

The seal of the Missouri State Auditor is circular and features a central figure holding a scale and a sword. The text around the seal reads "SEAL OF THE STATE AUDITOR" at the top, "JUSTICE WE STAND DIVIDED" in the middle, and "1820 MISSOURI 1892" at the bottom.

**Nicole Galloway, CPA**

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**Missouri State Auditor**

**FOLLOW-UP REPORT ON AUDIT FINDINGS**

**City of Seymour**

Report No. 2019-060

July 2019

[auditor.mo.gov](http://auditor.mo.gov)

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# City of Seymour

## 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  
Seymour, Missouri

We have conducted follow-up work on certain audit report findings contained in Report No. 2018-124, *City of Seymour* (rated as Poor), issued in December 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 discussion with city officials to verify the status of implementation for the recommendations. Documentation provided by the city included minutes of meetings, 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 and June 2019.

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

Nicole R. Galloway, CPA  
State Auditor

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# City of Seymour

## Follow-Up Report on Audit Findings

### Status of Findings

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1. Utility System Controls and Procedures      There were significant weaknesses in the city's utility operations. The city provided electric, water, and sewer services, and accounted for the financial activity of each service in a separate fund.

1.1 Utility transfers      The Board of Aldermen had no documentation of any discussions held or the basis for determining the amounts to be transferred from each of the city's three utility funds to the General Fund. The city historically had transferred substantial amounts of money from the Electric Fund, and more recently from the Water Fund and Sewer Fund, to help finance the operations and activities of the General Fund. The percentage of utility revenues transferred was significantly higher than the other cities surveyed, and the average transfer amount per capita was also significantly higher.

Recommendation      The Board of Aldermen determine the value of government services being offset by the utility transfers, maintain documentation to support the amounts transferred, and evaluate the effect on the General Fund.

Status      **Not Implemented**  
  
The Board has not determined the value of government services being offset by the utility transfers. In addition, the Board did not maintain documentation when determining the transfer percentage to support the amounts transferred, or perform a formal evaluation to determine the effect on the General Fund.

1.2 Utility rates      Periodic formal cost studies of utility rates were not performed and rates were not increased or decreased for any utility services for the past several years. Although utility rates were not changed, some utility funds subsidized other city funds, and heavily subsidized the General Fund.

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      **Implemented**  
  
The Board hired a consulting firm that specializes in rate studies to perform rate studies for electric and water. The firm proposed various changes to the previous electric and water rate structures that resulted in rate increases for the majority of customers. The firm recommended electric rates more closely represent the cost incurred by the city, and recommended water rates provide a reasonable operating margin. The Board passed two ordinances in October 2018 to implement the changes as proposed in the rate studies. The City Clerk indicated the Board has not pursued a new study of sewer rates because the most recent rate adjustments were based on recommendations from the Missouri Department of Natural Resources and operating revenues and expenses have not changed significantly since that time.



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### 1.3 Utility deposits

The city did not reconcile customer utility deposit balances reported in the utility system to the city's accounting records.

#### Recommendation

The Board of Aldermen periodically reconcile customer utility deposits per the utility system to accounting records and promptly investigate any differences.

#### Status

##### **Partially Implemented**

The City Clerk indicated employees performed a reconciliation of customer utility deposits per the utility system to the city's accounting records but could not identify the cause of the differences. We reviewed the April 2019 reports and noted electric deposits were \$352 less than the city's accounting records and water deposits were \$396 greater than the city's accounting records. City officials said they have no specific plans to continue this reconciliation process or investigate and correct differences.

### 1.4 Utility billing

The city's utility customers that qualify as tax-exempt entities under Section 501(c)(3) of the Internal Revenue Code (i.e., nonprofit entities) were not billed for sewer service. Additionally, the Board did not discuss or approve economic incentives, and as a result, the city was not open and/or transparent when awarding certain economic incentives in the form of reduced or waived electric charges.

#### Recommendation

The Board of Aldermen ensure all sewer charges are assessed and paid, and determine whether the city should seek reimbursement of sewer charges not paid. Also, the Board should review and approve any economic incentives offered by the city.

