



Office of Missouri State Auditor
Nicole Galloway, CPA

FOLLOW-UP REPORT ON AUDIT FINDINGS

City of Coffey

Report No. 2019-020
March 2019

auditor.mo.gov

City of Coffey

Follow-Up Report on Audit Findings

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*Includes selected findings



NICOLE GALLOWAY, CPA Missouri State Auditor

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

We have conducted follow-up work on certain audit report findings contained in Report No. 2018-046, *City of Coffey* (rated as Poor), issued in July 2018, pursuant to the Auditor's Follow-Up Team to Effect Recommendations (AFTER) program. The objectives of the AFTER program are to:

1. Identify audit report findings for which follow up is considered necessary, 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 specific plans to begin, or 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 has no specific plans to implement the recommendation.

As part of the AFTER work conducted, we reviewed documentation provided by city officials and held discussion with city officials to verify the status of implementation for the recommendations. Documentation provided by the city included minutes of meetings, financial records, and other pertinent documents. This report is a summary of the results of this follow-up work, which was substantially completed during February 2019.

A handwritten signature in black ink that reads "Nicole R. Galloway".

Nicole R. Galloway, CPA
State Auditor

City of Coffey

Follow-Up Report on Audit Findings

Status of Findings

1. **Missing Monies and Unsupported and Falsified Transactions** Utility receipts totaling at least \$33,984 were received but not deposited. In addition, unsupported payroll checks totaling \$24,634 were written to the former City Clerk, and payroll records indicated the former City Clerk was overpaid an additional \$1,556.
- Undeposited utility receipts Between September 2015 and August 2017, the former City Clerk did not deposit \$33,984 of recorded utility receipts. The former City Clerk recorded unsupported utility payments for herself totaling \$2,645 (included in the \$33,984), but these payments could not be traced to a deposit.
- Improper payroll checks Improper payroll checks totaling \$24,634 were written to the former City Clerk from the city's water and sewer bank accounts from April 29, 2016, through July 28, 2017. Also, \$13,432 of improper payroll payments made during 2016 and \$11,202 of improper payroll payments and \$201 of regular payroll payments made during 2017 were not included on the former City Clerk's W-2 forms and not subject to payroll tax withholdings.
- Payroll over (under) payments A comparison of the hours reported on timesheets to hours paid according to the payroll reports showed discrepancies resulting in the former City Clerk being overpaid an additional \$1,556 from November 2015 through August 2017.
- Falsified document According to city officials, the former City Clerk created false meeting minutes indicating a special Board meeting was held on February 23, 2017, authorizing a \$1,500 withdrawal from one of the city's savings accounts and subsequent deposit into 3 other city bank accounts.

Recommendation The Board of Aldermen work with law enforcement officials regarding criminal prosecution of the undeposited utility receipts, improper payroll checks, payroll over (under) payments, and the falsified meeting minutes, and take the necessary actions to seek restitution. The Board should also ensure payroll taxes are properly withheld and all compensation reported on W-2 forms, and amend W-2 forms for unreported compensation, as appropriate.

Status **In Progress**

The Board of Aldermen is working with the Daviess County Sheriff and Prosecuting Attorney regarding criminal prosecution of the former City Clerk. Multiple criminal charges of stealing and forgery were filed against the former City Clerk and the case is ongoing as of February 2019. The city received a \$50,000 insurance settlement for employee dishonesty in October 2017. The Board does not plan to amend the former City Clerk's W-2 forms until the criminal case is concluded.



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2. Conflict of Interest, Board Objectivity, Oversight, and Annual Audits
Some activities involving former Alderman Browning created a conflict of interest, and the employment of individuals directly supervised by and related to Board members could have compromised the Board's objectivity. The Board had not established adequate oversight of the City Clerk position or obtained annual audits as required by state law.

2.1 Conflict of interest and objectivity
Former Alderman Browning created a conflict of interest when he voted to approve salary increases and payroll checks to his wife, the former City Clerk. In addition, the current City Clerk is the daughter of 2 of 4 current Board members, and the Board had not established policies and procedures to address employment and supervision of a related employee. As a result, the objectivity and effectiveness of the Board may have been compromised.

Recommendation
The Board of Aldermen closely examine city transactions to identify apparent and actual conflicts of interest and adopt procedures to address the employment and supervision of relatives.

Status
Implemented
The Board of Aldermen approved revised ordinances on December 17, 2018, and Section 7 of these ordinances addresses conflicts of interest, procedures to identify conflicts of interest, and the employment and supervision of relatives. Currently, the 2 Board members that are related to the City Clerk abstain from voting on issues with her involvement, including salary increases. The Mayor is responsible for supervising the City Clerk's duties and reviews all financial reports, bank statements, and her timesheets and the related payroll checks.

2.2 Oversight and segregation of duties
The Board had not established adequate segregation of duties or supervisory reviews over the various financial accounting functions performed by the City Clerk. In addition, Board members indicated the former Mayor often signed blank checks in advance.

Recommendation
The Board of Aldermen segregate accounting duties to the extent possible and implement appropriate reviews and monitoring procedures. In addition, the Board should not allow any check signers to sign checks in advance.

Status
Implemented
The Mayor indicated he now reviews and documents his review of monthly bank statements and reconciliations. Board members indicated financial statements are presented at each monthly meeting for review and approval. We reviewed the December 2018 bank statements, reconciliations, and monthly financial statements, and evidence of the Mayor or Board's review and approval. Board members indicated checks are no longer signed in advance.



