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FOLLOW-UP REPORT ON AUDIT FINDINGS

City of Buckner

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City of Buckner

Follow-Up Report on Audit Findings

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*Includes selected findings



THOMAS A. SCHWEICH

Missouri State Auditor

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

We have conducted follow-up work on certain audit report findings contained in Report No. 2013-022, *City of Buckner*, issued in March 2013, 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 met with the City Administrator and reviewed city documents. Those documents included bank reconciliations, city budgets, meeting minutes, and credit card statements and supporting documents. This report is a summary of the results of this follow-up work, which was substantially completed during December 2013 and March 2014.

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

Thomas A. Schweich
State Auditor

City of Buckner

Follow-Up Report on Prior Audit Findings

Status of Findings

1.1 Accounting Controls and Procedures - Accounting records

The city failed to ensure all financial transactions were posted to the accounting system. Transactions and financial reports were not monitored to ensure all activity was properly recorded in the accounting system. The city developed a fund accounting system, but did not maintain accurate records to allow monthly financial reports to be prepared by fund, showing receipts, disbursements and cash balances. The city engaged a private accounting firm to compile financial statements for the year ended September 30, 2011, but the compilation report indicated the balances and activity reported for some city funds may have been inaccurate and the discrepancies had not been resolved. Receipts, disbursements, and cash balances reported on the monthly financial statements prepared by the city were not accurate.

Recommendation

The Board of Aldermen ensure accounting records and financial reports accurately reflect the financial activity of the city.

Status

In Progress

The City Administrator indicated the city hired an accounting firm to help with its bank reconciliations after the city purchased and installed a new accounting software package in May 2013. She also indicated all transactions are being properly recorded in the system and city personnel are becoming familiar with the system. She believes the accounting records and financial reports are now accurate.

1.2 Accounting Controls and Procedures - Bank reconciliations

Bank balances had not been reconciled to book balances for the operating bank account since 2008 and several other bank accounts had not been reconciled in the past several years. The city last attempted to reconcile the operating bank account in October 2010, and at that time a \$247,349 difference existed between bank records and balances in the individual cash ledgers. No efforts were made to resolve the difference and no other attempts to reconcile the operating account had been made. In addition, a reconciliation of the payroll bank account was last performed in March 2011.

Bank reconciliations for the other six city bank accounts were not current as of September 30, 2011, but the city hired a local accountant to help reconcile these accounts for the period November 2011 through April 2012 and reconciliations for these accounts were current as of April 2012.

Recommendation

The Board of Alderman ensure bank reconciliations are performed each month and any differences are investigated. If adjusting entries are needed, documentation of the adjustments should be retained.

Status

Implemented



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We reviewed the October 31, 2013, bank reconciliation for the pooled account and verified the balance reconciled to the general ledger. This reconciliation required no adjustments. The City Administrator indicated bank reconciliations are now performed monthly for all bank accounts.

1.3 Accounting Controls
and Procedures - Fund
accounting

The city did not properly track and record various restricted monies and did not properly allocate some payments for services and expenses to various funds. Water and sewer monies were deposited into the general operating bank account instead of a separate bank account. The city maintained a separate accounting of water and sewer fees; however, a cash balance for each type of fee was not maintained. As a result, the city could not determine at a point in time what portion of the Water/Sewer Fund represented restricted water or sewer monies.

In addition, law enforcement training (LET) monies were deposited into the General Fund, and while LET receipts and disbursements were tracked, the cash balance of LET monies was not tracked.

Recommendation

The Board of Aldermen establish separate funds for the water and sewer activities and maintain those monies in a separate bank account. Records should also be maintained in a manner to account for the receipts, disbursements, and accumulated balance of LET monies.

Status

Partially Implemented

Water and sewer monies are now deposited into their own bank account, although both utilities are still accounted for within the same fund. The City Administrator indicated the city is still considering establishing separate funds for these activities. LET monies are still accounted for within the General Fund.

1.4 Accounting Controls
and Procedures -
Segregation of duties
and monitoring

There was insufficient segregation of duties and no supervisory review of the work performed by the City Administrator or her staff. Detailed financial reports were not prepared monthly for review by the Board of Aldermen. The City Administrator, Administrative Clerk, and City Clerk were responsible for all record-keeping and accounting functions of the city and independent reviews of their work were not performed. While some segregation of duties was possible with the number of staff available, each of these employees had the ability to receipt monies and post transactions without any review or oversight by other employees or elected officials.

Recommendation

The Board of Aldermen segregate accounting duties to the extent possible and implement appropriate and documented reviews and monitoring procedures.

Status

In Progress



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The City Administrator indicated the Board is now reviewing monthly reports of financial activity and the City Clerk is performing a review of deposits prepared by the Administrative Clerk. The City Clerk has the ability and does occasionally receive payments. The City Administrator indicated an alderman has been designated to periodically review receipts to deposits and bank reconciliations; and although reviews have yet to occur, they are scheduled to begin soon.

