



Nicole R. Galloway, CPA  
Missouri State Auditor

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# FOLLOW-UP REPORT ON AUDIT FINDINGS

## City of Dixon

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September 2015  
Report No. 2015-089



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<http://auditor.mo.gov>

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# City of Dixon

## Follow-Up Report on Audit Findings

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\*Includes selected findings



**NICOLE R. GALLOWAY, CPA**  
**Missouri State Auditor**

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

We have conducted follow-up work on certain audit report findings contained in Report No. 2015-007, *City of Dixon* (rated as Poor), issued in February 2015, 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 provided by city personnel and met with city officials. Documentation included meeting minutes, budgets, 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 July 2015.

A handwritten signature in black ink that reads "Nicole R. Galloway".

Nicole R. Galloway, CPA  
State Auditor

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# City of Dixon

## Follow-Up Report on Audit Findings

### Status of Findings

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- 1. Undeposited Receipts and Unsupported Transactions**

Some receipts issued/posted to the computerized utility system by various city employees were not deposited, former City Collector Plummer entered incorrect usage information or made unauthorized adjustments to her parents' utility account, and the city made reimbursements to officials and payments for meals without adequate supporting documentation.

**Undeposited Receipts**

The audit identified \$1,847 of recorded utility receipts in October 2012 that were not deposited. Manual receipt slips issued from October 12 to October 30, 2012, could not be agreed to a deposit. In addition, utility cash receipts (unrelated to the manual receipt slips) posted to customer accounts in the computerized utility system during October 2012 could not be agreed to a deposit.

According to city officials, during October 2012 various former city officials (City Collector, City Clerk, and Mayor) and the former Court Clerk issued manual receipt slips for monies received and access to monies on hand was not limited. In addition, it is unclear who made deposits during this time period.

**Unbilled water usage and adjustments**

Former City Collector Plummer's parents were primarily charged only the minimum for water usage from January 2007 to July 2013, although their actual water usage had typically been above the amount charged for minimum usage. In addition, water usage for other months since October 2005 were apparently adjusted by the former City Collector. City procedures and records indicate former City Collector Plummer was fully responsible for utility billings from November 2005 to August 2012. A review of utility accounts during that period of time determined the water usage billed to her parents' account was much lower than it had been prior to November 2005. Records and explanations provided by city officials indicated the former City Collector entered incorrect usage information or made unauthorized adjustments to her parents' account in the computerized utility system to reduce the amount of water used each month. In several months, the water usage reading was reported as zero for this account resulting in a bill for the minimum amount each month. We estimated the amount not billed to former City Collector Plummer's parents during months where water usage was reported at zero to be approximately \$1,140.

**Unsupported reimbursements and disbursements**

The city reimbursed the former City Clerk for various items that lacked sufficient documentation, and overpaid the former City Clerk in one instance. The Board did not approve these reimbursements and the former Mayor and the former City Clerk signed these checks.

The city reimbursed the City Marshall \$800 based on a purchase order he prepared indicating the reimbursement was for a light bar for a city police car. The City Marshall did not provide documentation of the original cost or purchase of the light bar.



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Additionally, there were several purchases of meals from local restaurants that lacked supporting documentation, including individuals in attendance, the business purpose, or the necessity of the purchase. City records indicate several of the meals involved the former Mayor and former City Clerk, and the Board did not approve several of the payments.

**Recommendation**

The Board of Aldermen investigate undeposited receipts. The Board of Aldermen should also work with law enforcement officials regarding criminal prosecution, if the undeposited receipts are determined to be missing, and regarding the erroneous utility system information and unauthorized utility account adjustments. The Board of Aldermen should seek reimbursement of the unsupported reimbursements, consider billing for past legitimate but unbilled utility service, and ensure all disbursements of city monies clearly benefit the city and are supported by invoices.

**Status**

**In Progress**

The Board has contacted the Missouri State Highway Patrol (MSHP) to investigate the erroneous utility system information and unauthorized utility account adjustments. The investigation is still in progress. The Board has contacted the city attorney regarding the undeposited receipts and unsupported reimbursements and is awaiting his guidance. Board members indicated they are waiting for completion of the MSHP investigation before taking any further actions.

