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Missouri State Auditor

City of Diamond

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CITIZENS SUMMARY

Findings in the audit of the City of Diamond

City Sales Tax and Lease	<p>The city no longer allocates a portion of sales tax revenue to parks and recreation as originally outlined in the city ordinance at the time the issue was approved by voters. The city's attorney entered into a \$11,173 tax exempt lease arrangement in the city's name to finance a copy machine for his private law office. There is no documentation indicating the Board approved this lease, and city officials indicated they did not know of the lease until they received a notice from the Internal Revenue Service. The city's attorney said the payments are made by his law office, but this arrangement has potentially obligated the city to pay for property that does not belong to the city and has resulted in various taxes related to this transaction not being paid.</p>
Disbursement Procedures	<p>Some disbursements are not properly approved and supported by adequate documentation, and no documentation was maintained to support the allocation of expenses among funds. The city did not always comply with city code bid requirements. For example, the city did not advertise for bids for the purchase of two patrol cars and has not solicited bids for mowing services. The city did not document its evaluation and selection of engineering services for the sewer construction project.</p>
Accounting Controls and Procedures	<p>Accounting duties are not adequately segregated, and adequate independent reviews are not conducted. Receipt slips were not always issued for payments made by check, do not always correctly document the method of payment, and were not always issued in numerical order. Receipts were not always deposited intact or timely or deposited into the proper city bank account. Monies received are not always timely posted to the computer system, and computer system controls are not adequate. The city should consider closing some of its nine bank accounts and evaluate options which might reduce the \$1,800 monthly fee paid to the contracted accountant or result in in-house preparation of monthly reconciliations.</p>
Utility System Controls and Procedures	<p>The Board approved a 5 percent increase in water and sewer rates, but it did not maintain documentation to support the amount of the rate increase. The city has had significant increases in the amount of unbilled water (water loss), including approximately 783,000 gallons in July 2010 (25 percent of the water pumped) and 2.5 million gallons in June 2012 (49 percent of the water pumped), but there is no documented effort by the Board to address the losses. The city does not have a policy regarding partial payments of utility charges, but some customers are allowed to make partial payments without Board approval. For the year ended June 30, 2012, the city paid approximately \$1,800 more than required by contract for trash services, and it paid approximately \$1,500 more than required for the year ended June 30, 2011.</p>
Payroll Procedures	<p>The city does not always follow its personnel policy regarding overtime. Employees do not sign time cards and time cards are not adequately reviewed, resulting in inaccurate payroll calculations for some employees. Five of the seven time cards we reviewed had errors.</p>

Property Tax Controls and Procedures	The city did not comply with various statutory provisions related to property taxes. The City Collector did not prepare monthly and annual reports summarizing the amount of property taxes collected as well as delinquent property taxes and present them to the Board. The City Clerk did not verify the accuracy of the property tax books or charge the City Collector with the amount to be collected. There was no documentation to indicate the Board held a public hearing on the city's proposed property tax levy.
Financial Statements and Budgets	Annual budgets did not contain all required elements. The Board did not adequately monitor budget to actual revenues and expenditures and did not properly amend the budget. For the year ended June 30, 2011, actual disbursements exceeded budgeted amounts by \$81,319 in the city's General Fund, and for the year ended June 30, 2012, unaudited financial statements indicate disbursements in the General and Park/Storm Water Funds exceeded budgeted amounts by approximately \$11,000 each. The city did not publish its financial statements in accordance with state law.
Meetings and Ordinances	The Board did not prepare minutes for some open meetings, and minutes did not always contain some necessary information. Open meetings do not always document a roll call vote to enter into closed session or a specific reason for entering into closed session. Closed meeting minutes were not prepared for five of eleven closed meetings, and some issues discussed in closed meetings were not allowable under the Sunshine Law. Some ordinances have not been properly updated, and some ordinances were not signed and dated to document approval by the Board.

In the areas audited, the overall performance of this entity was **Fair**.*

American Recovery and Reinvestment Act (Federal Stimulus)	The city was approved to receive Recovery Act loan funds of \$650,000, and on June 21, 2012, the Board of Aldermen approved City Ordinance Number 363 to issue these waterworks and sewerage system bonds.
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*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.

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THOMAS A. SCHWEICH

Missouri State Auditor

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

The State Auditor was petitioned under Section 29.230, RSMo, to audit the City of Diamond. We have audited certain operations of the city in fulfillment of our duties. The city engaged Taylor and Associates, Certified Public Accountants (CPAs), to audit the city's financial statements for the years ended June 30, 2012 and 2011. To minimize duplication of effort, we reviewed the report and substantiating working papers of the CPA firm for the year ended June 30, 2011, audit, since the year ended June 30, 2012, audit had not been completed. The scope of our audit included, but was not necessarily limited to, the 2 years ended June 30, 2012. 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 operations, including certain financial transactions.

