



Nicole Galloway, CPA

Missouri State Auditor

City of Miller

Report No. 2019-035

May 2019

auditor.mo.gov



Nicole Galloway, CPA
Missouri State Auditor

CITIZENS SUMMARY

Findings in the audit of the City of Miller

<p>Utilities</p>	<p>There are significant weaknesses in the city's utility operations. Despite a water and sewer rate increase in February 2016, water and sewer rates charged are still not sufficient to pay for the costs of services provided, and as a result, the city is using the General Fund to subsidize the Proprietary Fund to avoid a deficit cash balance in the Proprietary Fund. The city has repeatedly violated the Missouri Clean Water Law and city officials have not taken sufficient corrective action to correct the sewer treatment facility issues. City personnel do not prepare reconciliations related to utility services. The former City Clerk and the Board were not proactive in following up on utility accounts receivable.</p>
<p>Payroll Controls and Procedures</p>	<p>Timesheets are not always signed by the employee or his/her supervisor to document approval of time worked and leave used, some overtime hours are not reported on maintenance employees' timesheets, and leave records are not always maintained. Employees estimate hours to be worked for some days on their timesheets because some payroll payments occur prior to the end of the pay period, and documentation is not available to indicate a comparison is performed between actual hours worked to the reported estimated hours. City employees have not always followed established overtime policies, and the Board has not established personnel policies addressing the calculation of overtime and employment and supervision of related employees. There was no documented cost-benefit analysis or discussion by the Board concerning the cost-effectiveness of providing health insurance stipends to employees instead of continuing to provide health insurance coverage.</p>
<p>Accounting Controls and Procedures</p>	<p>The Board has not established adequate segregation of duties or supervisory reviews over some of the financial accounting functions performed by the City Clerk and/or Deputy City Clerk positions. The city's procedures for receipting and recording payments, and making deposits need improvement. The city does not maintain the change fund at a constant amount and uses it for petty cash expenses.</p>
<p>Restricted Funds and Disbursements</p>	<p>The city has not established adequate procedures to ensure restricted revenues are recorded into the appropriate fund or to ensure the funds are used only for intended purposes. The city has not established adequate procedures to ensure disbursements were properly allocated or expended only for intended purposes. The city's procurement procedures do not always comply with the city code, and professional services are obtained without benefit of a competitive selection process. Controls and procedures over credit cards need improvement. The city's procedures to account for fuel use are not adequate. City public works employees removed a tree stump from a citizen's private residence.</p>
<p>Budgets and Published Financial Statements</p>	<p>The city's budgets do not contain all statutorily required elements and were not accurate. The Board budgeted a deficit cash balance in the Proprietary Fund and does not adequately monitor budget-to-actual receipts and disbursements. The former City Clerk did not prepare and publish complete and accurate financial statements as required by state law.</p>

Board Qualifications and Sunshine Law	The city does not have procedures in place to ensure information regarding a person who may be unqualified to run for or hold elected office is timely reported to the appropriate authority, such as the Department of Revenue for unpaid tax issues as provided in Section 115.306, RSMo. Some issues discussed in closed meetings held were not allowable under the Sunshine Law.
---------------------------------------	--

Electronic Data Security	The city has not established adequate password controls to reduce the risk of unauthorized access to computers and data. Security controls are not in place to lock computers after a certain period of inactivity. The city has 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. The city does not periodically test backup data to ensure essential data can be restored.
--------------------------	--

Capital Assets	The city's capital asset records did not include land, buildings, some vehicles, and other personal property and are not updated timely when purchases and dispositions occur. City personnel do not always tag assets or perform annual physical inventories.
----------------	--

In the areas audited, the overall performance of this entity was **Poor**.*

*The rating(s) cover only audited areas and do not reflect an opinion on the overall operation of the entity. Within that context, the rating scale indicates the following:

- Excellent:** The audit results indicate this entity is very well managed. The report contains no findings. In addition, if applicable, prior recommendations have been implemented.
- Good:** The audit results indicate this entity is well managed. The report contains few findings, and the entity has indicated most or all recommendations have already been, or will be, implemented. In addition, if applicable, many of the prior recommendations have been implemented.
- Fair:** The audit results indicate this entity needs to improve operations in several areas. The report contains several findings, or one or more findings that require management's immediate attention, and/or the entity has indicated several recommendations will not be implemented. In addition, if applicable, several prior recommendations have not been implemented.
- Poor:** The audit results indicate this entity needs to significantly improve operations. The report contains numerous findings that require management's immediate attention, and/or the entity has indicated most recommendations will not be implemented. In addition, if applicable, most prior recommendations have not been implemented.

City of Miller

Table of Contents

State Auditor's Report	2
------------------------	---

Management Advisory Report - State Auditor's Findings	1. Utilities	4
	2. Payroll Controls and Procedures	8
	3. Accounting Controls and Procedures	12
	4. Restricted Funds and Disbursements.....	14
	5. Budgets and Published Financial Statements	19
	6. Board Qualifications and Sunshine Law	21
	7. Electronic Data Security.....	22
	8. Capital Assets	24

Organization and Statistical Information	25
---	----

Appendixes

A	Balance Sheet - Governmental Fund June 30, 2017	26
B	Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Fund For the Year Ended June 30, 2017.....	27
C	Statement of Net Position - Proprietary Fund June 30, 2017	28
D	Statement of Revenues, Expenses and Changes in Net Position - Proprietary Fund For the Year Ended June 30, 2017.....	29



NICOLE GALLOWAY, CPA

Missouri State Auditor

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

The State Auditor was petitioned under Section 29.230, RSMo, to audit the City of Miller. We have audited certain operations of the city in fulfillment of our duties. The city engaged Decker & DeGood, Certified Public Accountants (CPAs), to audit the city's financial statements for the year ended June 30, 2017. To minimize duplication of effort, we reviewed the CPA firm's audit report. The scope of our audit included, but was not necessarily limited to, the year ended June 30, 2017. The objectives of our audit were to:

1. Evaluate the city's internal controls over significant management and financial functions.
2. Evaluate the city's compliance with certain legal provisions.
3. Evaluate the economy and efficiency of certain management practices and procedures, including certain financial transactions.

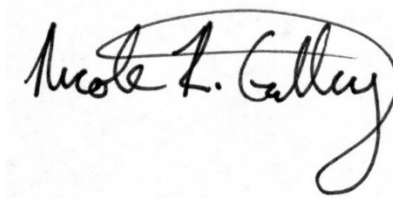
Our methodology included reviewing minutes of meetings, written policies and procedures, financial records, and other pertinent documents; interviewing various personnel of the city, as well as certain external parties; and testing selected transactions. We obtained an understanding of internal controls that are significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of applicable contract, grant agreement, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

We conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis.

The accompanying Organization and Statistical Information is presented for informational purposes. This information was obtained from the city's management and was not subjected to the procedures applied in our audit of the city.

For the areas audited, we identified (1) deficiencies in internal controls, (2) noncompliance with legal provisions, and (3) the need for improvements in managements practices and procedures. The accompanying Management Advisory Report presents our findings arising from our audit of the City of Miller.

