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Missouri State Auditor

FOLLOW-UP REPORT ON AUDIT FINDINGS

City of Silex

Report No. 2020-126

December 2020

auditor.mo.gov

City of Silex

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 Silex, Missouri

We have conducted follow-up work on certain audit report findings contained in Report No. 2019-108, *City of Silex* (rated as Poor), issued in November 2019, 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, financial records, and other pertinent documents. This report is a summary of the results of this follow-up work, which was substantially completed during October 2020.

Nicole R. Galloway, CPA
State Auditor

City of Silex

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Status of Findings

1. Financial Condition The General Fund was in poor financial condition. This problem was not expected to improve significantly in the immediate future.

For the year ended December 31, 2018, the city transferred restricted utility monies totaling \$141,181 to the General Fund. Transfers included (1) \$75,570 from the Water Fund and (2) \$65,611 from the Sewer Fund. The city was transferring the majority of revenues from these restricted utility funds to subsidize the General Fund.

Recommendation The Board of Aldermen ensure it receives detailed financial data monthly, perform long-term planning, and closely monitor and take necessary steps to improve the city's financial condition.

Status **In Progress**

The Board now receives detailed financial data monthly and closely monitors the finances of the city. However, due to the city's financial condition and current economic uncertainty, the Board has not performed any significant long-term planning to improve the financial condition, other than planning to pay all of the city's outstanding bills and debt.

2.1 Budgets and Financial Reporting - Budgets The Board does not have adequate procedures to prepare or monitor budgets.

Recommendation The Board of Aldermen prepare accurate annual budgets that contain all information required by state law, and ensure the budgets are adequately monitored.

Status **Not Implemented**

The Board did not pass a budget for the year ending December 31, 2020, and, as a result, did not monitor budget to actual revenues and expenditures during the year.

2.2 Budgets and Financial Reporting - Published financial statements The financial statements had not been published for the year ended December 31, 2018. As a result, information regarding the city's financial activity and condition was not available to citizens.

Recommendation The Board of Aldermen ensure publication of the city's semiannual financial statements as required by state law.

Status **Implemented**

City officials had the July - December 2019 financial statement published on January 29, 2020, and the January - June 2020 financial statement published on July 29, 2020.



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2.3 Budgets and Financial
Reporting - Filing of
financial reports

City officials did not file timely annual financial reports with the State Auditor's Office as required by state law. The city's financial report for the year ended December 31, 2017, due by June 30, 2018, was not filed until September 10, 2018. In addition, financial reports were not filed for the years ended December 31, 2015, and 2016.

Recommendation

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

Status

Partially Implemented

City officials filed the financial report for the year ended December 31, 2019, with the State Auditor's Office on July 21, 2020, after the June, 30 2020, due date.

3. Restricted Funds and
Recording Financial
Transactions

The city had not established adequate procedures to ensure revenues and expenditures were credited to the appropriate fund or to ensure restricted monies were used only for intended purposes.

3.1 Transfers and
commingling of funds

The city used restricted monies to finance general operations of the city. The Board had not established controls to ensure transfers between funds are proper, documented, and approved by the Board. In addition, minutes did not document the discussion or approval of transfers. As a result, restricted monies were commingled with general operating funds and were not always used for their intended purpose and misuse of restricted funds may have occurred.

Recommendation

The Board of Aldermen establish a process to ensure transfers between funds are proper, approved, and timely. In addition, the Board should ensure monies received are deposited in the appropriate bank accounts and restricted monies are spent for allowable purposes only. The Board should also develop plans to repay the amounts owed to the Water and Sewer Funds.

Status

Partially Implemented

Each month, the Board receives a list of transfers but does not formally document approval of the transfers. Our review of transfer lists indicated that the transfers are typically related to the allocation of payroll to various funds and did not include any unallowable transfers to restricted funds. The Board also receives monthly bank statements, bank reconciliations, and a list of expenditures to help ensure all transfers and restricted monies are handled properly. The Mayor and City Clerk indicated the Board will develop a plan to repay the amounts owed to the Water and Sewer Funds after the city's debts are paid.



