



Thomas A. Schweich
Missouri State Auditor

FOLLOW-UP REPORT ON AUDIT FINDINGS

City of Lanagan

July 2012

Report No. 2012-71



<http://auditor.mo.gov>

City of Lanagan

Follow-Up Report on Audit Findings

Table of Contents

State Auditor's Letter	2
------------------------	---

Status of Findings

1. Missing Funds.....	3
2. Excess Court Revenues.....	4
3. Financial Condition	5
4. Accounting Controls and Procedures	7
5. Water and Trash Services	10
6. City Disbursements	13
7. Restricted Funds	15
10. Financial Statements, Budgets, and Audits	16
11. Ordinances and Meetings	17



THOMAS A. SCHWEICH

Missouri State Auditor

To the Honorable Mayor
and
Members of the Board of Aldermen
City of Lanagan, 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. 2011-105, *City of Lanagan*, issued in November 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. As part of the AFTER work conducted, we reviewed supporting documentation submitted by the City Clerk and discussed the status of significant findings and any corrective action taken regarding our recommendations with the City Clerk, Mayor, and City Attorney. Documents provided included financial reports, bank statements, budgets, contracts, Board minutes, payroll records, and vendor invoices. This report is a summary of the results of this follow-up work, which was substantially completed during May 2012.

A handwritten signature in black ink that reads "Thomas A. Schweich".

Thomas A. Schweich
State Auditor

City of Lanagan

Follow-Up Report on Prior Audit Findings

Status of Findings

1. Missing Funds

Between January 1, 2009, and December 31, 2010, utility receipts collected for water and trash services totaling at least \$13,520 and other cash receipts totaling at least \$158 were received but not deposited. Additionally, property tax books and receipt records were missing from city hall, and property tax receipts totaling approximately \$2,800 also appeared to be missing. Some other essential records could not be located by the current City Clerk, and as a result, it was likely additional funds were missing. After our initial visit to the city on Wednesday, September 22, 2010, to begin the audit of the City of Lanagan Municipal Division, the former City Clerk, Peggy Gilliam, ended her employment. The Board of Aldermen appointed Monica Blue as City Clerk on October 12, 2010.

Water and trash receipts

Water and trash receipts totaling \$171,928 were recorded as received during the 2 years ended December 31, 2010, but only \$163,908 was deposited in the bank account, resulting in a shortage of \$8,020. In addition, some adjustments posted to water customer accounts indicated specifically that payments were received but not posted. These adjustments totaled at least \$5,500 and should have been included in total receipts but were not. As a result, at least \$13,520 was received but not deposited, and was missing.

Missing water/trash monies were concealed in several ways.

- Numerous adjustments were posted to customer accounts to reduce the amount owed; however, payments were made by these customers and the monies were not deposited. These adjustments contained explanations in the memo line such as, "payment not posted" identifying that a payment was, in fact, received. Manual receipt slips or billing stubs marked paid were found for many of these adjustments. However, these payments were not posted as a receipt in the utility accounting system and were not deposited.
- Numerous instances were noted where checks were recorded as received in the utility accounting system, but the manually issued receipt slip or billing stub indicated the monies were received in cash and these monies were not deposited into the city's account.
- Numerous instances were noted where checks received were not recorded in the utility system and were substituted into deposits for recorded cash receipts that were not deposited into the city's account. Adjustments were also posted for these payments to reduce the customer's liability.
- Several instances were identified where a customer made multiple payments to their water/trash account and some payments were not posted or deposited, and are missing. As a result, some customers overpaid the city.



