



**Thomas A. Schweich**  
Missouri State Auditor

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# FOLLOW-UP REPORT ON AUDIT FINDINGS

## City of Bolivar

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July 2014

Report No. 2014-050



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<http://auditor.mo.gov>

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# City of Bolivar

## 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 Bolivar, Missouri

We have conducted follow-up work on certain audit report findings contained in Report No. 2013-139, *City of Bolivar*, issued in December 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 city officials and reviewed supporting documentation they provided us. Documentation reviewed included a report by the City Administrator of the status of recommendations, Board of Aldermen meeting minutes, ordinances, bank statements and reconciliations, receipt and deposit records, payroll records, monthly financial reports, city policies, financial statements, and disbursement and bid documentation. This report is a summary of the results of this follow-up work, which was substantially completed during May and June 2014.

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

Thomas A. Schweich  
State Auditor

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# City of Bolivar

## Follow-Up Report on Prior Audit Findings

### Status of Findings

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#### 1. Financial Monitoring

The Board of Aldermen failed to adequately monitor the financial condition of the city. The city had improperly used street monies to finance Park and Cemetery operations and had not effectively planned how to make principal and interest payments for the aquatics center for the next 27 years. Additionally, the city was facing several significant future financial obstacles that could result in a continuing decline of the city's financial condition.

The Board did not act upon the independent CPA audit recommendation to adequately monitor revenues and expenditures to ensure city funds maintained adequate cash reserves, and continued to operate during 2011 as if the city had sufficient reserves.

The city's Park Fund required significant subsidization from the Street Fund, Capital Improvement Sales Tax Fund (CIST), and General Fund. According to the city's 2011 audit report, the city inappropriately used restricted street monies for Park and Cemetery operations. As of December 31, 2012, the city had not appropriated funds to repay the remaining \$397,868 balance owed to the Street Fund. In 2012 the city transferred \$55,000 from the General Fund to the Cemetery Fund to cover maintenance costs.

The Water and Sewer Fund operated at a loss for 2 of the last 3 years, resulting in an accumulated loss of approximately \$100,000 for the 3 years ended December 31, 2012.

The General Fund unrestricted cash balance was historically at a low level until 2012 when the balance showed some growth. However, this growth was largely due to a significant increase in transfers from other restricted city funds. These transfers were questionable and lacked adequate documentation. The city's unrestricted \$234,938 cash balance represented less than one month's operation.

Additionally, the growth in the General Fund's unrestricted cash balance was offset by potential future costs related to city buildings. The city also had other outstanding liabilities.

#### Recommendation

The Board of Aldermen closely monitor the overall financial condition of all city funds, perform long-term planning, and ensure disbursements are closely monitored and receipts are maximized. The Board of Aldermen should also make efforts to reduce subsidizing other funds, avoid improper interfund transfers, and develop plans to repay amounts owed to the Street Fund.

#### Status

**In Progress**



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The General Fund unrestricted balance as of December 31, 2013, was \$421,945; an increase from 2012. The city required assistance from the city's financial statement auditors to determine the balance and financial record adjustments in May 2014 to reflect the appropriate balance. The Board is monitoring the overall financial condition including revenues, disbursements, and budget to actual information. City officials also provide the Board a monthly disbursement report and balance sheet prior to each meeting. We saw this information when reviewing the most recent Board packets. The City Administrator also stated city staff plan to conduct work sessions with the Board to discuss long-term planning and options for financing future capital improvement projects.

City officials are reviewing revenues and expenditures to reduce subsidizing other funds. The City Clerk indicated some transfers to subsidize the Park Fund were still necessary, but the city is working to reduce transfer amounts. The City Administrator indicated the city has not made any improper interfund transfers in 2014. The Board approved and city officials made transfers from the CIST Fund to various funds based on the independent CPA auditor's recommendations. City officials said they will develop a plan to repay the Street Fund after completion of the 2013 financial statement audit.

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2. Aquatics Center

The Board's failure to properly plan the financing, construction, and operation of the city's new aquatics center resulted in excessive costs and negatively impacted the city's financial condition. Aquatics center financing proposals solicited, received, and approved by the Board did not agree with the actual financing the city ultimately obtained. In addition, proposals were not solicited for bond counsel. The city did not adequately monitor construction costs. The city did not adequately project anticipated costs to operate the aquatics center, which significantly exceeded estimates. Also, the city had not reviewed accounting records of the Young Men's Christian Association (YMCA), which operated the aquatics center, to confirm financial information reported by the YMCA was accurate.

Recommendation

The Board of Aldermen should ensure adequate planning and monitoring is performed and documented on future projects. The Board of Alderman should also review the financial operations of the aquatics center and determine the appropriate course of action to minimize the amount of city subsidies required for the debt service payments and operating expenses.

Status

**In Progress**

The City Administrator stated the city intends to adequately plan and monitor any future projects. The city developed a plan to reduce aquatics center costs by only operating for the months of April through October. Further, the city voided the previous agreement with the YMCA and the city



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is now operating the aquatics center. The City intends to closely monitor expenses and revenues and city officials indicated any major purchases for the aquatics center will be approved by the Board. The city's bond rating has improved and, in the long term, the city intends to refinance the aquatics center certificates of participation for a better interest rate when allowed by terms of the bond covenant.