We did additional work related to various police department transactions and procedures due to criminal charges filed against the former Police Chief and former Lieutenant. Findings and recommendations related to this additional work are addressed in a separate report, No. 2019-036, *City of Miller Police Department Disbursements and Seized Property*.

A handwritten signature in black ink that reads "Nicole R. Galloway". The signature is written in a cursive style with a large, looping "y" at the end.

Nicole R. Galloway, CPA
State Auditor

The following auditors participated in the preparation of this report:

Director of Audits:	Randall Gordon, M.Acct., CPA, CGAP
Audit Manager:	Pamela Allison, CPA, CFE
In-Charge Auditor:	Troy Royer
Audit Staff:	Terese Summers, MSAS, CPA Ethan D. Evans

City of Miller

Management Advisory Report

State Auditor's Findings

1. Utilities

There are significant weaknesses in the city's utility operations. The city provides water, sewer, and trash services, and accounts for the financial activity of these services in separate categories in the city's accounting system. These categories are combined into one fund called the Proprietary Fund in the city's audited financial statements. The city collected approximately \$285,000 for water and sewer services and \$47,000 for trash services during the year ended June 30, 2017.

1.1 Financial condition

Despite a water and sewer rate increase in February 2016, water and sewer rates charged are still not sufficient to pay for the costs of services provided. As a result, the city is using the General Fund to subsidize the Proprietary Fund to avoid a deficit cash balance in the Proprietary Fund. The Proprietary Fund cash balance is not sufficient to refund customer utility deposits that are also maintained in the Proprietary Fund. The following table reflects the cash balances and current liabilities of the Proprietary Fund for the past 5 years per the city's audited financial statement reports.

	Year Ended June 30,				
	2017	2016	2015	2014	2013
Unrestricted Cash Balance	\$ 0	0	0	0	0
Restricted Cash Balance ¹	96,761	85,986	51,330	62,875	53,025
Total Cash Balance	\$ 96,761	85,986	51,330	62,875	53,025
Current Liabilities					
Customer deposits	\$ 32,206	32,200	30,281	29,639	29,330
Due to General Fund ²	82,338	96,246	43,052 ³	35,740	26,307
Sales tax and primacy fees payable	1,792	1,911	2,116	2,323	1,997
Current portion of long-term debt	26,000	26,000	24,000	24,000	23,000
Total Current Liabilities	\$ 142,336	156,357	99,449	91,702	80,634

¹ Restricted cash balances can only be used to service outstanding debt.

² Amounts due to General Fund are written off each year and are not accumulated from one year to the next.

³ During the year ended June 30, 2015, the audit report reflected this amount as a transfer in from the General Fund; however, for consistency it is being reported as due to General Fund similar to how it was reported in other years.

The Due to General Fund amounts noted in the table represent the negative cash balance of the Proprietary Fund at the end of each fiscal year. This amount was subsidized by the General Fund. Based on the city's rate structure, the city does not generate sufficient revenues to cover the costs of operating and maintaining the water and sewer system and the debt service requirements resulting in the negative cash balances at the end of each fiscal year requiring subsidies by the General Fund.

Despite a sewer rate study obtained in July 2017 recommending a significant rate increase, the Board did not approve an increase in the current rate structure. The Board subsequently approved a water and sewer rate increase to take effect in September 2018. However, the Board did not set the sewer



City of Miller
Management Advisory Report - State Auditor's Findings

rates at the amounts recommended in the study, and did not obtain a water rate study.

Water and sewer fees are user charges that should cover the cost of providing the service. Section 67.042, RSMo, provides that fees may be increased if supported by a statement of costs that shows the increase is necessary to cover costs of providing the service. To ensure utility rates are set to cover the cost of providing the related services, the city should perform and document a periodic detailed cost study of each of its utility costs, including depreciation, and establish rates to cover the total cost of operations without generating excessive profits.

1.2 Compliance with Missouri Clean Water Law

The city has repeatedly violated the Missouri Clean Water Law and city officials have not taken sufficient corrective action to correct the sewer treatment facility issues. The Public Works Superintendent reported to the Board the city's E. coli discharge was twice the limit allowed by the Department of Natural Resources (DNR) permit every month from July 2016 through July 2017. The city's ammonia discharge also exceeded the limit allowed by the DNR permit in 7 of those months. However, the Board has not brought the sewer system into compliance.

On September 20, 2017, the DNR issued a violation notice to the city citing "significant non-compliance for the exceedances related to the E. coli limits" for the 12 month period of July 7, 2016, through July 7, 2017. This letter also requested city officials contact the DNR if they had any questions about the report and to schedule a meeting to discuss the city's plans for correcting the non-compliance. However, they did not contact the DNR, and on November 17, 2017, the DNR issued a failure to report notice that requested the city file the missing status/progress report, detail the city's progress made in attaining compliance, and provide a written response explaining the reasons for the violations and the steps the city has taken or will take to prevent further violations. On December 21, 2017, the DNR issued another violation notice to the city for "non-compliance" for the exceedances related to E. coli limits for the period of July 2017 through September 2017. This notice also indicated the DNR had not received the missing status/progress report requested in the November 17, 2017, letter, and indicated it was due on or before September 1, 2017.

The July 2018 Board meeting minutes indicated the Public Works Superintendent reported continued violations of sewer discharge permit limits, but the city was actively meeting and working with DNR to correct the non-compliance. The Board hired an engineering firm in September 2018 to recommend improvements to the sewer treatment facility.

In September 2013, the DNR issued the city an operating permit in accordance with the Missouri Clean Water Law, Chapter 644, RSMo, and the Federal Water Pollution Control Act, 33 U.S.C. Section 1251, et. seq.,



City of Miller
Management Advisory Report - State Auditor's Findings

detailing the compliance requirements of the city's effluent limitations and monitoring practices.

1.3 Utility reconciliations

City personnel do not prepare reconciliations related to utility services.

- The Board did not investigate significant differences identified in the monthly reconciliation of gallons of water billed to customers to gallons of water pumped. In addition, water usage is not tracked for city buildings. Without this water usage information the city cannot properly perform the reconciliation. The April 2018 water usage report submitted to the Board indicated the city could not account for 24 percent of water pumped. This significant difference is indicative of water loss issues and/or possible unbilled usage, and indicates a need for follow up.

Tracking city usage and timely investigation of unexpected or significant differences between water billed and water pumped is necessary to help detect significant water loss timely and ensure water usage is properly billed. According to the United States Environmental Protection Agency, most states have regulatory policies that set acceptable losses from public water systems at a maximum of between 10 to 15 percent or less.¹ The standard for Missouri established by the DNR is 10 percent.

- The City Clerk does not perform monthly reconciliations of amounts billed, payments received, and amounts unpaid for utility services.

Monthly reconciliations are necessary to ensure accounting records balance, transactions are properly recorded, and errors or discrepancies are detected timely.

1.4 Delinquent utility accounts

The former City Clerk and the Board were not proactive in following up on utility accounts receivable. As of September 19, 2018, the city had 17 utility accounts receivable balances delinquent for over 90 days totaling \$26,547.

