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FOLLOW-UP REPORT ON AUDIT FINDINGS

City of Kimmswick

September 2015
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City of Kimmswick

Follow-Up Report on Audit Findings

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*Includes selected findings



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

We have conducted follow-up work on certain audit report findings contained in Report No. 2014-139, *City of Kimmswick* (rated as Fair), issued in December 2014, 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 held discussions with city officials, observed city procedures for the 2015 Strawberry Festival on June 6, 2015, and reviewed documentation provided to us. Those documents include meeting minutes, bank statements, bids, contracts, cash logs, receipt records, and reconciliations. This report is a summary of the results of this follow-up work, which was substantially completed during June and July 2015.

Nicole R. Galloway, CPA
State Auditor

City of Kimmswick

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Status of Findings

- 1. City Festivals
 - We identified significant weaknesses with controls and procedures over city festivals.
- 1.1 Receipting and depositing procedures
 - Festival receipts
 - The city's controls and procedures over receipting and depositing festival monies needed significant improvement.
 - The city did not maintain adequate records of festival monies received, and as a result, the city could not ensure all monies collected were accounted for and properly deposited.
 - The city did not issue pre-numbered receipt slips for booth rentals or sponsor fees received, a record of vendors and fees paid was not maintained, and the City Clerk did not reconcile registration forms to fees deposited. In addition, the city did not keep a record of sales made from city booths and did not try to reconcile products sold with monies received to ensure all monies collected were accounted for and deposited.
 - Deposits
 - The city did not deposit festival monies received intact or timely and the city did not restrictively endorse checks upon receipt. The city allowed vendors to post-date checks for future festivals in order to secure their booth location. Approximately 35 percent of checks received for both booth rental and sponsor fees were post-dated and held up to 10 months before deposit. None of these checks were restrictively endorsed.
 - Security of receipts
 - The city did not maintain festival monies received in a secure location until deposit. In addition, the city did not ensure all monies collected from city booths during the festival were accounted for prior to deposit.

Recommendation

The Board of Aldermen (the Board) ensure proper receipt records are maintained and reconciled to the composition of the deposits. In addition, the Board should develop procedures to track and reconcile city booth sales to monies collected, ensure deposits are made timely and intact, checks/money orders are restrictively endorsed upon receipt, and monies are properly secured. Further, the Board should discontinue the practice of accepting post-dated checks. Any fees received in advance of upcoming festivals should be promptly deposited and vendor payments and booth assignments should be adequately tracked.

Status

In Progress

Festival receipts: The City Clerk maintains a spreadsheet that tracks all information for booth rentals. We observed this spreadsheet and noted it included the booth number assigned, business name, amount paid, date paid, date deposited, and any balance owed. According to the City Clerk, copies of paid applications are now retained with the deposit records to provide clearer documentation of what each deposit includes. Further, as of the June 2015 Strawberry Festival, the city began writing receipt slips for any cash



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sales for strawberry jam and the city started reconciling monies received for jam sales to inventory sold. We observed copies of receipt slips for jam sales from the 2015 Strawberry Festival and the reconciliation performed by the city comparing jam sales to inventory sold. The City Clerk also indicated city officials plan to implement a documented reconciliation of beer sales per booth to inventory sold during the 2015 Apple Butter Festival.

Deposits: The city will no longer accept post-dated checks starting with the 2016 festivals. In lieu of paying in full, the city now allows a deposit from vendors of \$50 or \$100 to secure booth rentals in advance for the Strawberry and Apple Butter festivals; however, full payment must be received by a specified date or vendors will forfeit their booth and deposit. We observed notices of this policy change posted in multiple locations around the 2015 Strawberry Festival and at city hall. As payments are received, the City Clerk deposits the money and no longer holds checks. We reviewed the June 2015 bank statement and noted deposits occurred at least weekly.