3.1 Restricted Funds -  
Administrative transfers

Administrative transfers into the General Fund had increased significantly and exceeded the amount of expenses the city classified as administrative in the accounting records. Additionally, the type of expenses classified as administrative was questionable and the city continued to change methods for calculating administrative transfer amounts without adequate documentation to support calculation methods.

Recommendation

The Board of Aldermen allocate expenditures to city funds based on specific criteria and retain documentation to support these allocations. Further, the city should review allocations in 2012 and 2013 and review expenses designated as administrative costs for proper classification and make corrections as necessary.

Status

**In Progress**

The city now allocates administrative expenditures to city funds in proportion to the monthly expenditures from the fund. Only administrative employees and properly classified designated administrative expenditures are included in the pool of expenditures allocated to the other funds. Allocations for January through April 2014 were made in May 2014. The Finance Officer stated she waited to complete these transactions until after the city completed additional accounting system training to ensure she properly entered the information in the accounting system. We recalculated the allocation amounts for April 2014 and noted no concerns. City officials determined prior allocations made in error in 2013 and reversed the entries on March 24, 2014. We reviewed the changes and noted no concerns. The City Clerk indicated a review of 2012 transactions is planned.

3.3 Restricted Funds - Use  
of restricted funds

The city operated with negative balances for some funds in the city's checking account. The city routinely paid disbursements from funds showing negative balances within the pooled cash checking account. There was an overall positive cash balance in the pooled checking account because these disbursements were covered by funds with positive balances. This practice resulted in inappropriate borrowing of restricted monies.

Recommendation

The Board of Aldermen ensure adequate monies are available within the respective fund in the city's pooled cash bank account prior to making disbursements.



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**Status**

**In Progress**

The city has implemented additional procedures to prevent the inappropriate use of restricted funds. The City Administrator indicated disbursements will not be allowed if a fund reflects a negative balance. At the time of our review in April 2014, the pooled cash account showed negative balances in some funds. The City Administrator stated this problem was due to pending adjustments from the city's financial statement auditor. After the adjustments were made and as of May 27, 2014, the pooled cash account showed positive balances for all funds except the Wastewater Improvements Fund. City financial records show bond revenues due to this fund exceed the negative balance.

3.4 Restricted Funds -  
Tracking and recording  
restricted receipts

The city was not properly tracking and recording various restricted receipts. The city received Federal Equitable Sharing Funds from the U.S. Department of Justice and deposited these monies into the city's pooled cash checking account without tracking the related interest receipts, disbursements, and balances of these restricted monies. Law Enforcement Training (LET) fees were received by the city from the municipal division and were not properly recorded as restricted monies.

**Recommendation**

The Board of Aldermen determine the amount of equitable sharing monies and LET monies held by the city and establish separate funds or a separate accounting of these monies.

**Status**

**In Progress**

The city established and the Board approved separate funds and bank accounts for the LET and equitable sharing monies on March 18, 2014. As of May 28, 2014, the City Clerk had not deposited funds into either account. However, the Finance Officer is working with the police department clerk and the accounting system programmer to ensure the appropriate amounts are transferred.

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4.1 Disbursements -  
Bidding

The city had not always solicited bids for the purchase of goods and services over \$10,000 and did not issue purchase orders or contracts for all purchases over \$100, as required by city code.

**Recommendation**

The Board of Aldermen solicit bids and complete purchase orders as required by city code.

**Status**

**In Progress**

The City Administrator indicated he has emphasized with city officials the need to comply with bidding requirements in city code when purchasing goods and services. The City Clerk maintains a schedule of routine contracts



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for goods and/or services requiring periodic bids, such as uniforms and copier services, to ensure contracts are bid timely. We reviewed the requests for bids and proposals related to wastewater treatment plant engineering services, city hall construction, and banking services, and noted no concerns. Purchase orders are now required for all purchases in excess of \$500. Before processing an invoice for payment, the Accounts Payable Clerk verifies if a purchase order exists. We reviewed two April 2014 disbursements that required a purchase order and noted one had an existing purchase order and the other had a purchase order, but it was created after the goods were purchased. The Accounts Payable clerk indicated if a purchase order is not present she will contact the appropriate parties to ensure a purchase order is obtained.

4.2 Disbursements -  
Professional services

Professional services were frequently obtained without the benefit of a competitive selection process. While city policy required bids for goods and services exceeding \$10,000, the policy did not distinguish the handling of professional services from other services.

Recommendation

The Board of Aldermen solicit proposals for professional services and consider expanding the city's purchasing/bidding policy to address professional services.

Status

**In Progress**

The city requested proposals for legal, audit, and information technology services in 2013 and 2014. We reviewed the proposals and selection process for audit services and noted no problems. The City Administrator indicated the Board is in the process of revising all city policies and is considering revising the bid policy to specify professional services.

4.3 Disbursements -  
Engineering services

The city did not always document its evaluation and selection of engineering services in accordance with state law, and when qualifications were solicited from engineering firms the documentation was not adequate to support the selection.