City of Lanagan
Follow-up Report on Prior Audit Findings
Status of Findings

Property tax receipts	Approximately \$2,800 in property tax monies may have been missing. City officials indicated the city tax books and tax receipt information disappeared from City Hall shortly after our audit began in September 2010. As a result, detailed receipt information was not available for our review. However, according to city bank deposit records approximately 32 percent less was deposited for property tax receipts in 2009 than in 2010.
Other receipts	At least \$158 in cash recorded on manual receipt slips that should have been deposited in the General Fund and Water Deposit Fund was not deposited.
Recommendation	The Board of Aldermen work with law enforcement officials regarding criminal prosecution for the missing cash receipts and take the necessary actions to recover restitution for amounts missing.
Status	Not implemented While the Missouri State Highway Patrol (MSHP) conducted an investigation into the city's missing funds and submitted information to the McDonald County Prosecuting Attorney, the city has not contacted their bonding company to determine if the funds can be recovered, or implemented adequate controls to safeguard against possible future loss.

2. Excess Court Revenues	Procedures were not in place to track tickets issued on state and federal highways and related fines and costs collected to determine the excess revenues to be distributed to the Missouri Department of Revenue (DOR). Additionally, the Chief of Police did not properly report the location of vehicle stops to the Missouri Attorney General.
2.1 Monitoring	Tickets issued on state and federal highways and the related fines and costs collected were not properly tracked to determine the excess revenues to be distributed to the DOR. The audit estimated a total of \$36,281 in excess revenue was collected by the city during 2010 and 2009.
Recommendation	The Board of Aldermen properly track collections from fines and court costs for traffic violations on state and federal highways and distribute excess revenues to the DOR. In addition, the Board of Aldermen should pay the DOR \$36,281 for 2010 and 2009 excess revenues or review all tickets for 2010 and 2009 to determine the exact amount of excess revenues collected and disburse that amount to the DOR.
Status	Not implemented The city has not implemented procedures to track the revenue generated from traffic tickets issued on state highways. In addition to excess court revenues collected by the city for 2010 (\$33,583) and 2009 (\$2,698), the DOR determined additional excess court revenues collected during 2007, 2008, and 2011 were \$13,627, \$8,974 and \$26,016, respectively. In total,



City of Lanagan
Follow-up Report on Prior Audit Findings
Status of Findings

\$84,898 is due from the city to the DOR. DOR officials indicated a request for payment was sent to city officials in March 2012, but as of May 23, 2012, no payment had been received.

2.2 Reporting

The city did not properly report the location of vehicle stops to the Missouri Attorney General for the 2010 and 2009 Missouri Vehicle Stops Annual Report prepared by the Chief of Police. The city's submission reported all vehicle stops made by the police department for 2010 and 2009 were on city streets.

The Missouri Attorney General's web site instructions indicate state highway should be reported for the location of vehicle stops on a state highway that runs through a city. In October 2010, audit staff advised the Police Chief of this requirement and he responded that according to Google Maps the road is titled Main Street and therefore, he reported it as a city street. In February 2011, the Police Chief submitted the 2010 data and again reported all vehicle stop locations occurred on a city street.

Recommendation

The Board of Aldermen ensure the Missouri Vehicle Stops Annual Report submissions to the Missouri Attorney General are correctly completed and all traffic stops on state highways are properly reported.

Status

Not implemented

A McDonald County Grand Jury indicted the Lanagan Chief of Police charging him with five counts of felony forgery for writing citations with a non-existent Missouri statute and altering a racial profiling report (the Missouri Vehicle Stops Annual Report). After the release of our audit report, an investigation was conducted by the MSHP and the McDonald County Prosecuting Attorney which led to the Grand Jury indictments. The charges relate to the Police Chief not correctly reporting the location of traffic stops for proper determination of excess court revenue collections from vehicle stops on state highways. Another city officer was also indicted and charged with two counts of felony forgery.

On February 23, 2012, the city filed the 2011 Missouri Vehicle Stops Annual Report with the Attorney General's Office and incorrectly reported all vehicle stops made by the police department for 2011 were on an interstate highway rather than a state highway.

3. Financial Condition

The city was in poor financial condition and there was no evidence elected officials were providing the guidance and controls necessary to ensure the continuing operations of the city. The city's combined cash balance of the General and Water Funds of \$17,673 at December 31, 2010, was not adequate to pay city liabilities totaling at least \$83,994.