Our methodology included reviewing minutes of meetings, written policies and procedures, financial records, and other pertinent documents; interviewing various personnel of the city, as well as certain external parties; and testing selected transactions. We obtained an understanding of internal controls that are significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contract 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 Diamond.

An additional report, No. 2012-78, *Fortieth Judicial Circuit, City of Diamond Municipal Division*, was issued in August 2012.



Thomas A. Schweich
State Auditor

The following auditors participated in the preparation of this report:

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City of Diamond

Management Advisory Report

State Auditor's Findings

1. City Sales Tax and Lease

The city no longer allocates a portion of sales tax revenue to parks and recreation as originally outlined in the city ordinance at the time the issue was approved by voters. Additionally, a tax exempt lease agreement in the city's name was used to finance a copy machine for the private law office of the city's attorney.

1.1 City sales tax

The city is not allocating a portion of the revenue generated from a one-half cent city sales tax to parks and recreation. A city ordinance requiring a portion of the city's sales tax revenue to be allocated to parks and recreation was amended after the sales tax issue was approved by voters.

In November 2003, voters approved a one-half cent general sales tax. The ballot language specifically referenced City Ordinance No. 256 which was passed by the Board of Aldermen in August 2003 and states in part, "A portion of the tax, equal to one-eighth of one percent (.0125 percent) shall be earmarked for expenditures for the parks and recreation."

According to city officials the percentage stated in Ordinance Number 256 was not correct. In February 2005, Ordinance Number 262 was passed to amend the initial ordinance and list the percent allocated to parks and recreation as 0.125 percent. Then, in November 2006, Ordinance Number 262 was amended with the passage of Ordinance 285 which indicates that the portion previously allocated to parks and recreation would now be distributed to the city's General Fund. As a result, the city discontinued allocating a portion of the sales tax revenue to parks and recreation.

According to documentation prepared by the city in 2003, the city estimated total sales tax revenues of \$20,000 with \$5,000 to be used for parks. This sales tax generated approximately \$35,000 during the year ended June 30, 2012, and, using the same calculation method as the city, this results in approximately \$8,750 that could have been used for parks and recreation.

Although the city's original sales tax ordinance earmarked a portion of the sales tax revenue for parks and recreation, city officials believe the city is not legally required to follow the restriction because the ballot language only referred to the ordinance and did not specifically restrict the funds. However, the city does not have any documentation to indicate legal counsel was consulted prior to lifting the restriction of these sales tax revenues.

1.2 Tax exempt lease

In February 2011, the city's attorney entered into a \$11,173 tax exempt lease agreement in the city's name to finance a copy machine for his private law office. Current city officials indicated they were unaware of the lease until they received a notice from the Internal Revenue Service of the outstanding tax exempt obligation.



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All financing documents and IRS reporting documents are in the city's name with only the signature of the city's attorney. There is no documentation in Board meeting minutes to indicate the Board approved the obligation. According to the city's attorney, the monthly payments for the obligation are paid by his law office and the arrangement was verbally approved by a former Mayor.

This arrangement appears to have potentially obligated the city to pay an \$11,173 lease for property that does not belong to the city. In addition, this arrangement has resulted in sales taxes and income taxes not being paid related to this transaction, depriving the federal, state and local governments of these taxes.

To ensure the city is not obligated for the lease agreement and avoid misunderstandings related to tax consequences, the city's attorney should be required to amend the lease agreement and other related documents, and provide adequate documentation to the city verifying the situation has been resolved.

Recommendations

The Board of Aldermen:

- 1.1 Consult legal counsel to determine if the city is legally authorized to amend the original sales tax ordinance to eliminate the parks and recreation restriction, and if applicable, calculate the amount of park and recreation revenue for prior years and transfer that amount from the city's General Fund to a fund restricted for parks and recreation.
- 1.2 Instruct the city's attorney to correct the filings he has made with the IRS, bank, and copier company, and provide documentation to the city to support these corrections.

Auditee's Response

The Board of Aldermen provided the following written responses:

- 1.1 *We have addressed this recommendation by passing Resolution #092012 on September 10, 2012 to allocate one eighth of the one percent sales tax into the city's parks and recreation account. We will determine if any prior year amounts of sales tax collections should be transferred.*
- 1.2 *We will review the tax exempt lease with our attorney and ask him to remove the obligation from the city's name. This apparently was an arrangement agreed to by a prior city official, but it will not be continued. All financing obligations issued in the city's name must now have approval by the Board of Aldermen and provide a clear benefit to the city.*



2. Disbursement Procedures

2.1 Approval and documentation

The Board needs to improve procedures for approving and documenting disbursements, allocating expenses to city funds, and soliciting bids or proposals for goods and services.