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**2.1 Accounting Controls  
and Procedures-  
Segregation of duties**

The Board had not adequately segregated accounting duties and did not have adequate review and approval procedures. The City Clerk was responsible for preparing invoices for payment, issuing checks, posting receipts and disbursements into the accounting system, processing payroll, and reconciling bank accounts. The City Clerk also sometimes received payments. The City Collector was responsible for taking payments, recording receipts in the utility account system, and depositing all monies. A comparison of monies received and recorded on manual receipt slips and the computerized utility system to those deposited was not performed. The city did not have a City Treasurer.

**Recommendation**

The Board of Aldermen implement procedures to adequately segregate duties or ensure independent or supervisory reviews of the City Clerk and City Collector's work are performed.

**Status**

**Not Implemented**

The City Clerk and City Collector are still responsible for the same accounting duties, and a comparison of monies received and recorded to those deposited is not performed and documented. We met with city



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officials on July 27, 2015, and the Mayor indicated the Board would try to segregate accounting duties or perform a supervisory review in the future.

**2.2 Accounting Controls and Procedures-  
Receipting, recording,  
and depositing  
procedures**

The city's procedures for receipting, recording, and depositing were poor. As a result, there was no assurance all monies collected were properly receipted, recorded, or deposited.

- City personnel did not issue receipt slips for some monies received.
- City personnel did not issue receipt slips in numerical sequence, and used multiple receipt slip books concurrently.
- Amounts recorded on manual receipt slips were not reconciled to the computerized utility system, and amounts recorded in the computerized utility system were not reconciled to deposits.
- The former City Collectors did not deposit receipts intact or timely. They made separate deposits for each type and composition of receipt (cash receipts were deposited separately from receipts received by check).
- The former City Collectors did not always include an itemized listing of cash and checks on the deposit slips, and some of the recorded receipts could not readily be agreed to a deposit.
- The former City Collectors did not always record monies received timely in the computerized utility system.

**Recommendation**

The Board of Aldermen require issuance of prenumbered receipt slips for all monies received, record receipts in the computerized utility system timely, and deposit receipts intact and timely.

**Status**

**Partially Implemented**

We reviewed city receipt and deposit records for the period June 15 to June 30, 2015. We determined receipt slips were not issued for utility check payments unless requested by the payor or for some other miscellaneous city receipts, one receipt slip was not issued in numerical sequence, and copies of some receipt slips had been altered.

The City Collector indicated receipts are now recorded in the computerized utility system timely and newly implemented procedures ensure all manual receipt slips are entered in the computerized utility system. Amounts recorded in the computerized utility system were reconciled to amounts deposited, and receipts were deposited timely. However, we noted one deposit during this time period where receipts were not deposited intact. We



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noted no undeposited receipts, duplicate manual receipt slips issued, or posting errors made to the computerized utility system.

2.3 Accounting Controls and Procedures- Accounting records

The city did not maintain accurate accounting records, and significant unexplained differences existed in the city's records.

- Differences existed between the September 30, 2013, reconciled bank balance and the book balance recorded in the accounting records of the city's main bank account. The city's computerized bank reconciliation report included a warning stating "bank totals do not equal the general ledger account totals" and reported a difference of (\$617,332). In addition, an adjustment was made on the September 2013 computerized bank reconciliation report by the former City Clerk to increase the main account balance and decrease the transportation account balance by \$200,000; however, the transfer was not made until October 7, 2013.
- The August 31, 2013, ending cash balances did not agree to the September 1, 2013, beginning balances for various city funds. In addition, the warning statement mentioned above appeared for three bank accounts on the August cash report with differences reported of \$871,603, (\$624,637), and \$31.
- The city's independent audit report letter of suggestions to management for fiscal year 2012 stated, "At the beginning of fieldwork, we noted the City's general ledger was not in balance. The City had to request the software company fix the out of balance. After the software company balanced the general ledger, we noted individual funds remained out of balance."

Recommendation

The Board of Aldermen ensure accounting records are accurately maintained.

Status

**Not Implemented**

Differences existed between the June 30, 2015, reconciled bank balance and the book balance recorded in the accounting records of the city's main bank account. The city's computerized bank reconciliation report included a warning stating "bank totals do not equal the general ledger account totals" and reported a difference of (\$113,858). Small unexplained differences existed for two other bank accounts.

