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FOLLOW-UP REPORT ON AUDIT FINDINGS

City of Neosho

December 2011
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City of Neosho

Follow-Up Report on Audit Findings

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THOMAS A. SCHWEICH

Missouri State Auditor

To the Honorable Mayor
and
Members of City Council
City of Neosho, Missouri

We have conducted follow-up work pursuant to the Auditor's Follow-Up Team to Effect Recommendations (AFTER) program on certain audit report findings contained in Report No. 2011-36 *City of Neosho*, issued in July 2011. The objectives of the AFTER program are to:

1. Identify audit report findings that require immediate management attention and any other findings for which follow up is considered necessary at this time, and inform the city about the follow-up review on those findings.
2. Identify and provide status information for each recommendation reviewed. The status of each recommendation reviewed will be one of the following:
 - Implemented: Auditee fully implemented the recommendation, either as described in the report or in a manner that resolved the underlying issue.
 - In Progress: Auditee has begun to implement and intends to fully implement the recommendation.
 - Partially Implemented: Auditee implemented the recommendation in part, but is not making efforts to fully implement it.
 - Not Implemented: Auditee has not implemented the recommendation and indicates that it will not do so.

Our methodology included working with the city, prior to completion of the audit report, to develop a timeline for the implementation of corrective action related to the audit recommendations. We reviewed documents and other evidence indicating the level of implementation for each recommendation reviewed.

As part of the AFTER work conducted, we reviewed a report summarizing the status of our recommendations and supporting documentation submitted by the city before the follow-up meeting on December 8, 2011. We also held a meeting with city officials¹ to seek clarification and review additional documentation. Documentation provided by the city in its pre-meeting report and/or at the meeting included the fiscal year 2012 budget, city council meeting minutes, contracts, new policies and procedures, various accounting records, and bank statements. This report is a summary of the results of this follow-up work, which was substantially completed during December 2011.



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¹ City Manager Troy Royer did not participate in the meeting with city officials. Mr. Royer was previously employed by the State Auditor's office and worked on the original audit of the City of Neosho. That report was finalized and made public prior to Mr. Royer being offered and accepting the City Manager position.

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Status of Findings

1. Financial Condition

The General Fund was in poor financial condition due to a prolonged decline in sales tax revenues; low cash reserves resulting from real estate purchases; cost overruns on renovation projects; and subsidization of the golf course for several years. The city failed to monitor its budget and cash balances, and as a result, was not aware of the severity of its financial condition.

The City Council did not receive and review accurate financial information which would have assisted in effectively monitoring cash balances and the financial condition of city funds. Accounting records and annual budgets were not accurate.

The city historically operated its golf course at a loss, and the Golf Fund had a deficit fund balance at the end of the city's last 2 audited fiscal years (2009 and 2008). As a result, the General Fund was required to subsidize its operations and activities. City records indicated approximately \$3.5 million of the city's debt balance was for golf course improvements and equipment.

The city's independent audit report for the year ended September 30, 2009, indicated the city inappropriately borrowed restricted monies to subsidize the General Fund, and accurate information was not available for the year ended September 30, 2010.

At the recommendation of its independent auditor, the city developed a financial plan in July 2010, to address current and future cash flow issues to assist in meeting financial obligations and the repayment of restricted funds. The city also eliminated 36 jobs during the year ended September 30, 2010.

Recommendation

The City Council require accurate and timely financial reports be prepared, closely monitor the city's financial condition, and take the necessary steps to improve the financial condition of the General Fund and Golf Fund. The Council should also develop a debt policy and monitor the overall financial obligations of the city.

Status

In Progress

City officials indicated the General Fund balance increased during the year ended September 30, 2010, from a beginning deficit of \$1,042,656 to an ending balance of \$84,897. The unaudited General Fund balance at September 30, 2011, was approximately \$835,000, which represents about a 79 day reserve.

City officials indicated they understand the necessity of timely and accurate financial reporting. The City Council is now receiving financial statements of the prior month at the second Council meeting each month. A new City Manager was hired and started on September 19, 2011, and a new Finance



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Director was hired and started on September 26, 2011. The Finance Director, Accounting Manager, and the City Manager review the accuracy of reports prior to distribution. The city intends to follow Governmental Accounting Standards Board (GASB) guidance in the preparation of financial statements. Beginning in October 2011, the Finance Director presents highlights of financial results to the Council, as well.

