



Thomas A. Schweich  
Missouri State Auditor

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# FOLLOW-UP REPORT ON AUDIT FINDINGS

## City of Liberal

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May 2014

Report No. 2014-037



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<http://auditor.mo.gov>

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# City of Liberal

## 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 Liberal, Missouri

We have conducted follow-up work on certain audit report findings contained in Report No. 2013-098, *City of Liberal*, issued in October 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 meetings with city officials. Documentation reviewed included Board of Aldermen meeting minutes, ordinances, bank statements, receipt and deposit records, and various other financial records. This report is a summary of the results of this follow-up work, which was substantially completed during April 2014.

A handwritten signature in black ink, reading "Thomas A. Schweich", is positioned above the printed name and title.

Thomas A. Schweich  
State Auditor

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# City of Liberal

## Follow-Up Report on Prior Audit Findings

### Status of Findings

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|---|---|
| 1. Accounting Controls, Procedures, and Records | There were numerous weaknesses with accounting controls and procedures.   |
| 1.1 Segregation of duties                       | There was no segregation of the accounting functions, and the Board did not provide any independent or supervisory reviews. The City Clerk was responsible for receiving, recording, and depositing monies; reconciling bank accounts; preparing invoices for payment; issuing checks; and posting entries into the accounting system. Additionally, the City Clerk performed utility billing procedures and payroll related duties. Many of these duties would have normally been performed by a City Treasurer and City Collector; however, the city did not have individuals serving in these positions. |

Recommendation	The Board of Aldermen consider appointing separate individuals to the position of City Clerk, City Collector, and City Treasurer to adequately segregate duties. If this is not possible, the Board of Aldermen should perform and document reviews of the City Clerk's work.
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Status	<p><b>Implemented</b></p> <p>The Board still does not have individuals serving as the City Treasurer and City Collector. However, the city now has a City Clerk and a Deputy City Clerk. Currently, both the City Clerk and Deputy City Clerk receipt monies, the Deputy City Clerk prepares the deposit, and the City Clerk reviews the deposit. The City Clerk is responsible for preparing invoices for payment, printing checks, reconciling bank accounts, and reviewing utility billings. Checks are signed by the Deputy City Clerk and a Board member. Invoices are approved by the Board. Payroll reports and checks are reviewed by the Mayor, Deputy City Clerk, and Board. The Board approves the bank reconciliation each month at Board meetings. The Board also reviews a copy of the accounts payable listing, adjusting entries, bank statements, a list of all checks written for the month, and a report of bank balances by fund.</p>
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| 1.2 Receipting, recording, and depositing procedures | <p>The city's receipting, recording, and depositing procedures were poor.</p> <p>Rediform prenumbered receipt slips rather than official prenumbered receipt slips were issued for non-utility monies received. The city utilized several different records/methods to receipt utility monies received, and all pertinent details of monies received were not documented on utility billing stubs. Unnumbered official receipt slips were issued for some utility payments received, unnumbered unofficial receipt slips were issued for utility deposits received, and utility billing stubs used to record some utility payments did not document the payment receipt date. In addition, receipt</p> |
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slips and utility stubs did not always indicate the method of payment received. Receipt slips were also not issued for some park monies received. City officials did not always record monies received timely in the accounting system or deposit it timely.

## Recommendation

The Board of Aldermen ensure official prenumbered receipt slips are issued for all monies received and the numerical sequence of receipt slips is accounted for properly. The method of payment should be documented and the composition of receipts reconciled to the composition of deposits. Additionally, the Board should ensure receipts are posted to the accounting system and deposited timely.

## Status

### Partially Implemented

For the month of January 2014, official prenumbered receipt slips were issued for monies received (excluding utility payments), the method of payment was documented, and the composition of receipts agreed to the composition of deposits. City officials indicated that no one periodically accounts for the numerical sequence of receipt slips issued. The city is still using utility bill stubs as receipt slips for utility payments, the method of payment is not always noted on the stub, and 16 utility bill stubs for the month of January 2014 did not indicate the payment receipt date. Receipts were posted to the accounting system timely; however, several receipts reviewed were not deposited timely or intact.