City of Lanagan
Follow-up Report on Prior Audit Findings
Status of Findings

The city routinely received past due notices from vendors and incurred penalties and finance charges for the late payment of invoices. In addition, the water system had severely deteriorated and water quality violations were referred to the Missouri Attorney General by the Missouri Department of Natural Resources (DNR). Further, city officials continued to increase spending without regard to the poor financial condition of the city. Poor management practices exhibited by city officials, numerous internal control weaknesses, and inaccurate accounting records, as well as the missing cash receipts of at least \$13,678 contributed to the poor financial condition.

Recommendation

The Board of Aldermen closely monitor and take the necessary steps to improve the financial condition of the General and Water Funds. The Board should perform adequate short-term and long-term planning that include implementing internal controls and monitoring procedures, accurate accounting records, and proper budgeting procedures. Additionally, the Board should contact creditors and negotiate payment plans to reduce city liabilities, and work with the DNR to repair the deteriorated water system.

Status

Not implemented

The city's financial condition has deteriorated further, and the Board of Aldermen has not adequately monitored city finances. Each month the Board of Aldermen only reviews bills to be paid and not all bills due. As a result, city liabilities have increased significantly. Accurate accounting records are not provided to the Board and the city's combined General Fund and Water Fund bank account balance has dropped to \$333, while liabilities total over \$171,000.

- Financial reports provided to us during our follow up process showed the General Fund cash balance to be \$10,468 at April 30, 2012; however, we identified an \$11,721 posting error made in January 2012, resulting in an actual deficit balance of (\$1,253). The City Clerk was not aware of this error until we brought it to her attention. Between January 1 and April 30, 2012, the city incurred overdraft fees of \$520 because accounting records were not properly reconciled to bank account balances. The Water Fund cash balance was \$1,586 at April 30, 2012. As a result, the city's available cash was only \$333 (\$1,586 - \$1,253) as of April 30, 2012.
- The city was unable to provide documentation that federal and state payroll tax withholdings have been paid since April 2011. According to the city's general ledger, as much as \$23,800 may be due to taxing authorities. This does not include interest and penalties which could be substantial.



City of Lanagan
Follow-up Report on Prior Audit Findings
Status of Findings

- The city has not remitted sales taxes collected on water billings. The DOR filed tax liens on the city for approximately \$3,200 in unpaid sales taxes for April 2011 through September 2011. No documentation was provided by the city to indicate sales tax collections were remitted for the periods of October 2011 through March 2012. The amount owed for October 2011 through March 2012 is unknown.
- The city has not made regular payments to its trash contractor and at least one \$2,000 check the city paid to the contractor was returned by the bank for insufficient funds. The cost of trash services totals approximately \$1,100 monthly, and at April 30, 2012, the city owed \$8,450 for unpaid trash services.
- The city owes its former engineer approximately \$18,000 at April 30, 2012, which includes interest of approximately \$3,975 for failing to make timely payments. Additionally, at April 30, 2012, the city was 2 months delinquent on the patrol car lease (\$988), and the General Fund owed the Water Deposit Fund approximately \$8,800.
- The city owes the Missouri DOR \$84,898 for excess court revenues (see follow up number 2.1).
- The city has not paid the State Auditor \$30,000 for the audit requested by petitioners and conducted pursuant to Section 29.230, RSMo.
- The city water system continues to deteriorate (see follow up number 5.1). The city signed a consent judgment with the Missouri Attorney General's Office agreeing to pay \$1,291 for 2010 unpaid primacy fees and \$1,457 in civil penalties for continued violations of the Missouri Safe Drinking Water Law.

Although the Board of Aldermen reduced employee hours during 2012, wages continue to be the city's biggest expense. The city has delayed paying most other city liabilities in order to continue meeting payroll expenses.

4. Accounting Controls and Procedures

Numerous weaknesses were identified with accounting controls and procedures. Extremely poor accounting controls and procedures allowed the missing funds identified in follow up number 1 to occur and go undetected.

