



Thomas A. Schweich

Missouri State Auditor

City of Coffey

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Missouri State Auditor

CITIZENS SUMMARY

Findings in the audit of the City of Coffey

Accounting Controls and Procedures	The Board of Aldermen has not segregated duties or performed adequate reviews of the work performed by the City Clerk. The City Clerk does not record the method of payment (cash or check) for utility monies received, so the composition of receipts cannot be reconciled to the composition of deposits. The city's profit and loss financial statements contained errors and did not include cash balances, and the city's 11 separate bank accounts complicate recordkeeping. The city does not maintain capital asset records, does not tag assets for specific identification, and does not conduct an annual physical inventory. The city has not established or documented job expectations or duties for some city employees.
Budgets	The city's budget documents did not include any information for 7 of the city's 11 funds and did not contain all elements required by state law. The City Clerk does not provide budget-to-actual information to the Board at its meetings, so the Board does not ensure disbursements remain within budgeted appropriations. The Board approved some budget amendments after the city's year end.
Utility Controls and Procedures	The city has not performed a formal review of water and sewer rates and, as a result, there is less assurance utility rates are set at an appropriate level. The city does not prepare a monthly list of utility deposit liabilities and reconcile it to the Utility Deposit bank account balance, and it had no record of deposits for 43 of 69 (62 percent) customers on the list of current customers. The city does not regularly reconcile total gallons of water billed to gallons of water pumped. The report for the year ended June 30, 2013 showed the city billed for 682,215 gallons (22 percent) less than it pumped, which is indicative of water loss issues and/or possible unbilled usage. The city does not obtain annual audits of the water and sewer system.

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

*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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City of Coffey

Table of Contents

State Auditor's Report	2
------------------------	---

Management Advisory	
Report - State Auditor's	1. Accounting Controls and Procedures4
Findings	2. Budgets.....6
	3. Utility Controls and Procedures7

Organization and Statistical	10
Information	



THOMAS A. SCHWEICH

Missouri State Auditor

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

The State Auditor was petitioned under Section 29.230, RSMo, to audit the City of Coffey. We have audited certain operations of the city in fulfillment of our duties. The scope of our audit included, but was not necessarily limited to, the year ended June 30, 2013. 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, grant agreement, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

We conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis.

The accompanying Organization and Statistical Information is presented for informational purposes. This information was obtained from the city's management and was not subjected to the procedures applied in our audit of the city.

For the areas audited, we identified (1) deficiencies in internal controls, (2) noncompliance with legal provisions, and (3) the need for improvement in management practices and procedures. The accompanying Management Advisory Report presents our findings arising from our audit of the City of Coffey.



Thomas A. Schweich
State Auditor

The following auditors participated in the preparation of this report:

Deputy State Auditor: Harry J. Otto, CPA
Director of Audits: Regina Pruitt, CPA
Audit Manager: Lori Melton, M.Acct., CPA
In-Charge Auditor: Terri Erwin, MBA, CGAP

City of Coffey

Management Advisory Report

State Auditor's Findings

1. Accounting Controls and Procedures

There are numerous weaknesses with accounting controls and procedures.

1.1 Segregation of duties

The Board of Aldermen has not segregated duties or performed adequate reviews of the work performed by the City Clerk. The City Clerk is responsible for receiving, recording, and depositing monies; reconciling bank accounts; preparing invoices for payment and preparing checks; and posting entries in the accounting system. Additionally, the City Clerk performs utility billing procedures and payroll related duties. Many of these duties would normally be performed by a City Treasurer and City Collector; however, the city does not have individuals serving in these positions.

Proper segregation of duties helps ensure all transactions are accounted for properly and assets are adequately safeguarded. Attorney General's Opinion No. 24, 1955 to Dodds, concluded that in a fourth-class city, the holding of the positions of City Clerk, City Treasurer, and City Collector, or any two of these offices, by the same person at the same time would be incompatible. If segregating duties is not possible, a timely supervisory review by the Board of Aldermen should be performed and documented.

1.2 Receipts

The City Clerk does not record the method of payment (cash or check) for utility monies received. Therefore, the composition of receipts cannot be reconciled to the composition of deposits.

To ensure all monies are properly recorded and deposited intact, the method of payment should be recorded and the composition of monies received should be reconciled to the composition of deposits.

1.3 Accounting records

The city's profit and loss financial statements contained errors and did not include cash balances. The City Clerk did not reconcile the profit and loss financial statements to the check registers and did not identify errors in the statements. The Board does not review the profit and loss financial statements or compare to supporting records to ensure accuracy.

To be of maximum assistance to the Board and to adequately inform the public, the city's records should accurately report financial activity and account balances.