Two of these accounts had balances of \$12,304 and \$11,130 and date back to June and November 2016, respectively. Also, the former City Clerk allowed these 2 customers to make partial payments on their accounts for 3 to 4 years without Board approval, and the city does not have a written policy authorizing partial payments. A former Board member indicated the Board did not approve the former City Clerk accepting partial payments on any accounts. In addition, the former City Clerk failed to follow the city code for disconnection for these 2 accounts. These 2 accounts had current monthly

¹United States Environmental Protection Agency, "Control and Mitigation of Drinking Water Losses in Distribution Systems," Appendix A, Table A-2, Selected State Standards for Unaccounted-for Water, <https://www.awwa.org/Portals/0/AWWA/Government/WaterLossControl508.pdf>, accessed April 10, 2019.



City of Miller
Management Advisory Report - State Auditor's Findings

charges averaging less than \$80, penalties were accrued at 10 percent on the total unpaid balance, and these delinquent account balances continued to increase over several years.

The current City Clerk turned 13 of these 17 accounts over to a collection agency in August 2018, including a portion of one of the accounts with a significant balance. The current City Clerk only turned over \$2,005 of the \$12,304 accounts receivable balance to the collection agency. This amount represented unpaid charges while the remaining \$10,299 represented penalties incurred on the account. However, the Board had not approved the penalties to be written off, and it is unclear why the current City Clerk did not turn over the full balance of the account to the collection agency. The Board is taking legal action on the full balance of the other significant accounts receivable balance.

City code Section 700.110 states failure to pay a bill by the 20th of the month following the month during which water and sewer services were provided shall result in disconnection of the service. Good business practices require adequate collection procedures be established to ensure accounts are collected timely and bad debts are kept to a minimum.

Recommendations

The Board of Aldermen:

- 1.1 Document formal reviews of utility rates periodically to support any rate increase and set the rates to ensure revenues are sufficient to cover all costs of providing these services, including debt service requirements and reserves for future capital improvements.
- 1.2 Bring the sewer treatment facility into compliance with the Missouri Clean Water Law.
- 1.3 Investigate significant differences between gallons of water pumped to gallons billed. The Board should also ensure monthly reconciliations of amounts billed to amounts collected and delinquent accounts are performed.
- 1.4 Ensure sufficient procedures are developed to collect accounts receivable, all past due accounts are submitted to the collection agency, and service is disconnected in accordance with city code.

Auditee's Response

- 1.1 *Prior to any future rate increase, the city will conduct a formal review of the utility rates to ensure revenues are sufficient to cover all costs of providing these services, including debt service requirements and reserves for future capital improvements.*



City of Miller
Management Advisory Report - State Auditor's Findings

- 1.2 *A bond issue for water/wastewater upgrades was passed in April 2019 that will allow the city to bring the sewer treatment facility into compliance with the Missouri Clean Water Law.*
- 1.3 *We are aware of the significant amount of water loss each month and hope to fix known leaks and improve our water system while upgrading the sewer with the new bond monies and future grant monies. The City Clerk provides the Board a monthly reconciliation of the amounts billed, total amounts collected, and delinquent accounts.*
- 1.4 *The city now enters into written payment agreements with customers with delinquent accounts and the City Clerk follows up to ensure payments are routinely made. With a few exceptions, delinquent accounts will be submitted to a collection agency. In reference to the 2 accounts with substantial accrued amounts, the Board subsequently discussed and approved only going after the amount that represented water usage, not the penalties for one of the accounts. The reason we are going for the full amount for the other account is because we have sought legal action and is due to a lack of cooperation by the former customer. The Board was willing to collect on usage only, but after repeated attempts from our attorney and no response, we are going after the full amount. The city passed an ordinance to change the shut-off date from the 20th of the month to the first of the following month, and a deposit amount of \$200 to turn on utilities. If payment is not made on the first of the following month, or the customer hasn't made prior arrangements with the City Clerk, a work order is made and the water is disconnected, and a lock is placed on the meter. There is a late fee assessed if the bill is not paid by the 15th, and if service is disconnected, there is a \$25 reconnection fee.*

2. Payroll Controls and Procedures

Controls and procedures over payroll and related matters need improvement. The city paid approximately \$218,000 in wages during the year ended June 30, 2017.

2.1 Timesheets and leave records

Timesheets are not always signed by the employee or his/her supervisor to document approval of time worked and leave used, and some overtime hours are not reported on the timesheets for maintenance employees. In addition, leave records are not always maintained to track the number of hours of vacation and sick leave earned, used, and any remaining balances.

The current City Clerk indicated a maintenance employee is typically paid 2 hours of overtime each nonworking day (Saturdays, Sundays, and holidays) to check the water and sewer system; however, this time is not reflected on the employee's timesheet. For example, a maintenance employee's timesheet for the pay period December 16 through December 31, 2016, reported 80



City of Miller
Management Advisory Report - State Auditor's Findings

work hours and 8 holiday hours; however, the employee was paid for 88 regular work hours and 13.5 hours of overtime. None of the overtime hours were recorded on the employee's timesheet, and the 6 nonworking days totaled 12 hours of overtime instead of the 13.5 hours paid.

Without accurate timesheets or a record of leave taken, city officials cannot ensure hours worked and leave earned and taken by employees are properly documented. To ensure the accuracy of the hours worked and leave taken, timesheets should be signed by the employees and reviewed and approved by the supervisor. Leave records also aid in determining final compensation for employees leaving city employment. In addition, the Fair Labor Standards Act (FLSA) requires employers maintain accurate records of actual time worked by employees.

2.2 Salary payments

Employees estimate hours to be worked for some days on their timesheets because some payroll payments occur prior to the end of the pay period, and documentation is not available to indicate a comparison is performed between actual hours worked to the reported estimated hours. For example, payroll payments occurred on December 14, 2016, for the pay period December 1 through December 15, 2016. As a result, full-time employees are sometimes paid in advance for their services.

Paying city employees for estimated hours worked may lead to errors and the potential for employees to be over/under paid. Article III, Section 38(a) of the Missouri Constitution, prohibits the granting of public monies or property to any private person, association, or corporation.

2.3 Personnel policies

City employees have not always followed established overtime policies, and the Board has not established personnel policies addressing the calculation of overtime and employment and supervision of related employees.

Overtime

Some city employees were paid for overtime in violation of city policy. The employee handbook states employees do not receive overtime, but can use the hours as paid time off. However, during the year ended June 30, 2017, the city paid 7 employees a total of \$11,632 in overtime.

In addition, nonworking time, (vacation and sick leave, compensatory time, and holidays), is included in total hours worked when determining the amount of overtime earned by employees, which is not required by the FLSA. For example, during the 2 week pay period ending December 31, 2017, the former City Clerk was paid for 82.5 regular hours and 4.75 hours of overtime per the payroll stub or a total of 87.25 hours, when her timesheet indicated she worked 62.25 regular hours, received 12 hours of holiday pay, took 8 hours of vacation time, and used 2.5 hours of compensatory time, for a total of 84.75 hours that should have been paid at her regular rate of pay. Thus, the hours on the payroll stub did not agree to the hours on the timesheet. In addition,



City of Miller
Management Advisory Report - State Auditor's Findings

the city's personnel policy does not address the hours to include when determining the number of overtime hours.

