

The seal of the Missouri State Auditor is circular and features a central figure holding a scale and a sword. The text around the seal reads "SEAL OF THE STATE AUDITOR" at the top, "JUSTICE WE STAND DIVIDED" in the middle, and "1820 MISSOURI 1892" at the bottom.

Nicole Galloway, CPA

Missouri State Auditor

City of Silex

Report No. 2019-108

November 2019

auditor.mo.gov



Nicole Galloway, CPA
Missouri State Auditor

CITIZENS SUMMARY

Findings in the audit of the City of Silex

Financial Condition	The General Fund is in poor financial condition. This problem is not expected to improve significantly in the immediate future.
Budgets and Financial Reporting	The Board does not have adequate procedures to prepare or monitor budgets. The financial statements have not been published for the year ended December 31, 2018. City officials did not file timely annual financial reports with the State Auditor's Office as required by state law. The city has not obtained annual audits of its sewer system as required by state law.
Restricted Funds and Recording Financial Transactions	The city uses restricted monies to finance general operations of the city. The city does not have controls and procedures to ensure revenues and disbursements are accurately and consistently recorded.
Disbursements	Significant improvement is needed in the city's disbursement documentation and review procedures. The city reimbursed unreasonable and/or unnecessary purchases made by city personnel while attending a training seminar. The city does not have procedures to adequately monitor fuel card accounts and fuel use to detect unauthorized use. City officials did not always solicit bids or proposals as required by city policy. The city did not prepare and file 1099-MISC forms with the Internal Revenue Service, as required, for legal services received for the year ended December 31, 2017.
Accounting Controls and Procedures	The Board has not adequately segregated accounting duties or ensured a documented supervisory or independent review over various financial accounting functions is performed. Controls and procedures over bank accounts and reconciliations need improvement. The city does not maintain adequate records of spring and fall event monies received, and as a result, the city cannot ensure all monies collected are accounted for and deposited.
City Procedures	The Board did not swear in the mayoral candidate elected on April 3, 2018, or comply with a subsequent Prosecuting Attorney's order for the appointed mayor to resign. The combination of the positions of City Administrator and Police Chief violates state law and creates a potential conflict of interest.
Payroll and Related Issues	City officials did not ensure payroll taxes were paid as required and some compensation was reported on employee W-2 forms. The city's personnel policy does not adequately address overtime and established policies are not always followed. Employment records for employees are not complete.
Utility System	City officials do not reconcile the total gallons of water billed to the gallons of water pumped, and as a result, significant differences are not investigated. City water deposits charged do not comply with city ordinance. City procedures for discontinuing services and receiving partial payments do not comply with city ordinance.
Ordinances	City ordinances are not codified or complete.

Police Department	The Police Chief has not established adequate controls and procedures over seized property. The police department has not developed adequate procedures to account for the numerical sequence of tickets and the ultimate disposition of manual tickets issued.
Street Maintenance Plan	City officials have not developed a formal annual maintenance plan for city streets.
Capital Assets	Controls and procedures over city property need improvement.

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 Silex

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NICOLE GALLOWAY, CPA

Missouri State Auditor

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

The State Auditor was petitioned under Section 29.230, RSMo, to audit the City of Silex. We have audited certain operations of the city in fulfillment of our duties. The scope of our audit included, but was not necessarily limited to, the year ended December 31, 2018. The objectives of our audit were to:

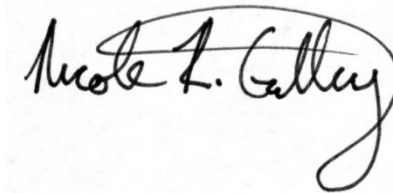
1. Evaluate the city's internal controls over significant management and financial functions.
2. Evaluate the city's compliance with certain legal provisions.
3. Evaluate the economy and efficiency of certain management practices and procedures, including certain financial transactions.

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 testing selected transactions. We obtained an understanding of internal controls that are significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. 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, 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 Silex.

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

Nicole R. Galloway, CPA
State Auditor

The following auditors participated in the preparation of this report:

Director of Audits:	Kelly Davis, M.Acct., CPA, CFE
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City of Silex

Management Advisory Report

State Auditor's Findings

1. Financial Condition The General Fund is in poor financial condition. This problem is not expected to improve significantly in the immediate future.

The General Fund is used for most of the city's financial activity and various recent events have contributed to a lower fund balance. The city is transferring monies from restricted funds to finance the general operations of the city (see MAR finding number 3). In addition, the Board of Aldermen is not adequately monitoring the city's financial condition. As a result, the Board is not in a position to make financial decisions that could strengthen fund balances (see MAR finding number 2).

For the year ended December 31, 2018, the city transferred restricted utility monies totaling \$141,181 to the General Fund. Transfers included (1) \$75,570 from the Water Fund (87 percent¹) and (2) \$65,611 from the Sewer Fund (60 percent¹). Thus, the city is transferring the majority of revenues from restricted utility funds in order to subsidize the General Fund.

The following table presents the changes in the General Fund balance for the 4 years ended December 31, 2018.

	Year Ended December 31,			
	2018	2017	2016	2015
Beginning Fund Balance	\$ 6,114	18,287	9,812	10,761
Deposits	145,294	205,814	516,290	258,642
Transfers in	218,583	388,070	13,014	8,361
Total Funds Available	369,991	612,171	539,116	277,764
Less: Disbursements	364,723	604,119	458,355	239,176
Less: Transfers out	820	1,938	62,474	28,776
Ending Fund Balance	4,448	6,114	18,287	9,812
Fund Balance Increase/(Decrease)	\$ (1,666)	(12,173)	8,475	(949)

Source: The city's bank statements.

Cash flow

The city has struggled to generate sufficient cash flow to sustain operations and the General Fund will be further strained as a result of several significant additional costs. The city owes \$256,527 (including interest of \$73,027) for debris removal from a June 2015 flood. In addition, city personnel have not filed and remitted federal and state payroll taxes for calendar year 2018 totaling \$21,176 (see MAR finding number 7.1). A review of the fall and spring events indicated the events lost \$2,407 and \$628 respectively, resulting in additional strain on the General Fund (see MAR finding number 3.2). Also, the city's tornado siren is inoperable and replacement will cost between approximately \$14,500 and \$21,000. The Mayor also indicated, as of May 16,

¹ Percentage of the fund's operating revenues.



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2019, the city has outstanding payables totaling \$90,378 and has not paid bond principal and interest totaling \$23,815 due April 1, 2019.

The Missouri Department of Natural Resources (DNR) has notified the city its water system is not in compliance with the requirements of the Radionuclide Rule of the Safe Drinking Water Act. As a result, the city may begin incurring a penalty of \$100 per day for noncompliance with Section 640.131, RSMo. Three options presented to the city to address the city's water system issue range in cost from approximately \$1.1 million to \$1.7 million.

It is essential the Board address the financial condition of the city's General Fund in both the immediate and long-term future. In addition, the Board needs to develop a plan to pay existing obligations and fund future projects. Further, the Board should reduce spending where possible, evaluate controls and management practices to ensure efficient use of resources, monitor detailed financial data that includes cash balances for each fund, and closely monitor budgets.

Recommendation

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

Auditee's Response

The City of Silex's current administration welcomes and accepts all of the State Auditor Office's (SAO) recommendations. The city has already implemented nearly all of those recommendations. However, given the financial insolvency and record keeping lapses from the previous administration, implementation of the remaining recommendations will require additional funds and additional effort from a limited volunteer staff. Despite these difficult hurdles, the city is committed to implementing all of the recommendations at the earliest opportunity.

On April 2, 2019, the citizens of Silex elected a new Mayor and a new Alderman. However, the previous City of Silex administration tried to prevent the newly elected Mayor and Alderman from taking their oaths of office and assuming their responsibilities. Indeed, as this audit discusses later, the previous administration mounted a similar effort in 2018, which improperly forced the duly elected Mayor from his position. Due to similar improper conduct in 2019, the newly elected Mayor and Alderman were forced to be sworn in by the Lincoln County Circuit Judge. Even when sworn in, the previous administration refused to give the new Mayor access or keys to City Hall. Once sworn in, the newly elected Mayor sought to protect the city's assets and records by changing the locks to City Hall, in the company of the County Sheriff.