1.4 Bank accounts

The city has 11 separate funds and maintains 11 corresponding bank accounts, resulting in cumbersome record keeping. Several transfers from one account to another were necessary for cash flow purposes during the year ended June 30, 2013.



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

To help simplify city records, reduce the number of account transfers, and minimize the risk of errors, the Board should consider reducing the number of bank accounts.

1.5 Capital assets

The city does not maintain records for its capital assets including buildings, utility system infrastructure, equipment, and other property. Additionally, assets are not tagged for specific identification, and an annual physical inventory is not performed.

Adequate capital asset records and procedures are necessary to provide controls over city property; safeguard city assets that are susceptible to loss, theft, or misuse; and provide a basis for proper financial reporting and insurance coverage.

1.6 Job descriptions

The city has not established or documented job expectations or duties for some city employees. For example, the city does not have an ordinance or documentation of what duties are expected to be performed by the Water and Sewer Operator, who receives \$350 per month.

Documentation of duties and job descriptions would clarify the duties and responsibilities of each employee and help prevent misunderstandings.

Recommendations

The Board of Aldermen:

- 1.1 Adequately segregate the duties of the City Clerk. At a minimum, there should be a documented supervisory review of the city records and reconciliations.
- 1.2 Require the method of payment be recorded, and the composition of receipts be reconciled to the composition of deposits.
- 1.3 Establish procedures to ensure accounting records accurately report financial activity and account balances. In addition, the Board should review these reports to effectively monitor the city's financial activity.
- 1.4 Consider reducing the number of city bank accounts.
- 1.5 Ensure property records are maintained that include all pertinent information for each asset such as tag number, description, cost, acquisition date, location and subsequent disposition. The Board should also properly tag, number, or otherwise identify all applicable city property and conduct and document an annual inventory.
- 1.6 Establish and document the duties of all city employees.



Auditee's Response

The Board of Aldermen provided the following responses:

1.1-1.3 We agree and will implement the recommendations.

1.4 We agree. We will review the accounts to identify accounts which can be closed.

1.5

&1.6 We agree and will implement the recommendations.

2. Budgets

The city has not established adequate procedures to ensure budgets were prepared for all funds, and included all elements required. Budget-to-actual receipts and disbursements were not adequately monitored.

2.1 Budget preparation

The city did not prepare complete budget documents for the years ended June 30, 2014, and 2013; the budgets did not include any information for 7 of the city's 11 funds and did not contain all elements required by state law. As a result, the Board is not using all available information to assist in effectively managing the city, and the public is not provided a complete overview of city finances. Budgets for the years ended June 30, 2014, and 2013, did not include a budget message, actual and budgeted amounts for the 2 preceding years, and beginning and ending actual and estimated cash balances. The budgets only included projected receipts and disbursements for the coming year.

Section 67.010, RSMo, requires the budget present a complete financial plan for the ensuing budget year and also sets specific guidelines for the format. A complete budget should include the beginning available resources and a reasonable estimate of the ending available resources. 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.

2.2 Budget monitoring

The Board does not adequately monitor budget-to-actual receipts and disbursements. As a result, budget amendments were approved after the city's year end for some funds. Additionally, actual disbursements exceeded budgeted disbursements (appropriations) for some funds.

The City Clerk does not provide budget-to-actual information to the Board at its meetings. Therefore, the Board is not reviewing information to ensure disbursements remain within budgeted appropriations. According to accounting records, the city overspent 3 of the 4 funds budgeted (General, Sewer, and Water) prior to amending the budgets. On July 9, 2013, the



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

Board approved an ordinance amending the budgeted appropriations for these 3 funds for the year ended June 30, 2013, after the fiscal year ended.

Section 67.040, RSMo, requires political subdivisions to keep disbursements within amounts budgeted, but allows for budget increases if the governing body officially adopts a resolution setting forth the facts and reasons. In addition, Section 67.080, RSMo, provides that no disbursement of public monies should be made unless it is authorized in the budget. Proper monitoring and amending prior to disbursing funds is necessary for the budget to be an effective management tool and comply with state law.

Recommendations

The Board of Aldermen:

- 2.1 Prepare annual budgets for all funds that contain all information as required by state law.
- 2.2 Properly monitor actual disbursements compared to budgeted disbursements, and ensure actual disbursements do not exceed budgeted disbursements.

Auditee's Response

The Board of Aldermen provided the following responses:

- 2.1 *We agree. We have been working to improve the budget and will take your recommendation under advisement while we continue to make improvements.*
- 2.2 *We agree and will implement the recommendations.*

3. Utility Controls and Procedures

There are weaknesses in city operations related to utility services. The city provided utility services to 74 customers per the May 2013 billing report. According to the city's profit and loss financial statement, the city collected approximately \$28,700 in water fees and \$15,500 in sewer fees during the year ended June 30, 2013.