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3.2 Recording and
allocation of revenues
and disbursements

The city does not have controls and procedures to ensure revenues and disbursements are accurately and consistently recorded. As a result, financial statement information is not accurate, complete, and useful when assessing results of city operations.

Recommendation

The Board of Aldermen allocate disbursements to city funds based on specific criteria and retain documentation to support the allocation. In addition, ensure revenues and disbursements are properly recorded.

Status

Implemented

As previously noted, payroll expenditures are allocated to various funds through transfers. Time worked on various tasks (water, sewer, etc.) is tracked and documented to support how these allocations are determined. Electric expenditures are also allocated to various funds. The city has 17 locations that use electricity. A spreadsheet is maintained to show how each location's electric expenses should be allocated to the various funds. In addition, we reviewed the city's financial records for April 2020 and August 2020 and noted that revenues and disbursements were properly recorded.

4. Disbursements

City disbursements were not properly supported or approved and some disbursements were questionable. In addition, the city did not properly bid or report some disbursements as required.

4.1 Disbursement
documentation and
review

Significant improvement was needed in the city's disbursement documentation and review procedures. Our review identified disbursements that did not have supporting documentation and no one could explain their purpose.

City personnel did not document their review and approval of invoices or the receipt of goods or services.

Recommendation

The Board of Aldermen maintain adequate supporting documentation for all disbursements and ensure all disbursements are recorded in the accounting system. The Board should ensure invoices are adequately reviewed and approved and require documentation of receipt of goods and/or services prior to payment of invoices.

Status

Partially Implemented

All disbursements that we reviewed had adequate supporting documentation and were recorded in the accounting system. Even though invoices typically do not have documentation of receipt of goods and/or service, they are made available for Board members to review or question at any time prior to payment. The Board approves unpaid invoices at each regular Board meeting. In addition, all checks required 2 signatures before issuance. The Mayor, City Clerk, and a Board member are all authorized to sign checks.



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4.2	Questionable purchases	The city reimbursed unreasonable and/or unnecessary purchases made by city personnel while attending a training seminar at the Lake of the Ozarks.
	Recommendation	The Board of Aldermen ensure all disbursements are necessary and prudent uses of public funds.
	Status	Implemented Our review of the disbursement listings for 2020 through September indicated the city is only spending money on necessary goods and services.
4.3	Fuel cards	The city did not have procedures to adequately monitor fuel card accounts and fuel use to detect unauthorized use. The city also did not ensure fuel card access was restricted after employees were placed on administrative leave, and, as a result, employees on administrative leave purchased fuel with city fuel cards.
	Recommendation	The Board of Aldermen ensure all credit card accounts are properly monitored and credit cards are turned in by employees when their employment has been terminated or suspended. The Board should also establish adequate records and procedures to effectively monitor vehicle and fuel use. Fuel tickets should be submitted to the City Clerk and reconciled to fuel invoices. Usage/mileage logs should be maintained for all vehicles and compared to fuel use.
	Status	Implemented The city no longer has any credit cards. The Mayor and City Clerk indicated the city has 2 vehicles, one that is not in use and the other that is only used for snow plowing, limiting the need for usage/mileage logs.
4.4	Procurement procedures and contracts	City officials did not always solicit bids or proposals as required by city policy. Also, they could not provide some written contracts and some contracts were not sufficiently detailed.
	Recommendation	The Board of Aldermen ensure formal bidding policies and procedures are followed, periodically solicit proposals for professional services, and enter into clearly written agreements for those services.
	Status	Implemented We reviewed the monthly Board packets and noted the Board has solicited bids and proposals several times in 2020. We did not note any other disbursements requiring bidding during our review of city disbursement records. In addition, the city attorney ordinance has been updated to include



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the fees charged to the city. The city is also now entering into written agreements when warranted.