## 1.3 Accounting records

The city did not maintain accurate accounting records.

Some disbursements were (1) not accurately recorded in the accounting system, (2) posted to the wrong fund, (3) not posted to the accounting system, and (4) posted to the accounting system twice.

Numerous and significant problems were identified with the December 31, 2012, bank reconciliation. Numerous checks were erroneously listed as outstanding, multiple deposits and credits were erroneously listed as uncleared transactions, and several adjustments were listed as uncleared transactions. Legitimate deposits in transit and an outstanding check were not recorded on the city's bank reconciliation. Also, some deposits were recorded as checks, and some checks were recorded as deposits. Further, differences existed between the December 31, 2012, reconciled bank balance and the book balance recorded in the accounting records of the Park Fund and Cemetery Fund.

## Recommendation

The Board of Aldermen ensure accounting records are accurately maintained.



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Status

**In Progress**

Our comparison of checks to accounting records and review of the bank reconciliation for February 2014, showed most disbursements were recorded accurately. However, some checks were recorded twice and an adjusting entry (deposit/credit) was made to correct the errors.

1.4 Check signers

The Board did not have adequate controls over bank accounts and disbursements. While dual signatures were required on all city checks, several checks issued were signed by the City Clerk and City Superintendent and not a Board member.

Recommendation

The Board of Aldermen require at least one member of the Board to sign all checks.

Status

**Implemented**

Our review of cancelled checks for January and February 2014 determined all checks were signed by at least one member of the Board of Aldermen.

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2. Utility System Controls  
and Procedures

There were significant weaknesses in city operations related to utility services.

2.1 Utility rates

The city had not performed a formal review of water, sewer, gas, electric, and trash rates, and as a result, there was less assurance utility rates were set at an appropriate level.

Recommendation

The Board of Aldermen 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.

Status

**Not Implemented**

On January 14, 2014, the Board approved an ordinance increasing utility rates for water, sewer, electric, gas, and trash service; however, the city did not document a utility rate study to support these rate increases.

2.2 Water reconciliation

The city had not performed a reconciliation of total gallons of water billed to gallons of water pumped until we brought this issue to the attention of the Utility Superintendent. The city then performed a reconciliation for the period from January 10 to February 10, 2013. In addition, city water usage was not tracked, and without this information the city could not properly perform the reconciliation. The February reconciliation showed the city pumped 2,391,000 gallons of water and billed customers for 1,635,569 gallons, a difference of 755,431 gallons or 32 percent of water pumped. This



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significant difference was indicative of water loss issues and/or possible unbilled usage, and indicated a need for follow up.

**Recommendation**

The Board of Aldermen ensure all water use is properly metered, gallons of water pumped is reconciled to gallons billed monthly, and investigate any significant differences.

**Status**

**In Progress**

The city's reconciliations of water billed and pumped for December 2013 showed a water loss of 31 percent, and for January 2014 a water loss of 35 percent. City officials indicated the city is currently tracking city water use. City officials indicated the current water loss is due to two water main leaks that need to be repaired or the unmetered water usage of the local fire department. City officials indicated they are currently working to ensure all needed repairs are made and utility usage is metered.

**2.3 Adjustments**

The City Clerk posted adjustments to the utility computer system without always obtaining independent approval or adequate documentation to support the reason for the adjustments.

**Recommendation**

The Board of Aldermen require someone independent of the utility system review and approve all adjustments, and ensure documentation is retained supporting such adjustments.

**Status**

**Implemented**

The January 2014 Board of Aldermen meeting minutes indicated approval of adjustments and included a detailed listing of the adjustments along with a reason for each one.

