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Missouri State Auditor

City of Monroe City

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Missouri State Auditor

CITIZENS SUMMARY

Findings in the audit of the City of Monroe City

Water and Sewer Systems Contract	The city did not perform a cost-benefit analysis to determine if any cost savings would result prior to contracting with a private company in June 2018 to operate and maintain the water and sewer systems. City officials also did not solicit competitive proposals for these services. The cost for this 5-year contract will be at least \$3.2 million.
Restricted Assets	The city has not established adequate procedures to ensure restricted monies are expended only for intended purposes. City officials also used restricted utility money in the Electric and Gas Funds to make 2 loans totaling \$788,000 to the Industrial Development Fund.
Utilities	City personnel could not provide documentation that a formal review of electric, water, and sewer rates has ever been performed. In addition, the last formal review of natural gas rates occurred in 2000. Controls over non-monetary adjustments posted to customer utility accounts and utility billings need improvement. The City Administrator does not review and investigate significant utility losses identified in the monthly report on electric, gas, water, and sewer operating statistics. The city policies and procedures for utility customers with delinquent utility bills who have requested payment extensions and payment plans does not include procedures to determine how the payment amount is established and the approval process for these arrangements. The Board needs to determine proper disclosures in the city's financial statements regarding its relationship with the Missouri Joint Municipal Electric Utility Commission (MJMEUC), including the Missouri Public Energy Pool, a power pool managed by the MJMEUC.
Written Contracts	The city's contracts with some entities have not been updated in many years and do not adequately define each party's responsibilities. The city does not have written contracts with some service providers and certain outside parties.
Real Estate Transactions and Economic Incentives	The city does not have a long-range plan for the sale or development of its real estate holdings. City officials have not documented reasons for the purchase of real estate and have not generally obtained appraisals prior to purchasing or selling real estate. The city provides financial incentives to some businesses, but does not have an ordinance for offering or approving such incentives for new or existing businesses.
Accounting Controls and Procedures	The Board has not adequately segregated accounting duties or ensured documented supervisory or independent reviews of work completed by city administrative office personnel are performed. City officials do not maintain records of all capital assets owned by the city.
Procurement Procedures	City personnel do not always solicit competitive bids or proposals for goods or services as required by the city code, and some professional services are obtained without benefit of a competitive selection process.

Fire Service Billing and Collection Procedures	The fee schedule used by the city for membership and service call billings has not been revised by the city and the Monroe City Area Fire Protection District's (FPD) Board in many years. The city and the FPD's Board do not have documentation supporting the basis for the fees charged. The city does not prepare or send bills for all billable calls.
Payroll Controls and Procedures	The Board approves year-end bonus payments to all full-time employees in violation of the Missouri Constitution. Employees are not required to sign timesheets.
Closed Meetings	The Board did not ensure compliance with the Sunshine Law for closed meetings.
Budgets and Ordinances	The city budgets prepared for the years ended September 30, 2017, 2018, and 2019, did not include all required elements. The city does not maintain an up-to-date official ordinance book.
Electronic Data Security	The Board has not established sufficient controls to reduce the risk of unauthorized access to computer systems and electronic data. Some employees share the user identification and password for 2 shared computers used for issuing receipt slips from the accounting system. Security controls are not in place to lock some computers after a certain period of inactivity.

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 Monroe City

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NICOLE GALLOWAY, CPA

Missouri State Auditor

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

The State Auditor was petitioned under Section 29.230, RSMo, to audit the City of Monroe City. We have audited certain operations of the city in fulfillment of our duties. The city engaged Luck, Humphreys and Associates, Certified Public Accountants (CPAs), PC, to audit the city's financial statements for the year ended September 30, 2018. To minimize duplication of effort, we reviewed the CPA firm's audit report. The scope of our audit included, but was not necessarily limited to, the year ended September 30, 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.

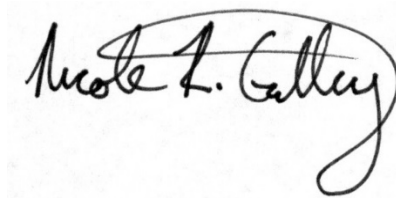
Our methodology included reviewing minutes of meetings, written policies and procedures, financial records, and other pertinent documents; interviewing various personnel of the city, as well as certain external parties; and testing selected transactions. We obtained an understanding of internal controls that are significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We tested certain of those controls to obtain evidence regarding the effectiveness of their design and 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 Monroe City.

An additional report, No. 2019-051, *Tenth Judicial Circuit, City of Monroe City Municipal Division*, was issued in July 2019.

A handwritten signature in black ink, reading "Nicole R. Galloway". The signature is fluid and cursive, with the first name "Nicole" and last name "Galloway" clearly legible. The initials "R." are written between the first and last names.

Nicole R. Galloway, CPA
State Auditor

The following auditors participated in the preparation of this report:

Senior Director:	Randall Gordon, M.Acct., CPA, CGAP
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City of Monroe City

Management Advisory Report

State Auditor's Findings

1. Water and Sewer Systems Contract

The city did not perform a cost-benefit analysis to determine if any cost savings would result prior to contracting with a private company in June 2018 to operate and maintain the water and sewer systems, and as discussed in MAR finding number 7, competitive proposals were not solicited. The cost of this 5-year contract will be at least \$3.2 million.

Making the change eliminated some city paid utility employees for these systems and shifted the responsibility for operating and maintaining them to the private company. Per the contract, the company is responsible for the routine operation and maintenance expenses of the systems' facilities, including personnel services, one data/internet service connection, chemicals, materials, supplies, contracted services, insurance, and equipment maintenance and repair, except capital replacement costs (defined as nonrecurring expenditures greater than \$1,000), provided that noncapital expenditures do not exceed the amount specified in the contract. Capital improvements and major repairs to the systems continue to be the responsibility of the city.

City officials said the city has struggled to hire and retain an adequate number of employees to properly operate and maintain the systems since at least October 2014. The City Administrator indicated the proper number of employees is 5 certified plant operators, including a manager. In late May 2018, the systems' facilities were being operated by 2 plant operators with one of them not certified. As a result, city officials indicated they determined immediate action was required to ensure the continued operation and maintenance of the systems. Not performing a formal cost-benefit analysis before making a significant financial decision is not prudent.

Regular review of water and sewer operations, management, and costs is necessary to ensure the city is receiving these services at a reasonable cost and whether continuing with the current arrangement is beneficial to the city.

Recommendation

The Board of Aldermen ensure a cost-benefit analysis is prepared when making significant management decisions.

Auditee's Response

The Board felt that the decision made was the best one for the city at that time due to the major responsibility of being able to provide the citizens safe drinking water. There was a shortage of employees, but the city was limping by and thought that things were under control. Two personnel issues occurred that the city had no control over which put the city in a compromised position with only two operators for the plants. As a result, the city did not have a certified employee to operate the water plant.

Calls were made to the Department of Natural Resources for assistance and they were a great help. A call was made to a vendor, but they had no one available to assist that day. This vendor did not make an effort to put the city



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in contact with anyone as the individuals that the city needed to talk with were out of the office. A call was also made to another vendor, and the firm's service people were out of the office as well, but they put the city in contact with an individual and that person's vendor had someone on-site the next day; the city later entered into a contract with this vendor. Both of these vendors had the capabilities to assist with both the water and sewer plants as well as the distribution systems.

