



Office of Missouri State Auditor Nicole Galloway, CPA

FOLLOW-UP REPORT ON AUDIT FINDINGS

City of Rich Hill

Report No. 2017-083

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City of Rich Hill

Follow-Up Report on Audit Findings

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*Includes selected findings



NICOLE GALLOWAY, CPA

Missouri State Auditor

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

We have conducted follow-up work on certain audit report findings contained in Report No. 2016-117, *City of Rich Hill* (rated as Poor), issued in November 2016, 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 has no specific plans to implement the recommendation.

As part of the AFTER work conducted, we reviewed documentation provided by city officials and held discussions with officials to verify the status of implementation for the recommendations. Documentation provided by the city included minutes of meetings, written policies and procedures, financial records, and other pertinent documents. This report is a summary of the results of this follow-up work, which was substantially completed during May 2017.

A handwritten signature in black ink that reads "Nicole R. Galloway". The signature is fluid and cursive, with a large, stylized "G" at the end.

Nicole R. Galloway, CPA
State Auditor

City of Rich Hill

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Status of Findings

1. Monitoring Financial Condition	<p>The Board of Aldermen (Board) had not been monitoring the financial condition of the city closely, was not receiving detailed information showing cash balances for each fund, and had relied on transfers from some utility funds to balance the city's budget in recent years.</p> <p>The Electric and Refuse Funds had been used to subsidize the Police and Street Funds in recent years. Significant transfers totaling \$150,940 were made in 2014 to subsidize the Police and Street Funds. Additional transfers were budgeted to support these funds in 2015, but these transfers were not made because city personnel were unable to post the transfers to the accounting system.</p> <p>City officials placed \$51,000 of restricted street monies in the General Fund during 2015, rather than the Street Fund. Had the planned 2015 transfers been made and this restricted street money placed in the correct fund, the General Fund would not have had a sufficient balance to cover the Police Fund deficit. Both the Police and Street Funds were operating at a deficit at the end of 2015.</p> <p>City budgets did not contain cash balances and financial reports showing fund balances were not prepared and provided to Board members at their meetings.</p> <p>In August 2016, subsequent to the end of our audit fieldwork, the city transferred another \$160,000 and \$130,000 from the Electric Fund to the Police and Street Funds, respectively, to cover deficits in those funds. City personnel provided no justification or documentation to support these transfers from restricted funds and there was no documentation to show the Board had discussions of cash flow problems or transfers.</p>
Recommendation	<p>The Board of Aldermen ensure monthly detailed financial data is provided to them, perform long-term planning and closely monitor and take necessary steps to improve the financial condition of the various city funds. In addition, the Board of Aldermen should discontinue subsidizing city funds with utility monies.</p>
Status	<p>Partially Implemented</p> <p>The Board now reviews detailed financial information, including budget-to-actual details and current cash balances, at each board meeting. The budget approved for the fiscal year ending December 31, 2017, showed there were no funds with deficit balances as of December 2016, nor were any projected to be at a deficit as of December 2017. In addition, restricted street monies are now properly recorded in the Street Fund (discussed in section 5.1).</p>



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The Board has approved a use tax ordinance and plans to put this issue on the ballot in November 2017 for voter approval and also plans to place a sales tax on the ballot in April 2018. The city continues to subsidize city funds with utility monies. In December 2016 the Board passed ordinances authorizing a 7.5 percent franchise fee on gross receipts for each of the 4 city utility operations. The Board has no documentation to support how the fee was determined or justified. The city budgeted to transfer \$35,025, \$14,325, \$13,575, and \$76,875 from the Water, Wastewater, Refuse, and Electric Funds, respectively to the General Fund during 2017. The total transferred is significantly less than the \$290,000 transferred out of the Electric Fund to other city funds during 2016.

2.1 Utilities - Rates

Periodic formal cost studies of utility rates had not been performed and rates had not been increased or decreased for any utility services for the past several years. Although utility rates have not been changed, the Electric and Refuse Funds continue to subsidize other city funds while still having large accumulated cash balances.