#### Status

##### **Implemented**

The Board passed two ordinances in October 2018 to eliminate any exemptions or other preferential treatment for nonprofit entities. We reviewed the utility billing history of 11 accounts previously classified as exempt from sewer charges and found each was billed for monthly sewer services beginning November 2018.

The Board determined to not seek reimbursement of sewer charges previously not billed because it would place a financial hardship on the nonprofit entities. The City Clerk indicated any future economic incentive offers will require Board approval, and the city has not offered any additional economic incentives.

### 1.5 Non-monetary adjustments

Controls over non-monetary adjustments posted to customer utility accounts needed improvement. Non-monetary adjustments posted to the system were



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not reviewed and approved by an independent person and documentation of the reasons why these adjustments were necessary were not always retained.

**Recommendation**

The Board of Aldermen ensure all non-monetary adjustments are properly approved and compared to actual changes posted to the computer system. Documentation of all non-monetary adjustments should be retained.

**Status**

**Implemented**

The city implemented revised procedures to ensure non-monetary adjustments are properly approved and compared to actual changes posted in the computer system and documentation of all non-monetary adjustments is retained. The Municipal Court Clerk enters each adjustment and documents the reason, and the Utility Clerk reviews and approves each adjustment by reviewing and initialing the documentation.

We reviewed the Board packet for the April 11, 2019, meeting and noted the packet included a system generated report of all utility adjustments completed for the months of February and March 2019. Adequate documentation of each adjustment made during this period was retained.

**1.6 Accounts receivable reconciliations**

The city did not perform monthly reconciliations of total amounts billed, payments received, and amounts unpaid for any of the city's utility services.

**Recommendation**

The Board of Aldermen ensure monthly reconciliations of amounts billed to amounts collected and delinquent accounts are performed.

**Status**

**Not Implemented**

The Board has taken no actions to implement this recommendation. The Board now receives a monthly report of all delinquent utility accounts but without a proper reconciliation of amounts billed, payments received, and amounts unpaid, the Board has little assurance that this report is complete and accurate.

**1.7 Utility loss**

City officials did not have any procedures to determine electric losses, and did not review and investigate significant water losses.

**Recommendation**

The Board of Aldermen prepare a monthly reconciliation of electric purchased to amounts billed and used by the city. Also, the Board should review the city's monthly water and electric loss reports and investigate significant differences.



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Status

**Not Implemented**

City officials attempted to compile the information for a monthly electric loss reconciliation; however, we identified problems with the reconciliation process and the Board did not review this information. The Board also does not review the city's monthly water loss report and significant differences are not investigated.

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2. Monitoring Financial Condition

The Board had not monitored the financial condition of the city, was not receiving detailed information showing cash balances for each fund, and had relied on transfers from utility funds to balance the city's budget.

Recommendation

The Board of Aldermen ensure monthly detailed financial data is provided to Board members, perform immediate and long-term planning, and closely monitor and take necessary steps to improve the financial condition of the various city funds. In addition, the Board should discontinue subsidizing city funds with utility monies.

Status

**Partially Implemented**

Board members are now provided detailed financial reports on a monthly basis. The Board is now reviewing a report of budget to actual revenues and expenditures by each fund and department. However, no information on the cash balance of each fund is provided. The Board has begun immediate and long-term planning and taken steps to improve the financial condition of the various city funds. The Board has started to build additional reserves for utilities maintenance by reducing the amount of utility revenues transferred to the General Fund. The financial condition of the Library Fund has also improved as a result of actions taken by the Board to reduce expenses. However, the Board continues to rely on utility transfers to subsidize the General Fund.

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3.1 Budgets and Financial Reporting - Budgetary requirements

Annual budgets did not contain a budget message, the actual beginning and estimated ending cash balance for each fund, or a budget summary as required by state law. As a result of not having all information required to accurately prepare budgets, the Board unknowingly approved deficit budgets for the General Fund and Library Fund for the fiscal year ended June 30, 2017, in violation of state law. Deficit budgeting and/or negative fund balances were also noted as problems in the financial statement audit report.

