



Thomas A. Schweich
Missouri State Auditor

FOLLOW-UP REPORT ON AUDIT FINDINGS

City of Marshfield

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City of Marshfield

Follow-Up Report on Audit Findings

Table of Contents

State Auditor's Letter	2
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Status of Findings*

1.	Financial Condition	3
2.	Financial Activity	3
3.	Real Estate Purchases and Leases.....	5
4.1	Budgets and Financial Statements - Budgetary compliance and monitoring.....	6
5.1	Accounting Controls and Procedures - Receipting, transmitting, and depositing procedures.....	6
6.1	Payroll Controls and Procedures - Payroll procedures	7
7.2	Written Contracts and Contract Compliance - Monitoring contracts	8
8.1	Disbursements - Approval process and oversight.....	8
8.3	Disbursements - Conflicts of interest.....	9
8.4	Disbursements - Bidding	10
8.5	Disbursements - Supporting documentation.....	10
8.6	Disbursements - Untimely payments	10
8.7	Disbursements - Vendor information	11
10.2	Utility Controls and Procedures - Water usage and billings.....	11

*Includes selected findings



THOMAS A. SCHWEICH

Missouri State Auditor

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

We have conducted follow-up work on certain audit report findings contained in Report No. 2013-088, *City of Marshfield*, issued in September 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 reviewed supporting documentation submitted by city officials and held a meeting with city officials. Documentation reviewed included a report by the City Administrator of the status of recommendations, city financial statements and budgets, open and closed meeting minutes, employee timesheets, real estate transaction documentation, bid documentation, disbursement reports, and receipt records. This report is a summary of the results of this follow-up work, which was substantially completed during January and February 2014.

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

Thomas A. Schweich
State Auditor

City of Marshfield

Follow-Up Report on Prior Audit Findings

Status of Findings

1. Financial Condition

The General Fund was in poor financial condition. The Board of Aldermen failed to monitor the city's budget and cash balances, and as a result, was not aware of the severity of the General Fund's financial condition. In addition, the city improperly borrowed monies from restricted funds, including transportation sales tax, water, and sewer monies, to finance general operations. Also, the city used General Fund monies to subsidize the Park Fund and transportation services without completing a cost-benefit analysis of these activities. Additionally, the city failed to allocate some disbursements to all impacted funds, thereby unnecessarily using General Fund resources to cover costs that could legitimately be paid from other funds.

Recommendation

The Board of Aldermen require accurate and timely financial reports be prepared, allocate disbursements when appropriate, and closely monitor the city's financial condition. Additionally, the Board of Aldermen should establish a plan to repay General Fund obligations to other restricted use funds, and periodically review operations of the city to ensure activities are operated efficiently and continue to be in the best interest of the city.

Status

In Progress

The financial condition of the General Fund improved during 2013. The December 31, 2013, ending fund balance increased about \$83,000 to \$283,658 from the December 31, 2012, balance. The Board continues to monitor the financial condition. The Board now receives a report of funds comparing budgeted financial information to actual financial information and also cash balances. New procedures were implemented to allocate disbursements to all impacted funds and document the allocation. We reviewed payroll transactions and a utility disbursement and noted costs were allocated appropriately to the various funds.

As explained in the audit report, the Board determined in 2012 that the General Fund incurred transportation related expenses in excess of the \$1.3 million transfer from the Transportation Sales Tax Fund to the General Fund and no outstanding obligation is due. The Board plans to perform a similar review of Water and Sewer Fund transfers during 2014 to determine the extent of the General Fund obligation. The Board voted to eliminate transportation services in October 2013. The Board continues to review the subsidization of the Park Fund and will consider new fees for park services to reduce the burden on the General Fund.

2. Financial Activity

The city had not established adequate accounting records and procedures and had failed to implement prior audit recommendations related to inadequate financial procedures.



City of Marshfield
Follow-up Report on Prior Audit Findings
Status of Findings

2.1 Restricted monies

The city operated with negative balances for some funds in the "pooled cash" account during the year, and financial information was inaccurate because the city did not record interfund transfers as they occurred.