**2.4 Utility deposits**

The city did not prepare a monthly list of utility deposits on hand and reconcile the list to the deposit payable balance in the general ledger.

**Recommendation**

The Board of Aldermen ensure a list of utility deposits on hand is prepared and reconciled monthly to the deposit payable balance in the general ledger. Any discrepancies should be investigated and resolved.

**Status**

**Implemented**

The list of utility deposits on hand agreed to the deposit payable balance in the city's computerized accounting system as of January 31, 2014.

**3.1 Disbursements -  
Procurement procedures**

The city did not have a formal bidding policy and did not solicit bids for numerous services and purchases made during the year ended December 31, 2012.



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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.
Status	<b>Implemented</b>  The Board adopted a bidding ordinance on November 12, 2013, that states purchases under \$5,000 will be purchased by the city purchasing manager (City Clerk) in the most expedient manner. Purchases between \$5,000 and \$10,000 are to have 3 bids solicited. Purchases over \$10,000 are to have 3 written bids. Notices for bids are to be advertised 5 days prior to the bid opening. Items may also be advertised in the city office. The ordinance requires Board approval for purchases over \$5,000. Due to the timing of the follow up, we could not determine whether the city is adequately documenting bids or quotes received and justification for the bids selected.
3.2 Disbursements - Allocation of expenses	The city did not maintain documentation to support the allocation of expenses among funds. Additionally, there was no basis to support how payroll related expenses for employees performing multiple functions, such as the City Clerk, City Superintendent, and maintenance workers, were allocated among the various city funds.
Recommendation	The Board of Aldermen ensure city expenses are properly allocated to the applicable funds and allocations are supported by adequate documentation.
Status	<b>Not Implemented</b>  The city still does not maintain current documentation to support the allocation of expenses and payroll related expenses among the applicable funds. City officials used 10-year old documentation to support salary allocations among funds for February 2014.
3.5 Disbursements - Fuel use and purchases	Fuel purchases recorded in police department mileage and fuel use logs were not reconciled to fuel billings to the city. In addition, the city had no records to ensure fuel purchases for other city equipment and vehicles were used appropriately. As a result, fuel use was not reconciled to fuel purchases.
Recommendation	The Board of Aldermen require fuel use logs be maintained for all city-owned vehicles and equipment, and ensure logs are reviewed for accuracy and reconciled to fuel purchases. Any significant discrepancies should be investigated.
Status	<b>In Progress</b>  Fuel use logs were maintained for all city-owned vehicles and equipment during the month of January 2014; however, the city did not reconcile the





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logs to fuel purchases. The Board of Aldermen indicated the city still plans to implement procedures to reconcile the logs to fuel purchases.

5.1 Budgetary Procedures  
and Financial Reporting  
- Budgets

Annual budgets did not contain all elements required by state law and were not approved timely. Budgets for the years ended December 31, 2012 and 2011, did not include a budget message, actual and budgeted amounts for the 2 preceding years, and beginning and ending actual and estimated cash balances. Additionally, as of March 9, 2013, the 2013 budget had not been prepared or approved by the Board, and the 2012 budget was not approved by the Board until June 2012.

Recommendation

The Board of Aldermen prepare budgets timely and in compliance with state law.

Status

**Partially Implemented**

The 2014 budget was approved by the Board on December 27, 2013; however, it 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 budget only included projected receipts and disbursements for the coming year.

5.3 Budgetary Procedures  
and Financial Reporting  
- Financial statements

The city did not publish financial statements in 2012 or 2011 in compliance with state law.

Recommendation

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

Status

**Partially Implemented**

The city published financial statements for the Water and Sewer Fund, Electric Fund, and Gas Fund on February 6, 2014; however, the city did not publish financial statements for the General Fund.

7. Capital Assets

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

Recommendation

The Board of Aldermen 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.



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Status

**In Progress**

A capital assets listing has been prepared as of December 31, 2013, and city officials indicated they are working on tagging all property.