As evidenced by the later discussions in this audit, the new Mayor's efforts to protect the city's records and assets were warranted. The new administration found the city's records, files, assets, and finances in disarray.



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It should be noted by the readers of this audit that nearly all of the negative findings relate to events that occurred before the new administration took over. The new administration welcomes this audit and agrees with nearly all of the audit's findings as they relate to the previous administration's actions. It must also be noted that the SAO has informed the city that the SAO did not review all of the city's transactions. Therefore, the city wants its citizens to understand that there are more issues than those that were included in this report that the city must address and remediate.

The city fully accepts and has implemented the SAO's recommendations concerning the city's financial condition.

The General Fund was indeed in poor financial condition when the new administration took over. The previous administration had left the city with only \$16,045.86 and current debts of \$130,928.55 (not including unpaid taxes and long-term debt obligations).

The new administration is taking aggressive steps to improve its finances, including laying off personnel and selling surplus property. The city is now run largely with volunteers.

The new administration no longer transfers monies from restricted funds to finance the general operations of the city (see MAR finding number 3). In addition, the new Board of Aldermen (new Board) is now monitoring the city's entire financial condition in detail at each public Board meeting. As a result, the Board is making financial decisions to strengthen fund balances (see MAR finding number 2).

The reference to a \$256,527 liability from the June 2015 flood refers to a claim by a contractor that has not been resolved. The city is actively working to provide Missouri's State Emergency Management Agency with the documentation that will allow this contractor to be paid from Federal Emergency Management Agency funds. The previous administration had not provided the required documentation and left the files scattered throughout the city's offices, much of which are missing. This has made it extremely difficult for the new administration to provide the required documentation.

The new administration and Board are developing a plan to pay existing obligations and to fund future projects. This is being accomplished by aggressively reducing spending where possible, implementing controls and management practices to ensure efficient use of resources, monitoring detailed financial data that includes cash balances for each fund, and closely monitoring budgets.



2. Budgets and Financial Reporting

City officials did not prepare complete and accurate annual budgets or monitor budgets appropriately. They also did not publish semiannual financial statements, file annual financial reports, or obtain required audits for the city's sewer system.

2.1 Budgets

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

Preparation

The city's budgets do not contain all statutorily required elements. The fiscal year 2017 and 2018 budgets did not include the actual or budgeted amounts for the 2 preceding years or the city's indebtedness information. In addition, the fiscal year 2018 budget did not include the actual beginning and estimated ending cash balance for any funds, a budget message, or a budget summary. Also, as of September 2019, the Board has not prepared and passed a budget for calendar year 2019. As a result, the Board is not using all available information to assist in effectively managing the city and the public is not provided a complete overview of city finances.

Section 67.010, RSMo, requires the budget to present a complete financial plan for the ensuing budget year and outlines the various information to be included in the budget. A complete budget should include the beginning available resources and a reasonable estimate of the ending available resources. Section 67.080, RSMo, provides that no expenditures of public monies should be made unless it is authorized in the budget. A complete and well-planned budget, in addition to meeting statutory requirements, serves as a useful management tool by establishing specific financial expectations for each area of city operations. It also assists in providing information to the public about city operations and current finances and in setting the tax levy and utility rates.

Monitoring

The Board does not adequately monitor budget-to-actual receipts and disbursements. Detailed year-to-date budget-to-actual reports of financial activity are not presented to the Board. As a result, actual disbursements had already exceeded the annual budgeted amount in the Sewer Fund by \$38,896 through December 31, 2018, without the Board knowing the budget has been overspent. The former City Administrator indicated city officials do not amend budgets.

Without appropriate financial data, it is apparent the Board is not adequately monitoring the city's financial condition on a regular basis. In addition, Section 67.040, RSMo, requires political subdivisions to keep disbursements within amounts budgeted, but allows for budget increases if the governing body officially adopts a resolution setting forth the facts and reasons. In addition, Section 67.080, RSMo, provides that no disbursement of public monies should be made unless it is authorized in the budget. Proper monitoring and amending prior to disbursing funds is necessary for the budget to be an effective management tool and comply with state law.



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2.2 Published financial statements

The financial statements have not been published for the year ended December 31, 2018. As a result, information regarding the city's financial activity and condition is not available to citizens.

City ordinance 130.140 requires the Board to publish semiannual financial statements in January and July each year. In addition, Section 79.160, RSMo, requires the Board to prepare and publish semiannual financial statements that include a full and detailed account of the receipts, disbursements, and indebtedness of the city.

2.3 Filing of financial reports

City officials did not file timely annual financial reports with the State Auditor's Office as required by state law. The city's financial report for the year ended December 31, 2017, due by June 30, 2018, was not filed until September 10, 2018. In addition, financial reports were not filed for the years ended December 31, 2015, and 2016.

Section 105.145, RSMo, requires each political subdivision to file annual reports of its financial transactions with the State Auditor's Office. Section 105.145(5), RSMo, prohibits elected officials from continuing to receive compensation or processing disbursements after the deadline to submit the financial statement and until the financial statement is submitted to the State Auditor's Office. Section 105.145(9), RSMo, allows political subdivisions to be fined \$500 per day for missing filing deadlines. In addition, 15 CSR 40-3.030, requires each political subdivision to file annual financial reports within 6 months of the end of the subdivision's fiscal year.

2.4 Annual audits

The city has not obtained annual audits of its sewer system as required by state law. Section 250.150, RSMo, requires the city obtain annual audits of the sewer system and the cost be paid from revenues received from the system. The city is also required to obtain annual audits as a condition of bond covenants.

Recommendations

The Board of Aldermen:

- 2.1 Prepare accurate annual budgets that contain all information required by state law, and ensure the budgets are adequately monitored.
- 2.2 Ensure publication of the city's semiannual financial statements as required by state law.
- 2.3 Submit annual financial reports to the State Auditor's Office as required by state law.
- 2.4 Obtain annual audits of the sewer system as required by state law and bond covenants.



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

Auditee's Response

The city fully accepts and will implement the SAO's four recommendations concerning the city's budgets and financial reporting.

2.1 *It is true that the previous administration did not prepare complete and accurate annual budgets or monitor budgets. Nor did the previous administration prepare or publish statutorily required semi-annual financial statements. Indeed, the previous administration left the city's financial records in disarray.*

However, the city has undertaken the reconstruction of its financial records, which has been a very long, difficult, and ongoing process. The city now prepares and publishes semiannual financial statements. It also has current financial statements available to the Board and the public at each monthly public Board meeting

When due, the city will now be able to file its annual financial statements. The city will also obtain the required audits for the city's sewer system when funds become available to do so.

The city agrees that a complete and well-planned budget is needed to (1) meet statutory requirements, (2) serve as a useful management tool to establish specific financial expectations for each area of city operations, and (3) provide information to the public about city operations and current finances. Because of the lack of adequate or reliable documentation from the previous administration, it has been difficult to determine the city's current financial position, current financial obligations, future income, and future expenses. Compounding this lack of documentation is the lack of funds needed to hire the required professionals to assist the city in obtaining and properly recording this information. However, the new administration has been working in earnest to prepare an accurate budget that has validity and is striving to have an accurate budget in place for 2020.

It is true that the previous administration failed to adopt, use, or update a budget to monitor the city's finances and expenditures. This is one of the reasons that the city now faces a financial crisis.

The new city administration is committed to developing an accurate and valid budget, using that budget to monitor the city's finances, and plan the city's activities. The new administration will also keep expenditures to budgeted amounts until a proper budget amendment is adopted that does not result in deficit spending.

2.2 *Although the previous administration did not publish the required financial statements, the new administration has now done so. The*



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new city administration did not expend funds until the financial statement was published. As noted earlier, the new administration has current financial statements available to the Board and the public at each monthly public Board meeting that include a full and detailed account of the receipts and disbursements.

- 2.3 *The failure of previous city personnel to prepare and timely file the city's annual financial reports with the SAO (as required by state law) has presented the current city government with many challenges. The most significant one for this finding is the work required to recreate the data on which to build accurate reports and budgets. The city will file its 2019 annual financial report within 6 months of the end of 2019.*
- 2.4 *The city is looking forward to an audit of the sewer system to ensure that the new practices that have been implemented meet not only the needs of the city and its financial obligations, but the law as well. The city has already raised the property taxes to ensure there would be enough funds to meet the city's bond obligations. The city plans to put that tax money into a separate fund used only to pay the bond obligations.*

3. Restricted Funds and Recording Financial Transactions

The city has not established adequate procedures to ensure revenues and expenditures are credited to the appropriate fund or to ensure restricted monies are used only for intended purposes.