Recommendation

The Board of Aldermen ensure formal reviews of utility rates are performed periodically to ensure revenues are sufficient to cover all costs of providing the service without generating excessive profits.

Status

In Progress

A formal rate study of electricity rates was performed by an independent company, and rate studies for the other utility rates were performed by city personnel. Based on the studies the electric and water rates were increased, and while increases were recommended for wastewater and refuse services, those rates did not change.

In addition, rate studies prepared for water, wastewater, and refuse did not include the proposed franchise fees as a cost of operating the system. The water rate study indicated the increased rate adopted will not be sufficient to cover all costs included in the rate study or the franchise fee. As a result, the City Clerk indicated some water improvement costs and reserve amounts anticipated for 2017 will have to be delayed to future years. According to the City Clerk, the previous water rates had been significantly too low and the Board did not want to impose too much of a rate increase all at once.

2.2 Utilities - Non-monetary adjustments

Non-monetary adjustments posted to the system were not always reviewed and approved by an independent person and documentation supporting why each adjustment was necessary was not always retained. In addition, a comparison of approved adjustments to adjustments actually made to the system was not performed by an independent person.



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Recommendation	The Board of Aldermen ensure all non-monetary adjustments are properly approved and compared to actual changes posted to the computer system, and documentation of all non-monetary adjustments are retained.
Status	Partially Implemented
	<p>All non-monetary adjustments are tracked on a written log, which is reviewed by the City Clerk. The log documents the date of the adjustment, the account number, the amount of the adjustment by category (e.g., electricity, water), and the reason for the adjustment. However, there is currently no ability to generate a list of all non-monetary adjustments posted to the computer system in order to ensure adjustments per the log agree to actual adjustments to the system. Additionally, neither the Board nor another independent person reviews the log to determine if the number and amount of the non-monetary adjustments is reasonable and to ensure adjustments are properly approved.</p>
	<p>The City Clerk plans to include a copy of the log in board meeting packets, and work with the computer programmer to create a report of the posted non-monetary adjustments for comparison to the log. The timeline for completing this project is uncertain.</p>
	<p>We reviewed the written log and noted 22 adjustments had been performed from January 1, 2017, to April 30, 2017. The reason given for the adjustment was not always adequate. For example, one account showed a \$286.43 adjustment in the electricity column, with "electricity adjustment" as the documented reason.</p>
2.3 Utilities - Accounts receivable reconciliations	During 2015, the city did not perform monthly reconciliations of total amounts billed, payments received, and amounts unpaid for any of the utility services.
Recommendation	The Board of Aldermen ensure monthly reconciliations of amounts billed to amounts collected and delinquent accounts are performed.
Status	Not Implemented
	<p>The Board has not established procedures to implement this recommendation, and the City Clerk has not performed reconciliations of amounts billed to amounts collected and delinquent accounts.</p>
2.5 Utilities - Inactive accounts	City personnel were not sending applicable accounts to a collection agency or making other efforts to collect old accounts receivable before reclassifying the accounts as inactive and writing off the balance due. The current City Clerk stated city records indicated delinquent accounts had been sent to a collection agency in prior years but that had not occurred



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since approximately 2012. We identified no other collection efforts on these inactive accounts.

Recommendation The Board of Aldermen ensure sufficient procedures are developed to collect accounts receivable.

Status **In Progress**

In March 2017, the Board passed amendments to the various utility ordinances allowing payment plans for individuals with delinquent bills. There was one active payment plan at the time of our follow-up work.

As of May 11, 2017, there were 499 inactive utility accounts with amounts due totaling approximately \$150,000. Both totals are an increase from the amounts reported as of February 2016 in our audit report. The Mayor and City Attorney indicated they reviewed and considered a collection services agreement with a vendor in April 2017 but chose not to submit such an agreement to the Board for approval. The City Clerk indicated the Board is in the process of identifying another collection agency to collect past due amounts for the city and hopes to have a collection services agreement in place before year end.

2.6 Utilities - Utility deposits The city did not reconcile the list of customer utility deposits to city accounting records. The city maintained a list of utility deposits and accounts for the utility deposits in multiple restricted cash accounts.