1.6 Accounting Controls
and Procedures -
Budgets

While annual budgets were prepared and adopted, they did not contain all elements required by state law and were prepared by city department, rather than by fund. The budget for the year ended September 30, 2011, did not include a budget message and general budget summary or actual beginning and ending cash balances.

Recommendation

The Board of Aldermen ensure budgets are prepared for each city fund and contain all information required by state law.

Status

Not Implemented

We reviewed the budget for fiscal year 2014 and while funds have been established, these funds do not correlate to the various funds the city maintains. For example, Fund 25 includes receipts and disbursements for streets and park capital improvements; however, each of these activities involve restricted monies and should be maintained in its own fund. The budget did not contain a budget message, summary of budgets, or beginning and estimated ending cash balances for each fund.

2. Water and Sewer
System

Significant weaknesses existed in control procedures over providing water and sewer services. Rate studies had not been conducted and procedures for reviewing transactions and performing various reconciliations were not sufficient. The city had not obtained required annual audits.

2.1 Water and sewer rates

In both October 2010 and October 2011, the city increased water rates by 9 percent because the water supplier had increased its rates. However, a rate study had not been completed for several years to determine the cost of operating the water and sewer system. Approximately \$500,000 was budgeted to replace some of the existing sewer system and install an ultraviolet disinfection system, but the city had not documented a multi-year capital improvement plan for either the water or sewer system. Without a current cost study to support the rates charged for water and sewer services, it was unclear whether the rates assessed for these services were set at an appropriate level.

Recommendation

The Board of Aldermen review water and sewer rates periodically to ensure revenues are sufficient to cover all costs of providing these services, but not set at a level that results in excessive fund balances. In addition, the Board



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should prepare a formal capital improvement plan for the water and sewer system.

Status

Partially Implemented

The city hired a new Superintendent for the utility system in November 2013, who is in the process of preparing a capital improvement plan for the water system. However, formal cost studies have yet to be performed for the operation of the water and sewer system and city officials provided no timetable for when these studies would be performed.

2.2 Non-monetary transactions

Non-monetary transactions were not reviewed by an independent person. The Administrative Clerk, City Administrator, and City Clerk all receipted and posted utility payments, and also had the ability to post non-monetary transactions. Additionally, the City Administrator and City Clerk could approve non-monetary transactions. Because these employees were responsible for collecting utility monies and had the ability to alter or delete individual utility account information, there was an increased risk that unsupported or unauthorized changes could be made in the utility system. The city did not produce reports of non-monetary transactions for the Board to review and approve. Approval for non-monetary transactions by the City Administrator and City Clerk was not documented.

Recommendation

The Board of Aldermen ensure a documented review of all non-monetary transactions posted to the water and sewer system is performed by an independent person.

Status

Not Implemented

Non-monetary transactions are still not reviewed by an independent person. The City Administrator indicated the alderman designated to oversee accounting operations will review these transactions in the future.

2.3 Utility deposits

A list of customer deposits was maintained in the computer system, but this listing was not reviewed for accuracy or compared to the adjusted bank balance. According to the September 30, 2011, bank reconciliation for the utility deposit account, there was a shortage of \$11,100.

Recommendation

The Board of Aldermen ensure customer deposits are reconciled to the cash balance and differences are investigated.

Status

Not Implemented

The City Administrator indicated she has worked on this reconciliation with the accounting firm hired to assist the city, but did not provide documentation of a reconciliation being performed.



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2.4 Reconciliations

Monthly reconciliations of total amounts billed, payments received, and amounts unpaid for water and sewer were not performed. The accounting system was used to prepare a monthly billing summary for the Water/Sewer Fund, which documents the beginning balance, current charges, payments, and the ending balance. City personnel indicated the ending balance was reviewed for reasonableness, but the city did not retain the billing summary. Therefore, the city could not and did not reconcile payments collected and non-monetary transactions to the monthly billing summary.

Recommendation

The Board of Aldermen ensure monthly reconciliations of amounts billed to amounts collected and delinquent accounts are performed. In addition, the Board should ensure adequate documentation to support reconciliations is retained.

Status

Not Implemented

The City Administrator could not provide documentation that these reconciliations are now being performed.

2.5 Water shutoff

Late charges and shutoffs of service were not in accordance with city ordinances for elected officials and city staff. We reviewed the August 2011 water billings and related payments, and noted the Mayor and one alderman paid their bills over 30 days late, and their water was not shut off as required by City Ordinance 700.070. In addition, for the ten August 2011 billings of elected officials and staff we reviewed, we noted \$12 of late charges were not assessed.

Recommendation

The Board of Aldermen ensure utility shutoff procedures are followed and late charges are applied in compliance with city ordinances for all utility customers, including elected officials and city staff.

Status

Implemented

The City Administrator indicated the city is no longer allowing any special treatment for Board members or other city staff when paying utility bills. She indicated late fees are assessed when necessary and shutoff procedures are being followed for all city utility customers.