Recommendation

The Board of Aldermen comply with state law when procuring engineering services and document the evaluation and selection process.

Status

**In Progress**

The City of Bolivar has an existing contract with an engineering firm that ends in November 2014. The city requested qualifications from engineers for an upcoming wastewater treatment plant project in January 2014. We reviewed the request for qualifications, but the Board has not completed the evaluation and selection process.



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4.4 Disbursements -  
Weapons purchase

The city disbursed \$6,545 in federal grant funds in January 2011 for weapons not received. According to police department documentation, the city paid a vendor \$10,075 in advance for various weapons, and nearly 3 years later, 7 weapons with a total cost of \$6,545 had not been received by the department. Additionally, this vendor was given police department ammunition purchased by the city through a state contract and valued at approximately \$600 in exchange for applying a coating on two department weapons.

Recommendation

The Board of Aldermen discontinue the practice of paying for goods in advance and bartering with city assets, and consult outside legal counsel regarding legal action on recovering city monies.

Status

**Implemented**

The City Administrator and Police Chief indicated they do not plan any similar advance purchase or bartering transactions in the future. City officials said they attempted to negotiate the recovery of these monies, but they have been unsuccessful and the city has not received the ordered goods. The city's legal counsel believes the costs of litigation will be more than the value of goods the city did not receive.

4.7 Disbursements - Late  
fees and finance charges

The City Clerk did not ensure payroll taxes were deposited and bills were paid in a timely manner causing the city to incur late fees and finance charges.

Recommendation

The Board of Aldermen implement procedures to ensure bills and payroll taxes are paid timely.

Status

**Implemented**

The city implemented new accounts payable procedures in February 2014, including hiring a new Accounts Payable Clerk. The Accounts Payable Clerk files pending invoices by due date. Approximately 10 to 15 days before the due date, invoices are pulled from the pending file to ensure processing, approval, and payments are made prior to the due date. We reviewed invoices processed on April 29, 2014, and noted they were all processed prior to the due date. Our review of some prior invoices identified 1 payment due in January 2014 was not paid until February. This problem preceded the hiring of the new Accounts Payable Clerk. We also reviewed the April 24, 2014, payroll tax disbursement and noted it was properly approved and paid timely.

4.8 Disbursements - Forms  
1099-Misc

Forms 1099-Misc were not always filed when required and some forms contained errors when filed with the Internal Revenue Service (IRS).



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**Recommendation** The Board of Aldermen implement procedures to ensure Forms 1099-Misc are accurately filed as required by law.

**Status** **Implemented**

City officials reviewed each vendor in the accounting system to determine if they would require a Form 1099-Misc and classified them appropriately within the system. The city plans to send out a new vendor application annually to each vendor to ensure all information is correct and update the vendor information in the accounting system as needed. The accounting system automatically generates a Form 1099-Misc based on the vendor classification. We reviewed the Forms 1099-Misc issued for 2013 and noted no problems.

**5. Employee Leave Records and Procedures** We noted concerns with the city's conversion to a new leave policy, and the handling and payouts of some leave balances did not have documented Board approval. Some high level city employees accumulated more leave than authorized. Additionally, problems were noted with leave payments to terminated employees and employee leave records.

**5.1 Sick leave payout** Procedures used to convert employees' accumulated leave time based on the guidelines established by the new leave policy have resulted in the city paying sick leave benefits owed to employees in quarterly installment payments without clear approval from the Board or consulting with the city's legal counsel. In addition, when city employees were terminated or resigned in April 2012, the city did not pay some of these employees their sick leave balance owed upon termination, but continued paying them quarterly.

**Recommendation** The Board of Aldermen ensure procedures followed to convert to the new employee leave policy are adequately documented and approved by the Board, and consult with legal counsel regarding the appropriateness of paying amounts due to terminated employees in installment payments.

**Status** **Implemented**

On January 28, 2014, the Board voted and approved to continue to pay active employees quarterly for sick leave benefits owed. The Board also approved paying any terminated employees still owed sick leave benefits for their remaining balance rather than continuing quarterly installment payments. The city paid \$11,775 to these terminated employees for their accumulated sick leave as of December 31, 2013. The amount paid was supported by system generated payroll registers.

**5.2 Employee leave time** Several high level city employees accumulated more paid time off (PTO) leave than authorized by city policy or employment contracts, received



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payment of leave time upon termination that did not comply with city policy, and had incomplete or inaccurate leave records.

**Recommendation**

The Board of Aldermen ensure city employee leave accumulations agree with city policy or employment contracts, former employees are compensated for accumulated leave in accordance with city policy, and employee leave records are accurately maintained.

**Status**

**In Progress**

The city implemented additional procedures to ensure leave accumulations are properly calculated in accordance with city policy or employment contracts. The Human Resources Director is now responsible for monitoring and approving all leave accumulations processed by the payroll clerk. The Board approved a policy allowing the City Administrator to offer prospective employees additional PTO accrual hours beyond the amounts already in city policy. The Board also approved a policy stating employee leave will be determined by the records kept in the payroll system and not by any other means to avoid possible disputes over conflicting records.