The city has been scrutinized for not contacting a local water commission. The commission was not able to provide the city with water and to our knowledge didn't provide on-site assistance for the sewer plant, sewer collection system or the water distribution system. In fact, a representative from the commission came to the Board this last summer and advised that they had completed the line to Highway 107; however, they still did not have a line to serve the city. Additionally, the commission has advised the city that there is an estimated one-year lead time from the time a contract is signed until the time that the city would have access to water from the commission. Had the city decided to go with them at the time of the issues, the city still may not have access to their water.

The city was left with the decision to contract with a vendor or not provide our citizens with drinking water for at least a year. Therefore, the Board felt that it would be in the best interest of the citizens and the city to contract with the vendor that was responsive to our needs for a 5-year term. This would allow time to get the facilities where they needed to be as well as continue providing our citizens with water and sewer service and to look at other water options. The personnel affected by this decision were given the opportunity to apply with the vendor and 2 did go to work for them. A cost-benefit study was not done due to the time constraints and needing to get certified and qualified personnel on-site to continue operations for the water and sewer facilities.

The Board understands the Auditor's concerns and will conduct a cost-benefit analysis prior to significant management decisions being made in the future. The city has recently passed a bond issue to construct a new sewer treatment facility. The city has also contracted with an engineering firm to evaluate the water treatment facility with regards to improvements that need to be made to maintain compliance. Once this study is completed, the city will be given an idea as to what type of funding will be needed to resolve the issues. This study will also provide the city with a cost-benefit analysis of the water plant. It is anticipated that the study will be completed in October 2020.

2. Restricted Assets

The city has not established adequate procedures to ensure restricted monies are expended only for intended purposes.

2.1 Utility transfers

The Board has no documentation of any discussions held or the basis for determining administrative fees and franchise taxes paid and transfers out



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made from the Electric, Gas, Water, and Sewer Funds to the General Fund. In addition, city personnel could not locate any documentation detailing how the administrative fees and franchise taxes are calculated. The city's audited financial statements for the year ended September 30, 2018, report the following transfers from the Electric, Gas, Water, and Sewer Funds to the General Fund:

	Electric	Gas	Water	Sewer	Total
Administrative fee \$	490,186	115,802	122,552	30,433	758,973
Franchise tax	132,240	38,304	15,840	8,856	195,240
Transfers out	150,000	150,000	0	0	300,000
Total	\$ 772,426	304,106	138,392	39,289	1,254,213

The administrative fee, franchise tax, and transfers out from the funds are significant and accounted for approximately 48 percent of the General Fund revenues during the year ended September 30, 2018. Because these transfers represent a significant revenue source for the General Fund, it is important for the city to periodically re-evaluate their impact, not only on the General Fund budget, but on utility rates.

The City Clerk indicated the administrative fee is based on 8 percent of utility user charges, and the franchise tax is based on 3 percent of the utility user charges. The City Administrator indicated the city would charge any utility provider the same 3 percent franchise tax. However, the city's franchise tax ordinance only authorizes the tax on a cable television provider and not city-owned utilities.

The actual administrative fees paid and franchise taxes paid by each fund differed significantly from our calculation of what should have been transferred. City personnel could not explain the differences. The utility user charges according to the city's audited financial statements and our calculation of the 8 percent administrative fee and 3 percent franchise fees for the year ended September 30, 2018, are as follows:

	Electric	Gas	Water	Sewer	Total
Utility user charges \$	4,730,325	1,149,269	623,879	548,287	7,051,760
8% administrative fee	378,426	91,942	49,910	43,863	564,141
Actual administrative fee	490,186	115,802	122,552	30,433	758,973
Difference	111,760	23,860	72,642	(13,430)	194,832
3% franchise tax	141,910	34,478	18,716	16,449	211,553
Actual franchise tax	132,240	38,304	15,840	8,856	195,240
Difference	\$ (9,670)	3,826	(2,876)	(7,593)	(16,313)



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In addition, the administrative fees paid by these utility funds exceeds the amount of expenses the city classifies as administrative in the General Fund by \$387,356. The city's audited financial statements for the year ended September 30, 2018, reported administrative expenses in the General Fund totaling \$371,617 while the administrative fees paid to the General Fund by these utility funds totaled \$758,973.

The city transferred \$150,000 from both the Electric Fund and the Gas Fund to the General Fund in 2018. The City Clerk indicated these transfers occurred to prevent the General Fund from having a deficit fund balance. These transfers were authorized by the Board in the 2018 budget. Without these funds, the General Fund would have had a deficit fund balance of \$70,651, instead of a \$229,349 balance on September 30, 2018.

The city has no documentation that the administrative fees, franchise taxes, and transfers out were system related expenses or a reimbursement of specific expenses or costs paid by the General Fund related to providing utility services. As a result, the city has violated bond covenants for its sewer system revenue bonds since at least 2016.

To ensure utility transfers are reasonable, it is important the city evaluate the value of government services the transfers are offsetting during the annual budget process and document the process for determining the percentage to be charged. In addition, Article VI, Section 602 (e) of the 2016 bond agreement prohibits the transfer of any surplus revenue for any purpose other than a system related expense and paying off the bond itself. Failure to follow the bond covenants could result in the bondholders taking action to call the bonds.

2.2 Industrial Development Fund loan

The city used restricted utility money in the Electric and Gas Funds to make 2 loans totaling \$788,000 to the Industrial Development Fund. At September 30, 2018, the Industrial Development Fund owed the Gas Fund \$644,000.

The Board amended a 2005 lease purchase agreement with a local company in 2011 and 2015. The amended lease provided the company an additional \$670,000 in 2011. The \$670,000 payment to this company came from the Industrial Development Fund. The city transferred \$200,000 from the Electric Fund and \$470,000 from the Gas Fund to the Industrial Development Fund to fund the payment. The company received another \$118,000 from the Industrial Development Fund in 2015 when the lease was amended again. The city transferred \$118,000 from the Gas Fund to the Industrial Development Fund to fund that payment. The Industrial Development Fund repaid the Electric Fund \$54,000 between 2012 and 2014 and the Gas Fund \$90,000 between 2012 and 2017. The city transferred \$146,000 from the Gas Fund to the Electric Fund in 2016 to resolve the remaining balance owed to that fund.



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Money in the Electric and Gas Funds is restricted for intended purposes and is not to be used for loans to other city funds. These proprietary funds are established to account for the user fees collected and costs associated with each utility separately. This separate accounting is intended to assist the city in monitoring each utility to ensure user fees are set at the level necessary to provide the service and for reasonable reserves. Although there is no defined level for reasonable reserves, it is not reasonable or prudent to set user fees at a level where excessive reserves are accumulated and then used to fund other activities unrelated to the specific utility.

Recommendations

The Board of Aldermen:

- 2.1 Ensure any future payments from the Electric, Gas, Water, and Sewer Funds to the General Fund represent reimbursement of actual costs of operations. In addition, determine the value of government services being offset by the utility transfers, maintain documentation to support the amounts transferred, and evaluate the effect on the General Fund.
- 2.2 Repay the amounts due to the Gas Fund from the Industrial Development Fund and ensure restricted electric, gas, water, and sewer funds are only used for their intended purposes.

Auditee's Response

- 2.1 *The city had done things the same way for many years. With the retirement of long-term employees, things continued "as they were" with new staff. This audit has brought to light several things that need to be evaluated and modified. Prior to making any reimbursement to the General Fund, the city will evaluate the costs and make sure that the transfers are based on actual costs and not based on an amount that is deemed feasible. The city will also make sure that any funds that are restricted due to bonds are only used for the purpose of the bonds.*
- 2.2 *The city will repay the amounts due to the utility funds from the Industrial Development Fund. In the future, the city will ensure that restricted utility funds are only used for their intended purpose.*

3. Utilities

There are significant weaknesses in the city's utility operations. The city provides electric, gas, water, sewer, and trash services, and accounts for the financial activity of each service in a separate fund. The city collected approximately \$7.2 million in utility revenues during the year ended September 30, 2018.

