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FOLLOW-UP REPORT ON AUDIT FINDINGS

City of Greenville

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City of Greenville

Follow-Up Report on Audit Findings

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NICOLE GALLOWAY, CPA
Missouri State Auditor

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

We have conducted follow-up work on audit report findings contained in Report No. 2018-120, *City of Greenville* (rated as Poor), issued in November 2018, 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 for which follow up is considered necessary, 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 city officials to verify the status of implementation for the recommendations. Documentation provided by the city included minutes of meetings, financials records, and other pertinent documents. This report is a summary of the results of this follow-up work, which was substantially completed during April 2019.

Nicole R. Galloway, CPA
State Auditor

City of Greenville

Follow-Up Report on Audit Findings

Status of Findings

1. **Improper Payments and Missing Monies** The audit identified approximately \$161,000 in improper payments and undeposited monies. The former City Clerk also falsified disbursement listings presented to the Board of Aldermen to conceal improper disbursements.

Recommendation The Board of Aldermen continue to work with law enforcement officials regarding criminal prosecution of the improper payments, inappropriately negotiated city checks, the falsified records, and the undeposited receipts, and take the necessary actions to seek restitution.

Status **Implemented**
In July 2018, the Attorney General's Office filed felony criminal charges of receiving stolen property and forgery against the former City Clerk and the case is ongoing as of June 2019.

2. **Oversight, Annual Audits, and Bond Coverage** The Board had not established adequate oversight of the former City Clerk, obtained annual audits as required by state law, or obtained bond coverage for applicable officials and employees.

2.1 **Oversight and segregation of duties** The Board had not established adequate segregation of duties or supervisory reviews over the various financial accounting functions performed by the former City Clerk. In addition, 239 checks issued to the former City Clerk and the majority of city checks issued were only signed by the City Clerk.

Recommendation The Board of Aldermen segregate accounting duties to the extent possible and implement appropriate reviews and monitoring procedures. In addition, the Board should require dual signatures on all checks.

Status **Implemented**
The City Clerk indicated the Mayor and a Board member independently and periodically review the check registers and bank statements of city accounts; however, their review was not documented on the December 2018 bank statements we reviewed. The City Clerk indicated that a Board member is now documenting his/her review of bank statements. A monthly report of all transactions, including a list of bills due and paid, is provided to the Board for their review and approval, and the list is retained with monthly meeting minutes. The City Clerk indicated the Mayor or a Board member compares the list of bills to checks written, but she said their review is not documented. The City Clerk also indicated invoices are available at meetings for the Board's review when they are signing checks. The City Clerk indicated checks are required to be signed by 2 Board members. Our review of the December 2018 canceled checks showed that 2 Board members signed all checks.



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2.2 Annual audits

The city had not obtained annual audits as required by state law.

Recommendation

The Board of Aldermen obtain annual audits of the waterworks and sewerage system as required by state law.

Status

In Progress

The city has selected an independent auditor to complete an audit of the waterworks and sewerage system for the year ended June 30, 2018.

2.3 Bonding

The city did not have bond coverage for city employees or officials. The former City Clerk, the Mayor, and Board members, who signed checks and had access to monies held in bank accounts, were not covered by a bond.

Recommendation

The Board of Aldermen maintain bond coverage for all personnel with access to city monies.

Status

Implemented

The city has obtained bond coverage for all personnel with access to city monies.

3. Accounting Controls
and Procedures and
Disbursements

Significant weaknesses existed in the city's accounting controls and procedures.

3.1 Receipting, recording,
and depositing

The city's procedures for receipting, recording, and depositing monies were poor.

- The former City Clerk did not always issue manual receipt slips for monies received.
- Some manual receipt books were missing.
- The former City Clerk did not always timely record utility payments in the computerized utility system.
- The former City Clerk did not consistently indicate the method of payment, or reconcile the method of payment to the composition of receipts recorded in the computerized utility system or to the deposit.
- The former City Clerk did not deposit receipts timely or intact.

Recommendation

The Board of Aldermen require issuance of receipt slips for all monies received with the method of payment indicated and reconciliation of the composition of receipts to the composition of amounts recorded and



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deposited. The Board should also ensure receipt slips are retained and monies received are deposited timely and intact.