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2.3 Annual audits	The city did not obtain annual audits as required.
Recommendation	The Board of Aldermen obtain annual audits of the waterworks and sewerage system as required by state law.
Status	In Progress The Board of Aldermen contracted for an audit of the city for the year ending June 30, 2018, and the audit was in process as of February 2019.
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3. Accounting Controls and Procedures	Significant weaknesses existed in the city's accounting controls and procedures.
3.1 Receipting and depositing procedures	The city's procedures for receipting and depositing monies were poor. <ul style="list-style-type: none">• The former City Clerk did not always issue receipt slips for monies received.• All copies of some receipt slips were missing from the receipt books. Also, the top copy of some voided receipt slips was not retained.• City personnel did not consistently indicate the method of payment, or reconcile the method of payment to the composition of receipts recorded in the computerized utility system or to the deposit.• The former City Clerk did not deposit monies timely or intact.
Recommendation	The Board of Aldermen require receipt slips be issued for all monies received with the method of payment indicated, the composition of receipts be reconciled to the composition of amounts recorded and deposited, receipt slips (including the top copy of voided receipt slips) be retained, and monies received be deposited timely and intact.
Status	Implemented Our review of December 2018 financial activity showed that manual receipt slips were issued for all monies received with the method of payment indicated on the receipt slip, the composition of receipt slips was reconciled to amounts recorded and deposited, and monies received were deposited timely and intact. No receipt slips were voided during December 2018. The City Clerk indicated that all copies of voided receipt slips are now being retained.
3.2 Bank accounts, reconciliations, and fees	Controls and procedures over bank accounts and reconciliations needed improvement.



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Number of bank accounts	The city maintained an excessive number of bank accounts, resulting in cumbersome record keeping.
Bank reconciliations	The former City Clerk did not perform monthly bank reconciliations from March 2017 through July 2017.
Overdraft and minimum balance fees	The Board and the former City Clerk failed to monitor the city's cash balances and incurred overdraft and minimum balance fees.

Recommendation

The Board of Aldermen review the number of bank accounts. The Board should also ensure monthly bank reconciliations are prepared and reconciled timely, and any differences are promptly investigated and resolved. The Board should also properly monitor bank account balances to avoid bank fees.

Status

Implemented

The Board reduced the number of bank accounts by eliminating the savings account. The City Clerk and Board members indicated bank accounts are reconciled timely and bank account balances are monitored to avoid fees. Our review of the December 2018 bank reconciliations showed the reconciliations were prepared by the City Clerk and reviewed by the Mayor timely. The city was not charged any overdraft fees during the year ended December 31, 2018.

3.3 Accounting records and financial statements

City officials did not maintain accurate accounting records and financial statements.

- Some transactions were not accurately recorded in the computerized accounting system, and the dates recorded on the actual checks differed from those recorded in the computerized accounting system.
- The semiannual financial statements prepared by the former City Clerk were misleading and significantly inaccurate.
- The former City Clerk prepared packets for Board members for each monthly meeting and most information contained in the packets was inaccurate.

Recommendation

The Board of Aldermen ensure accounting records and financial reports are accurate. The Board should perform adequate reviews of financial reports and checks written before approving.

Status

Implemented

The Mayor reviews and compares bank activity to the accounting records monthly and reviews financial reports, supporting documentation, and



City of Coffey
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Status of Findings

checks written before approving and signing checks. Our comparison of the accounting records to the monthly financial report prepared for the Board for December 2018, showed no discrepancies. The semiannual financial statement for the 6 month period ending December 31, 2018, was accurate and reviewed and approved by the Board.

3.4 Excessive and unauthorized transfers and commingling of restricted funds

The former City Clerk made excessive and unauthorized transfers between various bank accounts, and did not always deposit utility receipts into the proper bank account, which led to commingling of restricted funds.

Recommendation

The Board of Aldermen monitor and reduce the number of transfers made between bank accounts and ensure monies received are deposited in the appropriate bank accounts.

Status

Implemented

Board members indicated they have reduced the number of transfers made between bank accounts and the Mayor reviews deposits and bank statements to ensure monies received are deposited in the appropriate bank accounts. We reviewed the December 2018 bank statements and accounting records, and determined no transfers between bank accounts occurred and the City Clerk deposited monies into the correct bank accounts.

3.5 Utility deposits

The list of refundable utility deposits was not accurate and not reconciled to the balance of the utility deposit bank account.

Recommendation

The Board of Aldermen reconcile the utility deposit listing monthly to the utility deposit bank account balance. Any discrepancies should be investigated and resolved.

Status

Implemented

The City Clerk prepares a list of refundable utility deposits monthly and reconciles it to the utility deposit bank account balance. The Mayor reviews the list and the related bank statement and reconciliation monthly. We reviewed the December 31, 2018, reconciliation and noted the list agreed to the balance of the utility deposit bank account.

4.2 Electronic Data Security
- Security controls

Security controls were not in place to lock the city's computer after a specified number of incorrect logon attempts or after a certain period of inactivity.

Recommendation

The Board of Aldermen ensure the city's computer has security controls in place to lock after a specified number of incorrect logon attempts and after a certain period of inactivity.



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Status

Implemented

The City Clerk indicated the city's computer now locks after a specified number of incorrect logon attempts and a certain period of inactivity.