3.1 Utility rates

City officials could not provide documentation that a formal review of electric, water, and sewer rates has ever been performed. In addition, the last formal review of natural gas rates occurred in 2000. As a result, there is less



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assurance the utility rates are set at an appropriate level. Electric, water, and sewer rates last increased in 2016, and gas rates last increased in 2010.

Section 67.042, RSMo, provides that fees may be increased if supported by a statement of costs that shows the increase is necessary to cover costs of providing the service. To ensure utility rates are appropriately set, city officials should perform and document a detailed cost study of the city's utility costs, including depreciation, and set rates to cover the total cost of operations without generating excessive profits.

3.2 Non-monetary adjustments and utility billings

Controls over non-monetary adjustments posted to customer utility accounts and utility billings need improvement. The City Administrator made 205 non-monetary adjustments totaling \$8,575,924 (120 percent of utility revenues), during the year ended September 30, 2018, to reduce customer account balances.

Non-monetary adjustments are any transactions where payment is not received; however, the account balance is changed in the accounting records, such as for waiving customer late charges, adjusting usage for inaccurate meter readings, or reducing a balance due to water leaks. The City Administrator, who also has the ability to receipt utility payments to the financial accounting system, is responsible for posting non-monetary adjustments to customer utility accounts. We reviewed 11 non-monetary adjustments. The City Administrator made 2 of them (totaling \$7,290,475) to correct errors in monthly meter readings and 3 others (totaling \$269,809) because city personnel entered the wrong monthly meter reading in the billing system for a customer. These errors occurred because they were not caught by the City Administrator during her review of utility billings prior to mailing. Those reviews are not documented. City officials did not retain documentation to support the reasons for any of these 11 adjustments. The City Administrator indicated records of non-monetary adjustments are maintained in the customer's file for approximately 6 months and activity older than 6 months is not kept due to a lack of storage space.

In addition, these adjustments are not reviewed and approved by someone independent of the billing process before or after they are posted to the system. Because the City Administrator has the ability to receipt utility payments and is solely responsible for posting non-monetary adjustments to customer utility accounts, there is an increased risk that unsupported or unauthorized changes can be made in the utility system.

Non-monetary adjustments should be verified and approved by someone independent of the person responsible for these transactions to ensure they are necessary and properly handled. Considering the risks associated with non-monetary adjustments, the Board should consider monitoring all such



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transactions. In addition, utility billings should be reviewed for accuracy prior to mailing to identify and correct obvious billing errors.

3.3 Utility losses

The City Administrator does not review and investigate significant utility losses identified in the monthly report on electric, gas, water, and sewer operating statistics. During our review of the utility operating statistics report for the year ended September 30, 2018, water losses exceeded 10 percent for 8 months with 4 of those months exceeding 20 percent. In addition, electricity losses exceeded 10 percent for 6 months with one month at 19 percent, and gas losses exceeded 10 percent for 4 months with 3 of those months more than 24 percent.

Monthly reviews of utility losses are necessary to help detect significant system leaks or billing problems. Significant differences should be investigated.

3.4 Payment extensions and payment plans

The city policies and procedures for utility customers with delinquent utility bills who have requested payment extensions and payment plans does not include procedures to determine how the payment amount is established and the approval process for these arrangements. In addition, city personnel do not track these arrangements and do not retain copies of written payment plans once the delinquent utility bill has been paid.

The city's utility collection policy allows utility customers unable to pay their delinquent utility bill by the shut off date an extension until the second Friday of the following month to pay their bill. This extension must be requested by the customer and a \$10 fee is charged. In addition, the policy states a utility customer may request a payment plan if he/she cannot make a full payment after the extension expires. Service will be shut off if the customer does not make the payments agreed to in the extension and payment plan.

To ensure all customers are treated in a fair and equitable manner, the city's utility collection policy should be amended to document the process to determine when these arrangements are allowed, how the payment amount is to be established, and the approval process for these arrangements. In addition, retaining the signed written agreements is necessary to support all utility account transactions.

3.5 Missouri Power Energy Pool disclosures

The Board needs to evaluate its relationship with the Missouri Joint Municipal Electric Utility Commission (MJMEUC), including the Missouri Public Energy Pool (MoPEP), a power pool managed by the MJMEUC, to determine proper disclosures about the relationship in the city's financial statements.

The city contracts with the MJMEUC for the purchase of electrical power and energy. The city, along with other Missouri municipalities, is also a member



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of the MoPEP. In order to provide the MoPEP members a diversified portfolio of reliable energy resources on a long-term basis due to growing load requirements of the members and to replace power and energy currently purchased under short-term contracts, the MoPEP members directed the MJMEUC to participate in the development and construction of new generating facilities.

The obligations of the MoPEP members include maintaining adequate customer rates and maintenance of power facilities and contracts in order to meet the members' commitments to the pool. If a member city decides to leave the pool, it must give a 5-year notice. At the end of the 5-year period, the city would be responsible for a pro-rata share of the ongoing capital and operation costs of each pool project based on its share of energy. According to our calculations based on MJMEUC documents, Monroe City's pro-rata share was 1.6 percent and the city's obligation for the project bonds issued would be approximately \$7.3 million as of December 31, 2018. The city may also be obligated for any purchase power contracts.

The city does not include any disclosure about the MJMEUC and the MoPEP or details about the city's ownership interest in power generating facilities under construction and/or to be constructed and the potential ownership costs in the city's financial statements. However, based on the requirements of the Governmental Accounting Standards Board (GASB) for state and local governments, the relationship between the city and the MJMEUC/MoPEP may be a joint venture. Additionally, joint venture participants must disclose specific information including information regarding ongoing financial interests and/or financial responsibility and information to evaluate whether the joint venture is accumulating significant financial resources or causing financial burden on the participating government in the future. Such disclosures are necessary to comply with GASB financial reporting requirements and to fully disclose the financial arrangements, as well as potential, significant future debt, to citizens.

Recommendations

The Board of Aldermen:

- 3.1 Ensure a statement of costs is prepared to support changes in utility rates and document formal reviews of utility rates periodically to ensure revenues are sufficient to cover all costs of providing these services.
- 3.2 Ensure all non-monetary adjustments are properly approved and compared to actual changes posted to the utility system, and documentation of reasons for all non-monetary adjustments is retained. In addition, ensure utility billings are reviewed for accuracy prior to mailing.



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- 3.3 Review and investigate significant utility losses.
- 3.4 Amend the utility collection policy to include procedures and requirements for payment arrangements. In addition, signed written agreements should be retained to support all payment arrangements.
- 3.5 Consult with the city's independent auditor to evaluate the relationship with the MJMEUC/MoPEP and determine the proper and necessary disclosures for the financial statements.

