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FOLLOW-UP REPORT ON AUDIT FINDINGS

City of Clarksdale

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City of Clarksdale
Follow-Up Report on Audit Findings
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*Includes selected findings

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To the Mayor and Board of Aldermen
Clarksdale, Missouri

We have conducted follow-up work on certain audit report findings contained in Report No. 2012-80, *City of Clarksdale*, issued in August 2012, 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 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 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 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 written statuses of the selected findings and recommendations, reviewed supporting documentation submitted by city officials, and held discussions with city officials. This report is a summary of the results of this follow-up work, which was substantially completed during May and June 2013.

Thomas A. Schweich
State Auditor

City of Clarksdale
Follow-Up Report on Prior Audit Findings
Status of Findings

1.1 Water and Sewer - Segregation of Duties

No segregation of water and sewer system duties existed. The Water Commissioner was responsible for all aspects of the water and sewer billing system, including reading meters, entering meter readings into the computer software system, determining who received bills, making account adjustments, mailing bills, receipting all water and sewer payments, and depositing payments in the bank. There was no oversight of the duties performed by the Water Commissioner.

Recommendation

The Board of Aldermen segregate the Water Commissioner's duties to the extent possible. If proper segregation of duties cannot be achieved, an independent review of the work performed is necessary.

Status

Implemented

At the issuance of our audit report the city had implemented new procedures to segregate the water/sewer duties. The Water Commissioner continues to read meters and handle all duties related to water operations, however, the City Clerk is now responsible for entering meter readings into the billing system and preparing all bills, while the Treasurer is now responsible for collecting and depositing all paid water bills. In addition, city officials indicated an ordinance establishing policy for water/sewer operations has recently been passed by the Board, and will be placed in the city code book shortly. The ordinance includes billing procedures, insufficient check policy, discontinuance and reconnection of services, new service and meter deposits, water/sewer rates, method of inquiry, service and complaint procedures, water meter and service line leaks, termination of service, maintenance, damage to city water property, and primacy fees.

1.2 Water and Sewer - System Adjustments

Controls over adjustments to the water and sewer system were not adequate. Adjustments were not approved by the Board or Mayor, and adjustments posted to the system lacked supporting documentation.

Recommendation

The Board of Aldermen ensure all system adjustments are approved by the Board and the ability to post such transactions to the system is segregated from other collection and billing activities. In addition, the Board should require adequate supporting documentation before the adjustment is applied.

Status

Implemented

All potential adjustments are requested in the monthly water report, approved by the Board, and documented in the minutes. The City Clerk indicated a notation is placed in the billing system at the time any change is made. Water/sewer rates of all customers have been reviewed and the correct rates have been established for each. All occupied residences are receiving bills except for the city hall and community center. The utility

billing system upgrade has been installed, and the City Clerk has been trained in this system.

1.3 Water and Sewer -Water Costs	The costs of providing water service had not been adequately tracked, and water collections had been used to subsidize the General Fund. In fiscal year 2011, water and sewer collections of $42,073 were deposited in the General Fund, while water purchases of $31,296 and the Water Commissioner's salary and expenses of $4,012 were also paid from the General Fund.
Recommendation	The Board of Aldermen ensure all receipts and disbursements for water and sewer are tracked separately.
Status	**Implemented** The monthly Treasurer's report as submitted to the Board has been reworked, and currently clearly tracks all deposits and disbursements of the appropriate funds in the approved columns. Water and sewer funds are clearly indicated. The Treasurer's report is reviewed monthly, approved by the Board, and signed off on by the Mayor at the time of the Board meeting.
1.4 Water and Sewer - Utility Rates	The city had not performed a review of water and sewer costs to support the rates charged for those services.
Recommendation	The Board of Aldermen review utility rates periodically to ensure receipts are sufficient to cover all costs of providing these services and maintain reserves adequate to sustain the system.
Status	**Implemented** According to city officials, a draft water rate study has been completed and a statement of costs is being prepared.
1.5 Water and Sewer - Delinquent Accounts	Delinquent accounts were not administered in accordance with city policy and ordinances. As a result, the total delinquent account balance had increased rapidly.
Recommendation	The Board of Aldermen ensure delinquent accounts are handled in accordance with city policy and ordinances.
Status	**Implemented** City officials stated city policy has been established concerning late fees, shut-off notifications, and fees for restoration of services. Letters have been sent to landlords whose renters have left without paying delinquent bills, which notify the landlords of their responsibility for payments of the last 3 months. City officials indicated the city is currently utilizing a collection agency to follow up with 17 previous customers and landlords who have

delinquent accounts and have not responded to city letters. In addition, late fees are now determined monthly, and late fees totaling $1,627 have been collected in the last 11 months.