The receipt and disbursement information in the computerized accounting system may not be complete and accurate. Receipts and disbursements are not recorded consistently to the correct fund or account, all interfund transfers and several deposits did not include supporting documentation, and revenue and expense accounts are not reviewed and reconciled to ensure accuracy. As a result, we could only present summarized information from city bank statements in the Schedule of Receipts, Disbursements, and Changes in Cash Balances included in the Organization and Statistical Information section of this report.

3.1 Transfers and commingling of funds

The city uses restricted monies to finance general operations of the city. The Board has not established controls to ensure transfers between funds are proper, documented, and approved by the Board. In addition, minutes do not document the discussion or approval of transfers. As a result, restricted monies are commingled with general operating funds and are not always used for their intended purpose and misuse of restricted funds may occur. The city transferred \$75,570 and \$65,611 from the Water Fund and Sewer Fund, respectively, during the year ended December 31, 2018.



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

Transfers

The city does not prepare supporting documentation for amounts transferred from the Water Fund and Sewer Fund to the General Fund that have been used to pay city operating expenses.

Transfers from restricted funds to General Funds should occur only for allowable and specific purposes, and the reasons should be adequately documented and approved by the Board.

Deposit and disbursements

The city does not ensure restricted monies are properly deposited and disbursed. A review of deposits and disbursements of restricted monies identified the following issues:

- The city deposited water and sewer revenues totaling \$1,496 and \$1,744, respectively, into the General Fund checking account. In addition, sewer revenues totaling \$2,451 and \$5,731 were deposited into the Renovation Fund and Water Fund checking accounts, respectively. The former City Administrator could not explain why these deposits occurred.
- The former City Administrator indicated he incorrectly paid \$623 of the public works employee's salary from the Sewer Fund instead of the Water Fund in August 2018. In addition, the city incorrectly paid salaries totaling \$2,728 from the Water Fund instead of from the General, Sewer, and Police Funds during the year ended December 31, 2017.

Monies received should be deposited into the appropriate bank account. Section 250.150, RSMo, restricts the use of water and sewer monies for operating the systems, payment of bonds, establishment of a reserve, fulfillment of any agreements contained in ordinances, and payment of costs of improvements of such systems.

3.2 Recording and allocation
of revenues and
disbursements

The city does not have controls and procedures to ensure revenues and disbursements are accurately and consistently recorded. As a result, financial statement information is not accurate, complete, and useful when assessing results of city operations. Our review noted several issues.

Allocation

The former City Administrator indicated he transferred monies from several funds to cover payroll expenses, but had no documentation to justify the allocation of the amounts transferred. As a result, restricted monies may have been used to pay employees performing work for the city's general operations. In addition, city personnel allocate fuel costs equally between the Police, Public Works, Water, and Sewer Funds, but could not provide documentation to justify the allocation to the various funds.

To ensure funds are used for intended purposes, the allocation of expenditures to city funds should be based on specific criteria and documentation supporting allocation decisions should be retained.



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Recording

A review of disbursements determined \$6,065 in fall festival disbursements were incorrectly recorded as spring tractor pull disbursements. In addition, \$1,700 in spring tractor pull disbursements and \$1,163 in fall festival disbursements were recorded as "other" in the Renovation Fund. Two additional fall festival disbursements were not recorded. As a result, fall festival disbursements were understated by \$13,978 and the spring tractor pull disbursements were overstated by \$4,365. The city lost \$2,407 and \$628 on the fall festival and spring tractor pull events, respectively. In addition, poor records and inconsistent recording of transactions could result in greater losses.

City personnel recorded several transactions under "other" for both revenues and disbursements. As a result, they cannot determine the specific source for revenues or cost associated in the "other" account. The city's financial statements include \$155,226 in "other revenues" out of total revenues of \$1,441,362 for the year ended December 31, 2018.

The proper recording of revenues and disbursements is necessary to accurately determine the results of operations of specific activities, thus enabling city officials to establish the level of taxation and/or user charges necessary to meet all operating costs.

Recommendations

The Board of Aldermen:

- 3.1 Establish a process to ensure transfers between funds are proper, approved, and timely. In addition, the Board should ensure monies received are deposited in the appropriate bank accounts and restricted monies are spent for allowable purposes only. The Board should also develop plans to repay the amounts owed to the Water and Sewer Funds.
- 3.2 Allocate disbursements to city funds based on specific criteria and retain documentation to support the allocation. In addition, ensure revenues and disbursements are properly recorded.

Auditee's Response

The city accepts and will adopt the SAO's two recommendations. However, due to the magnitude of the previous administration's improper transfers of restricted funds, and the limited financial resources available to the city, the repayment of amounts owed to the Water and Sewer Funds will require a long-term plan.

The new administration shares the SAO's frustration with the previous administration's financial record keeping. Revenues and expenditures were not credited to the appropriate fund, which allowed restricted monies to be used for other purposes. The information in the computerized accounting system was not complete or accurate and had to be painstakingly recreated or verified. Transactions did not include supporting documentation, and



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revenue and expense accounts were not reviewed and reconciled to ensure accuracy.

- 3.1 *The previous administration used significant sums of restricted monies to finance general operations of the city. The new administration has not done so, and has established controls to ensure transfers between funds are proper, documented, and approved by the Board. Restricted monies are no longer commingled with general operating funds and are now used only for their intended purposes.*

The previous administration's failure to prepare or keep supporting documentation for amounts transferred from the Water Fund and Sewer Fund to the General Fund to pay operating expenses has caused the current administration significant difficulties in formulating an accurate budget. Transfers from restricted funds to General Funds will now occur rarely and only for allowable and specific purposes, with reasons documented and approved by the Board at open meetings.

The new administration has corrected the previous administration's failure to ensure that restricted monies are properly deposited and disbursed. Monies received are now deposited into the appropriate bank account. Water and sewer monies will only be used for operating the systems, payment of bonds, establishment of a reserve, fulfillment of any agreements contained in ordinances, and payment of costs of improvements of such systems.

- 3.2 *The new administration is implementing controls and procedures to ensure that revenues and disbursements are accurately and consistently recorded.*

Since the new administration took over in April 2019, all monies received are broken down and deposited into the proper accounts and no monies are transferred out of any of the accounts without the knowledge and consent of the Board. There are no transfers made out of restricted accounts into General Funds except for wages paid to the city worker to cover actual hours worked on the water and sewer systems.

There are funds transferred out of the Sewer account and into a segregated Sewer money market account monthly so it can draw a little interest and to have it available to pay for the sewer bonds coming due. This is to ensure that the money is not inadvertently spent on other outstanding debt other than the bonds.



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

The previous administration's lack of accurate recording of revenues and expenses is very troubling. As the SAO notes, it has been difficult to determine the legitimacy of various transactions. It has also made it extremely difficult to accurately determine the results of operations of specific activities and compiling a meaningful budget. The prior Board had no control over where the monies were deposited, spent, or recorded. That is simply not allowed by this administration. Any and all financial transactions are recorded properly and with the knowledge and consent of the Board.

4. Disbursements

City disbursements were not properly supported or approved and some disbursements were questionable. In addition, the city did not properly bid or report some disbursements as required.

4.1 Disbursement documentation and review

Significant improvement is needed in the city's disbursement documentation and review procedures. We reviewed disbursements made between January 2018 and April 2019.

Unsupported disbursements

Our review identified disbursements that did not have supporting documentation and no one could explain their purpose.

City personnel could not provide supporting documentation for 14 checks totaling \$6,212 written to the former City Administrator and signed by the former City Administrator and former Mayor. Two of these checks, totaling \$1,256, were handwritten when common city practice was to issue printed checks. City personnel were unaware of the purpose of the checks or if the disbursements were for a city purpose. We attempted to obtain an explanation of the purpose of the disbursements, how they related to city business, and any supporting documentation from the former City Administrator in June 2019, but as of September 27, 2019, no response was provided.