Auditee's Response

3.1 *The city recently has had a water and sewer rate study completed. The city will budget to have an electric and gas rate study completed within the next budget cycle.*

3.2 *The meter readings are reviewed when they come in and re-reads are created for readings with obvious issues. The bills are also reviewed prior to them being mailed out; however, errors do happen. It is referenced that 205 non-monetary adjustments were made for the year ending September 30, 2018. Based on an average of 1,300 utility cards per month (based off 1,350 actual bills sent out on April 1, 2020) for the year ending September 20, 2018; it would total 15,600 utility cards. If 205 adjustments were made that reflects a 1.3 percent error rate. Considering all factors involved, that is not an excessive amount. The large corrected billings were due to water/sewer mis-reads, not putting the correct number of digits in the reader, not putting a reading in, etc.*

With regards to documentation, it is current practice to note on the re-read forms if a corrected billing was issued and why. There is a file for each location in town - residential, commercial and industrial. Any transactions regarding any location is kept in the respective file folder. Each folder has a cover sheet which shows all the transactions regarding the location (budgets, re-reads, particular issues/agreements, read in/read out, etc.). There is one file cabinet that is solely dedicated to this. As the file folders get full, items are purged from the file but they should be noted on the cover sheet. Usually, items are maintained in the files for 6 months to a year, and anything that has a major impact on the property is retained indefinitely. Depending on when the corrected billing was done, this could have impacted whether or not the actual documentation was in the file during the time of the audit.

Recently, a spreadsheet has been completed to document each corrected billing. The spreadsheet sets out the account number, address, name, service affected, increase/decrease in consumption, increase/decrease in cost, and reason for the correction. It is noted



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that the audit states that the items need to be approved other than by the person posting the transactions and that the Board should consider monitoring the transactions. Therefore, documentation will be signed off by the individual making the correction and another individual that is witness to the reason the billing is to be corrected. This information (less the names) will be provided to the Board on a monthly basis. A copy of the monthly report to the Board as well as copies of the back-up documentation will be filed in the City Administration's office separate from the utility files to ensure that the documentation is on file until the annual audit is completed. The city will continue to review the utility bills prior to them being mailed.

3.3 *This is another one of the areas that a long-time employee retired and this task was passed along to another individual. The audit brought this issue to light and the City Administrator is working with employees to ensure that the information entered is accurate and that a review is done on a monthly basis.*

3.4 *Recently, there have been several changes to this process. When utility bills become delinquent, a spreadsheet is developed that sets out all those individuals, when they pay, if they received a notice on their door, if they have a payment plan, if they are getting assistance, etc. This information is kept on file. Copies of all friendly reminders, cut-off notices, and payments arrangements are also kept on file.*

The city has also tightened up on this process as well. Individuals can obtain a promise to pay for \$10 to extend their bill to the second Friday of the following month. After that they will be disconnected if the bill is not paid. Three ordinances have been passed regarding delinquent accounts, time payment plans, and disputed utility accounts. A proposed utility policy has been sent to the Board for review as well. It addresses the issues in the audit as well as incorporating the recently approved ordinances. In addition, the city will attempt to obtain a signed payment agreement.

3.5 *The city will work with the accountant on this recommendation and determine what needs to be disclosed in the financial statements.*

4. Written Contracts

The city's contracts with some entities have not been updated in many years and do not adequately define each party's responsibilities. In addition, the city does not have written contracts with some service providers and certain outside parties.

Mosswood Golf and
Recreation Association

The city entered into a lease agreement with the Mosswood Golf and Recreation Association for the management and operation of the Mosswood Meadows Public Golf Course in 1984. The agreement has not been updated



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since then and does not address the expenses the city pays on behalf of the association each year which totaled approximately \$48,000 during the year ended September 30, 2018.

The city also has not entered into written contracts with the association for loans to the association totaling \$15,000 in 2017, \$17,500 in 2018, and \$17,000 in 2019. The 2018 and 2019 loans remain outstanding.

Monroe City Area Fire
Protection District

The city's mutual aid agreement with the Monroe City Area Fire Protection District (FPD) does not address the relationship between the city and the FPD. The FPD has a separate Board and is considered a separate political subdivision. However, the city provides all fire services to city and district residents. In addition, the city handles all of the FPD's accounting duties including billings and collecting revenues for annual FPD memberships and service calls made within the district; preparing disbursements; and financial reporting.

Monroe County Industrial
Development Authority

The city does not have a written contract with Monroe County Industrial Development Authority for the \$40,000 paid annually for membership. The city does not require and has not received any type of report documenting how this money is used. It is unclear what benefits, if any, the city receives as a result of these payments.

Professional services and
other service providers

The city does not have written contracts with some service providers. During the year ended September 30, 2018, the city paid for various services without a contract including \$30,280 in legal services and \$7,700 in brush and debris storage and removal.

Conclusion

Section 432.070, RSMo, requires contracts for political subdivisions to be in writing. Written agreements, signed by the parties involved, should specify the services to be rendered and the manner and amount of compensation to be paid. Written contracts are necessary to ensure all parties are aware of their duties and responsibilities, prevent misunderstandings, and ensure city resources are used appropriately and effectively.

Recommendation

The Board of Aldermen enter into clearly written contracts defining services provided and benefits received that are updated periodically.

Auditee's Response

Mosswood Golf and Recreation Association - Recently, the city has met with the association's Board members and is monitoring their situation. The city will enter into a contract with the association to address the responsibilities of each party, benefits provided, loan situations and repayment, expenses the city will cover if the city's requisition/bid/purchase process is followed, etc.



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Monroe City Area Fire Protection District - The city will enter into a contract with the Monroe City Area Fire Protection District that sets out the expectations and benefits to each party.

Monroe County Industrial Development Authority - The city is no longer part of this group. Recently, the city has entered into an agreement with a vendor as the city's economic development consultant.

Professional services and other service providers:

- *Legal Services - The City Attorney provides legal services to the city for the flat amount of \$2,000 per month. The city will execute a contract for legal services.*
- *Brush/Debris Storage and Removal - To the best of the city's knowledge, - this was a "gentleman's agreement" years ago. The gentleman allowed the city to haul brush, construction spoils, etc., to his property to fill in a large area and the city is to pay for the "clean-up" of the area. The city was not aware that the individual was going to hire someone to clean up the site until we received a billing. The city is currently looking to address this situation.*

5. Real Estate Transactions and Economic Incentives

Policies and procedures for real estate transactions and economic incentives need improvement.

5.1 Real estate transactions

The city does not have a long-range plan for the sale or development of its real estate holdings. In addition, city officials do not document reasons for the purchase of real estate and do not generally obtain appraisals prior to purchasing or selling real estate. We noted the following concerns regarding real estate purchases and sales:

- City officials did not document the reason for purchasing 2 buildings from Monroe County in November 2017 for approximately \$7,000, the amount of the delinquent real estate taxes. The City Administrator indicated the buildings were purchased due to health and safety concerns. The city spent approximately \$6,000 on repairs and engineering services for one building and \$6,500 to demolish the other building. The repaired building was sold for \$20 (only 1 bid) in October 2019, however, the building had been appraised at \$6,500 in August of that year.
- City officials did not obtain an independent appraisal prior to selling 8 acres in the Monroe City Area Industrial Park in September 2017 for \$55,000. In addition, the city paid \$1,960 to repay a farmer who was



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leasing the property when the property was sold to get the crops cleared before his lease had expired.

- City officials have no plans for the sale or development of the remaining 28 acres in the Monroe City Area Industrial Park. These acres are currently leased to a farmer for \$2,400 per year. The city purchased 36 acres from the Monroe City Development Board in November 2014 for \$157,500.
- The city also owns 4 additional properties that are unused and 2 other properties that are leased for farming. City officials have not performed a cost-benefit analysis on these leases and has no current plans for the sale or development of these properties.

To ensure efficient and effective use of city resources, the Board should have a documented plan, including a cost-benefit analysis, for the use of city-owned properties. Good business practice requires real estate purchases be formally and independently appraised to ensure a reasonable price is paid. While leasing properties to farmers may provide some benefit to the city, adequate planning and cost-benefit analysis is needed to ensure city resources are used effectively.