4.5 1099-MISC forms

The city did not prepare and file 1099-MISC forms with the Internal Revenue Service (IRS), as required, for legal services received for the year ended December 31, 2017.

Recommendation

The Board of Aldermen ensure payments totaling greater than \$600 to non-employees and businesses are properly reported to the IRS. The city should file amended 1099-MISC forms for past years.

Status

Partially Implemented

City officials prepared 1099-MISC forms for the year ended December 31, 2019, including one for the city attorney and one for a local vendor. The city has not filed amended 1099-MISC forms for past years. The City Clerk indicated she was unsure of the accuracy of the records for prior years so she did not file the forms.

5.1 Accounting Controls and Procedures - Segregation of duties

The Board had not adequately segregated accounting duties or ensured a documented supervisory or independent review over various financial accounting functions is performed.

Recommendation

The Board of Aldermen segregate the accounting duties to the extent possible and implement appropriate reviews and monitoring procedures.

Status

Implemented

Due to the size of the city, accounting duties cannot be fully segregated. As a result, the Mayor and the Board regularly review and monitor the work performed by the City Clerk. The Board is given a copy of all bank statements, reconciliations, and other financial reports monthly. In addition, 2 signatures are required on all checks.

5.2 Accounting Controls and Procedures - Bank account reconciliations and fees

Controls and procedures over bank accounts and reconciliations needed improvement. We identified the following issues:

- City personnel did not prepare bank reconciliations for 5 of 10 months between January and October 2018. For the 5 bank reconciliations prepared, the reconciliations did not include a detailed listing of deposits in transit or outstanding checks to support the reconciliation.
- The Board and the former City Clerk failed to monitor the city's cash balances. As a result, the city incurred \$157 in overdraft and returned



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item fees in the general, water, and renovation bank accounts during calendar year 2018.

Recommendation

The Board of Aldermen ensure monthly bank reconciliations are prepared and reconciled timely, and any differences are promptly investigated and resolved. In addition, the Board should also properly monitor bank account balances to avoid unnecessary bank fees.

Status

Implemented

Bank reconciliations are performed monthly and included in the monthly packets given to the Board. In addition, through September 2020, the city had not been charged any bank fees for the year.

**7.1 Payroll and Related
Issues - Payroll taxes**

City officials did not ensure payroll taxes were paid as required and some compensation was not reported on employee W-2 forms. City officials failed to timely file and remit federal payroll taxes, totaling \$17,666 to the Internal Revenue Service (IRS) for the 2 quarterly periods ending September 30, 2018. In addition, the city did not file and remit state payroll taxes totaling \$3,510 to the Missouri Department of Revenue for at least the 3 quarterly periods ending September 30, 2018. City officials also indicated payroll taxes were not paid in previous years or in 2019.

The city paid compensation totaling \$3,120 to the former City Administrator per his contract for health insurance during the year ended December 31, 2018. These payments were not included on his W-2 form and as a result were not subject to payroll tax withholdings.

Recommendation

The Board of Aldermen ensure payroll tax returns are filed timely and delinquent payroll taxes are remitted. In addition, the Board of Aldermen should ensure previous years' W-2 forms are amended, as appropriate, and compensation is properly reported and subjected to proper withholdings.

Status

In Progress

The city is now filing payroll tax returns timely. We reviewed the payroll tax return for the quarter ended June 30, 2020, and noted the return was filed timely. The city is waiting for guidance from the IRS on the proper way to handle issues from previous years.

**7.2 Payroll and Related
Issues - Personnel
policies**

The city's personnel policy did not adequately address overtime and established policies were not always followed.