4.1 Segregation of duties

The Board of Aldermen had not established adequate segregation of duties or supervisory review over the accounting functions performed by the City Clerk. Weaknesses identified in the utility, payroll, and property tax systems, and overall receipting and disbursing procedures were significant and demonstrated a lack of proper oversight by the Board. Additionally, in November 2010, the Board approved a city ordinance combining the offices of City Clerk and City Collector.



City of Lanagan
Follow-up Report on Prior Audit Findings
Status of Findings

Recommendation

The Board of Aldermen consider appointing separate individuals to the position of City Clerk, City Collector, and City Treasurer to adequately segregate duties. If this is not possible, at a minimum, the Board of Aldermen should perform and document reviews of the City Clerk's work.

Status

Not implemented

Duties are not segregated and review procedures are not adequate. While the Board of Aldermen are reviewing more financial reports at monthly meetings and the Court Clerk now reviews bank reconciliations prepared by the City Clerk, these procedures were not adequate to identify the \$11,721 error made in January 2012 (see follow up number 3). Additionally, the city ordinance has not been amended to separate the offices of City Clerk and City Collector.

**4.2 Receipting and
depositing procedures**

The city did not maintain adequate records of receipts, and depositing procedures were poor. As a result, there was no assurance all monies collected were properly handled, recorded, or deposited to city bank accounts.

- Receipt slips were not issued for some monies received.
- Manually issued receipt slips and utility stubs did not always indicate the method of payment, and the city did not reconcile the method of payment recorded on the receipt slips and utility stubs to the composition of receipts recorded in the computerized accounting system or to the deposit.
- Receipt slips were not issued in numerical sequence, some receipt slips were not properly voided and retained, and all copies of some receipt slips were missing from the receipt slip books.
- Monies deposited were not reconciled to receipt records.
- Monies collected were not always deposited intact or in a timely manner.
- Checks and money orders received were not restrictively endorsed immediately upon receipt.
- Access to monies received was not properly restricted.

Recommendation

The Board of Aldermen require receipt slips or billing stubs be issued or maintained for all monies received and the numerical sequence of receipt slips be accounted for properly. The method of payment should be documented and the composition of receipts reconciled to the composition of deposits. Additionally, voided receipt slips should be properly defaced and retained, all monies should be deposited intact and in a timely manner, and checks should be restrictively endorsed immediately upon receipt.



City of Lanagan
Follow-up Report on Prior Audit Findings
Status of Findings

Status	Partially implemented
	While receipt slips appear to be issued with the method of payment noted for monies received, deposits made on May 18 and May 22, 2012, were not intact. The numerical sequence of receipt slips appeared to be accounted for properly, and city officials indicated checks are now restrictively endorsed upon receipt. Deposits were made approximately twice weekly during April 2012, and no voided receipt slips were observed.
4.3 City licenses and fees	Procedures to properly account for business license fees, pet license fees, park fees, fire membership dues, and cemetery plot sales were not adequate.
Recommendation	The Board of Aldermen establish adequate records and procedures to ensure all city fees are properly collected, recorded, and deposited.
Status	In progress
	The city has not collected fees in 2012 related to pet licenses, park fees, or cemetery plots; however, the City Clerk indicated that procedures are now in place to better track business licenses and receipt slips are now issued for all city fees. Fire Department membership fee renewals are now mailed by volunteer fire department personnel, and the City Clerk writes receipt slips for the fire department membership fees she collects.
4.4 Accounting records	Accounting records were not accurately maintained. As a result, reports generated from the accounting system could not be relied upon by city officials when making decisions.
Recommendation	The Board of Aldermen ensure accounting records are accurately maintained.
Status	Not implemented
	Accounting records are not accurately maintained (see follow up number 3).
4.5 Petty cash fund	A petty cash balance of \$805 was removed from the accounting records without documentation of the disposition of the funds.
Recommendation	The Board of Aldermen maintain documentation to provide accountability of the disposition of the petty cash/change fund.
Status	Not implemented
	While the city no longer maintains a petty cash fund, no documentation was provided to account for the disposition of the \$805 petty cash fund that was removed from the accounting records.