Security of receipts: The City Clerk picks up money from city booth sales multiple times throughout the festival to reduce the amount of cash on hand. At the time of pickup, the City Clerk and a booth worker count the money removed from the booth, document the amount removed on a cash log, and each person initials the log as correct. The money is then placed in a sealed envelope and stored in bank bags locked in a file cabinet at city hall. At the end of the day, the bank bags are placed in the overnight drop at the bank. We observed the pickup process and documentation of the cash log during the 2015 Strawberry Festival. We also observed monies were secured in a locked file cabinet at city hall during the festival.

1.2 Festival staff

The city did not designate which festival staff services would be compensated. Various members of the community worked at city festivals; however, only some workers were paid for their services.

In addition, the city did not maintain documentation to support compensation paid to festival workers and it was not clear whether the amounts compensated were approved by the Board. Further, the city paid a security officer a \$50 cash advance on the first day of the 2013 Apple Butter Festival, before services were provided.

Recommendation

The Board of Aldermen establish a policy to address compensating festival workers and ensure disbursements are adequately supported, reviewed, and approved. Board approvals should be documented in meeting minutes.



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Status

In Progress

The Board discussed and approved payment of festival workers prior to the 2015 Strawberry Festival during open Board meetings. The city paid applicable workers by check, and issued 1099-MISC forms. We reviewed the March 9, 2015, meeting minutes in which 2015 Strawberry Festival disbursements, including worker payments, were approved by the Board. The minutes included a listing of workers and amounts approved. The city has not established a policy outlining which festival positions will be paid and which ones will be unpaid. The City Clerk indicated city officials will look into creating a policy and will continue to review and approve festival disbursements during open meeting minutes.

1.3 Festival disbursements

Controls and procedures over festival disbursements needed improvement.

Bidding

The city did not always comply with its purchasing policy for festival disbursements, resulting in bids not being solicited for all services required. The Festival Committee was responsible for obtaining bids for festival goods or services and making recommendations to the Board; however, the Board did not review bid documentation prior to approving the recommended vendors. In addition, all bid documentation relating to festival activity was maintained offsite by the committee chairperson.

Contracts

The city did not enter into a contract with the band solicitor/promoter or the beer vendor for the 2013 festivals.

Recommendation

The Board of Aldermen ensure the city solicits and approves bids in accordance with city policy, and maintains documentation at city hall. In addition, the Board should establish written contracts for festival services when needed to properly define services to be received and amounts to be compensated.

Status

Implemented

The city now posts bid notices and the Board votes on all bids prior to the festival. Once a bid is approved, a contract is signed and maintained at city hall. We viewed the notice to bid for portable toilet services for the 2015 Strawberry Festival and noted the bid was approved during the March 9, 2015, Board meeting, prior to the festival. We also reviewed the contract for these services and noted the contract amount agreed with the amount the Board approved.

1.4 Board approval

The Board did not approve a large portion of the 2013 festival disbursements prior to payments being made, and Board meeting minutes did not document the Board's approval for festival disbursements. The Board did not hold meetings during May through July 2013. During this



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period, the city disbursed \$29,185 relating to the 2013 Strawberry Festival, which accounted for approximately 41 percent of total festival disbursements made in 2013.

Recommendation

The Board of Aldermen review and approve all festival disbursements prior to payment and ensure approval of festival disbursements is properly documented in meeting minutes.

Status

Implemented

The Board now approves festival disbursements prior to payment and approvals are documented in the meeting minutes. We reviewed the March 9, 2015, Board meeting minutes and noted festival disbursements had been approved and the minutes included a listing of the approved disbursements. We observed the approved festival disbursements occurred in June 2015 following the 2015 Strawberry Festival.

1.5 Festival Committee

The Festival Committee did not comply with the Sunshine Law. The committee did not hold open meetings and meeting minutes were not prepared. Further, recommendations made by the committee to the Board were not approved. As a result, decisions and recommendations made by the Festival Committee were not open to the public.