City personnel could not provide detailed invoices for 5 of 20 disbursements, totaling \$5,913, reviewed for the year ended December 31, 2018. Disbursements included purchases of building supplies (\$2,609), police equipment (\$1,869), training (\$400), a city sponsored Easter egg hunt (\$161), and uniforms (\$874). Detailed invoices documenting quantity, price, and items purchased were not included with the payment. In addition, city personnel did not have supporting documentation for 12 non-payroll checks, totaling \$5,050, made payable to some city police officers and an electronics store purchase, totaling \$447, made by the former City Administrator. City personnel obtained a copy of the receipt from the electronics store and determined it was for a camera, but the camera cannot be located in city offices and city personnel could not provide additional information about the purpose of the camera purchase.



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Approval of invoices

City personnel did not document their review and approval of invoices or the receipt of goods or services. We identified 19 of 20 invoices reviewed totaling \$35,455 that did not have documented approval.

To ensure obligations were actually incurred and amounts paid were proper, all disbursements should be reviewed, approved, promptly recorded with sufficient details in the accounting records and supported by paid receipts, itemized vendor invoices, or other detailed documentation with payment information clearly indicated.

4.2 Questionable purchases

The city reimbursed unreasonable and/or unnecessary purchases made by city personnel while attending a training seminar at the Lake of the Ozarks. As noted in MAR finding number 9, the city has not established a travel policy to clearly document travel costs to be reimbursed.

A review of disbursements reimbursed for the training trip noted meal charges of \$120, \$198, and \$162. The receipts indicated costs were for one person and a detailed receipt showing the items purchased was not included. In addition, we noted reimbursements for sunscreen and cigarettes. Further, the payment to reimburse the \$120 meal was duplicated.

Public funds should be spent only on items necessary and beneficial to the city. Citizens have placed a fiduciary trust in their public officials to spend city monies in a prudent and necessary manner.

4.3 Fuel cards

The city does not have procedures to adequately monitor fuel card accounts and fuel use to detect unauthorized use. The city also does not ensure fuel card access is restricted after an employee is placed on administrative leave, and, as a result, employees on administrative leave purchased fuel with city fuel cards. City employees make the majority of fuel purchases using fuel cards they share. For the year ended December 31, 2018, the city paid vendors \$16,874 for fuel charged.

From April 10, 2019, through April 22, 2019, the former City Administrator and 4 other employees made 10 fuel purchases totaling \$504. These individuals had been put on administrative leave on April 10, 2019. City officials were not aware they continued to use city fuel cards until we discussed this issue with them in May 2019. City officials also do not require current public works and police department employees to turn in individual fuel tickets for each fuel card purchase and usage or fuel logs are not required for any city vehicles, making it difficult to determine if all fuel purchases are for city vehicles.

Adequate controls should be in place to properly monitor fuel card use to ensure accuracy, necessity, and reasonableness. Requiring fuel tickets be signed by the user, submitted to the City Clerk, and reconciled to invoices



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helps provide assurance the fuel billed was charged by city personnel and fuel disbursements were reasonable and necessary. Failure to account for fuel purchases could result in loss, theft, or misuse going undetected. Without complete and detailed usage/mileage logs, the city cannot effectively monitor the appropriateness of vehicle use and ensure fuel costs are reasonable.

4.4 Procurement procedures and contracts

City officials did not always solicit bids or proposals as required by city policy. Also, they could not provide some written contracts and some contracts were not sufficiently detailed. The Board selected the city attorney in August 2014 without soliciting proposals and has not solicited proposals for city attorney/legal services since that time. In addition, city officials did not retain support documenting that the city obtained bids prior to purchasing a police car for \$9,000. Also, city officials did not obtain bids for equipment purchased/rented, totaling \$7,378, including drilling services (\$904), sled rental (\$1,200), and uniforms (\$874). No one could provide a written contract for the city's current accounting services and the former city attorney's contract did not clearly document monthly charges for municipal court services provided.

City procurement policy states, "...written quotes should be obtained for all purchases in excess of \$250." Competitive bidding helps ensure the city receives fair value by contracting with the lowest and best bidders. In addition, bidding helps ensure all parties are given an equal opportunity to participate in the district's business. Written contracts are necessary to ensure all parties are aware of their duties and responsibilities and to prevent misunderstandings. Section 432.070, RSMo, requires contracts for political subdivisions to be in writing.

4.5 1099-MISC forms

The city did not prepare and file 1099-MISC forms with the Internal Revenue Service (IRS), as required, for legal services received for the year ended December 31, 2017. During the year, the city paid \$10,700 for legal services.

Sections 6041 through 6050W of the Internal Revenue Code require non-wage payments of at least \$600 in one year for professional services or for services performed as a trade or business by non-employees (other than corporations, except for medical and legal services), be reported to the federal government on 1099-MISC forms. To ensure compliance with IRS requirements, the city should ensure 1099-MISC forms are issued in all applicable instances.

Recommendations

The Board of Aldermen:

- 4.1 Maintain adequate supporting documentation for all disbursements and ensure all disbursements are recorded in the accounting system. The Board should ensure invoices are adequately reviewed and approved and require documentation of receipt of goods and/or services prior to payment of invoices.



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- 4.2 Ensure all disbursements are necessary and prudent uses of public funds.
- 4.3 Ensure all credit card accounts are properly monitored and credit cards are turned in by employees when their employment has been terminated or suspended. The Board should also establish adequate records and procedures to effectively monitor vehicle and fuel use. Fuel tickets should be submitted to the City Clerk and reconciled to fuel invoices. Usage/mileage logs should be maintained for all vehicles and compared to fuel use.
- 4.4 Ensure formal bidding policies and procedures are followed, periodically solicit proposals for professional services, and enter into clearly written agreements for those services.
- 4.5 Ensure payments totaling greater than \$600 to non-employees and businesses are properly reported to the IRS. The city should file amended 1099-MISC forms for past years.

Auditee's Response

The city accepts and will adopt the SAO's five recommendations concerning disbursements.

The new administration has taken steps to ensure that there are no disbursements paid without a reimbursement form being completed and the cash register receipt attached to it. The reimbursement form includes who purchased the item, where, what was purchased, and what it was used for.

- 4.1 *The previous administration's lack of disbursement documentation and review procedures resulted in the problems highlighted by the SAO as well as several others.*

Many of the previous administration's disbursements did not have supporting documentation and the previous staff could not adequately explain the specific purpose of those disbursements.

Going forward, supporting documentation of the quantity, price, and items purchased, as well as a clear statement of the specific purpose of the disbursement will be required for each check. All checks will be printed rather than handwritten.

The lack of proper documentation is not just a bookkeeping problem. The city has not been able to recover all assets that were represented to have been purchased with city funds -- such as the camera.



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The current administration agrees that the previous administration's lack of proper review and approval of invoices or the receipt of goods or services has had significant negative consequences for the city.

To ensure that obligations are actually incurred for a proper city purpose, and the amounts paid are proper, all disbursements will be reviewed, approved, promptly recorded with sufficient details in the accounting records and supported by paid receipts, itemized vendor invoices or other detailed documentation with payment information clearly indicated. The Board will approve the payment of all bills.

- 4.2 *The city agrees that public funds must only be spent on items that are necessary and beneficial to the city. They must also be spent in a prudent manner. The examples of the types of expenses reimbursed by the previous administration do not meet these standards by far.*

Currently, the city has no one attending training seminars, but could in the future. Prior to that happening, the city will implement policies that clearly list a per diem for all expenses to be incurred and all expenses will need to be submitted for reimbursement using the process described above. As stated above, no one is reimbursed for any expenses without the proper documentation and authorization.

- 4.3 *The fuel cards have been canceled and all fuel purchased for city use is reimbursed using the reimbursement method stated above. Due to the mismanagement and abuse of fuel cards by the prior administration, the city is still trying to determine how the outstanding debt on the fuel cards will be paid. The former employees who improperly used the cards will be required to repay any unauthorized amounts.*

- 4.4 *After locking the doors to City Hall to regain control of the city's finances and records, the current administration had to quickly hire a new, experienced City Attorney to establish proper procedures to put the city's house in order. A complicating factor in acquiring this new attorney was that payment could not be guaranteed. The city did sign a written contract with the new attorney based on a proper ordinance authorizing its execution. That written contract clearly documents his fees. Once the city has regained some stability and ability to pay, it will seek proposals for a City Attorney.*

The city was forced to put most of its work force on administrative leave. There are no contracts signed without review from the attorney.