3.1 Utility rates

The city has not performed a formal review of water and sewer rates, and as a result, there is less assurance utility rates are set at an appropriate level. The city increased water and sewer rates in September 2013. According to the city's profit and loss financial statement, the Water Fund and Sewer Fund incurred an operating loss of \$393 and \$5,057, respectively, for the year ended June 30, 2013.

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 that should cover the cost of providing the related services. The city should perform a detailed review of its utility costs, including depreciation and debt service



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

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.

3.2 Utility deposits

The city does not prepare a monthly list of utility deposit liabilities and reconcile the list to the Utility Deposit bank account balance. New customers are required by ordinance to pay a refundable deposit before receiving utility service. At our request, the City Clerk prepared a list of current customers as of January 13, 2014, including any information available regarding utility deposits. The city had no record of deposits for 43 of 69 (62 percent) customers shown on the list prepared. Deposits for the remaining 26 customers listed totaled \$3,842, and the reconciled balance in the Utility Deposit bank account totaled \$3,279, resulting in a shortage of \$563.

Maintaining a list of deposits and reconciling this list to the bank balance is necessary to ensure deposits are properly recorded and are sufficient to meet liabilities. Any discrepancies should be promptly investigated and resolved.

3.3 Water reconciliation

The city does not regularly perform a reconciliation of total gallons of water billed to gallons of water pumped, although the information is available to perform this reconciliation. A monthly report showing gallons pumped and billed is available from the system but not reviewed by city personnel. We reviewed the year ended June 30, 2013, report and identified unaccounted for water. The report showed the city pumped 3,115,010 gallons of water and billed customers for 2,432,795 gallons, a difference of 682,215 gallons or 22 percent of water pumped. This significant difference is indicative of water loss issues and/or possible unbilled usage, and indicates a need for follow up.

Monthly reconciliations of gallons of water billed to gallons of water pumped and tracking city water usage is necessary to help detect significant water loss and ensure all water use is properly billed. According to the United States Environmental Protection Agency, the water industry goal for unaccounted for water is 10 percent or less.¹

¹ United States Environmental Protection Agency, "Using Water Efficiently: Ideas for Utilities," <<http://www.epa.gov/WaterSense/docs/community508.pdf>>, accessed February 12, 2014.



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

3.4 Annual audits

Annual audits of the water and sewer system are not performed.

Section 250.150, RSMo, requires the city to obtain annual audits of the combined water and sewer system. In addition to being required by state law, annual audits of city funds help ensure monies are properly handled and financial transactions are properly recorded.

Recommendations

The Board of Aldermen:

- 3.1 Document formal reviews of utility rates periodically to ensure revenues are sufficient to cover all costs of providing these services and to support any rate increases.
- 3.2 Ensure a list of utility deposits on hand is prepared and reconciled monthly to the Utility Deposit reconciled bank balance. Any discrepancies should be promptly investigated and resolved.
- 3.3 Ensure all water use is properly metered, gallons of water pumped is reconciled to gallons billed monthly, and investigate any significant differences.
- 3.4 Obtain annual audits of the water and sewer system as required.

Auditee's Response

The Board of Aldermen provided the following responses:

- 3.1 *When the rate was raised, an informal review was performed. A Board member performed the review and kept documentation. However, only the results of the review were presented to the full Board at a Board meeting. Formal documentation will be presented to the Board based on the Board member's review. The Board will ensure formal reviews of future rate determinations.*
- 3.2 & 3.3 *We agree and will implement the recommendations.*
- 3.4 *The Board was not aware of the state statute requiring an audit of the combined water and sewer system. The Board will implement the recommendation.*

City of Coffey

Organization and Statistical Information

The City of Coffey is located in Daviess County. The city was incorporated in 1965 and is currently a fourth-class city. The city employed four part-time employees on June 30, 2013.

City operations include utilities (water, sewer, and solid waste removal).

Mayor and Board of Aldermen

The city government consists of a mayor and a 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, 2013, are identified below. The Mayor and the Board of Aldermen members are paid \$20 per regular meeting. In addition, the Mayor receives a \$35 mileage stipend monthly. The compensation of these officials is established by ordinance.