We reviewed payroll records and leave documentation for 2 pay periods in April 2014 and all leave was properly approved. We traced selected leave to the payroll system and noted at least one employee's compensatory leave taken was an hour higher in the system than on her time records. In addition, there was no leave request form for this compensatory time. The City Clerk indicated that all employees who left employment in 2013 and 2014 were paid the accrued PTO reported in the accounting system.

**6. Accounting Records and Procedures**

City accounting records and financial reports provided to the Board were inaccurate, bank reconciliations were not performed timely, and interfund transfers were not always approved or accurately recorded.

**6.1 Accounting records**

The City Clerk's accounting records contained inaccuracies, resulting in errors on monthly financial reports provided to the Board. In addition, numerous journal entries were posted to the accounting records monthly without review or approval by an independent source, and many journal entries were posted several months after the accounting period ended.

**Recommendation**

The Board of Aldermen establish procedures to ensure accounting records accurately report financial activity and account balances, all journal entries are valid and posted timely, and someone independent of recording and reporting financial activity reviews and approves all journal entries.

**Status**

**In Progress**

In November 2013, city officials began reviewing all 2013 transactions recorded in the accounting system and had to adjust many of them to ensure



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the accuracy of the financial information. The city also adjusted financial records after the independent CPA auditor's review. The Finance Officer is responsible for entering all journal entries. Prior to entering a journal entry, the Finance Officer reviews to ensure the entry is necessary. Journal entries are approved by the City Administrator or City Clerk. We reviewed journal entries for 2014. We noted the journal entries contained initials; however, all journal entries did not include supporting documentation. The Deputy City Clerk indicated that she was still in the process of putting all supporting documentation with the journal entry reports at the time of our follow-up work in April 2014. Documentation pertaining to some journal entries was made available to us at that time, and the Deputy City Clerk was able to explain the various entries for which the support was not yet available.

## 6.2 Bank reconciliations

Bank reconciliations were not performed timely and did not always agree to city accounting records. At the start of our audit in October 2012, the city had not reconciled accounting records to the bank statement for the pooled cash account since February 2012. As of May 23, 2013, the city was still several months behind with the last completed bank reconciliation dated January 31, 2013.

In addition, completed bank reconciliations often did not agree to the cash balance recorded in the city's accounting records. At December 31, 2011, the pooled cash bank account reconciliation reflected a cash balance that was approximately \$46,000 lower than the accounting records, while at December 31, 2012, the reconciliation reflected a cash balance that was approximately \$12,000 higher than the accounting records. Further, the city did not retain a copy of the April 30, 2012, pooled cash bank reconciliation and could not reprint one from the accounting system.

The city also maintained an employee health trust bank account for the payment of a portion of employees' \$5,000 health insurance deductible. The bank reconciliation for the account showed a negative balance of \$2,950 caused by inadequate transfers from the city's pooled cash account to cover the checks written. Additionally, four checks totaling \$9,408 issued to 2 former and 2 current employees had not been negotiated at December 31, 2012, and no procedures were performed by city personnel to follow up on and reissue these checks.

## Recommendation

The Board of Aldermen ensure bank reconciliations are performed monthly and agree to accounting records and bank reconciliation reports are retained. Also, the Board should ensure proper amounts are transferred to the employee health trust account, and outstanding checks are followed up in a timely manner.

## Status

**In Progress**



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Bank reconciliations are now done monthly by the Deputy City Clerk and reviewed by the City Clerk or another administrative staff member. Transfers to the employee health trust account are now processed by human resource staff and reviewed by the City Clerk.

We reviewed the February 2014 pooled cash account and March 2014 employee health trust account bank reconciliations. The March 2014 pooled cash account reconciliation was still in process as of the date of our follow-up meeting in April 2014.

For the pooled cash account reconciliation, we noted old outstanding items remain unresolved including automatic bank drafts dating back to 2012, and checks and deposits in transit over a year old. The City Clerk indicated some of these items related to uncorrected duplicate entries and city personnel are working to resolve them with the help of the system programmer. Also, the reconciliation did not take into account some outstanding items and the reconciled balance is less than the general ledger pooled cash balance. For the employee health trust bank account we also noted outstanding checks and deposits in transit over a year old remain unresolved.

### 6.3 Transfers

Some transfers between funds were posted to the accounting records but not approved by the Board, and other transfers approved by the Board were not posted to the financial records.

### Recommendation

The Board of Aldermen ensure transfers between funds are properly approved and all approved transfers are posted to the accounting records.

### Status

#### **Implemented**

The Board approved a policy requiring city staff to receive Board approval before making any transfers between funds. The city transferred funds in May 2014 after the city's independent CPA auditor suggested adjustments for 2013 and 2014. The Board approved all of the transfers.

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## 7. Controls and Oversight

We identified serious weaknesses in the controls and oversight of several city functions.

### 7.1 Segregation of duties

The Board had not segregated duties or performed an adequate review of the work performed by the City Clerk. The City Clerk was responsible for all record-keeping and accounting functions of the city, including maintaining all accounting records, reconciling bank accounts, signing checks, authorizing purchases, and maintaining payroll records. Adequate independent reviews of her work were not performed. While the Board received detailed monthly financial reports, these reports were not always accurate and errors were not identified and corrected.