Recommendation

The Board of Aldermen ensure annual budgets contain all information required by state law. In addition, the Board should not approve deficit budgets.



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Status

**Partially Implemented**

The City Administrator now includes a budget message and budget summary with the budget submitted to the Board. However, this budget still does not include the actual beginning and ending cash balances for each fund. Without beginning and ending cash balances for each fund, Board members cannot ensure they are not approving deficit budgets.

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3.2 Budgets and Financial Reporting - Budget monitoring

The Board did not adequately monitor budget-to-actual receipts and disbursements. The city's actual disbursements exceeded budgeted disbursements for the General, Library, Electric, and Water Funds prior to June 30, 2017; however, a budget amendment was not prepared or approved by the Board before the budget was overspent or before the fiscal year ended.

Recommendation

The Board of Aldermen periodically obtain and review reports of budgeted and actual disbursements to properly monitor the annual budget, ensure disbursements do not exceed budgeted appropriations, and prepare any necessary budget amendments timely.

Status

**Partially Implemented**

The Board now reviews monthly reports of budgeted and actual disbursements for each fund and department. On April 11, 2019, the Board received reports that indicated disbursements from the General Fund exceeded budgeted disbursements to date by approximately \$123,000. City officials indicated no budget amendments were prepared or approved for the fiscal year ended June 30, 2019.

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5.2 Disbursements - Written contracts

The city did not have written contracts with some service providers and certain outside parties. During the fiscal year ended June 30, 2017, the city paid for various services without a written contract including mowing (\$28,400), consulting (\$18,001), information technology (\$10,057), legal (\$38,214), and pest control (\$1,450).

Recommendation

The Board of Aldermen enter into written contracts defining services provided and benefits received.

Status

**Not Implemented**

The city continues to pay existing vendors for various services without establishing a written contract. In addition, contracts have not been entered into with new service vendors including tree trimming and electric contractors hired to assist in restoring electrical power after a major winter ice storm damaged trees and power lines.



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5.3 Disbursements -  
Bidding and  
documentation

The city did not always solicit competitive bids or proposals for goods and services as required by the city code. In addition, city personnel did not document the reasons when rejecting the lowest bid.

Recommendation

The Board of Aldermen solicit bids and proposals for all applicable purchases and clarify city code to include the requirements for soliciting and/or advertising bids. In addition, document the reasons when the lowest bid is not accepted.

Status

**Partially Implemented**

The Board documented reasons for not accepting the lowest bid on a recent construction project. While the Board has solicited bids and proposals for some applicable purchases, they did not solicit bids for ongoing services such as legal, accounting, information technology, and surveying. Also, the Board has not revised the city code to include requirements for soliciting and/or advertising bids.

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5.4 Disbursements -  
Approval process

The city did not require documented supervisory approval for purchases. Although the city had adopted a purchase order form to document supervisory approval prior to payment, the purchase order procedure had not been added to the city code and was not consistently followed.

Recommendation

The Board of Aldermen establish formal policies and procedures to ensure the proper use, accountability, and review and approval of purchase orders and invoices prior to payment.

Status

**Not Implemented**

The Board has not established formal policies and procedures to ensure the proper use, accountability, and review and approval of the purchase order form and purchase order procedures. The city did not have documented supervisory approval for 9 of 11 purchases made from 5 vendors during April 2019.

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5.5 Disbursements -  
Mileage records and  
fuel

Mileage records were not reviewed for reasonableness and bulk fuel purchases were not reconciled to bulk fuel dispensed.

Recommendation

The Board of Aldermen reconcile fuel billings to fuel use records, promptly investigate any discrepancies, and periodically review fuel usage for reasonableness.



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**Status**

**In Progress**

City personnel reconcile monthly fuel billings to fuel use records and review fuel usage for reasonableness for fleet card purchases. City officials indicated monthly reconciliations of bulk fuel billings to fuel use records ended in October 2018 when an employee terminated employment, and this task was not assigned to another employee. City officials could not provide documentation of any reconciliations performed, and indicated this task will be reassigned to another employee immediately.