Recommendation

The Board of Aldermen ensure public meetings are held and meeting minutes prepared, approved, and maintained for the Festival Committee in accordance with the Sunshine Law. Meeting minutes should document all decisions made and be filed with the city.

Status

Implemented

The Festival Committee now posts notices of meetings and maintains meeting minutes. We observed the meeting minutes for two festival committee meetings held during 2015. In addition, the Board meeting minutes included discussion of Festival Committee issues and documented Board approval of committee recommendations.

2. Accounting Controls and Procedures

We identified several weaknesses with the city's accounting controls and procedures.

2.1 Segregation of duties and supervisory reviews

The Board had not segregated duties or performed adequate reviews of the work performed by the City Clerk. The City Clerk was responsible for receipting and depositing monies, preparing checks, reconciling bank accounts, preparing monthly financial reports, and maintaining accounting records. In addition, the City Clerk managed events held at the Anheuser Estate and prepared billings for merchant licenses. The Board hired the former City Treasurer to prepare the city's annual financial statements. On a



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monthly basis, as part of this service, this individual performed an independent review of the monthly bank reconciliations, disbursements, and financial statements; however, the former City Treasurer's review was not documented and did not include reconciling receipts to deposits or reviewing detailed transactions. A detailed review of accounting records was also not performed by the Board.

Recommendation

The Board of Aldermen segregate the duties of the City Clerk. At a minimum, there should be a documented review of city records and reconciliations.

Status

Implemented

City officials indicated the city is not able to hire an additional staff person to properly segregate accounting duties. However, the former City Treasurer has increased her review to include detailed receipt, deposit, and disbursement records. The former City Treasurer now initials all of the records she reviews. In addition, the City Clerk is no longer involved with handling monies for the Anheuser Estate rentals. Detailed accounting records are now provided to Board members prior to each meeting providing them an opportunity to review the detailed records.

2.2 Receipting and depositing procedures

The city's controls and procedures over receipting and depositing monies needed improvement. We noted the following issues:

- The city did not issue pre-numbered receipt slips nor maintain an immediate record of receipts.
- The city did not deposit monies intact or timely, and checks and money orders were not restrictively endorsed upon receipt.
- The city did not deposit all monies received relating to events held at the Anheuser Estate. In addition, the city allowed individuals to submit post-dated checks as the deposit for renting the estate.
- The City Clerk did not maintain receipts for estate events in a secure location.

Recommendation

The Board of Aldermen ensure proper receipt records are maintained and reconciled to the composition of the deposits. In addition, the Board should ensure deposits are made timely and intact, and monies are properly secured. Further, the Board should discontinue the practice of accepting post-dated checks. Any fees received in advance of upcoming events should be promptly deposited.



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Status

Implemented

The City Clerk issues written receipt slips, restrictively endorses checks when received, and deposits monies promptly. The city no longer accepts post-dated checks and the City Clerk is no longer involved with the monetary aspects of the Anheuser Estate rentals.

2.3 Voided checks

The City Clerk did not mutilate and retain voided checks. The City Clerk stated she shredded voided checks each month after the bank statements were balanced.

Recommendation

The Board of Aldermen mutilate and retain all voided checks.

Status

Implemented

We observed the City Clerk now marks "Void" multiple times across voided checks. In addition, the City Clerk indicated voided checks are now attached to the related month's bank statement and maintained in the monthly financial folder.

3.1 City Policies and
Procedures - Board
approval

The city made several disbursements prior to obtaining Board approval, and meeting minutes did not include documentation of disbursements approved by the Board. It is unclear if the Board approved all disbursements. The Board did not hold meetings during May through July 2013; during this period, the city disbursed approximately \$23,000 from the General Revenue, Road, and Event Funds, which accounted for approximately 18 percent of disbursements from those funds during 2013.

Recommendation

The Board of Aldermen review and approve all disbursements prior to payment and ensure approval is properly documented.