City officials indicated that to reduce the city's subsidization of the golf course, the city closed the nine holes of the course known as "The Lakes". This was done to reduce the maintenance costs of the golf course and focus concentration on the remaining 18 holes. According to city officials, the other aspect of the golf course that causes the city's subsidization is the debt that is associated with the course. The city has looked into some possible ways to reduce the debt through refunding and consolidation to save some current costs and also obtain a lower interest rate in the current market. The golf course is the collateral for the 2006A Certificates of Participation (COPs). This original debt issuance was for a total of \$6.125 million which includes five separate debt issuances including streets, drainage, golf course, and wastewater. The golf course portion of this debt is approximately \$3.06 million, but as stated above collateralizes the entire debt of \$6.125 million. These COPs are not callable until 2016. According to city officials, it is not in the city's best interest financially to refund any of this debt until the call date of 2016 and the city will re-evaluate the debt structure at that time.

City officials indicated they understand commingling and combining of funds is prohibited and transfers from restricted funds are not allowed. The city has re-segregated the inappropriately combined funds and has created an interfund repayment plan. All scheduled repayments have been made on time.

City officials have drafted a debt management policy which addresses aspects of debt financing, record keeping, monitoring, and proper disclosures and plan to present the policy to the City Council for approval at the January 17, 2012, meeting.

City officials understand its debt load is higher than desirable for a city of its size and resources. Debt service payments are made on time and other options are continuously explored including refinancing options, new revenue sources, enhancing community appeal, and more.

2.1 Accounting records

Accounting records were not maintained in a manner to allow the city to properly track and record the financial activity of restricted monies, and as a result, the accounting records maintained by the city were not accurate. The city consolidated several restricted funds into the General Fund in fiscal year 2008. While the city had taken steps to deposit current restricted receipts into separate funds, the balances of restricted funds as of



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September 30, 2010, had not been determined and transferred to those new restricted funds.

Recommendation

The City Council ensure accounting records accurately reflect the financial activity of the city. The Council should also determine the amount of restricted monies in the General Fund, make appropriate transfers, and continue to track restricted monies as required by state law.

Status

Implemented

City officials indicated they are committed to timely and accurate financial reporting. Revenues are deposited, reviewed, and posted daily. Disbursements are reviewed and approved prior to payment and coded accurately. Bills are paid on time with discounts taken as applicable. All fees are accounted for properly within fund and account types. The city understands that consolidating restricted funds with the General Fund is not permissible and has re-segregated funds. Staff have been educated and finance management and staff are participating in relevant continuing education. The city is committed to accounting practices in conformity with city code, Missouri law, and GASB standards.

2.2 Bank reconciliations

As of February 2011, bank reconciliations had not been performed for the master fund bank account since September 2009, and our review of the last bank reconciliation performed of the city's investment bank account for August 31, 2010, noted a difference of \$121,500 between the reconciled bank balance and the general ledger balance.

Recommendation

The City Council ensure bank reconciliations are performed each month, the reconciled bank balance is compared to the general ledger balance, and any differences are investigated.

Status

Implemented

Beginning in April 2011, bank statements have been reconciled to the general ledger on a monthly basis and are current. Reconciliations are completed before financial reporting each month to ensure all transactions have been recorded. According to city officials, reconciliations and cash summary reporting is provided to the City Council on the second meeting of the month.

2.3 Budgets

The 2011 and 2010 fiscal year budgets were not accurate and complete. The budgets did not include the beginning and estimated ending cash balances, and actual receipts and disbursements for the preceding year. The City Council indicated various information was not included in the budgets because it was not accurate.



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Recommendation

The City Council prepare complete and accurate budget documents.

Status

In progress

The 2012 fiscal year budget was approved by the City Council in September 2011. While it is not totally accurate and complete, the city hired a new City Manager and Finance Director in September 2011, and the City Manager, Finance Director, and Accounting Manager are reviewing and identifying budget adjustments to correct deficiencies. A detailed description of all the proposed adjustments, the overall financial impact, and the restated budget will be presented to the City Council for review and approval. The 2012 fiscal year budget does include an estimate of beginning and ending cash balances and prior year results. Monthly financial reports provided to the Council include a comparison of actual results to budgeted amounts.