In addition, the city transferred monies from the Transportation Sales Tax Fund to the General Fund, but did not track these monies and did not always record disbursements related to grant projects in the appropriate grant fund. The city deposited state motor vehicle-related receipts and Police Officer Standards Training and Law Enforcement Training fees into the "pooled cash" account, to the credit of the General Fund without tracking the receipts, disbursements, and balances of these restricted monies. The city also did not adequately track donations received for a sidewalk improvement project or identify these monies as restricted. Finally, the city incorrectly reported negative lodging tax receipts.

Recommendation

The Board of Aldermen establish procedures to ensure restricted monies are used only for allowable purposes and accounting records accurately reflect the financial activity of the city. In addition, the Board should correct errors and identify and review restricted fund activity.

Status

In Progress

The Board continues to identify and implement procedures to ensure restricted funds receipts are only used for allowable purposes and accounting records accurately reflect the financial activity of the city. The Board is working to separate funds into separate bank accounts to better track and limit interfund transfers and approved bank accounts for the Capital Improvement Funds for Water and Wastewater. The Board previously moved the Transportation Sales Tax and Cemetery Funds into separate bank accounts. As noted above, the Board reviewed the transfer from the Transportation Sales Tax Fund to the General Fund and determined no outstanding obligation is due. The city plans to perform a similar review of Water and Sewer Fund transfers during 2014 to determine the extent of the General Fund obligation. The city is in the process of identifying and preparing corrective journal entries for the errors identified in the audit report and expects to complete the process by the end of April 2014.

2.2 Corrective action

The city failed to implement many recommendations made by the independent auditor who performed the city's annual financial statement audit for the past 5 years.

Recommendation

The Board of Aldermen implement audit recommendations timely.



City of Marshfield
Follow-up Report on Prior Audit Findings
Status of Findings

Status

In Progress

The Board has taken steps to address all of the State Auditor's recommendations. City staff also plan to review recommendations made in the independent auditor's reports for implementation in 2014.

2.3 Adjustments

Adjustments recorded in the accounting system by the City Accountant were not reviewed or approved by someone independent of administering the accounting system.

Recommendation

The Board of Aldermen require an independent review and approval of all adjustments.

Status

Implemented

The City Administrator now reviews journal entries and the Board reviews adjusting journal entries monthly. We reviewed information submitted to the Board for the December 5, 2013, Board meeting and noted a report of adjusting journal entries was presented to the Board. The Board discussed the report during the meeting and the City Administrator and Board reviewed the adjusting entries.

3. Real Estate Purchases
and Leases

The city leased properties for minimal or no rental fees and held additional property for possible future use by a not-for-profit organization (NFP) despite the city's poor financial condition.

Recommendation

The Board of Aldermen develop plans for the utilization of city-owned property and ensure associated costs are considered and a cost-benefit analysis is performed when leasing properties. The Board should also better plan for future real estate purchases and projects, and ensure independent appraisals are obtained prior to the purchase of real estate.

Status

In Progress

The Board initiated a process of identifying and acquiring copies of all lease agreements and will perform a cost-benefit analysis on each property. The Board plans to prepare a property management plan to ensure periodic reviews of agreements are performed and insurance requirements are met. The Board recently sold 1 property leased to an NFP to the county and traded 2 other properties held for the same NFP with the Marshfield Housing Authority for land to be used for establishing a stormwater retention basin. We reviewed the related documents and noted the city obtained independent appraisals for these transactions.



City of Marshfield
Follow-up Report on Prior Audit Findings
Status of Findings

4.1 Budgets and Financial Statements - Budgetary compliance and monitoring

City budgets did not include a budget message or budget summary, the actual beginning and estimated ending fund balances, or city indebtedness. The city had not established adequate procedures to monitor or amend budgets. In addition, the 2012 budgeted information was not recorded in the city accounting system correctly, causing any budget to actual reports generated to be inaccurate.

Recommendation

The Board of Aldermen ensure budgets comply with state law and include the most up-to-date information. In addition, the Board should establish procedures to properly monitor actual to budgeted activity, and ensure any budget amendments are made prior to incurring related disbursements.