Some disbursements are not properly approved and supported by adequate documentation. Although the Board approves a list of disbursements each meeting, the list is not always complete, and in some instances not retained.

Four electronic payments totaling \$736 were made from the city's General Fund bank account for credit card payments between July and October 2010 without adequate documentation. The city was unable to provide credit card statements or documentation to show what was purchased, and these payments were not included on the list of bills the Board approved. Accounting records reflect these transactions as general operating expenses but do not specify what was purchased. The former City Clerk thought these were on-line purchases of supplies, such as checks.

Additionally, the monthly list of disbursements approved by the Board could not be located for November 2010 through March 2011, and June 2011. Further, payroll disbursements are not reviewed and approved by the Board.

To ensure all disbursements are an appropriate use of city funds, adequate supporting documentation should be maintained, and the list of disbursements approved by the Board should be complete and retained to document the Board's review and approval.

2.2 Allocation of expenses

No documentation was maintained to support the allocation of expenses among funds. The Board votes to alternate some expenses, such as accounting fees, from the Water/Sewer Fund to the General Fund every other year. Additionally, employee salaries are not allocated based upon the work performed. For example, salaries of the city's two maintenance employees are allocated entirely to the Water/Sewer Fund even though they also perform street repair duties. The City Collector's main duty is to account for water and sewer monies; however, her entire salary is paid from the General Fund.

Proper allocation of expenses, including payroll, is necessary for the city to accurately determine the results of operations of specific activities, thus enabling the city to establish the level of taxation and/or user charges necessary to meet all operating costs. Documentation should be maintained to support the allocation of expenses.

2.3 Procurement procedures

The city did not always comply with Chapter 130 of the City Code which requires city officials to advertise for bids for items or services costing more than \$5,000. For example, the city did not advertise for bids for the purchase of two patrol cars costing a total of approximately \$25,000. Procurement



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documentation maintained by the city only included advertisement flyers from three law enforcement car dealers. Additionally, the city has not solicited bids for mowing services costing \$8,455 during the year ended June 30, 2012.

In addition to complying with city code, competitive bidding helps ensure the city has made sufficient effort to receive goods or services at the best and lowest price and all parties are given an equal opportunity to participate in city business. Complete documentation of all bids and proposals received and reasons why a bid or proposal was selected helps demonstrate the city conducts a fair procurement process and provides information needed should questions arise.

2.4 Engineering services

The city did not document its evaluation and selection of engineering services for the sewer construction project. In April 2010, an agreement was signed with an engineering firm with estimated costs of \$55,000, and in October 2011, two change orders were approved increasing engineering costs to \$115,000.

Sections 8.289 and 8.291, RSMo, provide requirements for obtaining, evaluating, and negotiating engineering services.

Recommendations

The Board of Aldermen:

- 2.1 Ensure documentation is maintained for all disbursements and the list of disbursements approved at the monthly Board meeting is complete and retained.
- 2.2 Ensure city expenses are properly allocated to the applicable city funds and allocations are supported by adequate documentation.
- 2.3 Ensure bids are solicited in accordance with city code.
- 2.4 Comply with state law when procuring engineering services and document the evaluation and selection process.

Auditee's Response

The Board of Aldermen provided the following written responses:

- 2.1 *The listing of invoices approved for payment by the Board of Aldermen is now retained with monthly Board of Aldermen meeting minutes. Adequate documentation is now maintained for all city disbursements.*
- 2.2 *The City conducted a time allocation survey of personnel duties in July, August and September 2012 for all employees except the City Clerk. We will allocate personnel costs accordingly and reassess allocations periodically. The City Clerk will also document her time*



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and allocate her salary appropriately. The allocation of other expenses will also be reviewed.

2.3 *We will review the city's procurement requirements to determine if current requirements are sufficient for the city's purchasing needs. Additionally, better documentation will be maintained to support bidding procedures.*

2.4 *On future projects we will comply with state law when obtaining engineering services.*

3. Accounting Controls and Procedures

The City's accounting controls and procedures need improvement.

The City Collector receives various revenues including water, sewer, trash, fire protection fees, property tax assessments, sales taxes, franchise fees, and other miscellaneous revenues. Cash, checks, money orders and credit card payments are accepted. Revenues totaling approximately \$650,000 were collected during the year ended June 30, 2012.

3.1 Segregation of duties

The Board has not established adequate segregation of duties or supervisory review over the City Collector's duties.

