

The seal of the State Auditor of Missouri 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, "WE STAND DIVIDED" in the middle, and "1820 MISSOURI 1892" at the bottom.

Nicole Galloway, CPA

Missouri State Auditor

FOLLOW-UP REPORT ON AUDIT FINDINGS

City of Monroe City

Report No. 2021-072

September 2021

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City of Monroe City

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
Monroe City, Missouri

We have conducted follow-up work on certain audit report findings contained in Report No. 2020-029, *City of Monroe City* (rated as Poor), issued in June 2020, 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 the City Clerk and held discussions with the Mayor and City Clerk to verify the status of implementation for the recommendations. Documentation provided by the city included Board meeting minutes, financial records, and other pertinent documents. This report is a summary of the results of this follow-up work, which was substantially completed during June 2021.

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

Nicole R. Galloway, CPA
State Auditor

City of Monroe City

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Status of Findings

1. Water and Sewer Systems Contract	The city did not perform a cost-benefit analysis to determine if any cost savings would result prior to contracting with a private company in June 2018 to operate and maintain the water and sewer systems.
Recommendation	The Board of Aldermen ensure a cost-benefit analysis is prepared when making significant management decisions.
Status	In Progress The city's contract with its water and sewer system contractor does not expire until 2024. The city is currently in the process of constructing a new sewer plant and contracted with an engineer to help evaluate its options in regards to providing water services. The city has not yet made a decision as to how water services will be provided once the current contract expires.
2. Restricted Assets	The city had not established adequate procedures to ensure restricted monies were expended only for intended purposes.
2.1 Utility transfers	The Board had no documentation of any discussions held or the basis for determining administrative fees and franchise taxes paid and transfers out made from the Electric, Gas, Water, and Sewer Funds to the General Fund totaling over \$1.25 million during the year ended September 30, 2018.
Recommendation	The Board of Aldermen ensure any future payments from the Electric, Gas, Water, and Sewer Funds to the General Fund represent reimbursement of actual costs of operations. In addition, 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 city made payments from the Electric, Gas, Water, and Sewer Funds to the General Fund totaling \$741,936 during the year ended September 30, 2020. The city has not determined the value of government services being offset by the utility transfers, has not documented support for the amounts transferred, and has not evaluated the effect on the General Fund. The Mayor indicated the city cannot implement the recommendation without significantly cutting services and expenditures.
2.2 Industrial Development Fund loan	The city used restricted utility money in the Electric and Gas Funds to make 2 loans totaling \$788,000 to the Industrial Development Fund. At September 30, 2018, the Industrial Development Fund owed the Gas Fund \$644,000.



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Recommendation

The Board of Aldermen repay the amounts due to the Gas Fund from the Industrial Development Fund and ensure restricted electric, gas, water, and sewer funds are only used for their intended purposes.

Status

Implemented

The Industrial Development Fund repaid the Gas Fund \$644,000 in March 2021.

3.1 Utilities - Utility rates

City officials could not provide documentation that a formal review of electric, water, and sewer rates had ever been performed. In addition, the last formal review of natural gas rates occurred in 2000. As a result, there is less assurance the utility rates were set at an appropriate level.

Recommendation

The Board of Aldermen ensure a statement of costs is prepared to support changes in utility rates and document formal reviews of utility rates periodically to ensure revenues are sufficient to cover all costs of providing these services.

Status

Partially Implemented

The city's water and sewer systems contractor performed a water and sewer rate study for the city in February 2020. The Board passed an ordinance adding a flat rate to both water and sewer bills in November 2020. However, the flat rate for water is more than the rate recommended by the study and the flat rate for sewer is less than the rate recommended by the study. As a result, the city will likely not generate enough sewer revenues to cover costs and will likely generate more water revenues than needed to cover costs. The City Clerk indicated the sewer rates will be adjusted again once construction of the new sewer plant is completed which is expected to be in 2022 or 2023. The city has not performed a formal review of electric and natural gas rates.