**3.3 Real Estate Transactions
- Downtown Parking**

The city spent a total of approximately \$392,000 in fiscal years 2008 and 2009 to purchase properties for parking (including \$290,000 for additional civic center parking), but did not plan financing for the development of the properties, and as a result, the properties remain unused.

Recommendation

The City Council document plans to develop properties purchased.

Status

In progress

City officials indicated that prior to approval of the purchase of property a business plan shall be developed and presented to the City Council to include a detailed description of the planned use, all related costs associated with the planned use (demolition, modifications, utility issues, etc.), and the projected 5 to 10 year cost of maintenance for the property. The city has also developed formal plans for the properties purchased for parking and the projects are currently in process.

6.1 Bidding

Although the city had a procurement policy which required city officials to solicit bids for items or services costing more than \$1,500 and advertise and obtain City Council approval for bids for items or services costing more than \$5,000, the city did not solicit bids for numerous purchases made during the year ended September 30, 2010, and through January 2011.

Further, while the City Council had adopted and approved a formal purchasing policy, various versions of the policy, which included conflicting purchasing and bidding requirements, were used by city departments.

Recommendation

The City Council ensure bids are solicited for all applicable purchases and services in accordance with city ordinances and sufficient documentation is maintained. The Council should also ensure the adopted and approved purchasing policy is used by all departments.



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Status

In Progress

City officials indicated the city understands the importance of procurement controls and an effective bid process to maximize value to the city for taxpayer dollars spent. The city has instituted a practice of requiring bids. For purchases up to \$1,500, it is up to the director's discretion, within the constraints of the city code and budget. Purchases of \$1,500 to \$5,000 require three written, catalog, or faxed quotes and City Manager approval is required. Purchases of \$5,000 and above require three sealed bids and City Council approval.

On October 29, 2011, the City Clerk notified all city directors by memo of the current purchasing policy to ensure the correct purchasing policy was utilized.

Invoices are compared to bid information prior to payment.

During the fiscal year 2012 budget process the City Council approved letting the golf course management contract run out for the third and final year of the contract compared to buying out the last year. Some aspects of the contract were changed such as amending the contract payment amount from \$211,297 per year to \$201,000 per year and the percentage of golf cart rental fees from 12.5 percent to 10 percent. The golf course management contract will be re-evaluated during the fiscal year 2013 budget process.

**7.1 Fuel and Usage
Records**

Problems noted regarding fuel and usage records included:

- Significant differences between fuel use and purchases were not investigated.
- Police department fuel use was not reconciled to fuel purchases.
- Mileage or fuel use logs were not maintained for bulk fuel tanks used by the golf course, and as a result, fuel use was not reconciled to fuel purchases.
- A mileage log was not maintained for the courtesy car at the airport, and as a result, fuel use was not reconciled to fuel purchases.
- Mileage logs maintained by the City Manager, Fire Chief, and employees of the police department, park department, and public works department were not always accurate and complete.

Recommendation

The City Council require fuel use logs be maintained for all city-owned vehicles and equipment, and these logs be reviewed for accuracy and



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reconciled to fuel purchases. Any significant discrepancies should be investigated.

Status

Implemented

City officials indicated all departments are required to keep a fuel and mileage log in every city vehicle. Each month, the Public Works Administrator downloads a fuel report from the automated fueling system and prepares each department a spreadsheet that lists the date, time, pump number, odometer reading, quantity of fuel pumped, employee card number, department, and vehicle number. The directors or their designees then compare their department's fuel usage logs to the spreadsheet and check for discrepancies.

A uniform mileage and fuel log was developed by the city and has been implemented for city-wide use. The mileage and fuel log includes date, equipment identification number, employee name, gas/diesel, fuel pumped, miles-in, miles-out, and comments.

9.1 Segregation of Duties

Accounting duties were not adequately segregated. The Accounting Manager prepared deposits, took deposits to the bank, and reconciled some city bank accounts. In addition, there was no documented supervisory review of the duties performed by the Accounting Manager.