Related employees

The city's personnel policy does not address employment of related individuals. The former Police Chief directly supervised his brother, a former Lieutenant. The supervision of related employees can compromise a supervisor's objectivity when assigning duties, tracking leave, approving payroll, or evaluating employee performance. Written personnel policies and strict compliance with those policies is necessary to ensure equitable treatment of employees, prevent misunderstandings, and ensure employees are properly compensated.

2.4 Health insurance stipends There was no documented cost-benefit analysis or discussion by the Board concerning the cost-effectiveness of providing health insurance stipends to employees instead of continuing to provide health insurance coverage. In addition, as a result of not providing health insurance coverage, the Board has increased the costs to the city and employees.

Meeting minutes of a special closed session held on January 25, 2018, indicated "Special meeting held to discuss employee health insurance and whether or not to continue to pay directly or provide once a month bonus for funds to let employees purchase their own. After group debate, group decided to get yearly insurance rates to pay off of age group list and continue with the \$200 allowance for either child/spouse." A Board member "made motion to pay rates based off of silver plan with \$2,500 deductible and still include the \$200 dependent reimbursement until employee reaches Medicare age then would reimburse for Medicare/supplement cost to employee. Also, employee would only be able to choose either or (meaning would either have City of Miller pay for insurance directly or be reimbursed based off of silver plan rate but not able to have both)." No documentation or Board discussion of the related costs of providing health insurance stipends instead of health insurance coverage was maintained.

Based on the total amount of stipends paid per month, the city and the employees will incur approximately \$368 a month or \$4,416 annually more in Federal Insurance Contributions Act (FICA) taxes. The FICA taxes by month impacting each employee are noted in the following table. The amount of the stipend provided to each employee also varies significantly because of age, tobacco use, and dependents.



City of Miller
 Management Advisory Report - State Auditor's Findings

Employee Identifier	Employee Monthly Stipend Amount	Dependent Monthly Stipend Amount	Total Monthly Stipend Amount	Monthly FICA Taxes per Employee
1	\$ 1,013	200	1,213	93
2	576	200	776	59
3	400	0 ¹	400	30
4	400	200	600	46
5	1,057	200	1,257	96
6	370	200	570	44
Total	\$ 3,816	1,000	4,816	368

¹ This employee does not have any dependents.

An evaluation of the costs and benefit of either providing health insurance or health insurance stipends would provide a means to determine the most cost-effective method of providing these services. Without such a study, the costs of providing health insurance stipends may be higher than necessary.

Recommendations

The Board of Aldermen:

- 2.1 Ensure timesheets are accurate, properly signed and approved, and employee leave balances are properly tracked and monitored.
- 2.2 Discontinue compensating full-time employees in advance of receiving services.
- 2.3 Ensure compliance with personnel policies, and review and update the personnel policies, as necessary.
- 2.4 Prepare a cost-benefit analysis of providing health insurance versus health insurance stipends. The Board should ensure a cost-benefit analysis is prepared when making significant management decisions in the future.

Auditee's Response

- 2.1 *We now have a time clock that stamps employee's time cards. Each week the City Clerk goes through and calculates the employee's time and ensures the timesheets are initialed by both the employee and the supervisor, then the Mayor reviews the time card and the paycheck for accuracy. We now have an "employee time-off request form" that is to be filled out by each employee when taking time-off. The employee must indicate if the time-off is sick, vacation, bereavement, or compensatory time. We have discontinued including nonworking time when determining compensatory time. We plan to update our personnel policy to address this. Compensatory time is calculated and there is a running total on each time card.*



City of Miller
Management Advisory Report - State Auditor's Findings

- 2.2 *After this was brought to our attention, the Board passed an ordinance that changed the way pay periods/paychecks were done. Now, we pay a week behind and a pay period is defined as 12:00 a.m. on Sunday through 11:59 p.m. on Saturday.*
- 2.3 *A new employee handbook was approved in December 2018. No employees are paid overtime; however, they do accrue compensatory time. In the new handbook, a section regarding nepotism and related employees was added, so now we do have a policy that provides that no employees will be supervised by a relative.*
- 2.4 *In the future, the city will prepare a cost-benefit analysis of providing health insurance versus paying health insurance stipends.*

3. Accounting Controls and Procedures

3.1 Segregation of duties

Accounting controls and procedures need improvement. During the year ended June 30, 2017, receipts totaled approximately \$613,000. The city receives monies for utility payments, property taxes, merchant licenses, building permits, and other miscellaneous items.

The Board has not established adequate segregation of duties or supervisory reviews over some of the financial accounting functions performed by the City Clerk and/or Deputy City Clerk positions. The City Clerk and Deputy City Clerk are solely responsible for the financial accounting functions of the city, including receiving, recording, and depositing monies; preparing invoices for payment; maintaining payroll records; preparing and distributing payroll and accounts payable checks; preparing and distributing monthly utility billings; generating utility reports; preparing monthly bank reconciliations; making transfers between bank accounts; preparing financial reports for Board meetings; and preparing budgets and financial statements. The Mayor and the City Clerk are responsible for signing checks. While the City Clerk prepares various month-end reports along with an attached signature page that the Board members sign to document their review and approval of the reports, the Board does not document reviews made of timesheets and leave records or perform a review of receipt and deposit records.

Proper segregation of duties helps ensure all transactions are accounted for properly and assets are adequately safeguarded. If proper segregation of duties is not possible, timely supervisory or independent reviews of work performed and investigation into unusual items and variances is necessary. Good management practices require extensive and detailed oversight by the Board.



City of Miller
Management Advisory Report - State Auditor's Findings

3.2 Receipting, recording, and depositing

The city's procedures for receipting and recording payments, and making deposits need improvement.

- The City Clerk does not account for the numerical sequence of electronic utility receipt numbers.
- Utility payments received are not recorded in the computerized utility system at the time of receipt. These payments are recorded when the deposit is prepared, which is typically once a week. As a result, it is difficult to determine if penalties for late payments are assessed in compliance with city codes. City code 700.100 states utility bills remaining unpaid after the 20th day of the month shall have a 10 percent delinquent charge added.
- Checks received are not restrictively endorsed immediately upon receipt. A cash count performed on March 1, 2018, identified 13 checks totaling \$1,081 that had not been restrictively endorsed. The former City Clerk indicated checks are endorsed when the deposit is prepared.
- The former City Clerk did not deposit receipts timely or intact. Deposits are typically made once a week. In addition, a cash count performed on March 1, 2018, revealed an unidentified \$86 cash receipt. The former City Clerk indicated the city received this payment on February 22, 2018, and she believed it was for a utility bill. The former City Clerk subsequently determined who made the payment and recorded the \$86 in the utility system and deposited the cash on April 4, 2018.

Failure to implement adequate receipting, recording, and depositing procedures increases the risk that loss, theft, or misuse of monies will occur and go undetected. To reduce this risk, procedures should be established to ensure all monies are properly receipted, recorded, and deposited. Also, checks should be restrictively endorsed immediately upon receipt.

3.3 Change fund

The city does not maintain the change fund at a constant amount and uses it for petty cash expenses. In addition, periodic reconciliations to the authorized balance are not performed, and a petty cash ledger is not maintained to support petty cash transactions. At the time of our cash count, the change fund balance was \$89 and there was one \$7 invoice on hand for a car wash to support petty cash expenses from the fund. In addition, the former City Clerk replenished the change fund with cash receipts, causing receipts to not be deposited intact as indicated in section 3.2.