The duties of receiving, recording, and depositing all monies are primarily performed by the City Collector. Additionally, the City Collector is responsible for billing and tracking all utility and property tax accounts. This includes posting adjustments to customer utility accounts. While the city has contracted with an outside accountant to perform bank reconciliations and prepare the city's financial reports, no one compares receipts to deposits or reviews adjustments made to customer utility accounts.

Proper segregation of duties helps ensure all transactions are accounted for properly and assets are safeguarded. If segregating these duties is not possible, at a minimum, procedures for adequate independent reviews should be established and documented.

3.2 Receipting and depositing procedures

The city's receipting and depositing procedures are poor. As a result, there is no assurance all monies collected were properly deposited in city bank accounts.

Receipt slips are not always issued for payments made by check. In addition, receipt slips do not always correctly document the method of payment received, and the method of payment recorded on the receipt slips is not reconciled to the composition of the deposit.

- Receipts were not always deposited intact or timely. For example, a \$50 utility deposit received on June 29, 2011, was not deposited until



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September 14, 2011. Additionally, a \$200 building rental deposit was held and returned to the renter after building use rather than being deposited.

- Receipt slips are not always issued in numerical order and all copies of some voided receipt slips were not retained.
- Receipts are not always deposited into the proper city bank account. For example, water and sewer receipts are often deposited into the city's General Fund bank account. Adjustments are routinely made to correct depositing errors.

Failure to implement adequate receipting and depositing procedures increases the risk that loss or misuse of monies received will go undetected and accounting records will contain errors.

3.3 Recording procedures

Monies received are not always posted to the city's computer system timely, and computer system controls are not adequate.

Several instances were noted where payments were posted several days after received. Additionally, the city's computerized utility/property tax system allows receipt transactions to be posted in prior periods. For example, a customer's \$153 utility deposit received in August 2010, was not entered into the computer system until November 2011, when the resident notified the city of a pending move. The system allowed for the receipt to be entered into the prior period dated August 2010. While the system can generate a report of back dated transactions, this report is not generated and reviewed by city personnel. The ability to post transactions to prior periods allows manipulation of receipts information and provides less assurance all monies received are deposited.

To ensure receipts are properly recorded and deposited, and computerized records are up-to-date, receipts should be posted to the computer system in the proper period and immediately upon receipt. Additionally, to prevent receipts from being entered into prior periods, consideration should be given to contacting the software programmer to add control features to the program to prevent these changes. If programming changes cannot be made, a report of back dated transactions should be generated and reviewed periodically.

3.4 Bank accounts

The city has nine bank accounts, resulting in cumbersome recordkeeping. Several deposits were made into the wrong account and the city pays a contracted accountant a monthly fee of \$1,800 to reconcile all bank accounts monthly and determine the amount of transfers needed to correct errors.



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To help simplify city records, the Board should consider reducing the number of bank accounts and evaluate options which might reduce the monthly fee paid to the contracted accountant or result in in-house preparation of monthly reconciliations.

Recommendations

The Board of Aldermen:

- 3.1 Adequately segregate the duties of the City Collector. If this is not possible, at a minimum, the Board should perform and document the review of the City Collector's work.
- 3.2 Ensure receipt slips are issued for all monies received, the composition is documented correctly on receipt slips, all monies are deposited intact in the proper city bank account and in a timely manner, and reconcile the composition of receipts to the composition of deposits. Additionally, the Board should ensure the numerical sequence of receipt slips is accounted for properly and all copies of voided receipt slips are retained.
- 3.3 Ensure receipts are posted to the computer system timely and contact the programmer to determine if control features can be incorporated into the computer system to prevent receipts from being recorded in a prior period. If software changes cannot be made, the back dated transaction report should be generated and reviewed periodically.
- 3.4 Consider reducing the number of city bank accounts and evaluate options which might reduce the monthly fee paid to the contracted accountant or result in in-house preparation of monthly reconciliations.

Auditee's Response

The Board of Aldermen provided the following written responses:

- 3.1 *Some City Collector duties have now been segregated. The City Clerk is currently processing the city's utility bills. A review of manual receipt slips and deposit records will also now be performed.*
- 3.2 *Proper receipting and depositing procedures have now been implemented.*
- 3.3 *Receipts are now posted to the system daily. We will contact the city's software provider to determine the feasibility of implementing stronger computer controls.*



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3.4 *We will communicate with the contracted accountant to determine the appropriate number of city bank accounts and any cost saving measures the city can implement to reduce accounting costs.*

4. Utility System Controls and Procedures

The city did not adequately review the costs associated with operating the water and sewer system prior to raising rates in April 2011. Additionally, the city's water loss has increased significantly in the last 2 years and some customers are allowed to make partial payments on their water and sewer accounts without Board approval or signed payment agreements. Amounts paid to the city's trash service vendor are more than required by contract.