5.2 Economic incentives

The city does not have an ordinance for offering or approving financial incentives to new or existing businesses.

The Board granted a local business credits against its utility bills totaling \$10,200 between December 2014 and December 2017 for creating a total of 34 new jobs. The December 21, 2017, Board meeting minutes indicate that according to city policy this business will receive \$300 in credits for each job created as long as the jobs last at least 1 year. However, the City Administrator indicated the city does not have an ordinance or written policy for the utility incentive program.

The sale contract for the business that purchased 8 acres in the Monroe City Area Industrial Park gives the business the opportunity to receive a \$5,000 reimbursement for each job created up to a maximum of 11 jobs or \$55,000, as long as the job lasts at least 1 year. The contract gives the business 60 months to claim any reimbursements. As of April 2020, the business had not made any claims.

Section 79.110, RSMo, provides fourth-class cities with the power to enact ordinances for the benefit of trade and commerce. In addition, allowing industrial customers to receive free or preferential utility services reduces city revenues and could create higher utility rates for other paying customers. In addition, economic development financial incentives should be fair and transparent.



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Recommendations

The Board of Aldermen:

- 5.1 Develop plans, including a cost-benefit analysis, for the use of city-owned property, and ensure independent appraisals are obtained prior to the purchase or sale of real estate.
- 5.2 Adopt an ordinance detailing economic incentives offered to businesses located in or relocating to the city.

Auditee's Response

- 5.1 *Tax Sale 2017 - First Street & N. Main Street Properties - These properties were blighted properties and had been abandoned. The tax sale allowed the city to purchase the properties and abate the nuisance so that the properties could be sold to private individuals and put back on the tax rolls. The First Street property has been demolished but not yet sold. The N. Main Street property did have an appraisal done and it was sold for \$20; which alleviated the city from having to spend additional money to bring the property into compliance.*

Industrial Park Lot - The sale of this property was to allow an existing company to expand its operations. The city crews cleared the debris from the lot as it was felt that it would be less expensive than to hire an independent contractor to do the work.

Industrial Park 28 acres - The purpose of this purchase was to keep the land open for industry build, relocation, or expansion.

Additional City Properties - The properties in residential areas were purchased to alleviate a nuisance and it is anticipated that these properties will be sold. There has not been an expressed interest in purchasing the properties even when offered for sale; but the nuisances have been abated.

Recently, the city has developed an appraisal policy for the sale or purchase of property. The city has discussed developing covenants and restrictions for the land at the Industrial Park. The city is utilizing the land west of the Mosswood Meadows Public Golf Course for the land application of sludge as it is more cost efficient to do that than to have a company come in and pump out the lagoons. The city will look into developing a policy for city properties that will include a cost-benefit analysis and an appraisal.

- 5.2 *Utility Bill Incentive - This plan is active, but the city will adopt an ordinance to formally accept this plan.*



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8 Acres in the Industrial Park - No request for reimbursement has been made as of the writing of this response.

Recently, the city has entered into an agreement with a vendor as an economic development consultant. The vendor is working with the city to develop plans for the city's economic development program. Once this evaluation is completed, the city will approve an ordinance that will detail the incentives offered to all businesses.

6. Accounting Controls and Procedures

Accounting controls and procedures need improvement. During the year ended September 30, 2018, city receipts totaled approximately \$10.2 million for all funds. The city receives payments for utility services, taxes, and other miscellaneous revenues.

6.1 Segregation of duties

The Board has not adequately segregated accounting duties or ensured documented supervisory or independent reviews of work completed by city administrative office personnel are performed. The Administrative Assistants, City Clerk, and City Administrator can receipt payments. The City Clerk is primarily responsible for preparing and making deposits, processing payroll, preparing disbursements, signing checks, and reconciling bank accounts. The City Administrator signs all checks but does not perform a review of the detailed accounting and bank records.

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.

6.2 Capital assets

City officials do not maintain records of all capital assets owned by the city. They maintain a listing of capital assets covered by property and liability insurance including buildings, vehicles, and equipment, but do not maintain records of land, utility system infrastructure, and other property. In addition, city personnel do not tag, number, or otherwise identify assets or perform annual physical inventories.

Adequate capital asset records and procedures 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.

Recommendations

The Board of Aldermen:

- 6.1 Segregate the accounting duties. If proper segregation cannot be achieved, ensure documented independent or supervisory reviews of detailed accounting and bank records are performed.



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- 6.2 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 an annual inventory.

Auditee's Response

- 6.1 *Due to the limited staff that wear many hats in their job duties, segregation of duties is a challenge. However, the following items have been implemented to address these concerns.*
- *Preparing/making deposits - There are 4 administration employees (including the City Clerk and City Administrator) that take the money and make deposits. When one individual closes out the drawer at the end of the day, it confirms that all was entered correctly and applied correctly, or the drawers won't balance - regardless of who took the money. The City Administrator does periodically check for voided transactions during the day and to see why they occurred. Voided transaction information is kept with the daily paperwork and designate why something was voided.*
 - *Payroll - Concern was expressed during the audit that there is not a review done on the payroll and a few other items. The following items have been implemented.*
 - *The City Administrator's timesheet is copied to the Mayor each pay period.*
 - *The City Administrator periodically reviews the payroll through a spreadsheet to confirm that what was on the timesheets was correctly entered into the computer. This information is printed out and maintained.*
 - *The City Administrator reviews all timesheets (as normal) but now ensures she signs off the timesheets for managers, as well as her employees.*
 - *The disbursements (bills payable) are put together by an Administrative Assistant, reviewed by the City Administrator, and approved by the Board. The checks are issued by the Administrative Assistant, reviewed and signed by the City Administrator as well as the City Clerk. Other disbursements throughout the month are reviewed by the City Administrator and City Clerk and sent out (health/life insurance, payroll deductions, end of month transactions, etc.).*



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- *Signing checks is done by the City Clerk and the City Administrator or the Mayor in the absence of the City Clerk or City Administrator. The Mayor Pro-Tem is also an authorized check signer.*
- *The City Administrator is developing a policy to ensure that detailed accounting and bank records are reviewed on a regular basis.*

6.2 *Recently, the City Administrator has had each department create a listing of the capital assets items that they have and is in the process of compiling the information. With this listing, the departments were also asked to list the condition of the items so that items that need repaired or replaced can be taken into consideration at budget time. Board members will determine what types of items they wish to be tagged as city property.*

7. Procurement Procedures

Bidding

City personnel do not always solicit competitive bids or proposals for goods or services as required by city code, and some professional services are obtained without benefit of a competitive selection process.

The city did not obtain bids in compliance with the city code for the following purchases during the year ended September 30, 2018.

Item	Cost
Seed, fertilizer, and weed control chemicals	\$ 24,294
Water and wastewater plant supplies	13,338
Uniforms and rugs	11,463
Dump site clean-up	7,700
Mower	6,000
Sprayer	4,000
Tire deflation device	1,710
Total	\$ 68,505

City personnel indicated the seed, fertilizer, weed control chemicals, mower, and sprayer were not bid because procurement was arranged by the Mosswood Golf and Recreation Association. These purchases were paid with city funds and as such, should have been bid in accordance with the city code.

In addition, city personnel could not locate some quotes solicited and received for purchases of water treatment plant chemicals totaling \$101,784 and aviation fuel totaling \$37,481 purchased during the year ended September 30, 2018.