To safeguard against possible loss, theft, or misuse of funds, change funds should be maintained at a constant amount and the funds should be periodically counted and reconciled to the authorized balance. If needed, a separate petty cash fund should be established and maintained on an imprest basis. A petty cash ledger should also be maintained documenting receipts,



City of Miller
Management Advisory Report - State Auditor's Findings

disbursements, and the balance of the petty cash fund. Petty cash funds should only be reimbursed through a city disbursement approved by the Board and not from daily receipts.

Recommendations

The Board of Aldermen:

- 3.1 Segregate accounting duties to the extent possible and implement appropriate reviews and monitoring procedures.
- 3.2 Ensure the numerical sequence of electronic receipt numbers is accounted for properly, timely record all payments received in the computerized utility system, restrictively endorse all checks upon receipt, and make deposits timely and intact.
- 3.3 Maintain the change fund at a constant amount, and reconcile the change fund to the authorized balance with each deposit. If needed, a petty cash fund should be established and maintained on an imprest basis. A petty cash ledger should also be maintained.

Auditee's Response

- 3.1 *Currently, the Mayor reviews each invoice with the check for payment to ensure accuracy, and the Board is notified that checks are ready to be reviewed. The city will designate a Board member to periodically compare receipts to deposits and review bank reconciliations and document the review.*
- 3.2 *The City Clerk will account for the numerical sequence of receipt numbers at the time of the deposit, and ensure that monies received are entered into the computerized accounting system and utility system in a timely manner. We have made it a practice for the City Clerk to record receipts as she receives them into the accounting system. When a check is received, we immediately stamp the check with the "For Deposit Only" stamp. Due to the location of the nearest bank, we do not do a daily deposit. The City Clerk plans to typically make deposits twice per week and will make deposits intact.*
- 3.3 *A change fund has been established at \$100 and is maintained at a constant amount. We have implemented a petty cash fund of \$250, and a spreadsheet log to keep for accountability purposes. When money is taken from petty cash, the reason is recorded, and a receipt is attached to the log. We will begin to make sure our petty cash amount is brought back to the agreed amount by writing a check for cash and putting that cash into the petty cash bag on a weekly basis.*

4. Restricted Funds and Disbursements

The city has not established adequate procedures to ensure restricted revenues are recorded into the appropriate fund or to ensure the funds are used only for



City of Miller
Management Advisory Report - State Auditor's Findings

intended purposes. In addition, controls and procedures over disbursements need improvement.

4.1 Restricted revenues

The city has not established adequate procedures to properly track and record various statutorily restricted revenues.

- During the year ended June 30, 2017, the City Clerk recorded \$30,841 of receipts from a 1/2-cent street sales tax in the police department category within the General Fund. This money was used to pay expenses of the police department. The ballot language when the public voted on approving this sales tax restricted its use to transportation purposes. In addition, Sections 94.700 to 94.755, RSMo, and city code Section 130.130 restrict use of this funding to transportation purposes. City officials had no documentation to justify the full allocation of these funds to the police department.
- During the year ended June 30, 2017, city employees recorded some payments for trash services in the trash category (\$21,442) and some in the water category (\$25,216), while paying all related disbursements (\$43,094) from the water category. Section 250.150, RSMo, restricts the use of water and sewer funding for operating the systems, payments of bonds, establishment of a reserve, fulfillment of any agreements contained in ordinances, and payment of costs of improvements of such systems.
- City personnel do not track the receipts, disbursements, and the balance of Law Enforcement Training (LET) fees and Police Officer Standards Training (POST) fees. These fees are deposited into the General Fund and are comingled with general purpose receipts rather than being accounted for separately. Section 488.5336.2, RSMo, requires use of LET and POST fees only for the training of law enforcement officers. A separate accounting, with a current balance, would help ensure these restricted revenues are accounted for and expended properly.

4.2 Allocation

The city has not established adequate procedures to ensure disbursements were properly allocated or expended only for intended purposes.

Several employees perform tasks related to multiple city functions, but the city has no documentation to justify the allocation of salaries to the various categories in the General and Proprietary Funds. For example, city officials allocated \$18,180 of the Deputy City Clerk's wages to the General Fund, and \$29,534 of the City Clerk's wages, \$79,272 of wages for the 3 maintenance employees, and \$1,379 of the cost of uniforms for maintenance employees to the water category in the Proprietary Fund, when some of these costs could have been allocated to other categories in the General and Proprietary Funds. Only \$1,931 of the wages for maintenance employees were allocated to the street category in the General Fund.



City of Miller
Management Advisory Report - State Auditor's Findings

Some other disbursements and/or allocations were also not adequately supported and looked unreasonable. For example, the \$5,066 cost of the city's financial statement audit and accounting services was allocated \$140 to the fire category, \$4,237 to the general category, and \$655 to the police department category in the General Fund, and \$34 to the water category in the Proprietary Fund; however, the majority of these costs pertained to the city's annual financial statement audit, which is required by the water and sewer system bond covenants. In addition, the \$49,824 cost of utilities was allocated \$7,765 to the fire category and \$15,681 to the general category in the General Fund, and \$26,378 to the water category in the Proprietary Fund, when utilities are used for other city services such as street, sewer, and police.

To ensure restricted funds are used for intended purposes, the allocation of expenditures to city funds should be based on specific criteria, such as the number of hours worked by each employee, if possible, or by determining a reasonable basis to allocate costs for employees. The proper allocation of expenses is necessary to accurately determine the results of operations of specific activities, thus enabling the city to establish the level of taxation and/or user charges necessary to meet all operating costs.

4.3 Procurement procedures

The city's procurement procedures do not always comply with the city code, and professional services are obtained without benefit of a competitive selection process.

During the year ended June 30, 2017, the city did not solicit bids for property and liability insurance (\$11,164), health insurance (\$46,765), drilling services (\$5,644), and bulk fuel (\$4,193). City code Section 135.090 requires the city to solicit competitive bids for purchases of supplies and contractual services over \$1,000.

City code does not address the handling of professional services from other services. Professional services retained during the year ended June 30, 2017, without the benefit of competitive selection included attorney services (\$12,389), and audit and accounting services (\$5,066). In addition, the city did not competitively solicit banking services.

In addition to being required by city code, the routine use of a competitive procurement process for major purchases ensures the city has made every effort to receive the best and lowest price and all interested parties are given an equal opportunity to participate in city business. Complete documentation should be maintained of all bids received and justification for awarding the bid. Also, periodically soliciting proposals for professional services helps ensure all parties are given an equal opportunity to participate in city business, helps provide a range of possible choices, and allows the Board to make better informed decisions to ensure necessary services are obtained from the best qualified provider, taking expertise, experience, and/or cost into consideration.



City of Miller
Management Advisory Report - State Auditor's Findings

4.4 Credit cards

Controls and procedures over credit cards need improvement. The city purchased items and services totaling approximately \$10,000 through use of 2 credit cards during the year ended June 30, 2017; however, 59 purchases totaling \$3,798 did not have supporting documentation. In addition, an independent review of purchases made on these cards is not performed.