4.1 Water and sewer rates

The city has not performed a formal review of water and sewer rates and did not adequately document the calculation of the water and sewer rate increase approved in April 2011.

A 5 percent increase in water and sewer rates was approved by the Board in April 2011, based upon the city's need to collect \$14,500 monthly in water and sewer fees to offset monthly expenses; however, there is no documentation to support how the \$14,500 was determined. According to city financial statements, the Water/Sewer Fund incurred a net loss of approximately \$12,000 for the year ended June 30, 2012.

Section 67.042, RSMo, provides that fees may be increased if supported by a statement of costs, which shows the increase is necessary to cover costs of providing the service. Water and sewer fees are user charges which should cover the cost of providing the related services. The city should perform a detailed review of its water and sewer costs, including depreciation and debt service costs, and set rates to cover the total cost of operation. Preparing a statement of costs would not only allow the city to determine the rates necessary to support current and future operations, but also provide documentation to customers of the rationale behind the rates. Such rate studies should be performed periodically.

4.2 Water loss

The city has experienced a significant increase in the amount of unbilled water (water loss) each month and has not documented efforts to resolve the losses.

The city's computerized water and sewer billing system compares total water pumped to total water billed to customers to determine the amount of water loss. In 2 years the amount of water loss each month has increased significantly. In July 2010, the city water loss was approximately 783,000 gallons (25 percent of the water pumped); however, in June 2012, the water loss was approximately 2.5 million gallons (49 percent of the water pumped).

While the Board meeting minutes occasionally reference the city's water losses, there is no documented effort by the Board to address the losses. City



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officials indicated that water lines are deteriorating and need to be replaced and some unmetered water is also suspected.

To help detect significant water loss and ensure all water use is properly billed, the Board should review the reconciliation of gallons of water pumped to gallons of water billed on a monthly basis and document efforts to investigate and resolve the differences. According to the United States Environmental Protection Agency, the water industry goal for unaccounted for water is 10 percent or less.¹

4.3 Partial payments

Although the city does not have a policy regarding partial payments by utility customers, some customers are allowed to make partial payments without Board approval to avoid being disconnected. In addition, these customers are not required to sign an agreement for the payment arrangements. The City Collector indicated about five customers are currently making partial payments on their utility bills.

To ensure all customers are treated equitably, a formal policy should be established documenting the process to determine when payment plans are allowed, how the payment amount is to be established, and the approval process for these arrangements. In addition, a signed written payment agreement is necessary to indicate the intent of the customer to pay the outstanding balance and to aid in accounting for and collecting amounts due to the city.

4.4 Trash services

The city pays more for trash service than required by contract.

Charges for trash services are included on customer water and sewer bills, collected by the city, and remitted to the trash service vendor monthly. According to the city's contract with its trash vendor, the city should pay the vendor based upon the number of residential units billed each month; however, during the year ended June 30, 2012, the city calculated the monthly payment based upon 395 residents even though the actual number of residents billed has varied from 376 to 388 monthly. As a result, the city paid approximately \$1,800 more for trash services than required by contract. City officials believe the billing amount of 395 units was orally negotiated by a former city official.

During the year ended June 30, 2011, the method the city used to calculate the amount paid to the trash service vendor was not documented and seemed to vary from month to month. For several months the city appears to have paid either the same dollar amount as the city collected from residents or an amount reasonably close to collections; however, the city's monthly trash

¹ United States Environmental Protection Agency, "Using Water Efficiently: Ideas for Utilities," <<http://www.epa.gov/watersense/pubs/utilities.html>>, accessed on August 16, 2012.



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rate includes an administrative fee of 70 cents which is to be retained by the city and not included in the contracted amount to be paid to the trash service vendor. For the year ended June 30, 2011, the city paid the trash vendor approximately \$1,500 more than required by contract.

To ensure amounts paid for trash service are calculated in accordance with contract terms, the actual number of residents billed should be used to calculate the amount owed.

Recommendations

The Board of Aldermen:

- 4.1 Document formal reviews of water and sewer rates periodically to ensure revenues are sufficient to cover all costs of providing these services and to support any rate increases.
- 4.2 Review the reconciliation of gallons of water pumped to gallons of water billed on a monthly basis and document efforts to investigate and resolve the differences.
- 4.3 Establish a formal written policy regarding partial payments for delinquent accounts, and obtain a signed written agreement to support the payment arrangement.
- 4.4 Calculate payments to the trash vendor based upon contract terms.