Recommendation The Board of Aldermen periodically reconcile customer deposits per accounting records to the available cash balance for customer deposits and promptly investigate any differences.

Status **Implemented**

Customer deposits are reconciled to the accounting records monthly by the Utility Billing Clerk. The reconciliation is reviewed by the City Clerk. We reviewed the April 2017 reconciliation and verified the amount of customer deposits agreed to the available cash balance per the accounting records.

3.2 Accounting Controls - Segregation of duties The Board had not adequately segregated accounting duties or ensured documented supervisory or independent reviews of work performed by city office personnel were performed. The City Clerk and 2 Deputy City Clerks, one of which also serves as the Court Clerk, could all receipt and deposit monies and post transactions to the accounting system, including adjustments to customer account balances. The City Clerk was primarily responsible for making purchases, preparing checks, and reconciling the bank accounts. No reviews of the detailed accounting and bank records was performed by other city personnel or Board members.



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Recommendation	The Board of Aldermen segregate the accounting duties of the city office personnel. If proper segregation cannot be achieved, ensure a documented independent or supervisory review of detailed accounting and bank records is performed
Status	Implemented
	The city has implemented a documented independent review of detailed accounting and bank records. Alderman rotate the reviewing duties of the following records on a monthly basis: check registers, daily deposit registers, bank reconciliations, and balance sheets for each fund. Specific review procedures include comparing daily deposit registers to deposit records and the bank statement, comparing the cash-on-hand per the balance sheet to the bank statement, reviewing monthly bank reconciliations and images of cancelled checks, and scanning the check register for any unusual or unknown payees. We reviewed the packets given to the aldermen responsible for completing the reviews for February 2017 and March 2017 and saw notations and initials indicating an independent review had been performed.
3.3 Accounting Controls - Bank reconciliations	Bank reconciliations were either not performed or were not retained for the city's 2 checking accounts (operating and perpetual care) during 2015. The computer system used does not save prior bank reconciliations, therefore the city must print the bank reconciliations to document their completion. A former City Clerk indicated bank reconciliations were performed; however, none were provided to us.
Recommendation	The Board of Aldermen prepare and retain formal bank reconciliations monthly.
Status	Implemented
	The City Clerk prepares bank reconciliations monthly for the city's 2 checking accounts. The reconciliations are reviewed by an alderman. We reviewed the March 2017 bank reconciliations and verified they had been properly completed and reviewed.
3.4 Accounting Controls - Manual receipt slips	The city did not properly account for all manual receipt slips issued. The city used two manual receipt slip books concurrently and several receipt slips issued were missing from each book. In addition, the city did not have a procedure to determine if all manual receipts slips issued had been posted to the accounting system and the method of payment (cash, check, or money order) was not always marked on the manual receipt slip.
Recommendation	The Board of Aldermen ensure the numerical sequence of all manual receipt slips is accounted for, note the method of payment on receipt slips, and retain copies of all manual receipt slips issued. In addition, develop a



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method to ensure all manual receipts slips are posted to the accounting system.

Status	In Progress
	<p>The number of manual receipt slips written has decreased and only one manual receipt slip book is now being used. Five manual receipt slips were issued in March 2017. We reviewed these receipt slips and determined each had been posted to the computerized accounting system. In addition, the method of payment was indicated on each receipt slip, and a voided manual receipt slip issued in April 2017 was retained. The City Clerk told us established procedures require city personnel write the computer assigned receipt number on the manual receipt slip when it is posted, but our review indicated that had not occurred for these manual receipts and there was no other indication on the receipts that they had been posted. The City Clerk indicated she reviews the manual receipt slip book to ensure all receipts written are entered into the system, and plans to ensure staff are indicating the computer assigned receipt number on the manual receipt in the future.</p>
3.5 Accounting Controls - Receipt slips and change fund	Receipt slips were not issued for some monies received and the change fund was not kept at \$100 as set by city policy.
Recommendation	The Board of Aldermen require issuance of prenumbered receipt slips for all monies received, record receipts in the computerized accounting system, and ensure the change fund is maintained at the established amount.
Status	Implemented
	<p>City personnel now issue prenumbered receipt slips for all monies received. If monies cannot be receipted in the computerized accounting system immediately, a manual receipt slip is written and entered into the accounting system within 1 business day. The change fund is maintained at \$100. The cash drawer is now balanced daily with the computerized accounting system's daily transmittal reports. We reviewed the daily deposit information for May 9 and 10, 2017, and verified the cash drawer balance was maintained at \$100.</p>
4.1 Disbursements - Approval process	The Board's approval process for disbursements was not adequate and the Board was not presented adequate financial reports by city personnel when making spending decisions. The list of bills approved by the Board each month did not include payroll disbursements, which are approximately \$50,000 per month, or payments made through the city's electronic bill payment system. While the Mayor indicated she reviewed payroll records each month, this review was not documented.