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City Code Section 2-271, requires city officials to solicit three bids for purchases of goods and services (excluding professional services) costing between \$500 and \$1,500, and competitive (sealed) bids for purchases over \$1,500.¹ In addition to being required by the city code, the routine use of a competitive procurement process for major purchases ensures the city has made every effort to receive the best and lowest price and all interested parties are given an equal opportunity to participate in city business. Complete documentation should be maintained of all bids received and justification for awarding the bid.

Professional services

The city has not established policies for the selection of vendors providing professional services. The city code also exempts "services of individuals possessing a high degree of professional skill" from bidding requirements. Professional services obtained during the year ended September 30, 2018, without a competitive selection process included audit services totaling \$6,000 and the management services for the water and sewer systems. As discussed in MAR finding number 1, the cost of this 5-year contract will be at least \$3.2 million.

Soliciting proposals for professional services is a good business practice, helps provide a range of possible choices, and allows the Board to make better informed decisions to ensure necessary services are obtained from the best qualified provider, taking expertise, experience, and/or cost into consideration.

Recommendation

The Board of Aldermen ensure city officials competitively procure major purchases in accordance with the city code and maintain documentation of decisions made and require the Mosswood Golf and Recreation Association to comply with the city's procurement rules for items the city will be reimbursing the association for. In addition, establish a policy to address the procurement of professional services.

Auditee's Response

Bidding:

- *Mosswood Golf and Recreation Association - The city will advise the Mosswood Golf and Recreation Association of the need for them to follow the city's procurement policy including soliciting bids.*
- *Treatment Plant Chemicals - The chemicals were not officially bid out and it is not known when they were last bid out. When the vendor took over the operations of the facilities, they would proceed with bidding out*

¹ As indicated in MAR finding number 11.3, ordinances were last codified in August 2009. Ordinance 1-2017, was amended by City Code Section 2-271 in January 2017. Prior to this ordinance, competitive bidding was not required unless the purchase exceeded \$1,000.



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chemicals once it was determined what chemicals would be utilized. Currently, there is an engineering company that is reviewing our processes and there may be process and chemical changes involved in that. Once it is determined how the city will proceed with those recommendations, there will be an opportunity to bid out the chemicals based on usages which will create better quantities for better pricing.

- *Quotes and sealed bids - The city has greatly improved its bidding processes to ensure that bids are being obtained when needed. Recently, the number of bids has been increased as well.*

Professional Services:

- *The city selects professional service vendors based on qualifications as we do engineers. For example, in selecting engineers for various projects, requests for qualifications are sent out and those that are interested in the job send in their qualifications. The qualifications are then reviewed and scored based on criteria related to the project. The vendor is selected based on their score and then price negotiations begin. If a reasonable price cannot be negotiated, then the negotiations end and the next highest vendor is approached to do business with.*
- *The city will go through a bidding process for audit services.*
- *Water and sewer management services were not bid out due to the concerns of being able to provide our citizens with water, maintain DNR compliance, etc. The selection was based on their prompt response to our situation.*

The city will review the existing procurement ordinance including professional services.

8. Fire Service Billing and Collection Procedures

The city's billing and collection procedures provided for the FPD need improvement. As discussed in MAR finding number 4, the city performs all accounting duties for the FPD. The city bills FPD property owners who live outside city limits a yearly membership fee of \$75 for most property owners. The city also bills for calls for services provided outside city limits if the citizen does not pay the annual membership fee or if the citizen does not reside in the FPD. The city charges \$250 for responding to a traffic incident; \$500 for responding to a traffic incident with a hazardous chemical spill, and \$1,500 for responding to a fire. The FPD had 196 calls for service during the year ended September 30, 2018.

8.1 Fire service fees and costs

The fee schedule used by the city for membership and service call billings has not been revised by the city and the FPD's Board in many years. In addition, the city and the FPD's Board do not have documentation supporting the basis



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for the fees charged. To ensure the costs of providing service calls are fully recovered, city officials should work with the FPD to analyze the costs and revise the fee schedule if necessary. Such analysis and revisions should be periodically performed and documented.

8.2 Billing and collection

The city does not prepare or send bills for all billable calls. For 13 of 27 billable calls, the City Administrator could not explain why billings did not occur. The city lost an estimated \$5,750 in revenues on these calls. In addition, the city does not maintain records of outstanding billings or pursue collection of these accounts receivables. We determined the city only received payment for 5 of the 14 calls billed (\$3,750) and lost \$4,750 in revenues for the 9 unpaid calls.

Good business practices require establishment of adequate billing and collection procedures to ensure accounts are billed and collected timely and bad debts are kept to a minimum. In addition, a complete and accurate list of unpaid service call billings would allow city officials to more easily review the amounts due, take appropriate steps to ensure amounts due are collected, and determine if any amounts are uncollectible.

Recommendations

The Board of Aldermen:

- 8.1 Work with the Monroe City Area Fire Protection District Board to establish procedures to adequately track costs for providing fire services, monitor and analyze these costs on a periodic basis, and revise the fee schedule if necessary.
- 8.2 Prepare and send bills for all billable calls, and work with the Monroe City Area Fire Protection District Board to develop written policies and procedures outlining specific steps and criteria to be followed for billing and collection activities.

Auditee's Response

- 8.1 *These rates have not been modified for many years and the city realizes that a review should be done to ensure that the fees are justified, and a basis determined for the fee schedule.*
- 8.2 *The city billed based on what the FPD asked the city to bill. The city didn't determine who did or didn't get billed. Since the audit, the Fire Chief delivers paperwork after the service call to advise the City Clerk what to bill for and how much. This change should increase the fees collected and be a more accurate way of billing. When monthly paperwork is turned in, it will be reviewed to determine who was not billed and why.*



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9. Payroll Controls and Procedures

Payroll controls and procedures need significant improvement. The city disbursed approximately \$1.4 million in salaries and wages during the year ended September 30, 2018.

9.1 Bonuses

The Board approves year-end bonus payments to all full-time employees in violation of the Missouri Constitution. The city paid \$2,440 in year-end bonus payments in December 2018. The bonus schedule for 2018 indicates each full-time employee received \$20 for each year of service, with a \$50 minimum and a \$200 maximum. The city paid \$74,665 in year-end bonus payments between December 2000 and December 2018. These payments represent bonus compensation for services previously rendered.

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

9.2 Timesheets

Employees are not required to sign timesheets. We noted employees did not sign 6 of 16 timesheets tested during the year ended September 30, 2018. In addition, the timesheets of supervisors including the City Administrator and City Clerk are not independently reviewed or approved. Employee timesheets are signed by the employee's supervisor and supervisors sign their own timesheets to document approval of hours worked.

To ensure the accuracy of the hours worked, timesheets should be signed by the employees and reviewed and approved by the supervisor or a member of the Board. In addition, 29 CFR Section 516.2(a) of the Fair Labor Standards Act (FLSA) requires employers maintain accurate records of actual time worked by employees.

Recommendations

The Board of Aldermen:

- 9.1 Discontinue paying employee bonuses.
- 9.2 Ensure timesheets are properly signed and approved.

Auditee's Response

- 9.1 *The Board will consult with legal counsel to determine the best course of action.*
- 9.2 *The City Administrator reviews all timesheets to confirm hours, totals, etc., before the payroll is processed. The City Administrator now ensures she signs off on the timesheets for managers and administration staff including the City Clerk. The City*



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Administrator's timesheet is copied for the Mayor for each pay period.

10. Closed Meetings

The Board did not ensure compliance with the Sunshine Law for closed meetings. The Board held 29 closed meetings between October 5, 2017, and April 18, 2019.