Auditee's Response

The Board of Aldermen provided the following written responses:

- 4.1 *With the current sewer bond requirements, rates were increased again in September 2012. We believe water and sewer rates were properly reviewed and calculated by our engineer or the United States Department of Agriculture. We will contact them to obtain a copy of the statement of costs to support our recent rate increase.*
- 4.2 *The city's past meter maintenance program was poor. We recently began recalibrating and replacing city meters as needed to ensure meter readings are accurate. Some water system leaks have also been discovered and water system controls have been identified to obtain more accurate system reconciliation reports. We are reviewing reconciliation reports monthly and working to resolve the significant water losses.*
- 4.3 *We will review city procedures for partial utility payments and update the city's procedures as necessary.*



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4.4 *This recommendation has been implemented. Payments to the city's trash vendor are now being made in accordance with the contracted terms.*

5. Payroll Procedures

Procedures for compensating employees for overtime are not consistent and do not always agree with the city personnel policy. Additionally, improvement is needed in calculating, reviewing and approving hours reported as worked on employee time cards.

5.1 Overtime Compensation

The city personnel policy regarding overtime is not always followed, and the city has not consistently followed the same procedures for awarding compensatory time or overtime to employees.

According to city officials and Board meeting minutes, the positions of City Clerk, City Collector, and Police Chief are salaried positions and these employees do not receive compensatory time or payment for overtime. However, the city personnel policy indicates overtime compensation for city employees is based upon hours worked in excess of 40 hours in a week or over 8 hours per day. The policy further defines individuals serving in these positions as city employees. Employees serving in these positions complete time cards and routinely work more than 40 hours per week but do not receive overtime payment or compensatory time.

The September 2011 Board meeting minutes indicate the newly appointed City Clerk and City Collector are not allowed compensatory time; however, in November 2011, the Board approved paying the former City Clerk \$1,973 for unpaid overtime worked between January 2009 and September 2011.

To ensure city personnel policies are followed and employees are properly compensated, the Board should review city policies and procedures to ensure they are consistently applied and comply with the Fair Labor Standards Act (FLSA) of 1938. The personnel policy should be updated if necessary.

5.2 Time cards

Employees do not sign time cards certifying hours recorded are accurate. Additionally, time cards are not adequately reviewed resulting in inaccurate payroll calculations for some employees.

We reviewed time cards for seven city employees for the pay period dated February 6 through 11, 2012, and noted errors in calculating total time worked on five of the seven time cards. Errors ranged from insignificant amounts to a 49 minute shortage on one part-time employee's time card who only worked approximately 8 hours during the pay period. City employees use a time clock to document their time in and time out. A conversion chart is used to help calculate the total hours an employee worked; however, apparently errors were made when using the conversion chart.



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To ensure the accuracy of the hours worked, time recorded and payroll amounts disbursed, time cards should be signed by the employee and reviewed and approved by the supervisor.

Recommendations

The Board of Aldermen:

- 5.1 Compare the city personnel policy regarding employee overtime to procedures followed by the city to ensure they are consistent and comply with the FLSA. If necessary the Board should update the personnel policy.
- 5.2 Implement procedures to ensure time cards are signed by the employee, time worked is properly calculated, and time cards are adequately reviewed and approved by a supervisor.

Auditee's Response

The Board of Aldermen provided the following written responses:

- 5.1 *The Board will consult with legal counsel and review and update the city's current policy to ensure FLSA requirements are followed.*
- 5.2 *This recommendation has been implemented. Employees are now signing time cards and time cards are reviewed and signed by supervisors.*

6. Property Tax Controls and Procedures

Improvement is needed in reporting property taxes to the Board and in verifying the accuracy of the property tax book. Additionally, documentation was not available to show that a public hearing was held to set the city's tax levy. The city collects approximately \$14,500 in property taxes annually.

6.1 Monthly and annual property tax reports

Monthly and annual reports were not prepared and presented to the Board summarizing the amount of property taxes collected as well as property taxes which remain delinquent. In January 2012, the Collector reported to the Board there were unpaid taxes on 33 properties totaling \$1,960; however, a detailed list was not provided.

Sections 79.310, 94.320, and 94.330, RSMo, require the City Collector to prepare and submit monthly and annual reports to the Board of the amount of taxes collected and annual lists of delinquent taxes, including a detailed list of persons who have not paid. The Board is to examine and approve the reports and charge the City Collector with collection of the amounts due.

Monthly and annual reports which comply with state law would help provide assurance taxes have been properly collected, written off, or determined to be delinquent. Without such reports, examined by the Board, any errors or irregularities that might occur are likely to go undetected.