Nonworking time (vacation, sick leave, and holidays) was included in total hours worked when determining the amount of overtime earned by employees, which is not required by the Fair Labor Standards Act. As a result, the city had been paying more overtime to employees than required. The city



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	did not have a policy addressing the hours (nonworking time) to be considered when calculating overtime.
Recommendation	The Board of Aldermen review and update the personnel policy, as necessary, and ensure compliance with the policy.
Status	Implemented The city's policies have been updated so that nonworking time is not included in the city's overtime calculation. The city currently has 2 part-time, hourly employees.
8. Utility System	Significant weaknesses existed in the city's utility system controls and procedures. As a result, there was less assurance all utility payments had been properly recorded and transmitted.
8.1 Water loss	City officials did not reconcile the total gallons of water billed to the gallons of water pumped, and as a result, significant differences were not investigated. Also, the city did not track the water usage for flushing the system, fire suppression, or fire hydrant testing.
Recommendation	The Board of Aldermen ensure water use is properly metered, gallons of water pumped is reconciled to gallons billed monthly, and significant differences are promptly investigated.
Status	Partially Implemented The fire department does not have a water meter, so the city cannot track department usage. However, the city is reconciling all other usage to gallons billed. We reviewed a reconciliation and identified no concerns.
8.2 Utility deposits	City water deposits charged did not comply with city ordinance. In addition, the city did not maintain and reconcile a listing of customer deposits held to the balance of the Water Deposit Fund checking account.
Recommendation	The Board of Aldermen ensure compliance with the water deposit ordinance. In addition, the Board should account for all customer utility deposits previously paid, prepare an accurate list of utility deposits and reconcile to monies in the Water Deposit Fund bank account monthly, and resolve any discrepancies.
Status	In Progress The city is now collecting water deposits in accordance with the water deposit ordinance and maintaining a list of deposits collected within the last year. Due



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to time constraints, city officials have not investigated past discrepancies in the water deposit list, but they indicated they will when time allows.

8.3 Delinquent accounts and adjustments

City procedures for discontinuing services and receiving partial payments did not comply with city ordinance. The Board did not review and approve adjustments to customer accounts or a listing of delinquent accounts each month.

Recommendation

The Board of Aldermen ensure compliance with utility ordinances. The Board should also ensure utility service is shut off in accordance with city ordinance. In addition, the Board should review all adjustments made to customer accounts and require reports of delinquent utility accounts be prepared and reviewed monthly.

Status

Partially Implemented

Due to COVID-19, the city is currently not discontinuing services to customers who cannot pay their bill. The city did shut off utility service for nonpayment prior to the current policy and will again when appropriate. No adjustments to customer accounts have been made recently for the Board to review. The Board is not provided a list of delinquent accounts for review.

9. Ordinances

City ordinances were not codified or complete.

- Ordinances were not maintained in an organized manner.
- The city had not adopted an ordinance establishing elected official terms, trash rates, an employee travel policy, a conflict of interest policy, and the procedures for fuel credit card usage. In addition, ordinances had not been adopted establishing fees charged for bad checks, rental of the city community center, towing cars, and aiding with vehicle lockouts.
- The city did not have ordinances establishing the compensation for the city administrator, city clerk, public works supervisor, and police officers.
- Ordinance 130.230B establishing a fee of \$0.25 per copy for public records requests was in violation of the Sunshine Law. Section 610.026, RSMo, limits the charge to \$0.10 per copy.

Recommendation

The Board of Aldermen ensure ordinances are maintained in a complete and well-organized manner and an index of all ordinances passed and rescinded is established. The Board should establish, by ordinance, the terms and compensation of all city officials and employees; trash rates; procedures for fuel credit card use, travel and conflict of interest policies; and the fees



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charged for bad checks, community center rental, towing, and vehicle lockouts. The Board should also ensure ordinances comply with state law.

Status

In Progress

The City Clerk indicated she has been evaluating how best to codify and maintain current and rescinded ordinances. In addition, the Board has updated the city clerk ordinance to include compensation. The Board plans to update other ordinances related to fees, rates, copy charges, and other city official compensation.