The Board discussed some items in closed meetings that are not allowed by law. For example, the Board discussed giving employees a cost of living raise and approved year-end bonuses (see MAR finding number 9.1) in closed meetings; however, the closed meeting minutes do not document discussion of individually identifiable personnel records, performance ratings or records pertaining to employees or applicants for employment as allowed under Section 610.021 (3), RSMo, in these meetings. Other topics the Board discussed in closed sessions that are not allowed by law included a local business's delinquent utility bill, the Police Chief's request to purchase new service pistols, an upcoming increase in employee healthcare premiums, and other issues.

In addition, the Board sometimes discussed issues other than the topics cited in the open minutes for going into a closed meeting. For example, the Board discussed a proposed contract for management of the water and sewer systems in closed session; however, the minutes did not cite Section 610.021 (12), RSMo, which allows for the discussion of documents related to a negotiated contract until the contract is executed. In addition, the Board discussed the internal control letter from its auditor; however, the minutes did not cite Section 610.021 (17), RSMo, which allows for confidential and privileged communications between the city and its auditor, including all auditor work product. Instead, the open minutes for both of these closed meetings cited legal discussions and personnel issues per Sections 610.021 (1) and (3), RSMo.

Section 610.021, RSMo, lists the topics that may be discussed in closed meetings. Section 610.022.3, RSMo, mandates that the discussion topics and actions in closed meetings must be limited to only those specifically allowed by law as announced in the justification for closing the meeting.

Recommendation

The Board of Aldermen ensure only topics allowed by state law are discussed in closed Board meetings, the specific section of law allowing the closure is announced publicly and recorded in the minutes, and discussions in closed meetings are limited to only those specific reasons cited for closing the meeting.

Auditee's Response

Since the city was also reviewed for Sunshine Law violations, city officials have attended the required training. City officials now have a much better understanding of what can and cannot be discussed in a closed session. The



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city will set up Sunshine Law training as the new Mayor and Aldermen come on to the Board.

11. Budgets and Ordinances

The city has not complied with state laws regarding preparing complete annual budgets. In addition, ordinance tracking needs improvement.

11.1 Budgets

The city budgets prepared for the years ended September 30, 2017, 2018, and 2019, did not include all required elements. The budget documents did not include a budget message, budget summary, and the financial activity and balances of the city's indebtedness.

Section 67.010, RSMo, requires the budget present a complete financial plan for the ensuing budget year and sets specific guidelines for the information to be included in the budget. A complete and well-planned budget, in addition to meeting statutory requirements, can serve as a useful management tool by establishing specific financial expectations for each area of city operations. It also assists in setting tax levies, utility rates, and informing the public about city operations and current finances.

11.2 Ordinances

The city does not maintain an up-to-date official ordinance book. City officials last codified ordinances in August 2009.

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 current and complete.

Recommendations

The Board of Aldermen:

- 11.1 Prepare annual budgets that contain all information required by state law.
- 11.2 Ensure the city's official ordinance book is complete and updated timely.

Auditee's Response

- 11.1 *This had not been done in the past and the city did not realize this was a requirement. The city will ensure that the required information is included in budget documents.*
- 11.2 *The city realizes that the ordinance book is outdated and has included money in the current budget for updates. The City Administrator and the City Attorney are working to see that the existing ordinances are reviewed and updated as needed prior to updating the books.*



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12. Electronic Data Security

The Board has not established sufficient controls to reduce the risk of unauthorized access to computer systems and electronic data. As a result, city records are not adequately protected and are susceptible to unauthorized access or loss of data.

12.1 User identifications and passwords

The Administrative Assistants, City Clerk, and City Administrator share the same user identification and password for 2 shared computers used for issuing receipt slips from the accounting system. While each has access to the receipt function on assigned work computers, which have unique user identification and passwords, the City Clerk indicated receipting is done on the computers at the front counter. In addition, passwords for employees in the administrative office, police department, and fire department are not required to contain a minimum number of characters and employees in the fire department are not required to change passwords periodically.

While a user identification and password are required to authenticate access, the security of these logon credentials is dependent upon keeping them confidential and requiring users to enter their unique user identification and password when switching users. Allowing certain users to share logon credentials, not requiring passwords to contain a minimum number of characters in certain offices, and not requiring passwords to be periodically changed at the fire department, increases the risk of unauthorized access and/or changes to the system and records and does not provide assurance access is limited to only those individuals who need access to perform their job responsibilities. User identifications should be unique to each person and passwords should be confidential, contain a minimum number of characters, and changed periodically to reduce the risk of a compromised password and unauthorized access to and use of computers and data.

12.2 Security controls

Security controls are not in place to lock the City Administrator, City Clerk, Administrative Assistants, and Fire Chief's computers after a certain period of inactivity. In addition, the fire department does not have security controls in place to lock computers after a specified number of incorrect logon attempts.

Inactivity controls are necessary to reduce the risk of unauthorized individuals accessing an unattended computer and having potentially unrestricted access to programs and data files. Logon attempt controls lock the capability to access a computer after a specified number of consecutive unsuccessful logon attempts and are necessary to prevent unauthorized individuals from continually attempting to logon to a computer by guessing passwords. Without effective security controls, there is an increased risk of unauthorized access to computers and the unauthorized use, modification, or destruction of data.



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Recommendations

The Board of Aldermen:

- 12.1 Require each employee to have his/her own user identification and password with a minimum number of characters, that is periodically changed. In addition, stop allowing employees to share access credentials on certain computers.
- 12.2 Require city computers have security controls in place to lock each computer after a certain period of inactivity and a specified number of incorrect logon attempts.

Auditee's Response

- 12.1 *The Administrative Assistants, City Clerk, and the City Administrator's computers do have unique passwords. The city will look into addressing this situation for the shared computers that are used for issuing receipt slips. This issue will also be addressed in the police department and the fire department.*
- 12.2 *The City Administration computers do not have controls in place to lock after a certain length of time, mainly because it causes issues with our Summit software. To correct this, City Administration employees can manually lock the screen so that no one can enter their computer. However, the Administrative Assistants, City Clerk, and City Administrator's computers do become locked after 3 incorrect logon attempts. The city will work with the Fire Chief to ensure that his computer locks out after 3 incorrect logon attempts.*

City of Monroe City

Organization and Statistical Information

The City of Monroe City is located in Monroe, Marion, and Ralls Counties. The city was incorporated in 1869 and is currently a fourth-class city. The city employed 25 full-time employees and 28 part-time employees on September 30, 2018.

City operations include utility services (natural gas, electricity, water, sewer, and sanitation), public safety (fire and police), street maintenance, a municipal library, a municipal cemetery, airport services, economic development, and recreational facilities (lakes, parks, pool, and a golf course).

Mayor and Board of Aldermen

The city government consists of a mayor and 6-member board of aldermen. The members are elected for 2-year terms. The mayor is elected for a 2-year term, presides over the board of aldermen, and votes only in the case of a tie. The Mayor and Board of Aldermen, at September 30, 2018, are identified below. The Mayor is paid \$600 per month and the members of the Board of Aldermen are paid \$250 per month. The compensation of these officials is established by ordinance.

John Long, Mayor
Jason Osbourne, Alderman Ward I
Jeremy Moss, Alderman Ward I
Marvin Vilorio, Alderman Ward II
Dane Foster, Alderman Ward II
Connie Painter, Alderwoman Ward III
Melissa Hays, Alderwoman Ward III

City Marshal

The City Marshal at September 30, 2018, was Tyler Wheeler and his annual compensation was \$48,000. The City Marshal is elected to a 4-year term. The City Marshal's compensation is established by ordinance.