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**Recommendation**

The Board of Aldermen adequately segregate the duties of the City Clerk. At a minimum, there should be a documented supervisory review of the reconciliation between city records and banking records.

**Status**

**Implemented**

The Board approved additional procedures in February 2014 so that no one employee has access to all aspects of transfers, journal entries, disbursements, or payroll. The Deputy City Clerk prepares the bank reconciliations and the City Clerk reviews the reconciliations. Accounts payable duties have been segregated and checks are now signed by three individuals including the City Clerk, Mayor, and Mayor Pro Tem. The City Treasurer signs if one of the other signors is unavailable. The city also assigned oversight of payroll duties to the Human Resource Director.

**7.2 Cash controls**

Five employees, including two utility clerks, the meter reader, the City Clerk, and the payroll clerk, had the combination code to the safe where city staff stored monies until deposited. Additionally, the accounts payable clerk was responsible for counting receipts and preparing the deposits, and the Human Resource Director sometimes maintained the key to the locked bank bag containing the deposit.

**Recommendation**

The Board of Aldermen limit access to cash receipts.

**Status**

**Implemented**

The city implemented additional controls to limit access to cash receipts. The City Clerk stated access to the safe has now been restricted. Utility collections are counted by the utilities clerk and verified by the utilities supervisor before transmission to the City Clerk's office. The cash is then placed into a locking bank bag and picked up by the Deputy City Clerk from the utilities department. The Finance Officer unlocks the bag, verifies the various amounts transmitted; then locks the bag for transport to the bank for deposit. The Accounts Payable Clerk is responsible for picking up the deposit receipt from the bank after the deposit is complete. The Accounts Payable Clerk provides the deposit receipt to City Clerk staff for comparison to utility department records, the accounting system, and the bank's online records. We reviewed the deposits for the period of April 24, 2014, through April 28, 2014, and noted a review was documented. We also walked through the receipting process at the utilities department and noted no problems.

**7.3 Password controls**

Passwords were not kept confidential and not periodically changed to help ensure they remain known only to the assigned user and to reduce the risk of compromised passwords. Additionally, the City Clerk, who maintained oversight responsibilities over the collection and disbursement of city funds, acted as administrator of the city computer system and had access to all



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employee passwords. Passwords were regularly shared among employees responsible for collecting city receipts. Throughout the day the two utility clerks, meter reader, and other city employees shared two computer terminals and cash drawers to process receipts without logging in under their own password when they changed terminals.

**Recommendation**

The Board of Aldermen require confidential unique user identifications and passwords for all employees, and appropriately restrict access to cash drawers. Additionally, the Board should appoint an appropriate computer system administrator who does not have financial and accounting responsibilities or other conflicting duties.

**Status**

**Implemented**

City officials reset all passwords used to access the accounting system and implemented procedures to automatically reset passwords every 90 days. Only the City Administrator can authorize a new user identification or a password reset. The city implemented procedures requiring the use of unique user identifications and prohibiting employees from utilizing other users' passwords. Cash drawers are no longer shared. The Human Resource Director, who is separate from the accounting duties, is now the system administrator.

**7.4 Accounting system controls**

Information in the computerized accounting records did not always agree with the information on actual checks issued. The computerized accounting system allowed the user to change the date, payee, and amount of checks posted to the accounting system after checks have been printed.

**Recommendation**

The Board of Aldermen contact the software provider to request additional control features to the city accounting system that will prevent changes from being made to check data after the checks have been issued.

**Status**

**In Progress**

City financial personnel recently attended training on the accounting system. The city worked with the system provider to assign access control to the Human Resource Director. Any changes must be approved by the City Administrator. The City Administrator stated once all bank reconciliation issues are addressed, the city will implement a new procedure requiring financial personnel to close the month's transactions in the accounting system each month. After these transactions, the system will not allow changes to check information.



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**8.1 Payroll and Related Matters - Payroll reporting and tax withholdings**

Retirement plan withholdings and compensation paid to volunteer firemen were not properly taxed and reported.

**Recommendation**

The Board of Aldermen establish procedures to ensure IRS regulations are followed regarding the taxing and reporting of employee compensation and benefits.

**Status**

**Implemented**

The city reassigned all payroll reporting activities including employee tax withholdings and benefit calculations under the Human Resource Director. The City Administrator stated the city reviewed the retirement withholding errors and corrected the errors in the system and made appropriate tax payments. The city now pays firemen as employees and withholds appropriate taxes.

**8.2 Payroll and Related Matters - Commuting mileage**

The commuting use of city vehicles was not reported to the IRS. The City Administrator and Police Chief drove city vehicles to commute to and from work. The City Administrator's employment contract required a mileage log documenting the use of the city's vehicle; however, a log was not maintained. Former Police Chief Hamilton drove a city vehicle to his home located approximately a 94 mile round trip from the city limits of Bolivar. Although the Police Chief indicated he was on 24-hour emergency call, considering the distance from his home it was questionable whether he could have responded in a reasonable amount of time to an emergency from his residence. Further, former Police Chief Hamilton did not maintain a mileage log.