In June 2010, the Finance Director was given authority by the City Manager to make electronic wire transfers between city bank accounts; however, procedures did not provide for documented supervisory review of such wire transfers.

Recommendation

The City Council segregate accounting duties to the extent possible and implement appropriate reviews and monitoring procedures.

Status

In Progress

There are two collection clerks in the water department. Together, the two clerks prepare the deposit for that day's business and reconcile it to the daily collection reports. City officials indicated cameras with audio and video have been installed in the collections office and all receiving, counting, and balancing activities are conducted in view of the cameras. In addition, according to city officials, the Finance Director and Accounting Manager make unannounced visits to the collection office throughout the day. Once reconciled, the deposit is then placed and locked in a bank bag that once locked is only accessible by the bank. City officials indicated one clerk will then take the deposit to the bank. Deposits are made daily and intact. The Accounting Manager then verifies the amount deposited in the bank is the same amount recorded in both the general ledger and the collection closing



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documents for that day. City officials indicated collection clerks cannot go back to a prior day and change transaction detail. According to City officials, an accounting clerk position has been approved and is being posted. The accounting clerk will cross train as a collection clerk to fill in for scheduled and unscheduled absences of one of the regular collection clerks. All finance department personnel will be required to take a 1-week vacation with another person performing their essential functions while they are absent. The Accounting Manager reconciles the city's bank accounts. The Finance Director reviews the account reconciliations before they are provided to the City Council.

City officials indicated wire transfers from the investment account to other organizations are first initiated through the bank web site by the City Clerk. The City Clerk gets a copy of the request for transfer, the appropriate documents, and the authorizing signature. The City Clerk then initiates the payment to the appropriate financial institution. Once initiated, the Accounting Manager signs into the web site, reviews the initiated transfer, and transmits the payment. Copies of the transfer request, back up documentation, authorizing signature, and the transfer confirmation are kept with the batch created to move the monies on the general ledger side.

The city is in the process of evaluating replacement financial reporting and management software which will include at a minimum, general ledger, accounts payable/purchase order, payroll, human resources, and utility billing. A new system is expected to be fully implemented with respect to financial and billing activities by September 30, 2012.

9.2 Receipting, Posting, and Depositing Procedures

Receipting, posting, and depositing procedures need improvement.

- Manual receipt slips were not issued for some monies received.
- The numerical sequence of manual receipt slips issued by the receptionist at city hall and employees of the collection department and park department were not accounted for properly.
- Amounts recorded on the manual receipt slips were not reconciled to the city accounting system and deposits.
- Receipt slips were not always issued by the collection department for monies collected at other departments and then transmitted to the collection department.
- The numerical sequence of receipt and batch numbers assigned by the city computerized accounting system were not accounted for properly.



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- City receipts were typically not deposited timely and intact and were not always posted to the computerized accounting system timely.
- Rental deposits for use of the Lamp Community Center were held until refunded, and no documentation was retained to support the refunds.

Recommendation

The City Council require receipt slips be issued in numerical sequence for all monies received and the numerical sequence of receipt slips be accounted for properly. The City Council should also ensure manual receipt slips are reconciled to amounts recorded on the computerized accounting system and deposits, deposit all monies intact and in a timely manner, and issue all refunds by check. The City Council should account for the numerical sequence of computerized receipt and batch numbers and work with the computer programmer to ensure the accounting system tracks voided or deleted receipt numbers.

Status

Implemented

City officials indicated when other departments collect monies, a signed remittance form is submitted detailing what the payment is for, where it should be coded, and a breakdown of payment type. The department is to wait while the collection clerk verifies and signs off on the transmittal. The collection clerk will then provide the department a copy with a system generated transaction number.

All receipt numbers are accounted for properly, whether for utility or other city revenue collected. If a receipt number is spoiled or wasted, the clerk is to screen print and attach an explanation to the daily balance report. All batch numbers are also accounted for and audited daily by the billing specialist.

Receipts for the utility department are automatically generated by the system. Collections by the City License Clerk are receipted manually. The City License Clerk uses pre-numbered triplicate receipts and all receipt numbers are accounted for properly. City licenses are also pre-numbered and all license numbers are accounted for properly.