Status

Partially Implemented

We reviewed financial activity for December 2018, and while city officials retained receipt records, they have not taken sufficient steps to fully implement the other recommendations. Receipt slips were not issued for some hall rental and dog pound fees collected and some utility payments received in December 2018 were not posted to the utility system timely with 2 of these payments not posted as of March 2019. While the City Clerk recorded the method of payment received on receipt records, the composition of receipts did not always agree to the composition recorded in the computerized utility system. The City Clerk did not retain the utility report or calculator tape of monies deposited in December 2018, and therefore could not demonstrate the composition of receipts agreed to the composition of the deposits or that receipts were deposited intact. The City Clerk indicated she is now retaining the utility report and documentation of the deposit. Some receipts collected during the month of December 2018 were not deposited timely. The 3 deposits made during that month ranged from \$2,114 to \$5,146.

3.2 Bank accounts,
reconciliations, and fees

Controls and procedures over bank accounts and reconciliations needed improvement. The city maintained an excessive number of bank accounts, resulting in cumbersome record keeping. The Board and the former City Clerk failed to monitor the city's cash balances and incurred overdraft and minimum balance bank fees.

Recommendation

The Board of Aldermen evaluate the number of bank accounts. The Board should also properly monitor bank account balances to avoid bank fees.

Status

Implemented

The Board reduced the number of bank accounts from 18 to 7 accounts. The City Clerk said the city did not incur any overdraft or minimum balance fees from August 2018 through December 2018.

3.3 Excessive and
unauthorized transfers
and commingling of
restricted funds

The former City Clerk made excessive and unauthorized transfers between various bank accounts, and did not always deposit utility receipts into the proper bank account, which led to commingling of restricted funds.

Recommendation

The Board of Aldermen monitor and reduce the number of transfers made between bank accounts and ensure monies received are deposited in the appropriate bank accounts.



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Status

Implemented

We reviewed the December 2018 bank statements and financial activity and noted the Board had reduced the number of transfers made between accounts to only those necessary and appropriate. There was no indication of unauthorized small dollar transfers still occurring as identified during the audit. Utility receipts were deposited in the appropriate bank accounts during December 2018.

3.4 Utility deposits

Refundable utility deposits held in the water bank account were not accounted for properly. The water bank account balance as of April 30, 2016, was not sufficient to cover the amount of utility deposits held.

Recommendation

The Board of Aldermen account for customer utility deposits previously paid, prepare an accurate list of utility deposits and reconcile to monies in the water bank account monthly, and resolve any discrepancies.

Status

Not Implemented

Refundable utility deposits are still held in the water bank account. The City Clerk has not accounted for customer utility deposits paid prior to March 2016 or resolved the shortage identified in the audit. The City Clerk only has a list of utility deposits paid since April 2016, that also includes a utility deposit paid in March 2016, and there is no process to reconcile the list of utility deposits to monies in the water bank account monthly.

3.5 Licenses and rental fees

Prenumbered forms were not used for merchant and liquor licenses and gathering hall and festival booth rental fees, and records were not retained to account for the collection and deposit of these fees.

Recommendation

The Board of Aldermen require prenumbered forms for licenses and rentals, properly account for the numerical sequence of the forms, and reconcile the related monies collected to deposits.

Status

Not Implemented

Prenumbered forms for merchant and liquor licenses and gathering hall and festival booth rental fees are not used, and the City Clerk does not reconcile the related monies collected to deposits.

3.6 Record retention

Various financial and personnel records were not maintained. Some records were recovered by city officials from a city dumpster shortly after the termination of the former City Clerk.

Recommendation

The Board of Aldermen retain records in accordance with state law.



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Status

Implemented

The City Clerk indicated city records are now being retained in accordance with state law.

4. Payroll Policies,
Records, and Taxes

Significant improvement regarding personnel policies, employee records, and remitting payroll taxes was needed.

4.1 Personnel policies and
files

The city had not established personnel policies addressing overtime, holidays, vacation and sick leave, employee benefits, uniform allowances, and hours of work, and a personnel file was not retained for the former City Clerk.

Recommendation

The Board of Aldermen adopt detailed personnel policies addressing requirements of employees and benefits provided, and maintain personnel files for all city employees.

Status

In Progress

In January 2019 the Board adopted an Employee Handbook that addresses overtime and holidays; however it does not address vacation and sick leave, or hours of work. The City Clerk indicated the Board plans to discuss revising the Employee Handbook at its July 2019 meeting to include these items. The City Clerk indicated the handbook does not address uniform allowances because the Board discontinued this benefit. The City Clerk indicated personnel files are now maintained for all employees.

4.2 Payroll taxes and
unreported
compensation

The former City Clerk did not timely file and remit various payroll taxes, and concealed some of these untimely filings and payments by falsifying disbursement listings provided to the Board. Overpayments and improper payments were not included on the former City Clerk's W-2 forms and not subject to payroll tax withholdings.