**Recommendation**

The Board of Aldermen require usage logs be maintained to differentiate between personal, commuting, and business mileage; and ensure commuting and personal mileage are reported in compliance with IRS requirements.

**Status**

**In Progress**

The Board approved a policy in February 2014 requiring a mileage log for all city-owned vehicles. The city requires employees to document the mileage at the beginning and ending of each trip. We reviewed selected mileage logs maintained in public works vehicles, police vehicles, and the City Administrator's vehicle for February, March, and April 2014. The mileage logs do not include a specific place to document the type of use, but employees are expected to record personal mileage. The City Administrator documented personal mileage on his logs. Some logs were not complete and did not include beginning and ending mileage, and/or the purpose of the



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trip. The City Clerk stated commuting mileage was not reported on 2013 W-2 forms, but the city plans to report this mileage in the future now that logs are required.

8.3 Payroll and Related  
Matters - Contracted  
labor

The city did not document the reasons for classifying some employees as independent contractors rather than employees. The city did not withhold payroll and income taxes from payments made to these individuals. Rather, these payments were reported to the IRS on Forms 1099-Misc.

Recommendation

The Board of Aldermen ensure all persons hired are properly classified as employees or independent contractors in compliance with state and federal laws and regulations, and all compensation paid is subject to income and payroll taxes and properly reported.

Status

**Implemented**

The City Administrator stated the city will no longer hire temporary employees as independent contractors. Instead the city plans to consider all such labor as part-time employees. The City Administrator indicated the city has not hired any contracted labor in 2014.

8.5 Payroll and Related  
Matters - Automatic  
payroll deposits

There was no independent review of the City Clerk's authorization for automatic deposits of employee payroll checks, tax withholdings, and payments to third party employee benefit providers.

Recommendation

The Board of Aldermen ensure automatic payroll deposits and related transactions are properly reviewed and approved by someone independent of the City Clerk's duties.

Status

**Implemented**

The city implemented additional procedures to segregate the payroll process. We reviewed the April 25, 2014, payroll direct deposit reports and noted the reports were reviewed and approved by the Finance Director, who is independent of the payroll process, and the Human Resource Director. After approval, the City Clerk completes the transaction for disbursement.

8.6 Payroll and Related  
Matters - Timesheets

Supervisors did not always sign timesheets indicating their review and approval. Additionally, unapproved timesheets included one where the employee reported overtime, others where reported leave was not supported by a leave request form or the form submitted was not approved in accordance with city policy, and another with a calculation error in the number of hours worked.

Recommendation

The Board of Aldermen ensure timesheets are signed by supervisors to document their review and approval.



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Status

**Implemented**

The city requires department heads to review all timesheets. Staff in the City Clerk's office also recalculate the hours on each timesheet before processing. We reviewed time records for 2 pay periods in April 2014 and noted all timesheets were signed by the employee and the appropriate department head to show approval.

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9. City Procedures and Written Agreements

City procedures for business licenses and permits needed improvement, and contractual agreements were not always followed or in writing.

9.1 Building licenses and permits

The city did not have adequate procedures in place to follow up on unpaid business licenses. The City Administrator waived building permit fees without approval by the Board. In addition, business licenses were not prenumbered and procedures were not in place to compare business licenses issued to the amount of fees deposited.

Recommendation

The Board of Aldermen ensure business licenses are prenumbered and reconciled to fees received. Collection procedures should be developed for unpaid business licenses, and any fees waived should be approved by the Board.

Status

**In Progress**

Business licenses are now prenumbered. We reviewed a business license transaction from April 30, 2014, and the license was prenumbered and all required information was obtained. At the date of the follow-up meeting the Deputy City Clerk was working on reconciling the business licenses to fees received; and the City Clerk plans to review the reconciliations. The City Clerk indicated the Deputy City Clerk is also in the process of reviewing all unpaid business license records. She indicated the Deputy City Clerk determined some unpaid balances are for businesses that no longer exist or do business in the city and the system is being updated to reflect this information. The City Administrator indicated that all permit fees waived will be approved by the Board.

9.2 Written agreements

The city did not have a written agreement to support economic development contributions of \$20,000 or with the Bolivar Special Road District for administrative services.

Despite the city's poor financial condition, the city leased real estate to a not-for-profit (NFP) organization for \$1 per year while incurring an annual debt service payment on the property of \$55,979.

The city has a written lease agreement with a private contractor to operate the city's airport for \$1 per month. The agreement covers the contractor



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providing aircraft for charter or hire; offering flight instruction; selling, leasing, and repairing aircrafts; and operating a restaurant. During 2012 the city paid \$20,148 to the contractor in commissions on fuel sold at the airport; however, the contract indicated the city retained control over fuel sales and did not provide for the payment of fuel commissions.

**Recommendation**

The Board of Aldermen ensure all agreements are in writing and monitor for compliance with contract terms.

