



Thomas A. Schweich

Missouri State Auditor

City of Forsyth

June 2012
Report No. 2012-50



<http://auditor.mo.gov>



Thomas A. Schweich
Missouri State Auditor

CITIZENS SUMMARY

Findings in the audit of the City of Forsyth

Financial Condition	The General Fund balance decreased by 55 percent during the 3 years ended August 31, 2011, and the Board of Aldermen failed to monitor the budget and cash balances. In 2007, the city purchased property to construct a community center with a safe room, but the related bond issue failed and the city has no alternative means to finance this project. The land has not been developed and remains vacant.
Real Estate Purchases	The city spent \$160,000 to purchase property in October 2008, but all it needed was an easement for a road. Moreover, the city did not have a funding source in place to construct the road, and the road has not yet been built. The city rents the house on the property for \$700 per month, but it incurred over \$8,000 in additional expenses to do so. The city financed the purchase even though it had the funds necessary to buy it, and as of October 2011, the city has paid more than \$24,000 in interest costs.
Restricted Revenues	State motor vehicle-related revenues, Police Officer Standards Training (POST) fees, and Law Enforcement Training (LET) fees are deposited into the General Fund, and the city does not track the balance of state motor vehicle related revenues or the revenues and expenditures for POST and LET fees. As a result, the city cannot determine what portion of the General Fund represents restricted street or training monies. Salaries of employees who perform multiple functions are allocated among restricted funds without supporting documentation, and some debt service payments allocated to the Park Fund should be allocated to the utility funds.
Utility Controls and Procedures	The gallons of water pumped exceeded gallons billed by approximately 900,000 gallons (11 percent) in June 2011 and by approximately 2.8 million gallons (28 percent) in August 2011, but no investigation was conducted to determine if these differences were due to unauthorized use or leaks. The city has not performed monthly reconciliations of total amounts billed, payments received, and the amount unpaid for utility services since May 2011, making it more difficult to ensure transactions are properly recorded and errors and discrepancies are detected. The City Clerk and Utility clerk write-off amounts they determine to be uncollectible, and the same Utility Clerk prepares utility bills and authorizes and posts adjustments to customer accounts. Utility deposits for new customers are not reconciled to the deposit payable balance in the general ledger, and the ledger balance is \$2,601 less than the list of utility deposits. The list of deposits was incomplete and inaccurate. The city does not consistently require deposits for vacant rental properties, and the city does not properly assess penalties on delinquent water accounts.
Accounting Controls and Procedures	Receipt slips are not issued for some monies, the method of payment is not always documented for utility payments and park fees, checks are not restrictively endorsed immediately, some fees are not posted to the utility system, and receipts are not always deposited timely and intact. Business licenses are not pre-numbered or reconciled to fees collected and deposited,

and receipt slips are not issued for these monies. The City Clerk does not prepare complete bank reconciliations.

Expenditures	The city did not follow its bid policy for several purchases. The list of bills approved by the Board each month is not complete, and no reconciliation of this list to approved invoices and actual checks written is performed. The Board does not review or approve transfers between restricted funds or transfers between bank accounts. The Fire Chief was paid \$1,158 in additional compensation for responding to fires during the 2011 calendar year with no explanation as to why responding was not within his normal job duties. The City Attorney was paid \$150 per hour for a special project, but city ordinance only authorizes \$100 per hour, and invoices totaling \$2,800 for additional work during fiscal year 2011 did not contain sufficient detail. The city did not maintain adequate supporting documentation for some credit card transactions.
Payroll Controls and Procedures	The city paid the former Police Chief \$12,600 for consulting services in 2011 without timesheets or other supporting documentation. Employee timesheets are not always reviewed or signed by supervisors to ensure accuracy. Compensatory time records maintained by the City Clerk are not accurate, and leave balances were understated by a total 105 hours.
Budgets and Ordinances	City budgets are missing elements required by state law. The Board of Aldermen does not adequately monitor budget to actual revenues and expenditures, and the Water and Sewer Fund expenditures for the year ended August 31, 2011, exceeded budgeted appropriations by \$123,322, despite more than \$130,000 in late budget amendments. The city has not adopted ordinances to establish the specific compensation of the city Prosecuting Attorney and the Municipal Judge as required by state law.