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The city has not made any major purchases since the new administration took over in April 2019, so obtaining bids has not been an issue. The new administration will be looking into all city policies and will be updating/rewriting them as needed. This will include the procurement policy foremost, and then generally all the policies to ensure that the city's interests are protected and its activities are transparent.

4.5 *1099-MISC forms will be filed with the IRS for all the years where supporting documentation exists.*

5. Accounting Controls and Procedures

Numerous weaknesses exist with the city's accounting controls and procedures. The city receives monies for sales, real estate, personal property, and utility gross receipts taxes; merchant licenses; building permits; city sponsored events; and other miscellaneous items.

5.1 Segregation of duties

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 position is responsible for most financial duties of the city including receipting monies, preparing deposits, posting transactions to the accounting system, preparing invoices for payment, maintaining payroll records, preparing and distributing payroll and accounts payable checks, preparing monthly bank reconciliations, transferring monies between bank accounts, and preparing financial reports for Board meetings. The City Clerk is also responsible for preparing utility bills and monitoring accounts receivables.

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 should be performed.

5.2 Bank account reconciliations and fees

Controls and procedures over bank accounts and reconciliations need improvement. We identified the following issues:

- City personnel did not prepare bank reconciliations for 5 of 10 months between January and October 2018. For the 5 bank reconciliations prepared, the reconciliations did not include a detailed listing of deposits in transit or outstanding checks to support the reconciliation.
- The Board and the former City Clerk failed to monitor the city's cash balances. As a result, the city incurred \$157 in overdraft and returned item fees in the general, water, and renovation bank accounts during calendar year 2018.



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The preparation and retention of formal monthly bank reconciliations is necessary to ensure accounting records are accurate and in balance and to identify errors timely. To prevent bank account overdraft and minimum balance charges, city officials should more closely monitor bank account balances.

5.3 Spring tractor pull and fall festival

The city does not maintain adequate records of spring and fall event monies received, and as a result, city officials cannot ensure all monies collected are accounted for and deposited. The city deposited \$39,282 from admission fees and beer sales from the 2018 spring and fall events.

The city holds an annual fall festival and spring tractor pull and collects admission fees from customers attending both events. The city also operates a beer booth at each event. Each collection point has a cash box used by volunteers to hold monies collected. Throughout the day, someone representing the city, along with a city police officer, picks up the money from the collection points and places it in the drop safe at city hall for deposit. The city does not keep a record of admission fees collected or beer sales and does not try to reconcile admissions or products sold with monies received to account for all monies collected.

Failure to implement adequate receipting and depositing procedures increases the risk that loss, theft, or misuse of funds will go undetected. To adequately safeguard receipts, receipt records should be prepared for event monies received and admissions and booth sales should be tracked and reconciled with monies collected.

Recommendations

The Board of Aldermen:

- 5.1 Segregate the accounting duties to the extent possible and implement appropriate reviews and monitoring procedures.
- 5.2 Ensure monthly bank reconciliations are prepared and reconciled timely, and any differences are promptly investigated and resolved. In addition, the Board should also properly monitor bank account balances to avoid unnecessary bank fees.
- 5.3 Ensure receipt records are maintained and reconciled to the composition of the deposits. In addition, the Board should develop procedures to track and reconcile admission fees and booth sales to monies collected.

Auditee's Response

The city accepts and will adopt the SAO's three recommendations concerning accounting controls and procedures. However, due to limited funds and personnel, full segregation of duties may not be possible. The city will have an election in April 2020 to select a City Collector, or possibly obtain voter



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approval for the appointment of a City Collector to provide greater segregation of duties.

5.1 *The city still has weaknesses in this area due to the fact that the city cannot afford to hire additional personnel to divide the duties of the City Clerk. However, procedures have changed providing much greater overview and the Board is provided copies of the bank reconciliation reports every month.*

5.2 *Bank reconciliations are not only done every month, but this administration went back to January 1, 2017, and did monthly bank reconciliations on every account since that time. Every account is now balanced and in sync with the bank. Bank balances are monitored on a daily basis and there are no overdrafts.*

5.3 *There was no spring tractor pull this year, but there is a fall festival planned. There will not be admission fees charged, but there will be monies charged for some games, food, and refreshments. There are plans to pick up the monies brought in at certain points during the event, but the procedures will change.*

First of all, the monies will be counted at the point of pickup. The person counting the money will put the amount on a piece of paper and sign their name. The person picking up the money will also sign the document. Once at City Hall, the money will be recounted before being put into a central place for deposit into the bank. Once counted the amount will be entered on the same paper and a second person acting as a witness of the money count will sign the document.

We are also looking into using tickets to inventory the number of meals sold and in some instances goods sold. These inputs will be used to try to match "inventory" to sales.

6. City Procedures

City procedures need improvement.

6.1 Mayoral election

The Board did not swear in the mayoral candidate elected on April 3, 2018, or comply with a subsequent Prosecuting Attorney's order for the appointed mayor to resign. The Board stated the candidate falsely completed his application and therefore was not a qualified candidate, but provided no specific information about the falsified application or the Board's authority to decline to swear in an elected candidate.

The mayoral candidate completed and signed the Declaration of Candidacy, which was accepted by the former City Administrator prior to the election, as required. The candidate subsequently won the April 3, 2018, mayoral election



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and the election results were certified by the Lincoln County Clerk on April 9, 2018. However, at the April 16, 2018, Board meeting, the Board unanimously voted not to administer the oath of office to the mayor-elect stating the candidate had falsely attested to the accuracy of his application. The Board cited the candidate had violated Section 115.306, RSMo, which states "No person shall qualify as a candidate for elective public office . . . who has been found guilty or pled guilty to a felony under the federal laws. . . ." The Board provided no other specific information and did not cite its authority to decline to swear in the elected candidate. The Board subsequently appointed another person to serve as mayor.

On July 25, 2018, the Lincoln County Prosecuting Attorney sent a letter to the appointed mayor stating "because of the election results on April 3, 2018, you are not entitled to hold that position any longer." Further the Prosecuting Attorney stated that "pursuant to the election results on April 3, 2018, election laws, and RSMO 531.010, I am respectfully requesting you to resign your position immediately without further issue. Should you fail and refuse to comply with my directive, I will be forced to take legal action to enforce the election results." In addition, the Prosecuting Attorney contacted the Missouri Attorney General's Office concerning this matter. The city did not comply with the Prosecuting Attorney's directive.

A subsequent mayoral election occurred on April 2, 2019, at which time the same candidate was again elected mayor. He was sworn into office at the Lincoln County Courthouse on April 8, 2019, by Presiding Judge Patrick S. Flynn of the 45th Judicial Circuit and is currently serving as mayor. The candidate could have previously been sworn in by the court but chose not to pursue this approach in 2018.

Chapter 115 RSMo, governs elections and provides for the methods of contesting a candidate's qualifications and election results. To ensure compliance with state law and the propriety of statutory authority, the Board should consult with legal counsel prior to any future votes regarding candidate qualifications or not swearing in an elected candidate.

6.2 Combined positions

The combination of the positions of City Administrator and Police Chief violates state law and creates a potential conflict of interest.

The former City Administrator was initially hired as a city police officer in January 2012 and promoted to Police Chief in August 2014. The Board appointed him as City Administrator in March 2015, and he continued to serve as the city's Police Chief. The City Administrator is responsible for oversight of financial functions and general supervision of the various departments and functions of the city (including the police department). The combination of these positions represents a violation of state law and resulted in potentially conflicting duties.



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Section 77.044, RSMo, states that a city administrator shall devote his full time to the performance of the duties of his office. As a result, the statute would prohibit a city administrator from holding other city offices or positions.

Recommendations

The Board of Aldermen:

- 6.1 Consult legal counsel before any future votes on candidate qualifications or to decline to swear in an elected candidate.
- 6.2 Ensure the City Administrator does not serve in other city offices or positions.

Auditee's Response

The city accepts and will adopt the SAO's two recommendations concerning the city's procedures.