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**5.6 Disbursements -  
Questionable use of city  
resources**

The Board was aware of two planned projects that resulted in the city using public resources for private gain, but it took no action to stop these projects. The Board did not discuss or approve the projects, and the city did not seek to recover any of the expenses incurred for working on or making improvements to private land.

**Recommendation**

The Board of Aldermen prohibit the use of public resources for private gain and consult with legal counsel to determine whether the value of services provided to private citizens should be recovered.

**Status**

**Partially Implemented**

The Board indicated this practice has been discontinued, and we did not identify any instances of city resources being expended on a private citizen's property. The Board did not consult with legal counsel to determine whether the value of services previously provided to private citizens should be recovered.

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**6. Closed Meetings**

Some topics discussed and voted on in closed meetings by the Board were not related to the reasons cited for closing the meeting listed in the open meeting minutes. In addition, the Board discussed some items in closed meetings that were not allowable under the Sunshine Law.

**Recommendation**

The Board of Aldermen ensure only allowable topics cited in the open minutes as the reason for closing the meeting are discussed in closed meetings.

**Status**

**Not Implemented**

The Board held 8 closed meetings from December 2018 through May 2019. Topics discussed were not related to the section cited in the open minutes for 5 of the 8 meetings, and 5 of these meetings discussed topics not allowed for in a closed meeting. In addition, some topics cited in the open minutes were either not discussed in the closed meeting or were not documented in the closed minutes.



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## 7.2 Payroll Controls and Procedures - Time records

The city did not require time records be prepared or maintained for salaried employees, the city's procedures for calculating overtime were not compliant with city policies and federal regulations, and employees were paid based on estimated instead of actual hours. We identified errors in the processing of time and leave records and the accuracy of documentation to support payroll transactions.

Salaried employees were not required to submit documentation of hours worked and/or tasks performed. Also, of the 6 hourly employee time records we reviewed, 4 were not signed or approved by a supervisor.

Hourly employees did not always record overtime worked on time records and/or submit separate overtime requests for overtime worked, and overtime and compensatory time accruals were not always recorded on an employee's weekly time record. In addition, the city's method of calculating overtime was not consistent with the Fair Labor Standards Act (FLSA) or city personnel policies, resulting in increased and unnecessary costs to the city.

The city distributed payroll for all employees every other Friday. Time records were prepared and submitted approximately 2 days in advance of the payroll distributions, and as a result, were not accurate because they reflected the employee's scheduled hours instead of actual hours worked. The city had not established an official policy or provided employees with guidance on how to report unanticipated changes such as unplanned vacation leave or sick leave taken on the days that were paid based on estimates.

## Recommendation

The Board of Aldermen ensure daily time records are prepared, properly signed, approved, and retained for all employees, and the information should be reviewed for accuracy prior to entry into the accounting system. In addition, ensure overtime and compensatory time accruals comply with established city policies and the FLSA, ensure controls are in place to make sure employees are not over/under paid based on the payment of estimated hours, and ensure personnel policies contain adequate detail.

## Status

### **In Progress**

The Board has made significant improvements in controls over payroll. Time records are required for all employees, payroll is prepared in compliance with city policy and the FLSA, and payroll is no longer based on estimated hours. We reviewed April 2019 payroll records for 3 haphazardly selected employees and noted the records were signed by the employee and retained; however, only 2 records were approved by a supervisor. In addition, the Board revised the personnel policy to include adequate detail of required procedures.



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7.3 Payroll Controls and  
Procedures - Leave  
accruals

The city's computerized system only allowed employees to accrue 200 hours of vacation leave instead of the maximum of 320 hours allowed by the personnel policy due to a programming error. In addition, employees accrued 10 hours of sick leave monthly instead of 3.69 hours per bi-weekly pay period established by the personnel policy.

Recommendation

The Board of Aldermen ensure vacation and sick leave accruals are in compliance with personnel policies.