Detailed supporting documentation, such as itemized receipts and vendor invoices, should be maintained for all credit card transactions and reconciled to the credit card statements by someone other than the cardholder. Without adequate supporting documentation and proper approval, city officials cannot ensure purchases are for appropriate goods or services.

4.5 Fuel usage

The city's procedures to account for fuel use are not adequate. The city maintains two 300 gallon bulk fuel tanks (unleaded and diesel) at the public works building. The city purchased bulk fuel totaling \$4,193 during the year ended June 30, 2017, and \$5,891 during the year ended June 30, 2016. City employees use 2 credit cards for out-of-town fuel purchases. Fuel purchased using these cards totaled \$772 during the year ended June 30, 2017, and \$2,204 during the year ended June 30, 2016. Use of the cards for fuel purchases was discontinued after the termination of the former Police Chief in May 2017.

Mileage and fuel logs are not maintained for city vehicles and equipment. While logs of fuel pumped from the bulk tanks are maintained by maintenance employees, logs of fuel pumped and used by the police department are not maintained. As a result, fuel use is not reconciled to fuel purchases.

Mileage and fuel logs are necessary to document the appropriate use of vehicles and equipment and to support fuel purchases. Without sufficient information, city officials cannot evaluate the propriety and reasonableness of fuel pumped/used or reconcile amounts used to fuel billings. Failure to account for fuel purchases and fuel usage could result in loss, theft, or misuse going undetected.

4.6 Private work

On March 20, 2018, 2 city public works employees removed a tree stump from a citizen's private residence. The removal of the tree stump required the use of 2 city backhoes, a city dump truck, and the time spent by the employees. The city did not retain any documentation of the cost of the equipment's use and time spent and did not seek reimbursement for the related costs.

Article VI, Section 23, Missouri Constitution, specifically prohibits counties, cities, or other political subdivisions of the state from granting public money or things of value to or in aid of any corporation, association, or individual.



City of Miller
Management Advisory Report - State Auditor's Findings

Recommendations

The Board of Aldermen:

- 4.1 Ensure restricted monies are accounted for in the appropriate fund or category and establish separate funds or a separate accounting of LET and POST fees.
- 4.2 Ensure costs are allocated to the appropriate funds, and supported by adequate documentation, which is retained.
- 4.3 Perform a competitive procurement process for all major purchases in accordance with the city code and maintain documentation of decisions made. The Board should also solicit proposals for professional services and consider establishing a policy to address the procurement of professional services.
- 4.4 Require documentation be maintained and reconciled to credit card billing statements, and purchases be approved by someone other than the cardholder.
- 4.5 Require mileage and fuel logs be maintained and ensure fuel logs are reconciled to fuel purchases. Any significant discrepancies should be investigated.
- 4.6 Ensure work is performed only on public property and seek reimbursement of the costs incurred for the removal of the tree stump at a citizen's private residence.

Auditee's Response

- 4.1 *Moving forward, we will deposit street sales tax in the street category, trash revenues in the trash category, and create separate categories to track the LET and POST fees.*
- 4.2 *The city will discuss and implement procedures to track employee time by city function and use that documentation to support future allocations. The City Clerk now appropriately allocates disbursements to the appropriate department and line item. One of the procedures the City Clerk now does is that she inputs the invoice number, or the "reason" under the memo section of each check written.*
- 4.3 *We currently seek bids for various services. We will seek bids for each and every service, including professional services, as the city code states, in the future. We will be sure to discuss bids, and awarding of bid in the appropriate Board meeting so there is a record kept in the minutes book. Also, when it comes to banking, the nearest bank to the city of Miller is in Mt. Vernon.*



City of Miller
Management Advisory Report - State Auditor's Findings

- 4.4 *When the credit card statement comes in each month, the City Clerk goes through the bill and compares receipts to charges. Each purchase is assigned to a department, and charged to that department under the appropriate line item. Depending on the cost of the item, the Mayor or the Board must approve prior to charging. The Board also approves the credit card statements and invoices at monthly meetings.*
- 4.5 *Due to the inability to accurately account for the amount of bulk fuel used, the Board approved to only buy red (off-road) diesel from a local bulk fuel vendor. A log of fuel pumped is used for the off-road diesel and the City Clerk reconciles the fuel used to fuel purchased. When other city vehicles are used, a local gas station credit card is used by employees to buy fuel. The user must input the current mileage, and the mileage is printed on the fuel receipt. The City Clerk reconciles the fuel receipts to the fuel statement.*
- 4.6 *The city will ensure all work performed is only on public property. We do not plan to seek reimbursement of costs incurred for the removal of the tree stump at a citizen's private residence.*

5. Budgets and Published Financial Statements

The city does not prepare complete and accurate annual budgets or publish accurate semiannual financial statements.

5.1 Budgets

The Board does not have adequate procedures to prepare or monitor budgets.

Preparation

The city's budgets do not contain all statutorily required elements and were not accurate. The 2018 budget did not include actual beginning available resources and estimated and actual ending available resources, which are needed to present a complete financial plan for city finances. In addition, budgeted and actual receipts and disbursements included on the budget summary page did not agree to the individual fund's budgets.

Section 67.010, RSMo, requires the budget to present a complete financial plan for the ensuing budget year and outlines the various information to be included in the budget. A complete budget should include the beginning available resources and a reasonable estimate of the ending available resources. A complete and well-planned budget, in addition to meeting statutory requirements, serves as a useful management tool by establishing specific financial expectations for each area of city operations. It also assists in providing information to the public about city operations and current finances.



City of Miller
Management Advisory Report - State Auditor's Findings

Budget deficit

The Board budgeted a deficit cash balance of \$211,210 in the Proprietary Fund in the 2017 budget. Missouri Constitution, Article VI, Section 26(a), and Section 67.010.2, RSMo, prohibit deficit budgeting.

Monitoring

The Board does not adequately monitor budget-to-actual receipts and disbursements. The Board does not receive financial statements that show a comparison of budget-to-actual amounts. In addition, the Board voted on June 8, 2017, to amend the budget to actual receipts and disbursements for the year ending June 30, 2017, even though those actual numbers were not known at that time, and an amended budget document was not prepared to support the amendment.

Failure to monitor and adhere to limits imposed by budgets weakens the Board's effectiveness in controlling the city's financial condition. In addition, the practice of amending the budgets to actual numbers at year-end disregards the purpose of the budget as a planning and monitoring tool. The Board should ensure monthly budget-to-actual comparisons are received and reviewed prior to approving disbursements.

Section 67.040, RSMo, requires political subdivisions to keep disbursements within amounts budgeted, but allows for budget increases if the governing body officially adopts a resolution setting forth the facts and reasons. In addition, Section 67.080, RSMo, provides that no disbursement of public monies should be made unless it is authorized in the budget. Proper budget monitoring and amending of them when applicable is necessary for budgets to be an effective management tool and comply with state law.

5.2 Published financial statements

The former City Clerk did not prepare and publish complete and accurate financial statements as required by state law. The former City Clerk did not include receipts totaling approximately \$15,000 and disbursements totaling approximately \$3,700 shown in the accounting system for the 2 semiannual settlements published for the year ended June 30, 2017.