- 6.1 *This administration believes the prior administration's failure to swear in the elected Mayor was illegal and should have never happened. This administration believes that no one is above the law and no one individual or group has the power or authority to override the choice of the people by not swearing in the certified winner of an election.*
- 6.2 *The city ordinance that created the position of City Administrator states the same requirement listed in the report forbidding the combination of the positions of City Administrator and Police Chief. Prior to his election as Mayor in April 2019, Charles Turbyville brought this issue to the attention of the prior City Attorney on several occasions along with citations to applicable Missouri Ethics Commission regulations and statutes. Mr. Turbyville also raised concerns over paying the City Administrator for "side jobs" without soliciting bids, in addition to the City Administrator's salaries for the City Administrator and Police Chief positions. The prior City Attorney refused to admit that there was anything wrong with one person holding two positions or with making payments for extra jobs without bids. Upon his election, Mayor Turbyville corrected this illegality by removing the City Administrator. It cannot be stressed too much that this action by Mayor Turbyville prevented further financial losses for the city. If it had been taken earlier by the prior administration when it was raised by Mr. Turbyville, the city would not be so financially distressed.*

7. Payroll and Related Issues

Payroll controls and procedures need improvement. We noted numerous problems with the city's payroll and procedures. The city had payroll expenditures of \$164,994 for the year ended December 31, 2018.



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7.1 Payroll taxes

City officials did not ensure payroll taxes were paid as required and some compensation was not reported on employee W-2 forms. City officials failed to timely file and remit federal payroll taxes, totaling \$17,666 to the IRS for the 2 quarterly periods ending September 30, 2018. In addition, the city did not file and remit state payroll taxes totaling \$3,510 to the Missouri Department of Revenue for at least the 3 quarterly periods ending September 30, 2018. City officials also indicated payroll taxes were not paid in previous years or in 2019. As a result, the city may be subject to penalties and interest.

The city paid compensation totaling \$3,120 to the former City Administrator per his contract for health insurance during the year ended December 31, 2018. These payments were not included on the employee's W-2 form and as a result were not subject to payroll tax withholdings.

The Internal Revenue Code requires employers to file a 941 form by the last day of the month following the end of the quarter, along with payment of Social Security and Medicare taxes withheld from employees and the employer's share, as well as federal income taxes withheld. Similarly, Chapter 143, RSMo, includes requirements for reporting wages and withholding state income taxes. The IRS requires employers to report all compensation on W-2 forms and withhold and remit income and payroll taxes.

7.2 Personnel policies

The city's personnel policy does not adequately address overtime and established policies are not always followed.

Nonworking time (vacation, sick leave, and holidays) is included in total hours worked when determining the amount of overtime earned by employees, which is not required by the Fair Labor Standards Act. As a result, the city has been paying more overtime to employees than required. The city does not have a policy addressing the hours (nonworking time) to be considered when calculating overtime.

City officials also do not follow an established policy regarding paying employees for lunch periods. The city payroll policy states, "Lunch period is one hour and is unpaid. Employees should clock out and clock in via timesheet or time card stamp." During our review of employee timesheets, we noted employees were not clocking out and back in to indicate their lunch hour. The former City Administrator indicated employees are paid for lunch.

Written personnel policies and strict compliance with those policies is necessary to ensure equitable treatment of employees, prevent misunderstandings, and ensure employees are properly compensated.

7.3 Incomplete personnel records

Employment records for employees are not complete. We reviewed the personnel files for 6 employees to ensure proper documentation was maintained. Our review of the personnel files noted 2 employees' files were missing the I-9 form and the form was incomplete for the other 4 employees.



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In addition, the state W-4 form was missing for 4 employees and 1 employee file was missing the federal W-4 form.

Complete personnel records should be maintained for all employees to provide documentation of personnel actions. The IRS requires employers to ensure a W-4 form is completed by each employee to support payroll withholding and taxes. In addition, according to the Immigration Reform and Control Act of 1986, an individual may not begin employment unless an I-9 form is completed.

Recommendations

The Board of Aldermen:

- 7.1 Ensure payroll tax returns are filed timely and delinquent payroll taxes are remitted. In addition, the Board of Aldermen should ensure previous years' W-2 forms are amended, as appropriate, and compensation is properly reported and subjected to proper withholdings.
- 7.2 Review and update the personnel policy, as necessary, and ensure compliance with the policy.
- 7.3 Ensure employment records are maintained and complete for all employees.

Auditee's Response

The city accepts and will adopt the SAO's three recommendations concerning the city's payroll and related issues.

- 7.1 *It has been discovered that payroll taxes were not paid in 2015, 2016, 2017, 2018, or 2019. The city is trying to determine how it will find the funds to pay these taxes. Meanwhile, the city has changed the way payroll will be handled. The monies to pay payroll will come from a separate account and the monies subtracted from the employee's checks for withholding will be left in this separate payroll account until the end of the quarter, so it can be sent along with the appropriate 941 form to the taxing agencies. Furthermore, the amounts needed to cover the employer's portion of Medicare and Federal Insurance Contributions Act withholdings will be added to the payroll account when the checks are paid so it will be there when the amounts become due. The 941 forms will be filed on time accompanied by the payment under the new administration.*
- 7.2 *All existing city policies are being reviewed. Most of them were created by the prior City Administrator who unilaterally changed and interpreted them. The personnel policies will be rewritten by the new Board to follow accepted practices.*



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7.3 *All employees will have the proper documentation on file including the W-4 and I-9 documents. Furthermore, those documents will be placed in their permanent personnel files. The personnel files will be maintained to the state's document retention standards.*

8. Utility System

Significant weaknesses exist in the city's utility system controls and procedures. As a result, there is less assurance all utility payments have been properly recorded and transmitted. The city collected \$82,797 in water revenues for the year ended December 31, 2018.

8.1 Water loss

City officials do not reconcile the total gallons of water billed to the gallons of water pumped, and as a result, significant differences are not investigated. Also, the city does not track the water usage for flushing the system, fire suppression, or fire hydrant testing. Without this usage information the city cannot properly perform the reconciliation. We compared water billings to reports of water pumped from January 2018 through November 2018 and noted the city did not bill 76 percent of the water pumped during this time period.

Tracking city usage, reconciling gallons of water billed to gallons of water pumped, and timely investigation of unexpected or significant differences is necessary to help detect significant water loss timely and ensure water usage is properly billed. According to the United States Environmental Protection Agency, most states have regulatory policies that set acceptable losses from public water systems at a maximum of between 10 to 15 percent or less.² The standard for Missouri established by the DNR is 10 percent.

8.2 Utility deposits

City water deposits charged do not comply with city ordinance. In addition, the city does not maintain and reconcile a listing of customer deposits held to the balance of the Water Deposit Fund checking account. The former City Administrator indicated only renters are required to pay a \$150 deposit. However, city code Section 400.010, requires each water user to pay a \$100 refundable deposit. The balance of the Water Deposit Fund checking account as of December 31, 2018, was \$221,385; however, this amount is funding received from the Missouri DNR. None of the funds in the account are customer water deposits. City officials could not provide a list of deposits or explain why no deposits are in the account.

² United States Environmental Protection Agency, "Control and Mitigation of Drinking Water Losses in Distribution Systems," Appendix A, Table A-2, Selected State Standards for Unaccounted-for Water, <https://www.awwa.org/Portals/0/AWWA/Government/WaterLossControl508.pdf>, accessed May 28, 2019.



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Compliance with the city water deposit ordinance requirement is essential to provide assurance all customers are treated equally. In addition, refundable utility deposits are restricted funds held for customers. The Board should review utility customer deposit records to ensure all deposits are accounted for properly. In addition, the City Clerk should maintain an accurate list of all utility deposits held and reconcile the list monthly to monies held in the Water Deposit Fund bank account.

8.3 Delinquent accounts and adjustments

City procedures for discontinuing services and receiving partial payments do not comply with city ordinance. The Board does not review and approve adjustments to customer accounts or a listing of delinquent accounts each month. The Utility Clerk prints and mails billings at the end of each month. Payment is due by the 10th of the following month.