3.2 Utilities - Non-monetary adjustments and utility billings

Controls over non-monetary adjustments posted to customer utility accounts and utility billings needed improvement. The City Administrator made 205 non-monetary adjustments totaling \$8,575,924 (120 percent of utility revenues), during the year ended September 30, 2018, to reduce customer account balances.

The City Administrator, who also had the ability to receipt utility payments to the financial accounting system, was responsible for posting non-monetary adjustments to customer utility accounts. These adjustments were not reviewed and approved by someone independent of the billing process before or after they were posted to the system.

Five of 11 non-monetary adjustments reviewed occurred because errors were not caught by the City Administrator during her review of utility billings prior



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to mailing. In addition, city officials did not retain documentation to support the reasons for any of the adjustments reviewed.

Recommendation

The Board of Aldermen ensure all non-monetary adjustments are properly approved and compared to actual changes posted to the utility system, and documentation of reasons for all non-monetary adjustments is retained. In addition, ensure utility billings are reviewed for accuracy prior to mailing.

Status

Partially Implemented

The City Clerk maintains documentation of reasons for all non-monetary adjustments and she reviews all utility billings for accuracy prior to mailing. However, the Board does not approve non-monetary adjustments or compare them to actual changes in the utility system.

3.3 Utilities - Utility losses

The City Administrator did not review and investigate significant utility losses identified in the monthly reports on electric, gas, water, and sewer operating statistics.

Recommendation

The Board of Aldermen review and investigate significant utility losses.

Status

In Progress

The City Clerk indicated this function was performed by the City Administrator who left employment with the city in September 2020. The City Clerk added she is in the process of obtaining training to adequately review the monthly utility operating statistics reports.

3.4 Utilities - Payment extensions and payment plans

The city policies and procedures for utility customers with delinquent utility bills who had requested payment extensions and payment plans did not include procedures to determine how the payment amount was established or the approval process for these arrangements. In addition, city personnel did not track these arrangements and did not retain copies of written payment plans once the delinquent utility bill had been paid.

Recommendation

The Board of Aldermen amend the utility collection policy to include procedures and requirements for payment arrangements. In addition, signed written agreements should be retained to support all payment arrangements.

Status

Implemented

The city amended its utility collection policy in April 2020 and it now includes procedures and requirements for payment arrangements. In addition, we reviewed signed written agreements for those utility customers who are currently on payment plans and we reviewed one written agreement for a



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utility customer that paid the delinquent amount in full. We noted no concerns with these agreements or the amended utility collection policy.

4. **Written Contracts**

The city's contracts with some entities, including the Mosswood Golf and Recreation Association and the Monroe City Area Fire Protection District (FPD), had not been updated in many years and did not adequately define each party's responsibilities. In addition, the city did not have written contracts with some service providers and certain outside parties, including its economic developer, attorney, and vendor providing brush and debris storage and removal.

Recommendation

The Board of Aldermen enter into clearly written contracts defining services provided and benefits received that are updated periodically.

Status

Partially Implemented

The city has entered into new contracts with the Mosswood Golf and Recreation Association and the FPD. However, the city's contract with the FPD does not address the accounting duties and other services the city provides to the FPD. In addition, the city has entered into written contracts with its current economic development vendor and its attorney. However, the city has not entered into a written contract for brush and debris storage and removal.

5. **Real Estate Transactions and Economic Incentives**

Policies and procedures for real estate transactions and economic incentives needed improvement.

5.1 **Real estate transactions**

The city did not have a long-range plan for the sale or development of its real estate holdings. In addition, city officials did not document reasons for the purchase of real estate and did not generally obtain appraisals prior to purchasing or selling real estate.

Recommendation

The Board of Aldermen develop plans, including a cost-benefit analysis, for the use of city-owned property, and ensure independent appraisals are obtained prior to the purchase or sale of real estate.

Status

Not Implemented

The city has not developed plans, including a cost-benefit analysis, for the use of city-owned property. In addition, the city did not obtain an independent appraisal prior to the sale of land for \$125 (the original cost to the city when purchased in 1925) to a school district in February 2021.