City of Lanagan
Follow-up Report on Prior Audit Findings
Status of Findings

4.6 Bank accounts and transfers

The city had nine checking accounts and three savings accounts, resulting in excessive transfers between accounts and cumbersome recordkeeping. We identified several instances where checks were issued from one account and then directly re-deposited into the same account in error, and some transfer checks were deposited into the wrong city account and required another transfer check to correct the error. Also, several deposits were made into the wrong city account requiring transfer checks to be issued from city accounts.

Recommendation

The Board of Aldermen consider reducing the number of bank accounts.

Status

Implemented

The city consolidated some accounts, but still maintains five checking accounts.

4.7 Backups

Regular and timely backup copies of computer information were not maintained. The computer system crashed in 2009 and information had to be reentered.

Recommendation

The Board of Aldermen maintain backups of computer information and store the backups in a secure, offsite location.

Status

Implemented

City Officials indicated backup copies of the accounting records are produced weekly and stored in a fire proof safe in City Hall and in an off-site location.

5. Water and Trash Services

The city water system was failing and city officials did not have a plan to finance and repair the system. Additionally, significant weaknesses existed in control procedures related to the water system and trash service.

5.1 Deterioration of water system

The city water system infrastructure had deteriorated and was referred to the Missouri Attorney General by the DNR on January 3, 2011, for violations of National Primary Drinking Water Regulations and Missouri Safe Drinking Water Regulations.

The city lacked adequate resources required for the upgrades without passing additional costs on to utility customers, and as a result, needed substantial financial help from external sources to keep the water utility system in operation and to avoid complete failure. Although a \$100,000 bond issue was approved by voters on November 3, 2009, bonds had not been issued and this funding alone would not provide adequate funds to repair or replace the system. The city had attempted to obtain public assistance grants and/or loans to fund water system upgrades, but lacked complete and accurate financial statements, an audit of financial activities,



City of Lanagan
Follow-up Report on Prior Audit Findings
Status of Findings

and a long-term capital improvement plan, all of which are typically required for public funding.

Recommendation

The Board of Aldermen prepare short-term and long-term plans that outline the repair/replacement project and funding sources for addressing all water system deterioration issues.

Status

In progress

The city water system has continued to deteriorate. In March 2012, the main water pump failed, cutting off the water supply to the entire city for approximately a week. According to city officials, insurance proceeds funded the repair costs. In May 2012, city officials signed a Consent Judgment with the Attorney General's Office for continued violations of the Missouri Safe Drinking Water Law. According to the judgment, the city will be required to remit civil penalties totaling \$1,457 and pay 2010 primacy fees totaling \$1,291 by July 19, 2012. Civil penalties totaling \$13,113 will be suspended upon the condition the city complies with the terms of the judgment, including bringing the public water system serving Lanagan into compliance with the Missouri Safe Drinking Water Law within the timetable described in the judgment.

5.2 Adjustments

City Clerk duties included all utility billing, receipting, and recording functions, as well as posting adjustments to the utility computer system without obtaining independent approval or adequate documentation to support the reason for the adjustments.

Recommendation

The Board of Aldermen require someone independent of the utility system review and approve all adjustments, and ensure adequate documentation is retained supporting such adjustments.

Status

Implemented

The Mayor and City Clerk indicated a water system adjustment report is provided to the Board of Aldermen at monthly board meetings for its review and approval.

5.3 Water loss

Critical information used to monitor the water system distribution efficiency was not always recorded, and the city had not documented efforts to resolve significant water losses. Although the computerized water billing system automatically compared the total water pumped to the total water billed to customers, monthly water system data to perform this calculation was not always recorded, or recorded correctly, in the water accounting system, and there was no documentation the Board investigated and resolved significant water losses.



City of Lanagan
Follow-up Report on Prior Audit Findings
Status of Findings

Recommendation

The Board of Aldermen ensure complete and accurate data is entered into the water accounting system to calculate the monthly water loss percentage and document any effort to resolve significant water losses.