Status

Implemented

We reviewed the city's 2014 budget document and it includes current financial information and meets statutory requirements. The Board is more closely monitoring the budget, and made 4 budget amendments in 2013. We reviewed 2 of these amendments and noted the Board made the amendments prior to incurring related disbursements.

5.1 Accounting Controls and Procedures - Receipting, transmitting, and depositing procedures

Receipt slips were not issued for some monies received. In addition, the City Collector did not issue receipt slips for monies transmitted from other city departments and receipt slips issued for building permits and water deposits were not prenumbered.

The method of payment was not always documented on utility stubs used to receipt utility payments and was not recorded in the utility billing system. Therefore, the composition of receipts could not be reconciled to either the accounting system or deposits. In addition, checks were not always restrictively endorsed upon receipt.

Monies collected were not always timely transmitted to the City Collector for deposit, and some city departments routinely withheld payments from transmittals. Also, Public Works employees did not properly secure monies collected after hours and receipts were not always deposited timely and intact.

Recommendation

The Board of Aldermen require prenumbered receipt slips or utility stubs, documenting the method of payment, be issued for all monies received including transmittals received by the City Collector's office. The Board should also ensure checks are restrictively endorsed immediately upon receipt, maintained in a safe location, and deposited intact and in a timely manner.

Status

Implemented



City of Marshfield
Follow-up Report on Prior Audit Findings
Status of Findings

The Board purchased and installed the Receipt Management (RM) module of the city accounting system in 2013. City personnel restrictively endorse all checks, enter all receipts into the RM module, and a system generated receipt slip is issued. City personnel deposit receipts nightly. The City Collector also issues a system generated receipt slip for all monies transmitted by other city departments. Public Works employees record all monies received after hours in a prenumbered receipt slip book and transmit receipts nightly to the city hall night deposit box. We reviewed the receipt documentation for January 14, 2014, and noted city personnel issued receipt slips, recorded the method of payment, and reconciled the receipt records to the cash drawer.

6.1 Payroll Controls and Procedures - Payroll procedures

Payroll duties were not adequately segregated or supervised, and reviews of time records were not sufficient. Timesheets and timecards were not signed by most employees or by most supervisors to document approval of time worked and leave used. In addition, Police Department employees did not submit time records to the City Accountant to support payroll disbursements and provide information needed for updating centralized leave records.

Recommendation

The Board of Aldermen adequately segregate payroll duties or, at a minimum, ensure a documented review of these functions is performed on a periodic basis by someone independent of the payroll functions. The Board should ensure timesheets are prepared, properly signed, approved, and retained for all employees and the information is reviewed for accuracy prior to entry into the accounting system.

Status

In Progress

The Board segregated the payroll function from other accounting functions, which were previously handled by the same employee. All employees, including those in the Police Department, are now required to prepare time records that are signed by the employee and reviewed for accuracy by supervisors. Time records are retained. The City Administrator reviews department supervisors' timesheets. Once all timesheets are entered, a trial report is reviewed by the City Administrator and gross pay is checked against the previous pay period. The payroll claim report is then signed by the City Administrator and retained.

We reviewed the payroll records for the pay periods ending November 15 and December 31, 2013. All employees, including Police Department employees, submitted time records. The employee and supervisor signed the time records in most cases. We noted the City Administrator did not sign the supervisor timesheets to document his review. The City Administrator indicated he plans to sign the timesheets in the future to document his review.



City of Marshfield
Follow-up Report on Prior Audit Findings
Status of Findings

7.2 Written Contracts and
Contract Compliance -
Monitoring contracts

The city did not always monitor contracts effectively.

The city contracted with an engineering firm in March 2008 to update the city's comprehensive plan. However, due to lack of progress, the city terminated the agreement in September 2009. In January 2010, the city contracted with a new engineering firm to provide the same service. In November 2010, the city was notified the original engineering firm, which the city had fired in 2009, had acquired the new engineering firm and the original engineering firm assumed the second contract. As of December 31, 2012, the city had paid a total of \$50,283 for this project and the city did not have a finalized comprehensive plan document.