Section 79.160, RSMo, requires the Board prepare and publish semiannual financial statements that include a full and detailed account of the receipts, disbursements, and indebtedness of the city. To ensure compliance with this statute, the Board should require timely preparation of financial statements and review the statements for accuracy prior to publication.

Recommendations

The Board of Aldermen:

- 5.1 Prepare accurate annual budgets that contain all information required by state law, discontinue deficit budgeting, ensure the budgets are adequately monitored and are properly amended.
- 5.2 Ensure accurate preparation and publication of the city's semiannual financial statements as required by state law.



Auditee's Response

- 5.1 *We will prepare accurate annual budgets that contain all information required by state law, discontinue deficit budgeting, and ensure the budgets are adequately monitored and properly amended. Since the new Mayor was appointed, the City Clerk provides the Board: a year-to-date financial statement of income versus expenditures; a monthly financial statement of income versus expenditures; and a "budgeted versus actual" statement. In the future if spending should exceed the budget, the topic will go before the Board to approve a resolution for the increased amount.*
- 5.2 *Going forward, the Board will review and approve the city's semiannual financial statements prior to being submitted for publication.*

6. Board Qualifications and Sunshine Law

6.1 Board qualifications

Procedures over Board qualifications and closed meetings need improvement.

The city does not have procedures in place to ensure information regarding a person who may be unqualified to run for or hold elected office is timely reported to the appropriate authority, such as the Department of Revenue (DOR) for unpaid tax issues as provided in Section 115.306, RSMo.

Alderman Johnson owed delinquent city and county real estate and personal property taxes at the time of election in April 2017 and when he signed DOR Form 5120 Candidate's Affidavit of Tax Payments and Bonding Requirements. Alderman Johnson signed Form 5120 on January 17, 2017, stating he did not owe any delinquent taxes. However, he did not pay his delinquent real estate property taxes for 2014 through 2016 until July 20, 2017. He also did not pay his 2016 personal property taxes until March 30, 2017, after the form had been signed and filed.

Alderman Campbell and Alderwoman Johnson both also owed delinquent city and county personal property taxes at the time of signing Form 5120 in 2018. Alderman Campbell signed Form 5120 on December 26, 2017, stating he did not owe any delinquent taxes. However, he did not pay his delinquent 2017 personal property taxes until March 15, 2018. Alderwoman Johnson signed Form 5120 on January 14, 2018, stating she did not owe any delinquent taxes. However, she paid her delinquent 2017 personal property taxes on March 21, 2018.

Section 79.250, RSMo, states "No person shall be elected or appointed to any office who shall at the time be in arrears for any unpaid city taxes, or forfeiture or defalcation in office. All officers, except appointed officers, shall be residents of the city." Section 115.306, RSMo, requires that no person may be a qualified candidate if they owe any state income taxes, personal property



City of Miller
Management Advisory Report - State Auditor's Findings

taxes, municipal taxes, or real property taxes on the place of residence, and requires that the candidate file an affidavit declaring they do not currently owe any delinquent taxes with their declaration of candidacy. It also provides that the DOR shall investigate potential candidates upon receipt of complaints alleging such delinquencies.

Procedures to transmit information regarding persons potentially unqualified to run for or hold office to the appropriate authority are necessary to ensure the city and its officers comply with applicable laws.

6.2 Closed meetings

Some issues discussed in closed meetings held from July 1, 2016, through April 30, 2018, were not allowable under the Sunshine Law. For example, the Board discussed the hourly wages and fringe benefits offered to employees and employee raises during 11 of 18 closed meetings held. The majority of these meetings were closed to discuss personnel records/issues under Section 610.021(3), RSMo; however, hourly wages, fringe benefits provided, and raises are not personnel records/issues and should not have been discussed in closed session. Section 610.022, RSMo, provides that the discussion topics and actions in closed meetings should be limited to only those specifically allowed by law as announced publically as the justification for closing the meeting.

Recommendations

The Board of Aldermen:

- 6.1 Seek legal advice and resolve concerns regarding the current Board's qualifications to serve. The Board should establish procedures for handling future situations when the city receives information regarding a person potentially unqualified to run for or hold office, including transmitting this information to the appropriate authority.
- 6.2 Ensure only topics allowed by state law are discussed in closed Board meetings.

Auditee's Response

- 6.1 *We will obtain a legal opinion to resolve concerns regarding the current Board's qualifications to serve. We will have our attorney advise us in adopting policies and procedures for the City Clerk to follow, to ensure those seeking to serve are qualified and able to legally do so.*
- 6.2 *The City Clerk no longer takes closed meeting minutes. We now have our attorney take minutes. During closed Board meetings, we will be sure to only discuss the topics allowed by state law.*

7. Electronic Data Security

Controls over some city computers are not sufficient to prevent unauthorized access, and sufficient plans and processes are not in place for recovering systems and data. As a result, city records are not adequately protected and



City of Miller
Management Advisory Report - State Auditor's Findings

are susceptible to unauthorized access, and the city faces an increased risk of not being able to resume normal business operations timely.

7.1 Passwords

The city has not established adequate password controls to reduce the risk of unauthorized access to computers and data. The City Clerk and the Deputy City Clerk share the same password to access both the accounting and utility systems, the password is not changed periodically for either system, and passwords for the utility system are not required to contain a minimum number of characters.

Passwords are required to authenticate access to computers. The security of computer passwords is dependent upon keeping them confidential. However, since employees share a password that is not periodically changed, and utility system passwords do not require a minimum number of characters, there is less assurance access to computers and data files is limited to only those individuals who need access to perform their job responsibilities. Passwords should be unique, confidential, contain a minimum number of characters, and be changed periodically to reduce the risk of a compromised password and unauthorized access to and use of computers and data.

7.2 Security controls

Security controls are not in place to lock computers after a certain period of inactivity. Inactivity controls are necessary to reduce the risk of unauthorized individuals accessing an unattended computer and having potentially unrestricted access to programs and data files. Without effective security controls, there is an increased risk of unauthorized access to computers and the unauthorized use, modification, or destruction of data.

7.3 Contingency plan and backup data

The city has 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, the city does not periodically test backup data to ensure essential data can be restored.

A formal, written contingency plan should be prepared, and periodically tested and updated as needed to address actions for restoring computer systems should a disaster or other extraordinary situation occur. In addition, periodically testing the backup data helps ensure current data is available to be restored and is complete and reliable.

Recommendations

The Board of Aldermen:

- 7.1 Require confidential passwords for each employee that are periodically changed to prevent unauthorized access to the city's computers and data. Passwords should contain a minimum number of characters.



7.2 Require each computer to have a security control in place to lock it after a certain period of inactivity.

7.3 Develop a formal, written contingency plan that is periodically tested, evaluated, and updated as needed. The Board should also require city personnel test restoration of backup data on a periodic basis.