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

American Recovery and Reinvestment Act (Federal Stimulus)	The City of Forsyth did not receive any federal stimulus monies during the audited time period.
---	---

*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.

All reports are available on our website: <http://auditor.mo.gov>

City of Forsyth

Table of Contents

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

Management Advisory Report - State Auditor's Findings	1. Financial Condition	4
	2. Real Estate Purchases	6
	3. Restricted Revenues	7
	4. Utility Controls and Procedures	9
	5. Accounting Controls and Procedures	12
	6. Expenditures	15
	7. Payroll Controls and Procedures	17
	8. Budgets and Ordinances	18

Organization and Statistical Information	21
---	----



THOMAS A. SCHWEICH

Missouri State Auditor

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

The State Auditor was petitioned under Section 29.230, RSMo, to audit the City of Forsyth. 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 August 31, 2011. To minimize duplication of effort, we reviewed the report and substantiating working papers of the CPA firm. The scope of our audit included, but was not necessarily limited to, the year ended August 31, 2011. 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 operations, 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 contract, 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 improvement in management practices and procedures. The accompanying Management Advisory Report presents our findings arising from our audit of the City of Forsyth.

An additional report, No. 2012-15, *Thirty-Eighth Judicial Circuit, City of Forsyth Municipal Division*, was issued in February 2012.



Thomas A. Schweich
State Auditor

The following auditors participated in the preparation of this report:

Deputy State Auditor:	Harry J. Otto, CPA
Director of Audits:	Alice M. Fast, CPA, CIA
Audit Manager:	Pamela Allison Tillery, CPA
In-Charge Auditor:	Natalie B. McNish, CGAP
Audit Staff:	David Olson

City of Forsyth

Management Advisory Report

State Auditor's Findings

1. Financial Condition The General Fund is in poor financial condition, and the Board of Aldermen failed to monitor the budget and cash balances. The General Fund balance decreased by 55 percent during the 3 years ended August 31, 2011.

	Year ended August 31,		
	2011	2010	2009
Beginning fund balance	\$ 164,426	285,764	329,578
Revenues	951,668	882,277	896,370
Expenditures	(1,007,577)	(1,003,615)	(1,100,184)
Other financing sources	40,383	0	160,000
Ending fund balance	\$ 148,900	164,426	285,764

Information was obtained from independent audit reports.

In addition, a significant portion of the remaining General Fund balance is restricted as noted below:

	General Fund
Ending fund balance	\$ 148,900
Restricted park sales tax monies	(13,319)
Due to utility funds	(4,167)
Restricted donation	(61,766)
Restricted proceeds from land sale	(11,000)
Unrestricted ending fund balance	\$ 58,648

In April 2011, the city installed a new accounting system and failed to record \$4,167 due to the utility funds from the General Fund. Also, in 2005, the city received a donation of \$146,000. The city used a large portion of these funds to construct a new fire house, and in July 2007, the Board voted to restrict use of the remaining funds for development of new parks and ball fields (\$61,766). The Board also passed Ordinance No. 433 in August 2010, restricting the proceeds from the sale of park land (\$11,000) to make capital improvements to the new park. In addition, restricted street revenues and police training fees maintained in the General Fund are not properly tracked and the portion of the balance related to these monies is unknown (see MAR finding number 3).

Financial information

While the Board receives a list of bank balances (including restricted balances), a balance sheet, a budget report comparing budgeted expenditures to actual expenditures, and an income statement, the Board is not using the available information to monitor cash balances and the financial condition of city funds. In addition, annual budgets are not accurate, and the Board does not approve all expenditures and transfers of the city (See MAR finding numbers 6 and 8).



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

Property purchase

In 2007, the city spent \$28,500 from the General Fund to purchase property adjacent to City Hall. While the city planned to construct a community center with a safe room, the related bond issue failed, and the city was unable to obtain grant funding for the safe room. The city has no alternative means to finance this project, and the land has not been developed and remains vacant.