The city entered into a contract in April 2009 with a local company that agreed to maintain a minimum average number of full-time jobs over 5 years in exchange for city-owned land in the industrial park area. The city did not receive documentation of the average number of full-time jobs maintained in 2010, 2011, or 2012. As a result, the city did not properly monitor the contractual requirements. As of December 31, 2012, no report had been filed.

The city entered into a contract in July 2009 to lease the recycling center to a local sheltered workshop for \$1 per month for 18 months. Although this contract expired in December 2011, the city allowed the sheltered workshop to occupy the center until December 2012 without an updated contract.

Recommendation

The Board of Aldermen monitor contracts for compliance and ensure satisfactory progress by contractors prior to payment.

Status

In Progress

The Board is in the process of identifying and acquiring copies of all existing contracts. The Board is also in the process of entering into contracts as appropriate for arrangements with other entities for which there are no contracts in place, and is working with the city attorney to prepare properly detailed contracts. The City Administrator plans to begin systematic monitoring of contracts including developing a contract management plan once all current contracts have been identified and other contracts have been entered into as appropriate.

8.1 Disbursements -
Approval process and
oversight

The approval process for disbursements and oversight of bank account activity was not adequate. The list of bills approved by the Board each month was not complete, and a comparison of this list to approved invoices and the actual checks written was not performed. The Board did not review or approve the closing of bank accounts or transfers between bank accounts. Some invoices were not approved prior to payment and purchase orders were not always approved prior to the date of purchase. The numerical sequence of purchase orders issued was not tracked.



City of Marshfield
Follow-up Report on Prior Audit Findings
Status of Findings

Recommendation

The Board of Aldermen ensure the list of bills provided for approval at monthly meetings is complete, all invoices are reviewed and approved by appropriate officials prior to payment, purchase orders are approved prior to the date of purchase, and the numerical sequence of purchase orders issued is accounted for properly, and establish adequate review and approval procedures for transfers and bank account closures.

Status

In Progress

The Board now reviews a detailed report of and approves all non-payroll related disbursements. The Board also approves all bank account transfers and will approve any bank account closures. Starting with the January 23, 2014, Board meeting, city personnel provide the Board a report of payroll disbursements by department and fund. The Board hired a Financial Clerk in December 2013 to perform city accounting duties. As part of her duties, the Financial Clerk will review disbursements and ensure necessary information and approval is obtained and purchase orders are approved prior to purchase. The City Administrator will also review to ensure purchase orders are approved prior to purchase. The Board also created a Data Clerk position within the 2014 budget. This person's job duties will include reviewing invoices for appropriate approval, assisting departments in preparing purchase orders and tracking purchases, and accounting for the numerical sequence of purchase orders. We reviewed information submitted to the Board in January 2014 and noted city personnel presented detailed disbursement reports to the Board for review and approval.

**8.3 Disbursements -
Conflicts of interest**

Former Alderman Noland, who served on the Board until April 2012 and who also served as Deputy Fire Chief and received payment for fire calls, did not always abstain from the approval of disbursements made for the operation of the city Fire Department. The Public Works Superintendent approved purchases of ready mix totaling \$14,135 from a company owned by his cousin.

Recommendation

The Board of Aldermen more closely examine city transactions to identify and avoid apparent and actual conflicts of interest.

Status

Implemented

The City Administrator now reviews all vendors to ensure no apparent or actual conflicts or statutory violations exist. Any transactions with a potential conflict of interest are required to be reviewed and approved by the City Administrator in addition to the normal review process. The city continues to purchase items from the ready mix company, but the Public Works Superintendent is no longer solely responsible for approving the purchases. We reviewed 2 purchase orders for ready mix purchases from



City of Marshfield
Follow-up Report on Prior Audit Findings
Status of Findings

September and October 2013 and noted the City Administrator and Board reviewed and approved the purchase orders.

8.4 Disbursements -
Bidding

City personnel did not always comply with the city's purchasing policy. Bids were not solicited for some purchases, some bidding documentation could not be located, and no documentation was maintained for several sole source purchases.