Status

Implemented

The Board approves city disbursements during Board meetings prior to payment and approvals are documented in the meeting minutes. We reviewed the March 9, 2015, meeting minutes and noted disbursements had been approved by the Board. The minutes included a listing of the approved disbursements.

4. Anheuser Estate

City policies and procedures over disbursements, capital assets, and event profits involving the Anheuser Estate needed improvement.

4.1 Disbursements

The city did not retain documentation to support approval of disbursements made from the trust fund supporting the Anheuser Estate. Meeting minutes did not specify what disbursements were approved and documentation to support what was approved at each meeting was not maintained.



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Recommendation

The Board of Aldermen ensure the city maintains documentation of trust fund disbursements approved by the Board. Additionally, meeting minutes should clearly document the Board's approval.

Status

Implemented

The Board approves Anheuser Estate disbursements at each board meeting. The meeting minutes now document the Board's approval and include a listing of disbursements approved. We reviewed the March 9, 2015, meeting minutes and observed Anheuser Estate disbursements were discussed and approved. A copy of the Anheuser Estate financial reports, including approved disbursements, were included with the meeting minutes at city hall.

4.2 Capital assets

The city had not conducted an inventory of the Anheuser Estate and had not updated the related capital asset records since 2010.

Recommendation

The Board of Aldermen ensure an annual inventory of the capital assets is performed and records updated as necessary for the Anheuser Estate.

Status

In Progress

The city and the Anheuser Trust Board have agreed to hire an outside firm to conduct the inventory of the Anheuser Estate. Due to the uniqueness of the estate property, members of the Trust Board will monitor the inventory process. As of July 31, 2015, the city is still soliciting bids for this work. The city estimates the inventory will be completed by the end of September 2015. Discussion regarding who will pay for the inventory count is ongoing.

4.3 Event profits

The city did not have a formal agreement with the Anheuser Trust Board outlining how income derived from events held at the Anheuser Estate would be divided between the city and the Anheuser Trust Board. Beginning in 2013, the city began renting the estate to the public for special events. Any related costs for events at the estate were covered by the city. According to city personnel, an informal agreement was made between the city and the Anheuser Trust Board to equally divide the profits from these events. However, the city's meeting minutes did not document this agreement and a written agreement with the Anheuser Trust Board was not created.

Recommendation

The Board of Aldermen establish a formal agreement with the Anheuser Trust Board documenting the disposition of future income earned.



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Status

In Progress

Legal counsel for the city and the Anheuser Trust Board are currently negotiating an agreement for dividing the profits from renting the Anheuser Estate property. According to the City Clerk, the agreement has been drafted and approved by the Board. As of August 12, 2015, the agreement is pending approval by the Anheuser Trust Board.

7. Computer Controls

Controls over the city's computer were not sufficient to prevent unauthorized access. In addition, backup data was not stored in a secure, off-site location.

7.1 Passwords

The city had not established adequate password controls to reduce the risk of unauthorized access to the city's computer and data. Separate user identifications and passwords were not required to log onto the computer, and the City Clerk had shared her identification and password with other city officials. In addition, the password was not required to be changed periodically.

Recommendation

The Board of Aldermen require a unique password for each employee that is confidential and periodically changed to prevent unauthorized access to the city's computer and data.

Status

Implemented

The City Clerk now changes her password on a monthly basis and her password is kept confidential.

7.2 Backup data

Backup data for the city's financial system may not have been available for restoring information following a disaster or computer failure. Backups were performed daily; however, the backups were not stored at a secure off-site location but were stored at the same location as the original data and periodic testing of the data for adequacy was not performed.

Recommendation

The Board of Aldermen ensure backup data is stored in a secure off-site location and tested on a regular, predefined basis.

Status

Implemented

The City Clerk makes a flash drive backup of city records on a monthly basis and a copy is maintained in an off-site secure location. In addition, backup data is tested monthly to ensure it is working properly.