Status

Partially implemented

According to the April 2012 water system report, 81 percent of the water supplied to the system was lost. City officials indicated this report is now presented to the Board of Aldermen monthly. The city is working with the Attorney General to repair the city's deteriorating water system (see follow up number 5.1).

5.4 Water rates

The city had not performed a review of water rates for several years, and documentation officials provided to support the last rate increase from 2008 was not adequate. Additionally, accounting records were not accurately maintained to provide the financial data necessary to calculate the cost of operating the water system. As a result, water rates may not have been sufficient to cover the costs of operating the system.

Recommendation

The Board of Aldermen perform a documented review of water rates periodically to ensure receipts are sufficient to cover all costs of providing these services.

Status

Not implemented

Water rates have not been reviewed. The Board indicated it intends to first address the deficiency of the system before reviewing the rate structure.

5.5 Refundable water deposits

Refundable water deposit monies were not properly restricted and were used to pay city expenses. Additionally, some water deposit monies received were deposited into the wrong bank account, some were not posted to the computerized utility accounting system, and some cash received for water deposits could not be traced to a bank deposit and was missing.

According to the water deposit report for October 31, 2010, the city should have been holding at least \$14,225 in refundable water deposits; however, the balance of the Water Deposit Fund bank account at that date was only \$4,052, a difference of \$10,173.

A limited review of water deposit records revealed that not all payments for refundable water deposits were properly posted to customer accounts and therefore, were not included in the water deposit report total of \$14,225 noted above.

Recommendation

The Board of Aldermen develop a plan to repay the Water Deposit Fund bank account, review water deposit records to ensure all monies received were deposited and posted to the appropriate customer account, and prepare



City of Lanagan
Follow-up Report on Prior Audit Findings
Status of Findings

an accurate list of water deposits held and reconcile the list monthly to monies in the Water Deposit Fund bank account. Any discrepancies should be investigated and resolved.

Status

Not implemented

Restricted refundable water deposit monies continue to be used improperly to finance city operations. While the Board approved in December 2011 to begin repaying the Water Deposit Fund, \$3,000 was paid from the fund for trash service on March 2, 2012, leaving only \$433 in the account.

5.6 Delinquent accounts

Penalties were not always properly assessed on delinquent water and trash accounts in accordance with city ordinance.

Recommendation

The Board of Aldermen ensure penalties are assessed on delinquent water and trash accounts in accordance with city ordinance.

Status

Not implemented

According to the water system accounts receivable report for April 2012, penalties are still not calculated in accordance with city ordinance, and several customer accounts are significantly past due, including the Mayor's account with a balance due of \$345.

6. City Disbursements

Controls and procedures over city disbursements were in need of significant improvement.

6.1 Trash service

The city failed to solicit bids for trash services, did not have an adequate written agreement with the trash service vendor, and was delinquent in paying for this service.

Recommendation

The Board of Aldermen solicit bids periodically for trash services, maintain a signed agreement with the trash service vendor detailing city commission amounts, document the calculation of the fees paid, and determine the amount of delinquent charges and remit unpaid amounts to the trash service vendor timely.

Status

Not implemented

City officials indicated the current trash contract will expire in July 2012, and they plan to solicit bids for these services and revise the contract at that time. The city has not made timely payments to the trash vendor. In February 2012, the trash vendor notified the city that residential trash services would be discontinued unless \$4,025 was paid on the \$10,250 owed. The city paid \$3,000 from customer refundable water deposits to maintain trash service. At April 30, 2012, the city owed \$8,450 to the trash vendor.



City of Lanagan
Follow-up Report on Prior Audit Findings
Status of Findings

6.2 Water sales tax

Procedures were not in place to ensure the amount of quarterly sales tax was properly calculated and remitted to the DOR.

Recommendation

The Board of Aldermen compare quarterly sales tax returns to amounts charged and collected per the computerized water billing system and investigate any differences.