**Status**

**In Progress**

All contracts are now being prepared by the City Attorney and approved by the Board by ordinance. The City Administrator indicated the city no longer leases property to the not-for-profit and the city is in the process of entering into an agreement with the Bolivar Special Road District. The City Administrator indicated the city will enter into membership agreements with the Chamber of Commerce and Springfield Regional Development Council. The City Administrator also indicated the city plans to monitor all agreements. The City Clerk indicated the city amended its written agreement with the airport contractor in March 2014 to address paying commissions for fuel.

**10. Budgets and Financial Reporting**

The city did not properly prepare or monitor budgets and had not complied with state law by publishing and reporting financial information.

**10.1 Budgets**

The Board is provided budget to actual financial information at its meetings, but the Board is not adequately reviewing the information to ensure disbursements remain within budgeted appropriations.

Budget documents for 2012 and 2013 did not include the actual beginning and estimated ending available resources for city funds. In addition, the 2013 budget document did not include receipts and disbursements related to the city's trash service.

**Recommendation**

The Board of Aldermen properly monitor actual disbursements compared to budgeted amounts, ensure disbursements do not exceed budgeted appropriations, and prepare annual budgets that contain all information as required by state law.

**Status**

**In Progress**

The February and March 2014 Board meeting minutes included a council report showing a comparison of budget to actual disbursements. The City Administrator indicated the city will only amend the budget with Board approval and prior to disbursements. We noted the 2014 budget does not include 2013 estimated or actual ending balances. The City Administrator



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stated financial personnel were working to ensure the accuracy of the 2013 amounts recorded in the accounting system before including this information.

## 10.2 Financial reporting

The city did not publish financial statements or submit annual financial reports to the State Auditor's office as required by law.

### Recommendation

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

### Status

#### **Implemented**

The city published a semiannual financial statement for the period ended December 31, 2013, on January 31, 2014. We reviewed the published statement and noted it was complete but included a calculation error. The city submitted its audited 2013 annual financial reports to the State Auditor's office on June 30, 2014, as required by state law.

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## 11. Utility System Controls

Sewer rates were increased without preparing a statement of costs as required by law, controls over utility adjustments and deposits needed improvement, and a reconciliation of customer utility deposits to accounting records was not performed.

### 11.1 Water and sewer rates

The city increased sewer rates in December 2012 without preparing a statement of costs or maintaining documentation of how the rate increase was calculated. Additionally, water rates had not been reviewed or changed since 2006.

### Recommendation

The Board of Aldermen ensure a statement of costs is prepared to support utility rate increases, and document formal reviews of water and sewer rates periodically to ensure revenues are sufficient to cover all costs of providing these services.

### Status

#### **In Progress**

The city contracted with an engineering firm in May 2014 to perform a study of water and sewer rates including an evaluation of related costs. The study is in progress.

### 11.2 Utility adjustments

Controls over adjustments posted to customer utility accounts needed improvement. The city used a manual form to document the approval of adjustments, but had no procedures in place to compare adjustments posted to the computer to the manual approval forms to ensure all adjustments were properly approved and only approved adjustments were made to customer accounts. Additionally, reports of adjustments were not generated and reviewed and approved. Further, the city's utility system was capable of



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documenting supervisory approval for all created, edited, and adjusted utility account files electronically; however, this feature was not utilized.

**Recommendation**

The Board of Aldermen ensure all adjustments are properly approved.

**Status**

**Implemented**

The city now requires review of utility adjustments by the Finance Officer and approval by the City Administrator. We reviewed three adjustments made in April 2014 for water leaks reported by customers and noted documentation was maintained to support the adjustments. The Finance Officer signed off on the manual adjustment forms and the City Administrator initialed the forms to show his approval.

**11.3 Utility deposits**

The total of customer utility deposits was not reconciled to the amount reported in the city's accounting records. As of December 31, 2012, utility system records indicate deposits totaling \$114,085 were being held; however, the city's accounting records indicated \$116,281 was being held in the city's pooled cash account for utility deposits.

**Recommendation**

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

**Status**

**In Progress**

The Finance Officer indicated she plans to reconcile the utility deposit listing to accounting records in the near future. The Finance Director indicated the cash collection module of the accounting system requires adjustment before the reconciliation can occur because some airport hangar deposits and utility deposits are comingled on the deposit listing. Once required adjustments are made, she can begin the reconciliation process.

**12. Property Controls and Records**

City property records were not complete, and fuel and vehicle usage was not properly monitored. In addition, the police department needed to improve seized property records and procedures.

**12.1 Asset records and inventories**

Property records did not include all necessary information, physical inventories were not routinely performed, and some city property was not tagged or properly identified as belonging to the city.

**Recommendation**

The Board of Aldermen ensure property records are adequately maintained and include all pertinent information for each asset, such as cost, acquisition date, and identifying number; annual physical inventories are conducted; and city assets are tagged to display ownership.



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**In Progress**

The City Clerk is in the process of inventorying city property. She reviewed technology equipment and vehicle inventories and plans to inventory the remaining city property by the end of summer 2014. The city plans to begin tagging all assets after the inventory work is complete. We reviewed the completed technology inventory list and noted it did not include the asset acquisition date and cost. The City Administrator indicated the city plans to develop complete asset records including all pertinent information, such as cost and acquisition date, once staff complete the inventories and asset tagging.