Delinquent accounts

A review of customer balances noted delinquent utility accounts are not shut off after 30 days past due and a list of delinquent accounts is not provided to the Board for review as required by ordinance. In addition, the city allows some customers to make partial payments in violation of city ordinance. As of December 31, 2018, the city had 27 accounts totaling \$6,206 that were at least 30 days past due. The city also charges a \$45 disconnect fee when there is no ordinance establishing this fee.

City ordinance No. 1707 article V, section I, states, "All users shall be billed monthly. Billings for each month shall be made within thirty days after the end of that month. Payments are due when billings are made. Any payment not received within thirty days after the billing is made shall be delinquent." In addition, section 2 of the ordinance states "When any bill is thirty days in default, provision of water and/or sewer services to such premises shall be discontinued until such bill is paid following due notice and opportunity of hearing." City ordinance 16-03 indicates the city will not accept partial payments on past due or outstanding water or sewer bills.

Failure to enforce city ordinances results in inconsistent application of shut off procedures and reduces the incentive for customers to make timely payments. 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. In addition, monitoring of delinquent utility reports is necessary to identify accounts to be shut off.

Adjustments

City personnel post 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. In addition, the Board does not review and approve all adjustments. The same employee receipts payments and posts them and billing adjustments to customer accounts with no independent supervisory review. As a result, there is an increased risk of theft and misuse occurring without being detected.



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To ensure adjustments to utility accounts are valid and approved, adjustment transactions should be approved before they are made in the computer system and the posted adjustments should later be compared to the list of approved adjustments. Review and approval of adjustments by the Board is necessary to ensure adjustments made are proper.

Recommendations

The Board of Aldermen:

- 8.1 Ensure water use is properly metered, gallons of water pumped is reconciled to gallons billed monthly, and significant differences are promptly investigated.
- 8.2 Ensure compliance with the water deposit ordinance. In addition, the Board should account for all customer utility deposits previously paid, prepare an accurate list of utility deposits and reconcile to monies in the Water Deposit Fund bank account monthly, and resolve any discrepancies.
- 8.3 Ensure compliance with utility ordinances. The Board should also ensure utility service is shut off in accordance with city ordinance. In addition, the Board should review all adjustments made to customer accounts and require reports of delinquent utility accounts be prepared and reviewed monthly.

Auditee's Response

The city accepts and will adopt the SAO's three recommendations concerning the city's utility system.

- 8.1 *The city has no way to track the water used to flush the system. The fire hydrants in town do not have a meter to determine the number of gallons that have flowed through them. The fire department does report the gallons of water they take from the city's water system. Those amounts were tracked by the former Public Works Superintendent, unfortunately, the prior administration did not follow through with that practice. It has been reinstated now. The city has an existing agreement with the fire department that they will not be billed for water used for fire suppression. The master meters are read on a regular basis and the daily average number of gallons is noted and if there is a large variable, the issue is investigated and corrected if needed.*
- 8.2 *When this administration took over, the account had no water deposits. There is no record of where the money went. The new administration has now reestablished the account for water deposits and is now properly depositing water deposits. The new administration is also trying to determine how to pay the fund back for monies inappropriately removed by the prior administration. Unfortunately, the water records and accounting only go back to*



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2017, so there is no way to know how much there should be in the account, who actually paid a water deposit, or how much was paid by each individual. This is directly due to the lack of records found in City Hall when the new administration took over.

- 8.3 *All of the delinquent accounts have been addressed and those that were seriously late have been put on a payment plan and the overdue balances are slowly being brought current. The disconnect fee is no longer being charged.*

This administration has made no adjustments to customer bills, however, a new form is being developed that will report what the adjustment is, why it is being done, the name of the customer and how it will affect the bill. Those adjustments will be included in the documents distributed for Board meetings.

9. Ordinances

City ordinances are not codified or complete. The former City Administrator stated the ordinances were out of date and he did not know when the ordinances were last codified.

- Ordinances are not maintained in an organized manner. The city uses at least five different numbering systems to number city ordinances and the table of contents is incomplete. Also, the city does not maintain an index of all ordinances passed prior to 2017. The city established a log in 2017 to document when new ordinances are passed.
- The city has not adopted an ordinance establishing elected official terms, trash rates, an employee travel policy, a conflict of interest policy, and the procedures for fuel credit card usage. In addition, ordinances have not been adopted establishing fees charged for bad checks, rental of the city community center, towing cars, and aiding with vehicle lockouts.
- The city does not have ordinances establishing the compensation for the city administrator, city clerk, public works supervisor, and police officers.
- Ordinance 130.230B establishing a fee of \$0.25 per copy for public records requests is in violation of the Sunshine Law. Section 610.026, RSMo, allows a charge of \$0.10 per copy.

Because ordinances passed by the Board to govern the city and its residents have the force and effect of law, it is important ordinances be complete and organized and in compliance with state laws. In addition, ordinances documenting approved salary amounts help ensure equitable treatment and prevent any misunderstandings. Section 79.270, RSMo, authorizes the Board to fix the compensation of all city officials and employees by ordinance.



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Recommendation

The Board of Aldermen ensure ordinances are maintained in a complete and well-organized manner and an index of all ordinances passed and rescinded is established. The Board should establish, by ordinance, the terms and compensation of all city officials and employees; trash rates; procedures for fuel credit card use, travel and conflict of interest policies; and the fees charged for bad checks, community center rental, towing, and vehicle lockouts. The Board should also ensure ordinances comply with state law.

Auditee's Response

The city accepts and will adopt the SAO's recommendations concerning the city's ordinances.

This administration is appalled at the dismal state of the city's ordinances. Due to the seriousness of the city's debt and other issues encountered by this administration when it took over, the issue of reassembling the city's past ordinances has not been addressed as yet. However, new ordinances are adopted according to statutory procedure, and written with code sections so that they can be easily codified and indexed into a City Code. The new City Attorney is taking up the challenge of making sense of the prior ordinance book and proposing a comprehensive replacement -- including a searchable electronic version. In the process, it has been discovered that several provisions required of a fourth-class city were not adopted when Silex converted from a village to a fourth-class city. These omissions are being corrected.

It must be noted that although the existing ordinance concerning public information requests recites a copying fee of \$0.25 per page, the new administration only charges the statutory fee of \$0.10 per page.

10. Police Department

Controls and procedures over seized property and tickets need improvement.

10.1 Seized property

The Police Chief has not established adequate controls and procedures over seized property. The Police Chief and Evidence Custodian stated they could not locate the seized property evidence log. In addition, the Evidence Custodian could not provide documentation indicating when they had conducted a physical inventory and reconciled it to the evidence log, although he stated he performed a monthly inventory of all seized property.

Considering the often sensitive nature of seized property, adequate internal controls are essential and would significantly reduce the risk of loss, theft, or misuse of the property. Complete and accurate inventory records including information such as description, current location, case number, date of seizure, and disposition of such property, should be maintained and periodic physical inventories should be performed and the results compared to inventory records to ensure seized property is accounted for properly.



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10.2 Ticket accountability

The police department has not developed adequate procedures to account for the numerical sequence of tickets and the ultimate disposition of manual tickets issued.

The department maintains a record of ticket books assigned to each officer; however, no procedures have been established to account for the numerical sequence of all tickets. We reviewed the list of the last 600 tickets ordered. The Police Chief could not locate or account for 175 of these 600 tickets. Some tickets had been assigned to officers but could not be located and 6 full ticket books were neither assigned to an officer nor in storage with other unassigned ticket books.

Without properly accounting for unassigned ticket books or the numerical sequence of tickets issued or voided and the ultimate disposition of tickets, the department cannot be assured all tickets are properly accounted for or submitted for processing to the circuit court.

Recommendations

The Board of Aldermen:

- 10.1 Maintain a complete and accurate seized property evidence log, and ensure a periodic inventory is conducted and reconciled to the seized property evidence log, and investigate any differences.
- 10.2 Ensure tickets are reconciled to the ticket book inventory. In addition, the Board of Aldermen should ensure the numerical sequence and ultimate disposition of all tickets issued or voided are accounted for properly.

Auditee's Response

The city accepts and will adopt the SAO's two recommendations concerning the city's police department.

- 10.1 *The failure of the former Police Chief to establish adequate controls and procedures over property seized by the police department, and the failure of the former Police Chief and Evidence Custodian to locate the seized property evidence log, have placed the city at considerable risk.*

The entire police department has been laid off due to lack of funds. Police services are being provided by the Lincoln County Sheriff for state law violations. City municipal violations are not being pursued at this time.