It is essential the Board address the financial condition of the General Fund both in the immediate- and long-term future. To improve the financial condition, the Board should review expenditures and reduce spending as much as possible, evaluate controls and management practices to ensure efficient and appropriate use of city resources, and attempt to maximize all sources of revenue. In addition, to effectively monitor the available resources and financial condition of each fund, the city needs complete and accurate financial reports and budgets.

Recommendation

The Board of Aldermen closely monitor and take the necessary steps to improve the financial condition of the General Fund. The Board should perform immediate- and long-term planning and ensure revenues are maximized and expenditures are closely monitored. The Board should also require accurate budgets and lists of expenditures be prepared for its review, and the Board should develop plans for utilization of the property purchased.

Auditee's Response

The Board of Aldermen provided the following written response:

The Board is well aware of the city's financial condition and has been taking steps to improve it. We have established an Enhanced Enterprise Zone to attract new business and encourage existing employers to expand. We have been taking a proactive approach to expenses, reducing them where possible without compromising staff or public safety. We now operate with two fewer staff yet still deliver expected services, albeit at less levels of service than before.

In 2010, the new Mayor and Board saw the negative \$120,000 drain on reserves and immediately took steps to address it. The subsequent year the drain on reserves was only \$16,000. We feel we accomplished much in that year considering the poor state of the economy and other negative factors. This year we predict we will be back in the black, even with the unexpected cost of this audit. We accomplished this through better management of expenses and employed competitive bid processes to lower ongoing costs such as insurance. We continue to monitor expenses and take advantage of grants to bring the General Fund and its reserves back to where it needs to be.



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

The land you mention was purchased in 2007 for possible expansion of city hall. The selling price was very attractive and the only one that would permit the city to expand facilities in the future. We included the land in the community center/safe room grant proposal because it was an owned asset and offered in-kind match opportunities, freeing scarce cash for other expenses.

The Board will continue to make the hard decisions necessary to improve the city's financial condition. The \$4,167 has been transferred from the General Fund to the Water and Sewer Fund.

2. Real Estate Purchases

The city incurred unnecessary costs by purchasing unneeded real estate in October 2008. The city indicated the property was purchased at a cost of \$160,000 to obtain an easement for a future road. However, it is unclear why the city purchased the entire property (including a house) instead of just obtaining the needed easement. In addition, the city did not have a funding source in place to construct the road, and as a result, the road has not been constructed. City officials indicated the plan was to resell the house and remaining property not needed for the easement. In November 2008, the city advertised for bids to sell the remaining property; however, no bids were received. According to the December 15, 2008, meeting minutes, the city placed a "For Sale" sign in the yard, and the Board approved an asking price for the property of \$125,000. When the city was unable to sell the property, the city decided to rent the house. During 2009, the city spent approximately \$2,700 to remodel the house, and in May 2010, the city entered into a rental agreement with an individual for \$700 per month. This rental agreement was renewed in January 2012. The city incurred an additional \$3,085 to replace the furnace in November 2010, approximately \$1,900 for utilities from November 2008 to May 2010, and approximately \$600 for insurance from 2008 to 2011. The city received \$15,400 in rent from June 2010 to February 2012.

It is also unclear why the city entered into the initial loan agreement and continued to extend the loan when the city had adequate resources to purchase the property. In October 2008, the city entered into a loan agreement with a local bank for \$160,000 due in October 2009. The city renewed the loan agreement in October 2009 and again in October 2010. In April 2011, the city made a principal payment totaling \$8,044 and entered into another loan agreement for \$151,956 due in October 2011. In October 2011, the city made a principal payment totaling \$5,000 and entered into another loan agreement for \$146,956 due in October 2012. The interest rate charged on these loans was approximately 5 percent, and the city has incurred interest costs totaling \$24,084 as of October 2011. The city made these principal and interest payments from the Capital Improvement Sales Tax (CIST) Fund, and the CIST fund balances were greater than \$220,000 as of August 31 each year.



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

To ensure efficient and effective use of city resources, projects should be adequately planned including appropriate financing for the projects.

Recommendation

The Board of Aldermen develop plans for the utilization of the property purchased and ensure associated costs are considered. The Board should also better plan future real estate purchases and projects.