2.6 Audits

The city did not obtain statutorily required annual audits of its water and sewer systems. Although an accounting firm prepared compilation reports for the city, this work was not an audit.

Recommendation

The Board of Aldermen obtain annual audits as required by state law.

Status

Not Implemented



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The City Administrator indicated the Board is not planning to get a financial statement audit until the city has completed one full fiscal year on the new accounting system, which was installed in May 2013. The first full fiscal year completed on this system will be the fiscal year ended September 30, 2014.

3. Disbursements

Disbursement controls and procedures including approval by the Board, obtaining supporting documentation, and usage of credit cards needed improvement.

3.1 Board approval

The Board did not approve all disbursements. The City Administrator indicated she presented only non-recurring payments to the Board for approval. During Board meetings, the Board approved disbursements listed on a council approval report. Our testing determined that recurring disbursements were not treated consistently. Some recurring payments were included on the council approval report for one month and not included in another month. We also identified non-recurring disbursements that were not included on the council approval report.

Recommendation

The Board of Aldermen review and approve all disbursements and ensure approval of disbursements is documented.

Status

Implemented

The City Administrator indicated that all disbursements are now included on the council approval report, and this report is reviewed monthly and approved by the Board.

3.2 Supporting documentation

Adequate supporting documentation was not obtained for some credit card disbursements. Additionally, the city held the Park Board bank account and made distributions at the Park Board's request, but did not receive supporting documentation from board officials for some items purchased.

Recommendation

The Board of Aldermen require adequate, detailed supporting documentation be obtained and retained for all disbursements.

Status

Implemented

The Administrative Clerk is responsible for reviewing all credit card statements monthly and ensuring supporting documentation is on hand for all disbursements. We reviewed various credit card statements for the period April through October 2013 and verified each item on the statements was supported by documentation of the disbursement. The Administrative Clerk is also responsible for ensuring supporting documentation is available to support all payments made by the city on behalf of the Park Board. We



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reviewed a disbursement made in February 2014 for the Park Board and supporting documentation was available.

3.3 Credit cards

Controls over credit cards needed improvement. The city had 20 credit cards from 7 vendors issued to 7 employees. The city had not adopted formal policies and procedures documenting who should maintain a credit card, appropriate usage for the credit cards, and required documentation to support credit card disbursements.

Recommendation

The Board of Aldermen adopt formal policies and procedures for credit card usage that include criteria for identifying employees that should be assigned a card, require adequate documentation be maintained and reconciled to billing statements, and require purchases be approved by someone other than the card user.

Status

In Progress

The Board has not adopted any formal policy regarding credit card usage, but the Mayor and City Administrator indicated the city planned to do so. New procedures have been put in place to ensure the cards are used for appropriate purposes and all items are supported. The Administrative Clerk is now reconciling billing statements to supporting documentation and presents the statements and support to the City Administrator for review each month. We reviewed various credit card statements from April through October 2013 and saw evidence the Administrative Clerk ensured documentation was on hand to support charges and the City Administrator had reviewed the statements.

4. Capital Assets

The city had not implemented adequate procedures to account for city property and ensure proper insurance coverage. The city did not maintain overall property records, or affix asset tags to city property. While city personnel indicated an annual physical inventory was conducted using insurance records as property records, the inventory was not documented.

Recommendation

The Board of Aldermen ensure complete and detailed property records are maintained, assets are properly tagged for identification, and annual physical inventories are performed and compared to detailed records. Additionally, the comparison should be documented.

Status

In Progress

The City Administrator indicated the city is currently working to prepare a current asset listing by utilizing the listings of assets maintained for insurance purposes. However, some assets have still not been tagged, and a physical inventory cannot be performed until the asset listing is completed.



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6.2 Payroll - Bonuses

One-time merit bonuses totaling \$21,100 were paid to 17 employees in October 2011. These payments appeared to represent additional compensation for services previously rendered and, as such, were in violation of Article III, Section 39, of the Missouri Constitution, and Attorney General's Opinion No. 72, 1955 to Pray.

Recommendation

The Board of Aldermen discontinue granting bonuses to employees.

Status

Implemented

The City Administrator indicates no bonuses were granted during the fiscal years ended September 30, 2012, and 2013.

7. Closed Meetings

The vote to close a meeting and the purpose of the closed meeting was not documented in the open meeting minutes as required by state law, and minutes of closed meetings were not prepared.

Recommendation

The Board of Aldermen ensure open meeting minutes properly disclose the votes and reasons for closing a meeting, and minutes are prepared and retained for closed meetings.

Status

In Progress

We reviewed the open session minutes for Board meetings held in October 2013 and March 2014, both of which properly disclosed the votes and specific reason for closing a portion of the meetings. Minutes for the October 2013 closed session were not taken, but minutes of the March 2014 closed session were provided for our review. The City Clerk indicated he will ensure minutes are maintained for all future closed sessions.