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Recommendation	The Board of Aldermen ensure all payments made are included in the listing of bills presented for approval and posted to the accounting system. In addition, the Board of Aldermen should be receiving detailed financial reports showing cash balances for each fund to help facilitate the approval of bills.
Status	Implemented
	The Board receives a listing of all bills to be paid out of the accounting system, including payroll and electronic disbursements, at each board meeting, along with supporting invoices. The Board is also provided detailed financial reports including the check register, a financial report that shows the cash balance before and after the bills are paid, and another report that shows budget-to-actual information and the current balance of each fund.
	We reviewed Board meeting minutes for April 25, 2017, and the agenda for the May 8, 2017, meeting. Both documented the items the Board was to receive. Additionally, we scanned the list of bills, the check register, and both financial reports and verified they included all necessary information.
4.4 Disbursements - Allocation of salaries and disbursements	The city used unsupported estimates to allocate payroll costs among various funds and there was no documentation to explain the allocation of some disbursements among restricted city funds.
Recommendation	The Board of Aldermen ensure payroll costs and other disbursements are properly allocated to the applicable city funds and allocations are supported by adequate documentation.
Status	Implemented
	The city reviewed actual time spent by employees during 2016 and determined percentages for allocating payroll costs during 2017. At the end of 2017, the city will reevaluate the percentages to ensure they are allocating payroll costs as accurately as possible. We reviewed the city's calculations and noted they were performed for each employee and included detailed payroll information by week for the entire year.
4.6 Disbursements - MoDOT building	In January 2015, the city purchased approximately 8 acres, along with various buildings and garages from the Missouri Department of Transportation (MoDOT) for \$15,000, plus some utility costs, without obtaining an appraisal. The Board had not adequately documented its plans for utilizing the buildings and land. As part of the purchase agreement the MoDOT retained ownership of another 2 acres and buildings located adjacent to the purchased property, but the city was required to pay the



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	utilities (water, gas, and electric) for 10 years for those buildings. The city did not estimate the cost of the utilities to determine the total purchase price.
Recommendation	The Board of Aldermen obtain independent appraisals and properly evaluate all related costs before purchasing real estate, and develop a plan to utilize the property purchased.
Status	Implemented
	The Board has not purchased any real estate since the completion of our audit. The Board's response to this audit recommendation indicated appraisals would be obtained for all future real estate purchases and all costs would be evaluated; however, an ordinance or specific procedures have not been established to help ensure that will occur.
	Several of the buildings and garages on the MoDOT property are now being utilized by the city. One of the buildings now houses most of the city's public works and utility employees and other buildings and garages are used to store equipment and machinery.
5.1 Restricted Monies - Motor vehicles monies	The city posted some restricted street monies in the General Fund, rather than the Street Fund, did not track these monies within the General Fund, and did not spend any money during 2015 from the General Fund for street purposes.
Recommendation	The Board of Aldermen ensure restricted street monies are posted to the Street Fund and spent for allowable purposes only and develop plans to repay the amounts owed to the Street Fund.
Status	Implemented
	Restricted street monies are now posted to the Street Fund. Payments from these monies are clearly designated so that the Board can ensure the monies are used for allowable purposes. The Street Fund was repaid approximately \$50,000 by the General Fund for the amount owed from 2015 through an adjusting entry posted to the accounting system in December 2016. To correct for this problem for 2016, the restricted payments were reposted each month to the Street Fund and currently, the amounts received are posted directly to the Street Fund. We reviewed current financial reports and noted the restricted monies are being adequately tracked.
6.1 Financial Reporting - Filing of financial reports	City personnel had not filed annual financial reports timely with the State Auditor's Office as required by state law. The city last submitted an annual financial report in May 2016 for the year ended December 31, 2014, although it was due by June 30, 2015. No report was filed for 2013. Also, a



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report has not been filed as of August 2016 for the year ended December 31, 2015, which was due by June 30, 2016.