5.2 **Economic incentives**

The city did not have ordinances for approved financial incentives granted to two businesses.



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Recommendation The Board of Aldermen adopt an ordinance detailing economic incentives offered to businesses located in or relocating to the city.

Status **In Progress**

The Board adopted an ordinance for the utility incentive program. The Board has not adopted an ordinance for the incentive offered to the business in the industrial park. However, this business has not yet submitted any claims for reimbursement.

6.1 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 administrative office personnel were performed.

Recommendation The Board of Aldermen segregate the accounting duties. If proper segregation cannot be achieved, ensure documented independent or supervisory reviews of detailed accounting and bank records are performed.

Status **Not Implemented**

The City Administrator left employment with the city in September 2020. The City Clerk indicated the city does not currently have sufficient staffing to adequately segregate duties. The City Clerk is currently performing the City Administrator's duties in addition to her own duties. An independent review of detailed accounting and bank records is not being performed.

7. Procurement Procedures City personnel did not always solicit competitive bids or proposals for goods or services as required by city code, and some professional services were obtained without benefit of a competitive selection process. City personnel indicated some of these purchases were not bid because procurement was arranged by the Mosswood Golf and Recreation Association.

Recommendation The Board of Aldermen ensure city officials competitively procure major purchases in accordance with the city code and maintain documentation of decisions made and require the Mosswood Golf and Recreation Association to comply with the city's procurement rules for items the city will be reimbursing the association for. In addition, establish a policy to address the procurement of professional services.

Status **Partially Implemented**

The Mosswood Golf and Recreation Association obtained bids for seed, fertilizer, and weed control chemicals as required in its new contract with the city. In addition, we reviewed Board meeting minutes between June 2020 and June 2021 and noted the Board solicited bids and proposals several times



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during the past year. However, the minutes did not indicate why the lowest bidder was not selected for mowing at city parks and for the pool roof repairs.

We also reviewed a detailed report of disbursements from June 2020 to June 2021 and noted 2 purchases requiring bids were not mentioned in the minutes:

- Additional pool roof repairs that were not included in the original bid specifications totaling \$6,800 were approved without obtaining bids or formal Board approval. The City Clerk indicated this was an emergency purchase.
- Bids were not solicited for water tower repairs totaling \$17,408.

In addition, the city has not established a policy to address the procurement of professional services.

8. Fire Service Billing and Collection Procedures The city's billing and collection procedures provided for the FPD needed improvement. The city performed all accounting duties for the FPD, including billing a yearly membership fee and billing for calls for services provided.

8.1 Fire service fees and costs The fee schedule used by the city for membership and service call billings had not been revised by the city and the FPD's Board in many years. In addition, the city and the FPD's Board did not have documentation supporting the basis for the fees charged.

Recommendation The Board of Aldermen work with the Monroe City Area Fire Protection District Board to establish procedures to adequately track costs for providing fire services, monitor and analyze these costs on a periodic basis, and revise the fee schedule if necessary.

Status **Not Implemented**
The city has not established procedures to tracks costs of providing fire services, has not monitored or analyzed these costs, and has not revised the fee schedule.

8.2 Billing and collection The city did not prepare or send bills for all billable calls. For 13 of 27 billable calls, the City Administrator could not explain why billings did not occur. In addition, the city did not maintain records of outstanding billings or pursue collection of those accounts receivables.

Recommendation The Board of Aldermen prepare and send bills for all billable calls, and work with the Monroe City Area Fire Protection District Board to develop written policies and procedures outlining specific steps and criteria to be followed for billing and collection activities.



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Status

Partially Implemented

We reviewed the spreadsheet of fire calls made from June 2020 to March 2021. For 31 calls, the spreadsheet did not adequately explain why the calls were not billed. The City Clerk explained to us why 30 of these calls were not billed and subsequently provided an updated spreadsheet with the explanations. The city only received payment for 1 of 23 calls billed (\$250) and has not received \$16,000 in revenues for the remaining 22 unpaid billed calls. The city has not developed written policies and procedures for billing and collection activities.