12.2 City fuel and vehicle usage

The city had not established effective monitoring procedures regarding fuel and vehicle use. Fuel logs did not include all fuel pumped from city bulk fuel tanks and these fuel logs were not reviewed or used to reconcile fuel used to fuel purchased. Also, employees were not required to submit fuel tickets associated with fuel pumped at local gas stations, and odometer readings were not reviewed by department directors for reasonableness. Further, fuel bills were not always reviewed and approved by department supervisors before payment.

Additionally, usage logs were not maintained for city vehicles to ensure vehicles were properly utilized and to ensure the vehicle was a necessary and justified expense. An evaluation of usage to determine if the number of vehicles was necessary and justified had not been performed.

Recommendation

The Board of Aldermen establish adequate records and procedures to effectively monitor vehicle and fuel use. Bulk fuel inventory records should be maintained, invoices should be reviewed and approved, and fuel use should be reconciled to fuel purchases. Any discrepancies should be investigated. The Board should also ensure receipts for fuel purchases are submitted to the finance department and reconciled with fuel invoices. In addition, the Board should evaluate vehicle usage to determine if all vehicles are needed.

Status

**In Progress**

The Board approved a fuel usage policy in February 2014 that requires each vehicle to have a fuel mileage log and each employee to document the mileage and maintain fuel receipts for each fueling. The receipts are submitted to the Accounts Payable Clerk at the end of each month. We reviewed the March 2014 fuel bill and noted the Accounts Payable Clerk reconciled receipts to the bill. We noted all of the March 2014 mileage logs and receipts were not turned into the Accounts Payable Clerk to allow mileage and fuel records to be reviewed for reasonableness. For any missing receipts the Accounts Payable Clerk indicated she contacted the appropriate



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department head and she was able to locate all necessary information. The Public Works Director also reconciled bulk fuel invoices to bulk fuel usage and only noted minor differences. The City Clerk stated city officials are reviewing the city's fleet of vehicles and are in the process of disposing of older vehicles and determining what equipment and vehicles are needed.

12.3 Police department  
seized property controls

The police department maintained seized property records on three different computerized systems, with each system tracking property for a separate date range depending on when the property was received. When a new computerized property system was put in place, inventory from the prior system(s) was not merged into the newer system. As a result, one complete control log of property was not maintained, making records cumbersome and difficult to follow. There was also no documentation to indicate that a physical inventory of seized property had been performed and compared to the computerized inventory records.

Additionally, the police department was holding numerous property items that should have been disposed.

Several concerns regarding the improper use or disposition of seized property inventory were brought to our attention and were referred to the proper law enforcement agency for further investigation.

Recommendation

The Board of Aldermen ensure the police department maintains a single complete inventory record of all evidence and seized property, performs a physical inventory of all items and compares it to the inventory records, and properly disposes of older seized items as applicable.

Status

**In Progress**

The Police Chief implemented procedures to address deficiencies identified in a November 2012 audit of the property room, including adopting a new property and evidence policy in March 2014. The city hired two part-time staff for the property unit who conducted a complete inventory of the property room in October 2013. The city also consolidated all of the property inventory records. The Police Chief indicated he plans to review the discrepancies identified during the inventory process. Property unit staff are in the process of requesting property dispositions from the various courts so older property can be returned or disposed of as appropriate. Access to the property unit has been limited to 3 people. We reviewed property room procedures, a destruction list, and inventory records, and noted no concerns.

13.1 Ordinances and  
Sunshine Law Issues -  
City ordinances

Some city ordinances were not followed and some fees were not consistent with or authorized by city ordinance. For example, city code provides for the election of a city collector every 2 years and assigns duties to the position; however, city officials indicate the City Collector performs no city



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functions. Also, some license and utility fees are not set by ordinance or charged in accordance with city ordinance.

**Recommendation**

The Board of Aldermen ensure city ordinances are followed and maintained in an up-to-date manner and reflect current city operations.

**Status**

**In Progress**

City officials are reviewing current ordinances to determine if they include all license and utility fees and indicated they will ensure ordinances are maintained, updated, and reflect current operations. The City Clerk periodically sends new ordinances to a contracted company that updates the city code. All 2013 ordinances are included in the city code and the City Clerk recently submitted 2014 information to be updated. The City Administrator indicated the city will review the City Collector position and seek a legal opinion regarding the position.

**13.3 Ordinances and  
Sunshine Law Issues -  
Closed meeting  
discussions**

Some topics discussed and voted on in closed board meetings were not allowable under the Sunshine Law.

**Recommendation**

The Board of Aldermen ensure only topics allowed by state law are discussed in closed board meetings.

**Status**

**Implemented**

The City Administrator indicated no unallowable topics will be discussed in closed session. The City Administrator stated the city is in the process of scheduling Sunshine Law compliance training presented by the Attorney General's office for Board members. The City Attorney also stated he is working to ensure compliance during closed meetings. We reviewed closed meeting minutes for the period of December 2013 through April 2014 and noted no unallowable topics discussed.