Recommendation

The Board of Aldermen ensure bids are solicited for all applicable purchases in accordance with city policy and sufficient documentation is maintained.

Status

In Progress

We reviewed 5 disbursements made between July and December 2013 that required bids and noted the city did not always obtain the required bids. We noted 2 purchases did not have the required bids or quotes. The city made another purchase using a Webster County contract; however, city personnel did not include the related bid prices with the purchase documentation. The City Administrator indicated job responsibilities of the recently hired Financial Clerk include reviewing all purchase orders and ensuring bidding requirements are met before purchases are made in the future.

8.5 Disbursements -
Supporting
documentation

The city did not always receive or retain adequate supporting documentation to support disbursements or show compliance with grant agreements.

Recommendation

The Board of Aldermen ensure sufficient supporting documentation is maintained for all disbursements and grants.

Status

Implemented

The Financial Clerk is reviewing purchase and grant documentation to ensure all necessary documentation is obtained and retained. We reviewed 8 disbursements from December 2013 and noted supporting documentation was retained.

8.6 Disbursements -
Untimely payments

The city did not pay several invoices timely. The city incurred unnecessary late payment fees for these errors. Further, invoice due dates were not correctly recorded in the accounting system.

Recommendation

The Board of Aldermen ensure all invoices are paid in a timely manner and invoice due dates are correctly recorded in the accounting system.

Status

Implemented



City of Marshfield
Follow-up Report on Prior Audit Findings
Status of Findings

The Board segregated duties between accounts payable and payroll, reducing the responsibilities transferred to the new Financial Clerk. As a result, invoices are processed and recorded more timely in the accounting system. The Financial Clerk also now records the actual invoice due date rather than the board meeting date in the accounting system. We reviewed 8 disbursements from December 2013 and noted payments were timely.

8.7 Disbursements - Vendor information

As of December 2012, the city vendor list contained 18 duplicate vendor names, each with a separate vendor number. City officials did not review the vendor list and were not aware of these duplications. For one of the duplicate vendors, city staff entered an invoice totaling \$316 into the accounting system twice in June 2012, using two different spellings of the vendor's name and made a duplicate payment to the vendor.

Recommendation

The Board of Aldermen ensure new vendors added to the accounting system are reviewed and approved. In addition, existing vendor files should be periodically reviewed by someone independent of the disbursement process and duplicate vendors should be eliminated.

Status

In Progress

The City Administrator reviewed the vendor list in November 2013 and eliminated identified vendor duplications. The city plans to continue to monitor the list. We reviewed the vendor list as of January 14, 2014, and noted 16 additional potential duplicate vendors. The Financial Clerk plans to review and address these potential duplicate vendors. The city received a credit memo in July 2013 from the vendor that received the duplicate payment.

10.2 Utility Controls and Procedures - Water usage and billings

The city did not investigate significant differences identified in the monthly comparison of gallons of water billed to customers to gallons of water pumped. In addition, city water usage was not tracked, and the city failed to install meters and bill two other political subdivisions for water and sewer services at city properties leased by those political subdivisions.

Recommendation

The Board of Aldermen investigate significant differences between gallons of water pumped to gallons billed, track city usage on a monthly basis, and ensure all usage is appropriately billed and collected.

Status

In Progress

The city now investigates large differences noted when reconciling water usage data. City reconciliations showed water loss in excess of 10 percent in October and November 2013. The city reviewed the October difference and determined it occurred due to the timing of reading water meters. The city is currently reviewing the water loss for November. In response to the audit,



City of Marshfield
Follow-up Report on Prior Audit Findings
Status of Findings

city officials also revised their calculation procedures. Previously, the date for calculating the amount of water billed differed from the date of the water pumped resulting in timing differences that made it difficult to reconcile water usage data. The city now uses the same day.

As of January 31, 2014, the city is accounting for city water usage when comparing water usage to water billed. In addition, the city installed meters on all buildings owned by the city and leased to other political subdivisions. The City Administrator stated billing the political subdivisions will begin after lease agreements are changed to reflect responsibility for water and sewer charges.