Payments are collected from the after-hours drop box each morning and payments through the mail are delivered to the collections department daily. Payments received through the drop box, mail, window, and from other departments are to be processed and deposited in the bank on the same day they are received.

The Accounting Manager reconciles all receipts the following day, verifies account codes assigned, and releases the transaction for posting to the general ledger.



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The city has established a practice that all deposits received from whatever source or for whatever purpose are deposited daily and credited to the deposit account of the appropriate fund. When deposits are to be refunded, the refund is issued by check.

10.1 Subsidization and
Utility Rates

Utility revenues were used to subsidize General Fund operations, and as a result, city customers may have been paying too much for utility services.

The city increased water and sewer rates in fiscal years 2008 and 2009, respectively, without performing cost analyses or utility rate reviews.

Recommendation

The City Council discontinue using utility monies to fund other city operations. In addition, the City Council should review utility rates periodically to ensure receipts are sufficient to cover all costs of providing these services, but not set at a level which results in excessive fund balances. Such reviews should be documented.

Status

In Progress

City officials indicated when final adjustments are complete to the fiscal year 2011 financial records, an analysis will be performed on the utility revenues and expenditures to determine if the revenues are adequate to meet current and upcoming operating costs and related debt obligations. The utility rate structure will be reviewed. The information will be presented to the City Council for information and action, if needed.

The city understands that Utility Fund revenues are not to be used to subsidize the General Fund and has taken measures to assure that it will not do so in the future, including the requirement that all fund transfers be reviewed and approved in advance by the City Council.

10.2 Water Usage

Although the city compared the gallons of water billed to customers to gallons of water pumped each month, significant differences were not investigated. In addition, city water usage was not tracked, and without this information the city could not properly perform the reconciliation.

Recommendation

The City Council investigate significant differences between gallons of water pumped to gallons billed and track city usage on a monthly basis.

Status

In Progress

City officials indicated that each month, the Public Works Administrator completes a pumping report that includes water pumped from the filtration plant and wells to get a total of all gallons pumped. She also compiles data from each pump station, tower, and main line meter that depicts usage split into the Crowder College area and the City of Neosho to narrow down the



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area that could possibly have a major leak. She then assembles information from the pumping report, billing print outs, water usage from the Fire Department, wastewater line maintenance, water line and fire hydrant leaks, and repairs to obtain a water loss percentage. Starting with the July 2011 meter books, she has started entering every meter reading into a spreadsheet, to audit the computerized billing system for any major inconsistencies and to compare the totals with Billing Department totals. If a vast discrepancy is noted for a meter, a work order is filled out and the problem is investigated and repaired, if needed.

10.5 Adjustments

While the Finance Director reviewed and approved adjustments to the utility system, which were submitted by the Billing Analyst, a subsequent review of the actual changes made to the utility system was not performed.

Recommendation

The City Council ensure approved adjustments are compared to actual changes made in the utility system.

Status

Implemented

City officials indicated the city follows the city's ordinance regarding utility billing adjustments. A new form has been implemented which requires the billing coordinator to sign off when an adjustment is requested. Approval by the Finance Director or the Finance Manager is required to make the adjustment. After the adjustment is made, the Utility Collection Specialists verify the adjustment was made accurately.

11. Meeting Minutes

The city did not ensure compliance with the Sunshine Law for closed session meetings.

- Meeting minutes were not sufficient to demonstrate how some issues discussed in closed meetings were allowable under the Sunshine Law.
- Open meeting minutes indicated meetings were closed by the City Council for a specific reason; however, closed meeting minutes indicated other topics, that were not specifically identified in open meetings minutes, were discussed.

Recommendation

The City Council ensure only allowable topics are discussed in closed meetings and specific reasons for closing a meeting are documented. Closed meeting discussions should be limited to topics announced in open session.

Status

Implemented

Open minutes for the city document the reasons for closing meetings and specific sections of law that allow for the closed meeting are documented. All closed meeting discussions are limited to the topics announced in open



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session. City officials indicated the City Clerk ensures all city staff and City Council members have a copy of the Missouri Sunshine Law books along with a letter referencing the importance of strict compliance. According to city officials, the City Clerk re-distributed the booklet to all applicable individuals in November 2011. All Sunshine Requests are directed to the City Clerk to ensure ongoing compliance.