Status

Not implemented

The city discontinued remitting sales taxes collected on water sales to the DOR. As a result, liens have been filed by the DOR (see follow up number 3).

6.3 Supporting documentation

Adequate supporting documentation was not maintained for many city disbursements. Of 25 disbursements reviewed, we identified 11 without adequate supporting documentation. Additionally, procedures were not in place to document receipt of goods and services and to cancel invoices when payment was made. Further, the city failed to retain adequate documentation to support the use of approximately \$55,000 in federal and state grant monies.

Recommendation

The Board of Aldermen maintain adequate supporting documentation for all disbursements. Such documentation should be clearly marked as paid to avoid duplicate payments and receipt of goods or services should be indicated. In addition, the Board of Aldermen should ensure documentation related to state and federal grant funds is retained by the city.

Status

Implemented

The City Clerk has established files for paid vendor invoices.

6.4 Approval process

The Board of Aldermen did not have adequate controls over the approval process for disbursements. Additionally, the list of bills approved each month was not complete, and a comparison of this list to actual checks written was not performed. Further, the Board routinely approved a total amount of bills to pay that exceeded the available cash balance.

Recommendation

The Board of Aldermen ensure the list of bills to be paid is complete and accurate and adequate funds are available to pay amounts approved, and compare checks written to the list of bills approved for payment.

Status

Not implemented

The list of unpaid bills provided to the Board of Aldermen monthly is incomplete, and the Board continues to approve an amount to pay that exceeds the city's available cash balances. There was no documentation to indicate that checks written are compared to bills approved for payment.



City of Lanagan
Follow-up Report on Prior Audit Findings
Status of Findings

6.5 Engineering services	The city contracted with an engineering firm in June 2009 and then renegotiated the contract in April 2010, without documentation of the evaluation and consideration of other firms.
Recommendation	The Board of Aldermen comply with state law regarding the selection of engineering services.
Status	Implemented The city solicited proposals for engineering services and contracted with a firm for services related to the city's deteriorating water system.
6.6 Late fees, overdraft fees, and financial charges	Bills were not paid timely and late fees and/or finance charges were often incurred. In addition, city bank accounts were overdrawn on several occasions incurring overdraft fees.
Recommendation	The Board of Aldermen implement procedures to ensure bills are paid timely and bank account balances are properly monitored to avoid late fees, finance charges, and bank overdraft fees.
Status	Not implemented Bills are not paid timely, and the city continues to overdraw bank accounts and incur overdraft fees.
<hr/>	
7. Restricted Funds	Expenses were not properly allocated among city funds, and law enforcement training (LET) fees were not properly restricted to training related expenses.
7.1 Allocation of expenses	No documentation was maintained to support the allocation of expenses among funds.
Recommendation	The Board of Aldermen properly allocate expenses among city funds and maintain documentation to support the allocation.
Status	Not implemented Although expenses for various city activities are uniquely coded in the computerized accounting system, documentation is not maintained to support the allocation. Additionally, the city transfers monies as needed from the Water Fund account to the General Fund account without regard to the amount of water related disbursements made from the General Fund.
7.2 Law enforcement training fund	LET monies were not always used for purposes allowed by state law.



City of Lanagan
Follow-up Report on Prior Audit Findings
Status of Findings

Recommendation The Board of Aldermen ensure LET funds are expended in accordance with state law.

Status **Partially implemented**

Only one disbursement was made from the LET account between January 1, and April 30, 2012, which appears to be training related; however, LET fees of \$170 were credited to the General Fund instead of the LET Fund.

10. Financial Statements, Budgets, and Audits The city did not comply with state law regarding financial reporting and budgeting. In addition, the city did not have annual audits.

10.1 Financial statements The city failed to publish semi-annual financial statements for the 6 months ended December 31, 2010, and financial statements published for other time periods contained errors and were incomplete. Additionally the city had not submitted annual financial statements to the State Auditor's office since 2007.

Recommendation The Board of Aldermen ensure complete and accurate financial statements are published and submitted to the State Auditor's office as required by state law.