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6.2 Property tax books

The City Clerk does not verify the accuracy of the property tax books, or charge the City Collector with the amount to be collected. The City Collector enters the information received from Newton County into the city's computer system and generates the tax book and tax statements.

Section 94.290, RSMo, requires the City Clerk to charge the City Collector with the amount to be collected. Verification of tax book information and totals is necessary to ensure the amount charged to the City Collector is complete and accurate and to provide some independent review and control over city tax collections.

6.3 Property tax rates

Documentation could not be provided to indicate the Board held a public hearing on the city's proposed property tax levy. While the Board annually approves the city's tax levy during regular open Board meetings in August, there is no documentation to indicate that a notice of public hearing was published or posted by the city.

Section 67.110.2, RSMo indicates the governing body will hold at least one public hearing to be published in at least one newspaper or posted in three public places prior to approval of the proposed tax rates.

Recommendations

The Board of Aldermen:

- 6.1 Require the City Collector prepare detailed monthly and annual reports as required by state law. The Board should examine the reports for propriety and accuracy.
- 6.2 Require the City Clerk to verify the accuracy of the property tax book and charge the City Collector with the amount of taxes to be collected.
- 6.3 Hold a public hearing prior to setting the city's property tax rates in accordance with state law.

Auditee's Response

The Board of Aldermen provided the following written responses:

- 6.1 *Detailed city tax reports are now being provided to the Board.*
- 6.2 *The City Clerk is now verifying the accuracy of the city's tax books and charging the City Collector with the amount of taxes to be collected.*
- 6.3 *The Board held a public hearing to set the 2012 property tax levy.*



7. Financial Statements and Budgets

The city does not comply with state law related to budget preparation, budget monitoring, budget amendments, and published financial statements.

7.1 Budget preparation

Annual budgets do not contain all elements required by state law. Budgets for the years ended June 30, 2012, and 2011, did not include a budget message and actual and budgeted amounts for the 2 preceding years. The budgets only included projected receipts and disbursements for the coming year.

Section 67.010, RSMo, sets specific guidelines for the format of the annual operating 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 and utility rates and informing the public about city operations and current finances.

7.2 Excess disbursements and budget amendments

The Board does not adequately monitor budget to actual revenues and expenditures and does not properly amend the budget.

According to audited financial statements for the year ended June 30, 2011, General Fund actual disbursements exceeded budgeted amounts by \$81,319. Additionally, the city's unaudited financial statements for the year ended June 30, 2012, indicate disbursements in the General and Park/Storm Water Funds exceeded budgeted amounts by approximately \$11,000 each. Although monthly budget to actual comparison financial reports are received from the contracted accountant the Board does not adequately review the reports and amend the budget when necessary. According to Board meeting minutes for December 2011, the Board approved amending budgets; however, the city officials indicated there was no official resolution of the Board and no documentation could be located to indicate which funds were amended or the amount of the amendments. City officials indicated that apparently amendments were not completed as approved.

Section 67.080, RSMo, provides that no disbursement of public monies should be made unless it is authorized in the budget. In addition, Section 67.040, RSMo, allows for budget increases, but only after the governing body officially adopts a resolution setting forth the facts and reasons. To ensure compliance with state law, the Board should properly monitor actual expenditures compared to budgeted amounts and formally amend the budget by resolution of the Board.

7.3 Financial statements

The city did not comply with state law regarding publishing financial statements. Financial statements for the 6 months ending December 31, 2011, were not published until March 9, 2012, after we inquired about the



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city's published financial statements. The city subsequently published a financial statement for the year ending June 30, 2011, on March 18, 2012.

Section 79.160, RSMo, requires the Board to prepare and publish financial statements of each six month period which include a full and detailed account of the receipts, expenditures, and indebtedness of the city. In addition, Section 79.165, RSMo, states the city cannot legally disburse funds until the financial statements are published.

Recommendations

The Board of Aldermen:

- 7.1 Prepare annual budgets that contain all information as required by state law.
- 7.2 Perform adequate reviews of budget to actual financial information monthly, ensure actual disbursements do not exceed budgeted amounts, and if necessary, amend the city's budget through resolution of the Board.
- 7.3 Ensure financial statements are published in accordance with state law.

Auditee's Response

The Board of Aldermen provided the following written responses:

- 7.1 *We plan to amend the city's 2012-2013 budget to comply with state law.*
- 7.2 *In the future, we will monitor the city's expenditures to ensure budgeted amounts are not exceeded and if necessary amend the budget through the city's budget process.*
- 7.3 *Financial statements will be published timely, and documentation will be obtained to verify the publication.*

8. Meetings and Ordinances

Procedures for conducting and documenting open and closed Board meetings need improvement. Additionally, some ordinances were not properly updated or signed as approved.