Other Principal Officials

The City Administrator and City Clerk are appointed positions. The city's principal officials at September 30, 2018, are identified below:

Jackie Pangborn, City Administrator
Christine Ellison, City Clerk
Patrick R. Enochs, Fire Chief
Michael Williams, City Attorney

Financial Activity

Appendixes A and B present a summary of the city's financial activity for the year ended September 30, 2018. We obtained this information from the city's audited financial statement report.

CITY OF MONROE CITY, MISSOURI
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2018

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Totals</u>
<u>Revenues:</u>				
Taxes	\$ 996,704	\$ 492,362	\$ ----	\$1,489,066
Licenses and permits	13,033	99,688	----	112,721
Intergovernmental revenue	376,244	35,122	----	411,366
Charges for services	24,057	----	----	24,057
Fines and forfeits	38,114	214	----	38,328
Interest income	442	48,394	----	48,836
Miscellaneous revenues	887,569	60,620	----	948,189
<u>Total Revenues</u>	<u>\$2,336,163</u>	<u>\$ 736,400</u>	<u>\$ ----</u>	<u>\$3,072,563</u>
<u>Expenditures:</u>				
Current:				
City administration	\$ 371,617	\$ ----	\$ ----	\$ 371,617
Public safety	736,021	8,366	----	744,387
Humane officer	3,630	----	----	3,630
Inspection and zoning	7,275	----	----	7,275
Street Department	328,772	325,492	----	654,264
Culture and recreation	171,931	60,009	----	231,940
Industrial Development	----	58,849	----	58,849
Airport	29,046	----	----	29,046
Cemetery	37,392	----	----	37,392
Capital outlay	569,275	294,664	----	863,939
Debt service	----	----	179,686	179,686
<u>Total Expenditures</u>	<u>\$2,254,959</u>	<u>\$ 747,380</u>	<u>\$ 179,686</u>	<u>\$3,182,025</u>
<u>Excess of Revenues Over (Under)</u>				
<u>Expenditures</u>	<u>\$ 81,204</u>	<u>\$ (10,980)</u>	<u>\$(179,686)</u>	<u>\$ (109,462)</u>
<u>Other Financing Sources (Uses):</u>				
Operating transfers in	\$ 300,000	\$ ----	\$ 180,395	\$ 480,395
Operating transfers out	(253,272)	(104,160)	----	(357,432)
<u>Total Other Sources (Uses)</u>	<u>\$ 46,728</u>	<u>\$ (104,160)</u>	<u>\$ 180,395</u>	<u>\$ 122,963</u>
<u>Excess of Revenues and Other Sources</u>				
<u>Over (Under) Expenditures and Other</u>				
<u>Uses</u>	<u>\$ 127,932</u>	<u>\$ (115,140)</u>	<u>\$ 709</u>	<u>\$ 13,501</u>
<u>Fund Balances, October 1</u>	<u>101,417</u>	<u>1,564,313</u>	<u>(15,156)</u>	<u>1,650,574</u>
<u>Fund Balances, September 30</u>	<u>\$ 229,349</u>	<u>\$1,449,173</u>	<u>\$ (14,447)</u>	<u>\$1,664,075</u>

CITY OF MONROE CITY, MISSOURICOMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGESIN NET POSITION - ALL ENTERPRISE FUNDSFOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2018

	<u>Electric Department</u>	<u>Water Department</u>	<u>Sewer Department</u>
<u>Operating Revenues:</u>			
Charges for services	\$4,730,325	\$ 623,879	\$ 548,287
Other revenues	<u>7,919</u>	<u>263</u>	<u>2,052</u>
<u>Total Operating Revenues</u>	<u>\$4,738,244</u>	<u>\$ 624,142</u>	<u>\$ 550,339</u>
<u>Operating Expenses:</u>			
Administration	\$ 682,679	\$ 161,681	\$ 57,038
Utility production/treatment	7,976	284,384	198,554
Utility purchases/interconnect	3,389,537	----	----
Utility distribution/collection	270,690	125,435	95,036
Depreciation	<u>195,982</u>	<u>168,795</u>	<u>174,514</u>
<u>Total Operating Expenses</u>	<u>\$4,546,864</u>	<u>\$ 740,295</u>	<u>\$ 525,142</u>
<u>Operating Income (Loss)</u>	<u>\$ 191,380</u>	<u>\$ (116,153)</u>	<u>\$ 25,197</u>
<u>Non-Operating Revenues (Expenses):</u>			
Interest income	\$ 3,633	\$ 1,588	\$ 5,518
Pole rental income	----	----	----
Interest expense and fiscal charges	(1,041)	(722)	(114,479)
Demolish old house	<u>----</u>	<u>----</u>	<u>----</u>
<u>Total Non-Operating Revenues (Expenses)</u>	<u>\$ 2,592</u>	<u>\$ 866</u>	<u>\$ (108,961)</u>
<u>Net Income (Loss) Before Other Financing Sources (Uses)</u>	<u>\$ 193,972</u>	<u>\$ (115,287)</u>	<u>\$ (83,764)</u>
<u>Other Financing Sources (Uses):</u>			
Operating transfers in	\$ 104,601	\$ 72,436	\$ ----
Operating transfers (out)	<u>(150,000)</u>	<u>----</u>	<u>----</u>
<u>Total Other Financing Sources (Uses)</u>	<u>\$ (45,399)</u>	<u>\$ 72,436</u>	<u>\$ ----</u>
<u>Net Income (Loss)</u>	<u>\$ 148,573</u>	<u>\$ (42,851)</u>	<u>\$ (83,764)</u>
<u>Net Position, October 1</u>	<u>2,789,381</u>	<u>3,874,106</u>	<u>1,596,065</u>
<u>Net Position, September 30</u>	<u>\$2,937,954</u>	<u>\$3,831,255</u>	<u>\$1,512,301</u>

<u>Natural Gas Department</u>	<u>Sanitation Department</u>	<u>Totals</u>
\$1,149,269	\$106,235	\$7,157,995
<u>534</u>	<u>----</u>	<u>10,768</u>
<u>\$1,149,803</u>	<u>\$106,235</u>	<u>\$7,168,763</u>
\$ 169,484	\$ 582	\$1,071,464
<u>----</u>	<u>----</u>	<u>490,914</u>
804,606	99,918	4,294,061
115,739	<u>----</u>	606,900
<u>38,893</u>	<u>----</u>	<u>578,184</u>
<u>\$1,128,722</u>	<u>\$100,500</u>	<u>\$7,041,523</u>
<u>\$ 21,081</u>	<u>\$ 5,735</u>	<u>\$ 127,240</u>
\$ 5,202	\$ 126	\$ 16,067
<u>----</u>	<u>----</u>	<u>----</u>
<u>----</u>	<u>----</u>	<u>(116,242)</u>
<u>----</u>	<u>(9,215)</u>	<u>(9,215)</u>
<u>\$ 5,202</u>	<u>\$ (9,089)</u>	<u>\$ (109,390)</u>
<u>\$ 26,283</u>	<u>\$ (3,354)</u>	<u>\$ 17,850</u>
\$ ----	\$ ----	\$ 177,037
<u>(150,000)</u>	<u>----</u>	<u>(300,000)</u>
<u>\$ (150,000)</u>	<u>\$ ----</u>	<u>\$ (122,963)</u>
\$ (123,717)	\$ (3,354)	\$ (105,113)
<u>1,415,433</u>	<u>13,837</u>	<u>9,688,822</u>
<u>\$1,291,716</u>	<u>\$ 10,483</u>	<u>\$9,583,709</u>