9. Payroll Controls and Procedures

Payroll controls and procedures needed significant improvement.

9.1 Bonuses

The Board approved year-end bonus payments to all full-time employees in violation of the Missouri Constitution.

Recommendation

The Board of Aldermen discontinue paying employee bonuses.

Status

Not Implemented

The city paid \$2,422 in year-end bonus payments in December 2020 as authorized by the Board.

9.2 Timesheets

Employees were not required to sign timesheets. In addition, the timesheets of supervisors including the City Administrator and City Clerk were not independently reviewed or approved.

Recommendation

The Board of Aldermen ensure timesheets are properly signed and approved.

Status

Partially Implemented

We reviewed timesheets for the pay period ending June 6, 2021, and noted all timesheets were signed by a supervisor with the exception of the City Clerk's timesheet that was not reviewed or signed by Mayor. In addition, several employees did not sign their timesheets.

10. Closed Meetings

The Board did not ensure compliance with the Sunshine Law for closed meetings. The Board discussed some items in closed meetings that were not allowed by law, and sometimes discussed issues other than the topics cited in the open minutes for going into a closed meeting.

Recommendation

The Board of Aldermen ensure only topics allowed by state law are discussed in closed Board meetings, the specific section of law allowing the closure is announced publicly and recorded in the minutes, and discussions in closed



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meetings are limited to only those specific reasons cited for closing the meeting.

Status

Implemented

We reviewed the open and closed meeting minutes from June 2020 to June 2021. For all 6 of the closed meetings held during this period, the section of law the meeting was closed under and the topics discussed in the closed meetings were allowed and agreed to the reasons for closing the meetings.

**11.1 Budgets and Ordinances
- Budgets**

The city budgets prepared for the years ended September 30, 2017, 2018, and 2019, did not include all required elements. The budget documents did not include a budget message, budget summary, and the financial activity and balances of the city's indebtedness.

Recommendation

The Board of Aldermen prepare annual budgets that contain all information required by state law.

Status

Not Implemented

The city's budget for the year ending September 30, 2021, did not include a budget message, budget summary, and the financial activity and balances of the city's indebtedness.

12. Electronic Data Security

The Board had not established sufficient controls to reduce the risk of unauthorized access to computer systems and electronic data. As a result, city records were not adequately protected and are susceptible to unauthorized access or loss of data.

**12.1 User identifications and
passwords**

The Administrative Assistants, City Clerk, and City Administrator shared the same user identification and password for 2 shared computers used for issuing receipt slips from the accounting system. In addition, passwords for employees in the administrative office, police department, and fire department were not required to contain a minimum number of characters and employees in the fire department were not required to change passwords periodically.

Recommendation

The Board of Aldermen require each employee to have his/her own user identification and password with a minimum number of characters, that is periodically changed. In addition, stop allowing employees to share access credentials on certain computers.

Status

Partially Implemented

Passwords for employees in the administrative office and police department are now required to contain a minimum number of characters and be changed



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periodically. The city is in the process of updating its utility system to a web-based system. Once this upgrade is complete, each administrative office employee will have a unique user identification and password. In addition, passwords are required to contain a minimum number of characters for the fire department's computers; however, they are not required to be changed periodically.

12.2 Security controls

Security controls were not in place to lock the City Administrator, City Clerk, Administrative Assistants, and Fire Chief's computers after a certain period of inactivity. In addition, the fire department did not have security controls in place to lock computers after a specified number of incorrect logon attempts.

Recommendation

The Board of Aldermen require city computers have security controls in place to lock each computer after a certain period of inactivity and a specified number of incorrect logon attempts.

Status

Partially Implemented

Security controls are now in place to lock administrative office and police department employees' computers after a certain period of inactivity and a specified number of incorrect logon attempts. However, security controls have not been implemented for the Fire Chief and fire department computers.