Recommendation The Board of Aldermen submit annual financial reports to the State Auditor's Office as required by state law.

Status **Partially Implemented**

The Board submitted the city's annual financial report for the year ended December 31, 2015, to the State Auditor's Office on May 16, 2017. The annual financial report for the year ended December 31, 2016, has not been submitted as of July 2017.

7.1 Sunshine Law - Closed meetings On multiple occasions open meeting minutes documented a topic to be discussed in a closed meeting that was not addressed in the meeting.

Recommendation The Board of Aldermen ensure topics announced in the open session are actually discussed in closed session and documented in the minutes.

Status **Implemented**

There were 11 closed meetings between November 1, 2016, and our follow-up work in early May 2017. We reviewed the closed meeting minutes and noted that in all cases the topic documented in the open session meeting minutes as the reason for holding a closed meeting was consistent with the topic discussed.

9. City Library Changes in the operations of the city library were necessary to be in compliance with state law.

City library monies were held in the custody of both the city and the Library Board. The city received the library tax monies from the Bates County Collector and distributed the money to the Library Board periodically, but as of December 31, 2015, was still holding approximately \$2,300. In addition, the Mayor had not been appointing the Library Board members, but rather the Library Board has been making the appointments.

The annual report filed with the city did not indicate all monies received or how much money was spent and the purpose of the expenditures and was not filed with the State Library as required.

Recommendation The Board of Aldermen ensure all monies received for the library are disbursed monthly, appointments of Library Board members are made annually by the Mayor, and the annual report is complete and filed with the city and State Library as required by state law.



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Status	Implemented
	<p>The City Clerk has implemented procedures to distribute monthly any monies received for the library. We reviewed amounts received by the city for the library from February to April 2017 and determined each distribution occurred timely.</p>
	<p>The Library Board submitted a list of recommended appointees to the Mayor and the necessary board appointments occurred in June 2017.</p>
	<p>The librarian filed an annual report with the Library Board that contained all required information. The report was also properly filed with the city and the State Library.</p>
10.2 Ordinances and Budgets - Budgets	City budgets did not include all statutorily required elements and were not always approved timely. The 2015 and 2016 budgets did not include a budget message or summary, the actual beginning and estimated ending cash balances, actual receipts and disbursements for the two preceding years, or city indebtedness information. In addition, the Board did not approve the 2016 budget until April 2016.
Recommendation	The Board of Aldermen prepare annual budgets, which contain all information required by state law, and approve the budget prior to the beginning of the operating year.
Status	In Progress
	<p>The Board approved the fiscal year ended December 31, 2017, budget in December 2016. The budget did not include a budget message, but included all other information required by state law. The City Clerk indicated a budget message would be included in the next budget prepared.</p>
12. Electronic Data Security	The city has not established adequate password controls to reduce the risk of unauthorized access to computer systems and electronic data. Employees were not required to change passwords 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, backup of financial data was performed, but was stored on site in a fireproof safe.
Recommendation	The Board of Aldermen require passwords for each employee that are periodically changed to prevent unauthorized access to the city's computers and data and ensure backup of financial data is stored at an off-site location.



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Status	Implemented
	<p>The city had new computers installed in early May 2017. The computers are set up so that each employee has a unique password, and passwords are set to expire every 90 days. City personnel back up financial data daily and store the back-up file in a fireproof box on-site. On Wednesday evenings, a weekly back up of financial data is performed and 2 copies of the back-up file are created overnight, with one taken to the bank and placed in the city's safety deposit box and the other taken home by the City Clerk on Thursday.</p>