Auditee's Response

7.1 *Each computer now has a confidential password for each employee. The City Clerk is still working with the utility system vendor to obtain access for multiple users, each with their own confidential password in order to access the system. The Board will determine a time frame the password must be changed (every 90 days). We will ensure passwords contain a minimum number of characters.*

7.2 *We will implement a policy to have all computers lock after a certain period of inactivity. The Mayor and City Clerk have now made changes to their computers so that they lock after a period of inactivity.*

7.3 *We will research and develop a formal, written contingency plan that is periodically tested, evaluated and updated as needed. We currently do save all information on a server, but will inquire where the data is kept, and how to access in the case of a catastrophe. Not less than once per year, we will test and restore the system.*

8. Capital Assets

The city's capital asset records did not include land, buildings, some vehicles, and other personal property and are not updated timely when purchases and dispositions occur. In addition, city personnel do not always tag assets for specific identification or perform annual physical inventories.

Adequate capital asset records and procedures are necessary to provide controls over city property; safeguard city assets that are susceptible to loss, theft, or misuse; and provide a basis for proper financial reporting and insurance coverage.

Recommendation

The Board of Aldermen ensure complete and detailed capital asset records are maintained that include all pertinent information for each asset such as tag number, description, cost, acquisition date, location, and subsequent disposition. The Board should also ensure assets are properly tagged for identification, and annual physical inventories are performed and compared to detailed records.

Auditee's Response

On the spreadsheet we will be creating to track capital assets, we will include the tag number, description, cost, acquisition date, location, and subsequent disposition. We will ensure assets are properly tagged and annual physical inventories are completed.

City of Miller

Organization and Statistical Information

The City of Miller is located in Lawrence County. The city was incorporated in 1915 and is currently a fourth-class city. The city employed 8 full-time employees and 2 part-time employees on June 30, 2017.

City operations include utility services (water, sewer, and trash), fire, police, maintenance of streets, and parks and recreation.

Mayor and Board of Aldermen

The city government consists of a mayor and 4-member board of aldermen. The members are elected for 2-year terms. The mayor is elected for a 2-year term, presides over the board of aldermen, and votes only in the case of a tie. The Mayor and Board of Aldermen, at June 30, 2017, are identified below. The Mayor is paid \$400 per year and the members of the Board of Aldermen are paid \$325 per year. The compensation of these officials is established by ordinance.

Dennis Harris, Mayor¹
Garry Baker, Alderman¹
Amy McClain, Alderwoman¹
Amy Johnson, Alderwoman
Robert Johnson, Alderman

¹ Stacey Daniels, Kerry Johnson, and Allen Campbell replaced Dennis Harris, Garry Baker, and Amy McClain in April 2018.

Other Principle Officials

The City Clerk and Police Chief are appointed positions. The City Attorney is a contracted position. The city's principal officials at June 30, 2017, are identified below:

Donna Beck, City Clerk¹
Melvin Nay, Police Chief ²
William Petrus, City Attorney³

¹ Candace Englund replaced Donna Beck in May 2018.

² Levi Neely replaced Melvin Nay in September 2018.

³ Darlene Parrigon replaced William Petrus in May 2018.

Financial Activity

Appendixes A-D present a summary of the city's financial activity for the year ended June 30, 2017. We obtained this information from the city's audited financial statement report.

CITY OF MILLER, MISSOURI
BALANCE SHEET
(MODIFIED CASH BASIS)
GOVERNMENTAL FUND
JUNE 30, 2017

	<u>General Fund</u>
<u>ASSETS</u>	
Cash and cash equivalents	\$ 259,662
Due from Water/Sewer Fund	<u>82,338</u>
TOTAL ASSETS	<u>\$ 342,000</u>
<u>FUND BALANCES</u>	
Fund Balances -	
Nonspendable	\$ 82,338
Restricted-streets	191,557
Unassigned	<u>68,105</u>
TOTAL FUND BALANCES	<u>\$ 342,000</u>
Reconciliation to Statement of Net Position:	
Total Fund Balances-Total Government Funds	\$ 342,000
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	168,762
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	<u>(90,399)</u>
Net assets of governmental activities	<u>\$ 420,363</u>

CITY OF MILLER, MISSOURI
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
(MODIFIED CASH BASIS)
GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2017

	General Fund
REVENUES	
Taxes:	
Property taxes	\$ 49,877
Franchise taxes	33,732
Sales taxes	143,900
Intergovernmental revenue:	
Missouri motor fuel taxes	27,940
Licenses & permits	1,963
Fines & forfeitures	11,793
Interest	92
Reimbursements	2,930
Grants	2,117
Donations	1,800
Rent	3,375
Miscellaneous	2,037
Total Revenues	281,556
EXPENDITURES	
Current:	
General government	72,461
Police	158,468
Streets	10,518
Fire	20,164
Capital outlay	20,057
Debt service:	
Principal	20,663
Interest	5,719
Total Expenditures	308,050
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	(26,494)
OTHER FINANCING SOURCES (USES)	
Sale of asset	3,182
Expenditures under investigation	(9,403)
Insurance proceeds	14,610
Total Other Financing Sources (Uses)	8,389
NET CHANGE IN FUND BALANCES	(18,105)
FUND BALANCE - BEGINNING	360,105
FUND BALANCE - ENDING	\$ 342,000

CITY OF MILLER, MISSOURI
STATEMENT OF NET POSITION
(MODIFIED CASH BASIS)
PROPRIETARY FUND
JUNE 30, 2017

ASSETS	
Noncurrent Assets:	
Restricted assets-cash-debt reserves	\$ 96,761
Capital assets:	
Land	2,400
Construction in progress	61,851
Other capital assets, net of accumulated depreciation	<u>491,266</u>
TOTAL ASSETS	<u>652,278</u>
LIABILITIES	
Current Liabilities:	
Customer deposits	32,206
Due to General Fund	82,338
Sales tax and primacy fees payable	1,792
Current portion of long-term debt	<u>26,000</u>
Total Current Liabilities	<u>142,336</u>
Noncurrent Liabilities	
Long-term debt - Net of current portion	<u>184,000</u>
Total Noncurrent Liabilities	<u>184,000</u>
TOTAL LIABILITIES	<u>326,336</u>
NET POSITION	
Net investment in capital assets	382,397
Restricted	22,827
Unrestricted (deficit)	<u>(79,282)</u>
TOTAL NET POSITION	<u><u>\$ 325,942</u></u>

CITY OF MILLER, MISSOURI
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION-
(MODIFIED CASH BASIS) PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2017

OPERATING REVENUES:

Charges for Services -Water	\$ 145,141
-Sewer	122,300
Connection charges and miscellaneous income	17,817
Refuse fees	46,658
Total Revenues	<u>331,916</u>

OPERATING EXPENSES:

Depreciation	36,880
Dues and subscriptions	209
Group insurance and benefits	18,317
Insurance	8,338
Lab testing	2,162
Miscellaneous	3,889
Office supplies and postage	2,680
Payroll taxes	5,088
Professional fees	524
Refuse fees	43,094
Repairs & maintenance	29,281
Salaries	108,806
Supplies	5,288
Telephone	1,465
Utilities	26,378
Vehicle expense	1,035
Total Operating Expenses	<u>293,434</u>

OPERATING INCOME38,482**NON-OPERATING REVENUES (EXPENSES):**

Interest expense	(9,962)
Interest income	30
Total Non-Operating Revenues (Expenses)	<u>(9,932)</u>

CHANGE IN NET POSITION

28,550

TOTAL NET POSITION - BEGINNING297,392**TOTAL NET POSITION - ENDING**\$ 325,942