8.1 Open meetings

Minutes were not prepared for some open meetings of the Board. For example, no minutes were taken during the Board meeting held on May 19, 2012, when the City Clerk was appointed, and open meeting minutes referenced budget work sessions held on April 13 and 27, 2011, by the Board; however, no minutes were prepared for these work sessions.

Additionally, meeting minutes do not always contain some necessary information. For example, appointments, made by the Mayor and approved by the Board, to the city Planning and Zoning Commission and Parks Board



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are not always documented in meeting minutes, and some open meeting minutes do not include the time and place of the meeting.

Section 610.020, RSMo, requires meeting minutes be maintained to retain a record of business conducted and to provide an official record of board actions and decisions.

8.2 Closed meetings

Significant weaknesses were identified during our review of closed meetings of the Board.

- Open meeting minutes do not always record a roll call vote of the Board members to enter into closed session or a specific reason for entering into closed session is not always documented.
- Closed meeting minutes were not prepared for 5 of 11 closed meetings held by the Board during the 2 years ended June 30, 2012.
- Based upon closed meeting minutes documentation, some issues discussed in closed meetings were not allowable under the Sunshine Law. For example closed meeting minutes indicated the Board discussed employee work hours, job descriptions, and the court computer system during closed sessions.
- The April 19, 2012, open meeting minutes indicate the Mayor wanted to go into closed session but some members objected because the closed session was not included on the agenda. According to meeting minutes the Mayor stated that since a closed session was not on the agenda the Board should adjourn the open meeting and immediately meet again in a special closed meeting following the adjournment. According to closed meeting minutes the Board discussed on-line bill paying, employee benefits, email accounts for Board members, and city budgetary procedures during the special closed meeting.

The Sunshine Law, Chapter 610, RSMo, requires that before any meeting may be closed, the question of holding the closed meeting and the reason for the closed meeting, including reference to a specific section of the law, shall be voted on at an open session. In addition, this law limits discussions in closed meetings to only those items specifically allowed by law; requires governmental bodies to prepare and maintain minutes of closed meetings; and requires reasonable notice of meetings.

8.3 Ordinances

Improvement is needed in maintaining city ordinances. Some ordinances have not been properly updated and some ordinances were not signed and dated to document approval by the Board. For example, the city did not update the ordinance defining the compensation for the Police Chief when the new Chief was hired in August 2011. Additionally, in April 2011, Board meeting minutes indicate the Board approved an increase in water and sewer



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rates and a new ordinance was prepared with the updated rate structure; however, it was not officially read and approved, signed and dated.

Since ordinances represent legislation passed by the Board to govern the city and its residents, it is important ordinances be approved, signed, dated, and maintained in a complete and up-to-date manner.

Recommendations

The Board of Aldermen:

- 8.1 Maintain complete and accurate minutes for open meetings.
- 8.2 Ensure the vote to close a session is documented in the open minutes, along with the reason for closing the session. In addition, the Board should ensure only allowable subjects are discussed in closed session, minutes are maintained for all closed sessions, and reasonable notice is given for all meetings.
- 8.3 Ensure ordinances are approved, signed, dated and maintained in a complete and up-to-date manner.

Auditee's Response

The Board of Aldermen provided the following written responses:

- 8.1 *This recommendation has been implemented. We are now maintaining complete and accurate minutes of all Board meetings.*
- 8.2 *We will comply with state law while conducting closed meetings.*
- 8.3 *More complete and up-to-date ordinances are now maintained.*

City of Diamond

Organization and Statistical Information

The City of Diamond is located in Newton County. The city was incorporated in 1950 and is currently a fourth-class city. The city employed six full-time employees and four part-time employees on June 30, 2012.

City operations include utilities (water/sewer), law enforcement, recreational facilities (parks), and contracted fire protection services.

Mayor and Board of Aldermen

The city government consists of a mayor and four-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 June 30, 2012, are identified below. The Mayor is paid an annual salary of \$3,603 and members of the Board of Aldermen are not compensated. The compensation of city officials is established by ordinance.

Shane Hunter, Mayor
Brian Navarro, Alderman, Ward One
Nancy Lewis, Alderwoman, Ward One
Lisa Mitchell, Alderwoman, Ward Two
Billie Jo Hardy, Alderman, Ward Two

American Recovery and Reinvestment Act 2009 (Federal Stimulus)

On March 18, 2010, the City of Diamond was approved to receive discretionary Recovery Act loan funds of \$650,000 through the United States Department of Agriculture, Rural Development for completion of a sewer upgrade project. On June 21, 2012, City Ordinance Number 363 was approved by the Board of Aldermen to issue these waterworks and sewerage system bonds for \$650,000.