disbursements are necessary and a prudent use of public funds.

Status

Partially Implemented

Supporting documentation was retained for the November 2023 credit card statement. The Mayor and City Clerk indicated there is not an approval process for the use of the credit card and the Board has not reviewed or adjusted credit card limits. The Board is not provided with a detailed listing of city disbursements or supporting documentation; therefore, the Board is unable to ensure all disbursements are a necessary and prudent use of public funds.

4.3 Dual signatures

The former City Clerk and former City Treasurer signed their own payroll checks, the former Mayor signed checks issued to a company he managed and owned, on numerous occasions, and the former City Clerk typically signed the payroll checks of the Meter Reader (her grandson).

Recommendation

The Board of Aldermen require dual independent signatures on all checks.

Status

Implemented

We reviewed checks issued from the city's bank accounts for November 2023 and determined that there were two independent signatures on all checks.

5. Utility System Controls and Procedures

Significant weaknesses existed in the city's utility system controls and procedures. As a result, there was less assurance all utility payments had been properly recorded and transmitted.

5.1 Utility reconciliations

City personnel did not prepare proper reconciliations related to utility services. The former City Clerk did not perform monthly reconciliations of amounts billed, payments received, and amounts unpaid for utility services. Significant differences between the gallons of water pumped and gallons of water billed and used by the city were not investigated.

Recommendation

The Board of Aldermen ensure monthly reconciliations are performed of amounts billed to amounts collected and delinquent accounts, and significant differences between gallons of water billed to gallons pumped should be investigated and resolved.

Status

Not Implemented

The City Clerk indicated their current utility billing software does not generate a reconciliation and a manual reconciliation is not performed for amounts billed, payments received, and amounts delinquent. In addition, the



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Mayor indicated that reconciliations between gallons of water pumped and gallons of water billed and used by the city are not performed and significant differences are not investigated.

5.2 Adjustments

The former City Clerk made adjustments to customer accounts, including writing off charges caused by water leaks or incorrect meter readings, without obtaining independent approval or maintaining adequate documentation to support the reason for the adjustment.

Recommendation

The Board of Aldermen require the City Clerk to prepare a report of adjustments and ensure an independent and/or supervisory review and approval of all adjustments made in the utility system is performed.

Status

Not Implemented

The City Clerk indicated that an adjustment report is not prepared and approvals made are not reviewed and approved.

5.3 Late penalties and shut off procedures

Late penalties were not always charged and utility services were not shut off in accordance with city ordinances.

Recommendation

The Board of Aldermen ensure late penalties are charged and utility service is shut off in accordance with city ordinance, and maintain a record of shut offs, along with any relevant documentation.

Status

Partially Implemented

The City Clerk indicated late fees are automatically applied to utility accounts on the 18th of every month by the utility accounting software. We reviewed the utility accounts and late fees were applied. The Mayor and City Clerk indicated that their current utility billing software does not retain reports prior to the current month; therefore, the City Clerk prints off a record of current water bills due and makes a list of the water customers that are two months delinquent. This list is given to the Mayor who then delivers shut off notices to these delinquent water customers giving them 24 hours to pay or service will be disconnected. We noted there is no documentation maintained that shut offs are actually performed and the city is still not following the city ordinance. City Ordinance 68.010(8) states, ". . . Failure to pay a bill by the thirtieth day following the close of the period for which service was rendered shall result in the disconnection of the service and such disconnection shall be made without the necessity of notice to the water user."

5.4 Utility deposits

The City Clerk did not reconcile the list of customer utility deposits held to the related money held in the Water/Sewer Fund bank account.



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Recommendation The Board of Aldermen periodically reconcile customer utility deposits in the utility system to accounting records and cash balances, and promptly investigate any differences. In addition, any unidentified money should be disbursed in accordance with state law.

Status **Not Implemented**

The City Clerk indicated that a reconciliation of customer utility deposits is not performed.

5.5 Partial payments The city did not have an ordinance or written policies authorizing partial payments. Partial payments were not approved by someone independent of the utility's accounting functions and written payment agreements for partial payments did not exist.

Recommendation The Board of Aldermen establish an ordinance for partial payments and create policies and procedures governing the process that should include at least (1) a written payment plan for each partial payer, and (2) approval of each plan by someone independent of the utility's accounting functions.

Status **Partially Implemented**

The Board of Aldermen established an ordinance for partial payments that was approved on September 12, 2023. The city has a partial payment plan agreement form for partial payers, but approval of the plan is not conducted by someone independent of the utility's accounting functions.

6.1 Budgeting, Planning, and Financial Reporting - Budgets City officials did not include all the statutorily required elements in the budgets prepared for the years ending December 31, 2021, and 2020. The Board did not adequately monitor budget-to-actual receipts and disbursements. Budget amendments were not prepared or approved by the Board before the budgets for these funds were overspent or before the fiscal year ended.

Recommendation The Board of Aldermen prepare annual budgets that contain all information required by state law, ensure disbursements do not exceed budgeted amounts, and prepare any necessary budget amendments timely.

Status **Not Implemented**

The City Clerk indicated the city did not prepare an annual budget for 2023.



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6.3 Budgeting, Planning, and Financial Reporting
- Filing of financial reports

City officials did not file an accurate financial report with the SAO for the year ended December 31, 2020, as required by state law. The financial report submitted did not include accurate ending cash balances for 3 of the 12 funds (excluding the Municipal Court Fund) and did not include the Hammons Endowment Fund.

Recommendation

The Board of Aldermen submit accurate annual financial reports to the State Auditor's Office.

Status

Not Implemented

Financial reports were not filed with SAO for the year ended December 31, 2022, as required by state law. Instead, the city submitted bank statements for 9 of the 12 funds (excluding the Municipal Court Fund). Funds not included were the Replacement and Extension, Bond Reserve, and American Rescue Plan Funds.

6.4 Budgeting, Planning, and Financial Reporting
- Published financial statements

City officials did not publish semiannual financial statements for the year ended December 31, 2020, as required by state law.

Recommendation

The Board of Aldermen publish semiannual financial statements as required by state law and city code.

Status

Not Implemented

The City Clerk indicated there is no documentation to support that semiannual financial statements were published for the first six months of 2023.

7. Sunshine Law

The city did not comply with the Sunshine Law for some closed and open Board meetings.

7.1 Closed meetings

The Board did not comply with the Sunshine Law for 7 out of 8 closed meetings held during the year ended December 31, 2020.

Recommendation

The Board of Aldermen ensure specific reasons for closing a meeting are documented in the open minutes and discussions are limited to the specific reasons cited for closing the meeting.

Status

Not Implemented

The city held a closed meeting on November 14, 2023, but failed to specify the reason for holding a closed meeting. The city also did not maintain



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meeting minutes for this closed meeting; therefore, it is not known if discussions were limited to the specific reason for holding a closed meeting.

7.2 Open meetings

The Board did not always comply with the Sunshine Law regarding open meetings.

Recommendation

The Board of Aldermen ensure all Board meetings are held at a place and in a manner to accommodate and allow the public access to the meetings, proper notification and agendas for public meetings are given, and the reasons for holding emergency meetings are documented.

Status

Implemented

According to the City Clerk, Board meetings have been and are held at city hall. Notice of upcoming Board meetings are posted on the city's Facebook page and the marquee sign approximately one month prior to the meeting. The City Clerk also indicated that the agenda is posted on the city hall bulletin boards a few days before the meeting. The city has not held any emergency meetings.