John Eacret, Mayor
John Vondran, Mayor Pro Tem
Paul Chair, Alderman
Virgil Griffin, Alderman
Ermagene Welty, Alderwoman

Financial Activity

A summary of the city's financial activity for the year ended June 30, 2013, follows:

City of Coffey
Schedule of Receipts, Disbursements, and Changes in Cash Balances
Year Ended June 30, 2013

	General Fund	Building Fund	Street Fund	Water Fund	Sewer Fund	Sewer Repair Fund	Sewer Depreciation Fund	Utility Deposit Fund	Solid Waste Removal Fund	Solid Waste Deposit Fund	Tax Fund	Late Fees Fund	Total
RECEIPTS													
Property taxes	\$ 5,473	0	0	0	0	0	0	0	0	0	0	0	5,473
Franchise tax	4,561	0	0	0	0	0	0	0	0	0	0	0	4,561
Motor fuel and vehicle fees	0	0	5,970	0	0	0	0	0	0	0	0	0	5,970
Water and sewer fees	0	0	0	28,709	15,546	0	0	0	0	0	0	0	44,255
Solid waste fees	0	0	0	0	0	0	0	0	10,414	0	0	0	10,414
Water and sewer deposit	0	0	0	200	200	0	0	2,850	0	65	0	0	3,315
Solid waste deposit	0	0	0	0	0	0	0	0	0	261	0	0	261
Late fees	0	0	0	0	0	0	0	0	0	0	0	2,182	2,182
Interest	0	40	0	0	17	0	7	7	12	0	0	7	90
Miscellaneous	158	0	0	0	0	0	0	0	0	0	0	0	158
Total Receipts	10,192	40	5,970	28,909	15,763	0	7	2,857	10,426	326	0	2,189	76,679
DISBURSEMENTS													
Personal service	3,526	0	661	6,336	4,512	0	0	0	0	0	0	0	15,035
Payroll taxes	471	0	111	915	747	0	0	0	0	0	0	0	2,244
Board meeting stipend	400	0	0	340	400	0	0	0	0	0	0	0	1,140
Expense and equipment	501	0	599	190	4,104	0	0	0	0	0	0	0	5,394
USDA bond payment	0	0	0	0	5,880	0	0	0	0	0	0	0	5,880
Trash removal	0	0	0	0	0	0	0	0	7,228	0	0	0	7,228
Backhoe expense	0	0	0	3,112	1,523	0	0	0	0	0	0	0	4,635
Insurance	448	0	600	485	433	0	0	0	0	0	0	0	1,966
Utilities	3,389	0	4,146	16,664	1,747	0	0	0	0	0	0	0	25,946
Supplies	859	0	321	230	192	0	0	0	0	0	0	0	1,602
Fuel and fuel allowance	245	0	0	385	455	0	0	0	0	0	0	0	1,085
Mileage expense	0	0	0	600	450	0	0	0	0	0	0	0	1,050
Membership dues	823	0	0	0	0	0	0	0	0	0	0	0	823
Road rock	0	0	1,272	311	0	0	0	0	0	0	0	0	1,583
Utility deposit refund	0	0	0	0	0	0	0	2,372	0	0	0	0	2,372
Miscellaneous	1,084	0	32	1,201	377	3	0	0	0	0	0	0	2,697
Total Disbursements	11,746	0	7,742	30,769	20,820	3	0	2,372	7,228	0	0	0	80,680
RECEIPTS OVER (UNDER) DISBURSEMENTS	(1,554)	40	(1,772)	(1,860)	(5,057)	(3)	7	485	3,198	326	0	2,189	(4,001)
TRANSFERS													
Transfers from:													
Building Fund	0	(1,100)	0	0	0	0	0	0	0	0	0	0	(1,100)
Solid Waste Removal Fund	0	0	0	0	0	0	0	0	(2,000)	0	0	0	(2,000)
Tax Fund	0	0	0	0	0	0	0	0	0	0	(331)	0	(331)
Late Fees Fund	0	0	0	0	0	0	0	0	0	0	0	(1,467)	(1,467)
Transfer to:													
General Fund	1,431	0	0	0	0	0	0	0	0	0	0	0	1,431
Street Fund	0	0	2,000	0	0	0	0	0	0	0	0	0	2,000
Water Fund	0	0	0	1,467	0	0	0	0	0	0	0	0	1,467
Total Transfers	1,431	(1,100)	2,000	1,467	0	0	0	0	(2,000)	0	(331)	(1,467)	0
RECEIPTS OVER (UNDER) DISBURSEMENTS	(123)	(1,060)	228	(393)	(5,057)	(3)	7	485	1,198	326	(331)	722	(4,001)
ADJUSTMENTS *	214	0	(411)	(112)	(321)	0	0	143	43	(65)	0	0	(509)
CASH BALANCE, JULY 1, 2012	326	16,305	699	1,597	14,916	60	4,483	2,682	4,281	174	331	2,248	48,102
CASH BALANCE, JUNE 30, 2013	\$ 417	15,245	516	1,092	9,538	57	4,490	3,310	5,522	435	0	2,970	43,592

* Unidentified difference between beginning and ending cash balances