Two Missouri POST commissioned police officers have volunteered their time to properly inventory and document the seized property in the police department offices.



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Proper procedures will be adopted before the city re-establishes the police department.

- 10.2 *The prior Police Chief's failure to account for the numerical sequence of tickets and the ultimate disposition of manual tickets issued is a serious problem. The new City Attorney and the new volunteer police officer are beginning the task of tracking down these missing tickets.*

The police department has been laid off due to lack of funds. Proper procedures will be adopted before the city re-establishes the police department.

11. Street Maintenance Plan

City officials have not developed a formal annual maintenance plan for city streets. We observed the streets in November and December 2018. While some were in generally good condition, we noted several were unpaved in the New Town section of the city and a section of roadway located near the community care center was in significant disrepair. The city has no current plans to pave or repair the roads.

A formal maintenance plan should be prepared in conjunction with the annual fiscal budget and include a description of the streets needing maintenance, the type of work to be performed, an estimate of the quantity and cost of materials needed, the dates such work could begin, the amount of labor required to perform the work, and other relevant information. The plan should be included in the budget message and approved by the Board. In addition, a public hearing should be held to obtain input from citizens.

A formal maintenance plan would serve as a useful management tool and provide greater input into the overall budgeting process. A plan provides a means to continually and more effectively monitor and evaluate the progress made in the repair and maintenance of streets throughout the year.

Recommendation

The Board of Aldermen establish a formal annual street maintenance plan.

Auditee's Response

The city accepts and will adopt the SAO's recommendations to adopt a street maintenance plan.

The street maintenance plan will be one of the areas included in the new budget when it is complete. Unfortunately, due to the mismanagement of funds by the prior administration, the monies needed to maintain the streets in New Town are not available and the attempt to just dump rock on the existing streets without properly preparing the road bed resulted in more debt and no improvement because the rock was simply washed away by the weather. The motor fuel tax is being used to pay down the debt incurred by the prior administration. Once it is paid off and we again have the ability to



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purchase more rock, we will properly address how to repair the roads in New Town.

12. Capital Assets

Controls and procedures over city property need improvement.

The city does not maintain records of its capital assets. As a result, assets are more susceptible to theft or misuse. The city's insurance carrier valued the city property, buildings, and contents at approximately \$1.7 million at December 31, 2018.

The city has not developed procedures to identify capital asset purchases and dispositions throughout the year. In addition, the city has not tagged or otherwise identified most property items as belonging to the city. Also, although the former City Administrator indicated officials perform an annual inventory each December, city officials could not provide a copy of the December 2017 inventory and no inventory was performed in December 2018.

Adequate capital asset records and procedures, including annual inventories, are necessary to provide controls over city property; safeguard city assets that are susceptible to loss, theft, or misuse; and provide a basis for proper financial reporting and insurance coverage. Capital asset records should be maintained on a perpetual basis. Records should include a detailed description of the assets such as acquisition cost, descriptions, make and model numbers, and asset identification numbers; the physical location of the assets; and, the date and method of disposition of the assets. In addition, property control tags should be affixed to all property items to help improve accountability and ensure assets are properly identified as belonging to the city.

Recommendation

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

Auditee's Response

The city accepts and will adopt the SAO's recommendation concerning the city's capital assets.

The previous administration did not maintain records of its capital assets, nor did it inventory them. The prior administration also (1) did not properly document authorizations to acquire many assets, (2) acquired assets without any authorization from the Board, and (3) exceeded prior Board authorizations for purchases. As a result, significant city assets unnecessarily exceed the city's requirements, are missing, or are unaccounted for -- including two police vehicles that the new administration is endeavoring to reclaim. From bitter experience, the new administration recognizes that



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adequate capital asset records and procedures, including annual inventories, are needed to provide controls over city property.

All capital assets are in process of being added to the city's financial statements so they can be tracked on a daily, monthly, and annual basis. Due to the lack of records, the city may never have all the information needed to document and account for all assets acquired in the past. But the city will have the information going forward. The city will also maintain a maintenance record on each major asset. The city will also implement an inventory system where all the city's assets will be properly labeled and accounted for.

Auditor's Comment

According to the city attorney, the two missing or unaccounted for police vehicles referenced in the response are involved in a title dispute.

City of Silex

Organization and Statistical Information

The City of Silex is located in Lincoln County. The city was incorporated in 1886 and is currently a fourth-class city. The city employed 5 full-time employees and 4 part-time employees on December 31, 2018.

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

Mayor and Board of Aldermen

The city government consists of a mayor and 4-member board of aldermen. The members are elected for 2-year terms. The mayor is elected for a 2-year term, presides over the Board, and votes only in the case of a tie. The Mayor and Board, at December 31, 2018, are identified below. The Mayor is paid \$63 per month and Board members \$40 per month. The compensation of these officials is established by ordinance.

Dorothy Ford, Mayor (1)
Robert Momphard, Alderman
Justin Spanier, Alderman (2)
Steven Gamble, Alderman
Vacant (3)

- (1) Chuck Turbyville was elected in April 2019 replacing Dorothy Ford.
- (2) Stuart Gambrell was elected in April 2019 replacing Justin Spanier.
- (3) Dorothy Ford was elected in April 2019 filling the vacant position.

Other Principal Officials

The City Administrator and Police Chief are appointed positions. William Barnes was the City Administrator and Police Chief at December 31, 2018. His employment with the city ended in April 2019.

Financing Arrangements

The Board refunded \$497,487 in sewer revenue bonds on September 29, 2017, which were originally issued on November 30, 2012, for the purpose of providing funds for extending and improving the city's sewer system. The bonds are scheduled to be paid off on April 1, 2052. The remaining principal outstanding at December 31, 2018, was \$497,487. Interest remaining to be paid over the life of the bond totals \$470,449.

The Board issued \$277,000 in sewerage system revenue bonds on February 9, 2018, for the purpose of providing funds for extending and improving the city's sewerage system. The bonds are scheduled to be paid off on January 1, 2038. The remaining principal outstanding at December 31, 2018, was \$277,000. Interest remaining to be paid over the life of the bond totals \$37,143.

The Board refunded \$253,597 in general obligation revenue bonds on September 29, 2017, which were originally issued on November 30, 2012, for the purpose of providing funds for extending and improving the city's sewer system. The bonds are scheduled to be paid off on April 1, 2037. The



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remaining principal outstanding at December 31, 2018, was \$253,597. Interest remaining to be paid over the life of the bond totals \$93,038.

The Board entered into a loan agreement with the Missouri Development Finance Board for \$150,000 in 2018, for the purpose of providing funds for improving the city's sewer system. The loan agreement is scheduled to be paid off on June, 15, 2038. The remaining principal outstanding at December 31, 2018, was \$150,000. Interest and administration fees remaining to be paid over the life of the loan totals \$51,647.

Financial Activity

A summary of the city's financial activity for the year ended December 31, 2018, follows:

City of Silex
Schedule of Receipts, Disbursements, and Changes in Cash Balances
Year Ended December 31, 2018

	General Account	Police Account	Sewer Account	Water Account	Renovation Account	Other Accounts (1)	Total
RECEIPTS	\$ 145,294	44,801	102,110	87,153	27,322	807,105	1,213,785
DISBURSEMENTS	364,723	32,821	45,799	363	12,796	510,715	967,217
RECEIPTS OVER (UNDER) DISBURSEMENTS	(219,429)	11,980	56,311	86,790	14,526	296,390	246,568
OTHER FINANCING SOURCES (USES)							
Transfer in	218,583	5,178	7,473	0	490	310,399	542,123
Transfer out	(820)	(17,191)	(63,481)	(85,193)	(14,941)	(357,756)	(539,382)
Total Other Financing Sources (Uses)	217,763	(12,013)	(56,008)	(85,193)	(14,451)	(47,357)	2,741
CASH, JANUARY 1, 2018	6,114	32	1	1	20	182	6,350
CASH, DECEMBER 31, 2018	\$ 4,448	(1)	304	1,598	95	249,215	255,659

(1) Includes activity of 5 other checking accounts intended for a specific use (restricted monies).