2.4 Accounting Controls and Procedures-Physical controls

The current City Collector indicated that when she started in March 2013, the former City Collector maintained monies received in an unlocked drawer in the office and in a locked vault at night. The Mayor indicated during the year ended September 30, 2013, the Marshal rekeyed the vault and retained a key without authorization, and to further limit access the



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maintenance supervisor rekeyed the vault a second time. Various city employees and the former Mayor had access to monies on hand and were allowed to collect receipts at city hall.

**Recommendation**

The Board of Aldermen maintain monies collected in a secure location and limit collection duties.

**Status**

**Implemented**

The City Collector indicated monies are now in a locked drawer and at the time of our July 2015 follow-up meeting, monies on hand were maintained in a locked drawer. Also, collection duties and access to the drawer are limited to the City Collector and City Clerk.

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**3.1 Disbursements-  
Procurement procedures**

The city did not have a formal bidding policy and bids were not solicited for numerous significant goods and services purchased. In addition, while Board meeting minutes indicate the city obtained bids for propane, city officials did not retain the bid documentation.

**Recommendation**

The Board of Aldermen establish formal bidding policies and procedures, including documentation requirements regarding the bids or quotes received and justification for bids selected.

**Status**

**Implemented**

At the time of our July 2015 follow-up meeting, city officials provided documentation indicating they had advertised for bids for various services since the audit; however, a formal bidding policy had not been established. On September 2, 2015, the city provided our office with its newly adopted bidding policy.

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**3.2 Disbursements-  
Professional and  
engineering services**

Professional services were obtained without the benefit of a competitive selection process, the city had not entered into a written agreement for legal services, and the city did not document its evaluation and selection of engineering services.

**Recommendation**

The Board of Aldermen solicit proposals for professional services, enter into written agreements for legal services, and comply with state law when procuring engineering services and document the evaluation and selection process for those services.

**Status**

**In Progress**

The city had not solicited proposals for auditing or legal services or entered into written agreements for legal services at the time of our review. However, subsequent to our July 2015 follow-up meeting, the Board provided copies of advertisements for bids for legal services and other





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professional services, such as for website creation and management and engineering services.

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### 3.3 Disbursements- Approval process

The Board's approval process for disbursements was not adequate. The list of bills approved by the Board each month was not complete, and a comparison of this list to approved invoices and the actual checks written was not performed. The list of bills approved by the Board each month did not include payroll disbursements. In addition, a list of bills approved by the Board did not include several of the non-payroll disbursements we reviewed. The Mayor and department heads failed to document their review and approval on most supporting documentation in compliance with city policy. Additionally, many of the invoices paid by the city did not have documentation acknowledging receipt of goods or services.

#### Recommendation

The Board of Aldermen ensure complete lists of bills (including payroll information) are prepared, the Board's approval is reflected on the lists, and the lists are retained. The Mayor and department heads should document their review and approval in accordance with city ordinance, and approved lists of bills should be compared to invoices and checks written. The Board should also ensure all invoices are initialed or signed by an employee to indicate acceptance of goods or services.

#### Status

##### **Not Implemented**

Although the June 15, 2015, meeting minutes indicate the Board approved bills due since its previous meeting, our review determined a complete list of bills (including payroll) was not prepared for the Board's approval. The list of bills (accounts payable) was not prepared until June 23, 2015, 8 days after the Board meeting, and the Board's approval was not reflected on the list. The Mayor and department heads did not document their review and approval on most supporting documentation reviewed in compliance with city policy and many of the invoices paid did not have documentation acknowledging receipt of goods or services. Subsequent to our July 2015 follow-up meeting, Board members provided a form they plan to use to document approval of bills.

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### 4. Payroll Taxes

The former and current City Clerk did not timely file 941 forms and remit applicable payroll taxes to the IRS for the period January 2012 to March 2014, resulting in assessments of penalties and interest totaling \$26,980. The City Clerk also did not file/remit this form and applicable taxes for the second quarter of 2014 until September 2014; however, the IRS had not assessed the applicable penalties and interest.

#### Recommendation

The Board of Aldermen should establish procedures to ensure payroll taxes are remitted to the appropriate taxing entity timely.



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**Status**

**In Progress**

The City remitted payroll taxes timely for the first and second quarter of 2015; however, it was assessed penalties of \$325 because the city failed to remit payroll taxes timely for the last quarter of 2014. The City Clerk did not file 941 forms for the third and fourth quarter of 2014 or the first quarter of 2015 timely. However, the 941 form for the second quarter of 2015 was filed on time. The Mayor indicated the Board is considering hiring an outside firm to handle payroll duties.