Status **Not implemented**

Although city officials prepared semi-annual financial statement for the 6 months ended December 31, 2011, the financial statements did not include fund balances and city indebtedness, and were not published as required by state law. Further, no report has been filed with the State Auditor's office.

10.2 Budgets City budgets did not comply with state law. The budgets did not include the beginning and estimated ending cash balances, and did not include actual receipts and disbursements for the 2 preceding years. Additionally, the budgets did not include indebtedness. Further, the 2010 budget for the General and Fire Funds reflected budgeted deficit fund balances of \$27,921 and \$18,686, respectively.

Recommendation The Board of Aldermen ensure budgets comply with state law.

Status **Partially implemented**

The 2012 budget included actual receipts and disbursements for the 2 preceding years, but did not include beginning and ending estimated cash balances. Additionally, the budget did not include indebtedness of the city or the receipts and disbursements related to residential trash services.



City of Lanagan
Follow-up Report on Prior Audit Findings
Status of Findings

10.3 Annual audits

The city did not obtain an annual audit. While an annual audit is not required by law, an audit of city funds would help ensure financial transactions are properly recorded and monies are accounted for properly. Additionally, an audit of the water fund may assist the city in obtaining outside funding sources to improve the water system. Further, considering the significant problems identified in the audit report, an annual audit of city funds should be considered by the Board of Aldermen.

Recommendation

Consider obtaining annual audits.

Status

Not implemented

No effort has been made to obtain an audit of the city.

11. Ordinances and Meetings

Improvement was needed with ordinances, and the city did not always ensure compliance with the Sunshine Law.

11.1 Ordinances

Significant problems were noted with procedures for establishing and maintaining ordinance records.

- A complete orderly set of ordinances was not maintained, and ordinances were not properly updated. Some ordinances could not be located, and some ordinances were not properly signed and dated.
- The city had not adopted ordinances to adequately establish guidelines for operation of the fire department and cemetery. Varying amounts were collected by the city for fire dues and cemetery plot sales, and these fees were not established by ordinance.
- The rate charged to customers for trash pick-up was not set by ordinance.

Recommendation

The Board of Aldermen maintain a complete updated set of city ordinances in an organized manner and adopt ordinances addressing the operation of the fire department and cemetery, and an ordinance setting the rate for trash pick-up services.

Status

Not implemented

City officials indicated that because of the city's poor financial condition, monies have not been available to continue codifying the ordinances. Additionally, new ordinances have not been approved to address issues identified in the audit report.

11.2 Meetings

Procedures for complying with the Sunshine Law and maintaining minutes of meetings needed improvement.



City of Lanagan
Follow-up Report on Prior Audit Findings
Status of Findings

- Meeting minutes were not always sufficient to demonstrate how some issues discussed in closed meetings were allowable under the Sunshine Law.
- Open meeting minutes did not record a roll call vote of the Board of Aldermen to enter into closed session.
- Some open meeting minutes did not include the time and place of the meeting.
- Meeting minutes were not always prepared and approved in a timely manner.
- Meeting minutes were not always filed in an organized manner. Some minutes were not filed in date order, making it difficult to ensure the city had minutes for all Board of Aldermen meetings.
- No records were maintained of meetings held by the park, fire, or cemetery committees.

Recommendation

The Board of Aldermen limit discussions in closed meetings to only those specifically allowed by law and record roll call votes to enter closed session in open meeting minutes. Additionally, the Board of Aldermen should ensure meeting minutes are properly and timely prepared and approved for all meetings (including committee meetings), and filed in an orderly manner.

Status

Partially implemented

Procedures for complying with the Sunshine Law have not improved. A roll call vote of the Board of Aldermen to enter into closed session or specific reason for entering into closed session is not recorded. Some topics discussed in closed session may not be allowable under the Sunshine Law. For example, the Board discussed and voted to reduce the working hours of city employees due to the city's financial condition in closed meetings. Meeting minutes are now prepared and approved for all meetings and filed in an orderly manner.