Recommendation

The Board of Aldermen establish procedures to ensure all compensation is properly reported and payroll taxes are properly withheld and remitted to the appropriate taxing entities timely. In addition, the former City Clerk's W-2 forms should be amended as appropriate.

Status

In Progress

We reviewed payroll records for December 2018 and determined compensation was properly reported and payroll taxes were properly withheld and timely remitted to the appropriate taxing entities. The City Clerk indicated the Board plans to amend the former City Clerk's W-2 forms once the criminal case is concluded.



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5. Municipal Division

We identified significant weaknesses with accounting controls and procedures of the municipal division. The former City Clerk also served as the Court Clerk until her termination.

5.1 Missing records

Several case files could not be located by the municipal division and some manual receipt books were not retained. However, some case files contained copies of manual receipt slips issued from the missing receipt books.

Recommendation

The City of Greenville Municipal Division ensure necessary records are retained.

Status

Implemented

The Board indicated the court functions were limited in 2018 and tickets are now only issued for ordinance violations and as a result, there is very little municipal division activity. The City/Court Clerk indicated only one ticket was issued during 2018, and we noted the case file and related receipt slip were retained for this ticket.

5.2 Oversight

Neither the municipal division nor city personnel performed adequate supervisory or independent reviews of accounting functions and records. In addition, the former Municipal Judge did not approve the final disposition of cases brought before the court or the fines handled through the Violations Bureau (VB), and the Municipal Judge's approval of amended and dismissed tickets was not documented.

Recommendation

The City of Greenville Municipal Division ensure documented periodic independent or supervisory reviews of municipal division records is performed, and ensure the Municipal Judge approves the final disposition of all cases and reviews and approves all amended and dismissed tickets.

Status

Not Implemented

For the only ticket issued during 2018, there was no documentation that the Municipal Judge approved the final disposition of the case.

5.3 Receipting, recording, and depositing

The municipal division's procedures for receipting, recording, and depositing were poor.

- The former Court Clerk did not always issue manual receipt slips for monies received and did not always record the method of payment on receipt slips issued.
- The former Court Clerk recorded payments to multiple different records and did not ensure payments were consistently and properly recorded to all appropriate records.



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- The former Court Clerk did not deposit receipts timely or intact.

Recommendation

The City of Greenville Municipal Division properly receipt, record, and deposit all monies received.

Status

Implemented

For the only ticket issued during 2018, the Municipal Division issued a receipt slip on March 12, 2018, for \$80, properly recorded the receipt in the case file, and deposited the monies the next day.

5.4 Disbursement and reporting

The former Court Clerk did not disburse fines and court costs timely. In addition, the former Court Clerk did not submit monthly caseload summary reports to the city or monthly reports of court activity to the Office of the State Courts Administrator (OSCA) during the period July 1, 2014, through April 14, 2016.

Recommendation

The City of Greenville Municipal Division ensure court fees are disbursed within 30 days of receipt and monthly reports are submitted timely to the city and OSCA.

Status

Partially Implemented

The court collected \$80 in March 2018 and disbursed \$30 in April and May 2018 related to the ticket issued during 2018; however, the remaining \$50 has not been disbursed. In addition, the Municipal Division bank account had a cash balance of \$1,151 from May 2018 to December 2018 (including the \$50), that has not been disbursed. The court submitted the December 2018 monthly Municipal Division Summary Reporting to OSCA timely. The city also received a copy of that report.

5.5 Violation Bureau schedule

The former Municipal Judge had not issued a court order for the schedule of fines and court costs to be collected on tickets paid through the VB, and if a schedule of fines and court costs was used by the former Court Clerk to assess court costs and fines during the period July 1, 2014, through April 14, 2016, it could not be located at the VB.

Recommendation

The City of Greenville Municipal Division establish the VB schedule by court order and prominently post the schedule.

Status

Implemented

The City Clerk indicated the Municipal Division established a VB schedule by court order that is prominently posted at City Hall.



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6. Electronic Data Security The city had not developed a formal, written contingency plan for resuming normal business operations and recovering computer systems and data in the event of a disaster or other extraordinary situations. In addition, city personnel did not regularly back up data or periodically test backup data to ensure essential data could be restored, and did not always store backup data at a secure off-site location.

Recommendation

The Board of Aldermen develop a formal, written contingency plan that is periodically tested, evaluated, and updated as needed. The Board should also require data to be backed up regularly, tested on a periodic basis, and stored in a secure off-site location.

Status

Partially Implemented

A formal, written contingency plan has not been developed. The City Clerk indicated data is regularly backed up, but recovery of that data is not periodically tested; however, she has been able to restore data to the city's computer system from the backup files. The backup data is still not stored at an off-site location.