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**6. Utility System Controls and Procedures**

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

**6.1 Utility rates**

The Board had not performed a formal review of water and sewer rates, and as a result there was less assurance utility rates were set at an appropriate level. The city had not increased or decreased water and sewer rates since 2009.

**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 changes.

**Status**

**Not Implemented**

At the time of our July 2015 follow-up meeting, the Board had not documented a formal review of utility rates, but indicated a review is planned for the fall of 2015.

**6.2 Water reconciliations and billings**

The maintenance supervisor did not investigate significant differences identified in the monthly reconciliation of gallons of water billed to customers to gallons of water pumped. In addition, water usage was not tracked for city buildings, a fire district, and one privately-owned property. Without this water usage information, the city could not properly perform the reconciliation.

**Recommendation**

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

**Status**

**In Progress**

The City Collector indicated she is not reconciling the gallons of water billed to the gallons of water pumped each month; however she attempted to perform this reconciliation for June 2015, which resulted in significant unexplained differences. She believes some differences may be caused by



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the software and is working with the utility software provider to determine the cause for the differences. Board members indicated the city plans to rehabilitate pumps at 2 city wells, which should improve the accuracy of the amount of water pumped and billed. The City Collector indicated meters were installed to track water use for city buildings and the fire district, but not the privately-owned property. The privately-owned property is vacant, and the Board cannot justify the cost of installing the meter at the vacant property. Subsequent to our July 2015 follow-up meeting, the Mayor indicated the city plans to purchase electronic meters.

### 6.3 Adjustments

The City Collector posted adjustments to the computerized utility system without obtaining independent approval or maintaining adequate documentation to support the reason for the adjustments. Because the City Collector was responsible for all utility functions, the ability to make adjustments without approvals represented a significant control weakness.

### Recommendation

The Board of Aldermen ensure all adjustments are independently approved and supporting documentation is retained.

### Status

#### **Not Implemented**

The Mayor indicated the Board had approved some adjustments to the utility system in May and June 2015; however, Board members did not document their review and approval of these adjustments. Also, the City Collector does not generate a report of all adjustments made to the utility system for the Board's review each month.

### 6.4 Utility deposits

The former City Collectors did not prepare a monthly list of utility deposits held and reconcile the list to the deposit payable balance in the general ledger. The list of utility deposits on hand as of February 28, 2014, totaled \$26,958, and the deposit balance in the city's general ledger totaled \$64,365, resulting in a difference of \$37,407.

### 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

#### **Not Implemented**

At the time of our July 2015 follow-up meeting, the City Collector had not prepared a monthly list of utility deposits held and she indicated she was working on correcting the amount recorded in the general ledger. Subsequent to our meeting, the City Collector provided a list of utility deposits held as of July 30, 2015, which totaled to \$30,388, and the deposit balance in the city's general ledger totaled \$72,709, resulting in a difference of \$42,321.



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7.1 Budgetary Procedures  
and Financial  
Reporting-Budgets

The Board did not hold a budget hearing to establish and approve a budget for the year ending September 30, 2013, and on October 1, 2012, the Board approved operating under the prior year's budget for the upcoming year. A formal budget document for fiscal year 2013 was never prepared. Additionally, the annual budget for the year ended September 30, 2012, did not contain all elements required by state law. The budget did not include a budget message, and actual or budgeted amounts for the 2 preceding years. The beginning available resources and estimated ending available resources were also not included in these budgets, but were needed to present a complete financial plan for city finances.

Recommendation

The Board of Aldermen prepare complete budget documents in accordance with state law and ensure a public hearing is held to obtain input from city residents.

Status

**Partially Implemented**

The Board held a budget hearing to establish and approve the budget for the year ended September 30, 2015. However, the budget did not include a budget message, actual or budgeted disbursement amounts for the 2 preceding years, any revenue amounts, or the beginning available resources and estimated ending available resources.

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7.2 Budgetary Procedures  
and Financial  
Reporting-Budget  
amendments

The former City Clerk did not prepare and the Board did not approve budget amendments for the fiscal year ending September 30, 2013. The city overspent the General Fund and Library Fund during fiscal year 2013.