Status

**Implemented**

The Board revised the personnel policy to reflect actual procedures used. For April 2019, we reviewed leave requests, leave accruals, and time records for 3 employees. The records reviewed complied with the current personnel policies.

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7.4 Payroll Controls and  
Procedures -  
Independent contractor

At the Emergency Services Coordinator's request, the city changed the Coordinator from an independent contractor to an employee starting in January 2016. City officials did not document the reasons for the change or document how they determined what the proper classification was for this position. In addition, the Coordinator did not submit a log or other records to document hours worked.

Recommendation

The Board of Aldermen determine the proper classification for the Emergency Services Coordinator. In addition, proper supporting documentation indicating hours worked should be obtained.

Status

**Implemented**

The Board has determined the Emergency Services Coordinator should be classified as an employee and he must comply with all policies applicable to other city employees, including submitting weekly time records.

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7.5 Payroll Controls and  
Procedures -  
Compensation  
ordinance

The city did not have ordinances establishing the compensation of city officials and employees as required by city code. City personnel policy 3-1 indicated the employee pay rate is established by the pay plan. However, the city was unable to provide a pay plan.

Recommendation

The Board of Aldermen establish the compensation of all city officials and employees by ordinance, and ensure city code and city personnel policies reflect current procedures.



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Status

**In Progress**

The Board has approved and implemented a pay plan that sets the compensation structure for all city employees and revised city personnel policies to reflect current procedures. However, the Board has not amended or passed an ordinance as required by city code. The City Clerk indicated she is in the process of drafting a compensation ordinance to present to the Board.

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7.6 Payroll Controls and Procedures - Pay raises and performance appraisals

The city was not complying with city code or personnel policy when giving pay raises to appointed officers. Additionally, the city did not conduct documented performance reviews or appraisals of employees as required by the city personnel policy, though various pay increases were given including, but not limited to, successful completion of job specific certifications, successful completion of a probationary period, and promotions.

Recommendation

The Board of Aldermen ensure compensation for appointed officials does not increase during the time for which he/she was elected or appointed in compliance with city code. In addition, ensure documented performance reviews are performed in conjunction with pay raises and promotions.

Status

**Implemented**

The Board entered into a 2 year employment contract with the former City Administrator. He retired on June 30, 2019, and the Board selected a replacement who received a one year employment contract. Also, the Board revised the ordinance to change the term of the City Clerk to an annual appointment, and implemented annual performance reviews. We reviewed all pay raises issued since December 2018 and found no instances where elected or appointed officials received a pay increase during the time for which they were elected or appointed. Annual appraisals for fiscal year 2019 are currently being conducted and finalized.

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8.1 Accounting Controls and Procedures - Segregation of duties

The Board had not adequately segregated accounting duties or ensured documented supervisory or independent reviews of work completed by city office personnel were performed.

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 Board has hired additional administrative and accounting personnel and has adequately segregated accounting duties.



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8.4 Accounting Controls  
and Procedures -  
Bonding

The Board members, who sign checks and have access to monies held in bank accounts, were not covered by a bond. Also, the Utility Clerk's bond did not provide adequate coverage since it was significantly less than other personnel.

Recommendation

The Board of Aldermen obtain bond coverage for all personnel with access to city monies, and ensure the bond amount for the Utility Clerk is comparable to other personnel.

Status

**Implemented**

City officials indicated they consulted with the city's insurance company and determined the city already has insurance that provides for employee theft coverage, limited to \$100,000 per occurrence. For purposes of this policy, Board members are also considered employees.

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9. Planning and Zoning

The City of Seymour did not have a city plan or comprehensive plan to guide planning and zoning activities.

Recommendation

The Board of Aldermen and/or the Planning and Zoning Board create and adopt a city plan and comprehensive plan to help guide future decisions regarding development of the municipality.

Status

**In Progress**

A new Planning and Zoning Board has been seated and is tasked with implementing this recommendation. City officials indicated they obtained information from the Missouri Department of Economic Development about agencies to contact regarding receiving assistance in creating a comprehensive plan at no charge to the city.