1.6 Water and Sewer -Water Loss

The Board had taken little action to address significant water losses, and no longer received water reconciliations from the current Water Commissioner. Reconciliations were prepared by the former Water Commissioner comparing the total gallons of water billed to customers to the total gallons of water purchased from the water district; however, there was no evidence the Board took any action to resolve significant differences calculated in these comparisons.

Recommendation

The Board of Aldermen ensure water purchased is reconciled to water billed monthly. The reconciliation should be reviewed monthly and significant differences should be documented, investigated, and resolved.

Status

Implemented

Water reconciliations are now prepared monthly and submitted to the Board in a joint report by the City Clerk and the Water Commissioner. According to city officials, the water loss rate is evaluated closely. The City received reimbursement for one water loss instance mentioned in the audit report and is in the process of obtaining a reimbursement for the other instance.

2. Accounting Controls and Procedures

Accounting controls and procedures were in need of improvement.

2.1 Segregation of duties

Accounting duties were not adequately segregated, and the Board did not adequately review the work performed by the City Treasurer. No independent review of the duties performed by the Treasurer was performed.

Recommendation

The Board of Aldermen adequately segregate the duties of receiving, recording, depositing, and disbursing monies. At a minimum, the Board should perform a documented review of these functions on a periodic basis.

Status

Implemented

The Treasurer continues to receive, record, deposit, and disburse monies. However, additional oversight is now provided by the Board of Aldermen by requiring copies of a more detailed Treasurer's report and an accompanying bank reconciliation.

2.2 Bank reconciliations

Monthly bank reconciliations were not performed. Outstanding checks and deposits in transit were listed on the back of the bank statement; however,

an adjusted bank balance was not calculated and a comparison to the book balance was not documented.

Recommendation

The Board of Aldermen reconcile bank records to city accounting records on a monthly basis.

Status

Implemented

The Treasurer's report provided to the Board includes the bank statements of all accounts, and the accounting system reconciliation report.

2.3 Restricted funds

The city had not established procedures to ensure receipts and disbursements were properly allocated to the appropriate city funds. It was also unclear if monies in some city accounts were used appropriately. In addition to water and sewer monies being comingled with the General Fund, property taxes received by the city were not consistently deposited into the correct funds, state motor vehicle-related receipts were deposited to the General Fund, and interest earned on the city's main bank account was placed in the General Fund.

Recommendation

The Board of Aldermen ensure restricted receipts such as property taxes, interest, and motor vehicle-related taxes are credited to the proper city fund, and used only for allowable purposes.

Status

Implemented

Restricted receipts including property taxes, interest, and motor vehicle-related taxes are credited to the proper fund and are clearly indicated on the Treasurer's report to the Board of Aldermen. The disbursement of these funds are also clearly indicated along with all fund balances.

3. Audits, Budgets, and Financial Reporting

The city did not obtain required annual audits, properly prepare budgets, or prepare required financial reports.

3.1 Audits

The city did not obtain annual audits of its water and sewer systems.

Recommendation

The Board of Aldermen obtain annual audits of the combined water and sewer system as required by state law and loan agreements.

Status

In Progress

The City is in the process of obtaining audit services. According to City officials, the improvements to the accounting system and ability to provide requested financial data should allow these services to be obtained in the next fiscal year.

3.2 Budgets

Annual budgets were not prepared as required by state law.

Recommendation

The Board of Aldermen ensure annual budgets are prepared and contain all information required by state law.

Status

Implemented

The annual budget for fiscal year 2013 has been completed, along with the budget letter and the budget summary.

3.3 Financial statements

The city had not published semiannual financial statements as required by state law.

Recommendation

The Board of Aldermen ensure semiannual financial statements are published in accordance with state law.

Status

Implemented

A semiannual financial statement was prepared for the 6 months ended June 2012, and December 2012 and made available to the public. Both financial statements were provided to the State Auditor's Office.

3.4 Financial reporting

The city did not submit annual financial reports to the State Auditor's office. The most recent report filed was for the city's 2005 fiscal year.

Recommendation

The Board of Aldermen submit annual financial reports to the State Auditor's office as required by state law.

Status

Implemented

An annual financial statement was prepared for calendar year 2012. This statement was made available to the public and was sent to the State Auditor's office.

4. Street work

The city did not have a formal bidding policy and did not bid for street repair services. The city paid several local individuals a total of $18,000 in fiscal year 2011 to perform street repair services. In addition, the city did not enter into contracts with these individuals.

Recommendation

The Board of Aldermen establish formal bidding policies and procedures, including documentation requirements regarding the bids or quotes received and justification for the bid selected. Written contracts should be entered into when appropriate.

Status

Implemented

According to city officials, an ordinance concerning purchasing and bidding policies and procedures has recently been approved by the Board. City officials also stated bids have been advertised and selected for the purposes of street repair, grass mowing at the city park and lagoon, roof repair at city hall, and city street snow removal during the past year. Justification for the selections were noted in Board minutes, and written contracts have been signed and filed for each.