Recommendation

The Board of Aldermen prepare and approve budget amendments prior to incurring the related disbursements.

Status

**Not Implemented**

No budget amendment was made for the year ended September 30, 2014, and based on city records, the city overspent the Debt Service Fund budget during fiscal year 2014. One budget amendment was made during the year ended September 30, 2015; however, the city does not maintain records to monitor budget to actual financial activity on an ongoing basis. As a result, we could not determine whether the fiscal year 2015 amendment was approved prior to incurring the related disbursements.

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7.3 Budgetary Procedures  
and Financial  
Reporting-Financial  
statements

The Board did not comply with state law regarding publishing financial statements. Financial statements published for the year ended September 30, 2013, did not include a full and detailed account of the receipts, disbursements, beginning and ending cash balances, and indebtedness of the



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city. The financial statements only presented the total budgeted and actual receipts and disbursements by fund, and did not include the beginning and ending cash balances of each fund, which were not required but were needed to present a complete financial plan for city finances. Also, the financial statements were not published semiannually.

**Recommendation**

The Board of Aldermen publish semiannual financial statements as required by state law.

**Status**

**Not Implemented**

The city did not publish semiannual financial statements for the year ended September 30, 2014, and the 2014 annual published financial statements did not include a full and detailed account of the receipts and disbursements and beginning and ending cash balances. In addition, the city did not publish semiannual financial statements for the 6 months ended March 31, 2015.

**7.4 Budgetary Procedures and Financial Reporting-Monitoring of excess revenues and filing of financial reports**

The city did not calculate the percent of annual general operating revenue from fines and court costs related to traffic violations, determine whether excess revenues should be distributed to the state Department of Revenue, and provide an accounting of the percent in its annual financial report as required by state law. In addition, the city had not filed annual financial reports for the years ended September 30, 2012 and 2013, with the State Auditor's office as required by law.

**Recommendation**

The Board of Aldermen develop procedures to monitor excess revenues from traffic violations and submit annual financial reports to the State Auditor's office.

**Status**

**Not Implemented**

At the time of our July 2015 follow-up meeting, the city had not taken any steps to monitor excess revenues from traffic violations and had not submitted annual financial reports for the year ended September 30, 2014, to the State Auditor's office. The City Clerk indicated he would work with the Municipal Division Clerk to calculate possible excess revenues and report the results.

**8.1 Meeting Minutes, Qualifications of Aldermen, and Ordinances-Meeting minutes**

Open meeting minutes did not document the specific section of law that allowed a closed meeting for any of the closed meetings held during the year ended September 30, 2013; and some issues discussed in closed meetings were not allowable under the Sunshine Law. In addition, closed meeting minutes did not always document what was discussed during the closed meeting.



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**Recommendation**

The Board of Aldermen ensure the specific statutorily allowed reason for closing a session is documented and only allowable subjects are discussed in closed session. In addition, proper documentation of closed meetings should be maintained.

**Status**

**Partially Implemented**

We reviewed open and closed meeting minutes for May and June 2015. Open meeting minutes documented the specific section of law that allowed a closed meeting and closed meeting minutes were properly documented. However, some of the issues discussed in closed meetings were not allowable under the Sunshine Law. For example, the Board discussed a water leak and the related citizen's utility bill during the June 1, 2015, closed session, and the Dixon Cemetery and a dangerous sidewalk during the May 18, 2015, closed session.

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**9. Computer Controls**

The city had not established adequate password controls to reduce the risk of unauthorized access to computer systems and data. City hall employees shared one user identification and password for each of 3 computers, and passwords were not required to be changed on a periodic basis to help ensure they remain known only to the assigned user and to reduce the risk of a compromised password. In addition, security controls were not in place to shut down a computer after a certain period of inactivity or lock it after a specified number of incorrect logon attempts.

**Recommendation**

The Board of Aldermen should require a unique password for each employee that is confidential and periodically changed to prevent unauthorized access to city computer systems and data. The Board of Aldermen should also require each city computer to have security controls in place to shut down the computer after a certain period of inactivity and lock it after a specified number of incorrect logon attempts.

**Status**

**Implemented**

The Board indicated it has required unique passwords for each employee and passwords are required to be changed every 3 months. The Board has also established security controls to lock computers after 3 minutes of inactivity and shut down computers after the third failed logon attempt.