Auditee's Response

The Board of Aldermen provided the following written response:

The Board inherited the house issue and also question the soundness of the decision. As you stated, we initially tried to dispose of the asset but the housing market downturn made that action financially unfeasible. We have discussed this issue a number of times since then. The housing market continues to be very soft with high inventory levels in the area. We lease the house to minimize the exposure until the housing market rebounds. We will continue to make principal payments until the obligation is paid in full. We are as anxious as you to relieve ourselves of this asset.

3. Restricted Revenues

The city has not established adequate procedures to ensure restricted monies are expended only for intended purposes, and salaries and other expenditures are properly allocated among funds.

3.1 Tracking and recording restricted revenues

The city is not properly tracking and recording various restricted monies. State motor vehicle-related revenues, and Police Officer Standards Training (POST) and Law Enforcement Training (LET) fees are not accounted for properly. These monies are deposited into the General Fund and while revenues and expenditures are tracked for motor vehicle-related revenues, the balances of these restricted monies are not. The city does not track the revenues and expenditures for POST and LET fees. As a result, the city cannot determine at a point in time what portion of the General Fund represents restricted street or training monies.

Article IV, Section 30, Missouri Constitution, requires motor vehicle-related revenues apportioned by the state of Missouri be expended for street related purposes only. Section 488.5336.2, RSMo, requires POST and LET fees be used only for the training of law enforcement officers.

3.2 Allocation of salaries and expenditures

Documentation does not exist to support the allocation of some expenditures to city funds.

- Salaries of employees who perform multiple functions are allocated among restricted funds, and no documented calculation or tracking of time has been completed to justify these allocations. During the year ended August 31, 2011, the salaries and benefits of all police department employees, the City Clerk, and the Building Inspector were



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

allocated 85 percent to the General Fund and 15 percent to the Park Fund.

According to the Police Chief, during the summer months a full-time officer is assigned to the park areas; however, during the winter months only periodic patrols of the park areas are conducted. Also, while the City Clerk has many duties related to the utility department, her salary was not allocated to these funds. Additionally, the Building Inspector indicated he performs no duties related to the operation of city parks. Further, while the Utility Clerk/Court Clerk and Assistant City Clerk salaries were allocated entirely to the utility funds, both clerks perform duties related to the general operation of the city, and the Assistant City Clerk performs some duties related to the park.

- The city had no documentation to support the allocation of some debt service payments. Currently, the city allocates all debt service payments to the Park Fund; however, the debt payments are associated with property purchased in 2003 costing \$860,000, which was used as a park and for water and sewer facilities. City records indicate the cost of the park property was \$400,000 and the cost of the water and sewer facilities property was \$460,000. In 2005, the city sold the water facility property for \$345,000 and used the proceeds from the sale to pay a portion of the debt. However, a portion of the remaining debt is associated to the sewer facility property and should be properly allocated to the utility funds.

To ensure restricted funds are used for intended purposes, the city should allocate expenditures to city funds based on specific criteria, such as the number of hours worked by each employee and the portion of debt incurred related to restricted assets, and retain documentation to support these allocations.

Recommendations

The Board of Aldermen:

- 3.1 Determine the amount of restricted monies in the General Fund and establish separate funds or a separate accounting of these monies as required by state law.
- 3.2 Ensure salaries and other expenditures are properly allocated to the applicable city funds and allocations are supported by adequate documentation.

Auditee's Response

The Board of Aldermen provided the following written responses:

- 3.1 *Training in the law enforcement budget is all POST certified. The officers receive continuing education credits for this training. There*



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

is a separate street department within the General Fund budget. As we fully implement our computer system, we will have the controls necessary to better manage restricted funds. Expenditure accounts for all restricted funds will be established to track restricted street and training monies.

3.2 *We are currently monitoring the amount of staff time spent in the different areas. Our preliminary assessment of park shows that overall the amount charged is appropriate, but individual allocations need to be adjusted. For example, only one FTE is charged from public works, yet just over 2 FTEs are needed to maintain the park. Police charges .9 FTEs with about .5 to .6 being spent. We will continue to fine-tune the allocations to ensure they reflect actual time spent.*

We have considered your suggestion on the debt service allocation on the Shoals Bend Property. This agreement was entered in 2003 and only has 4 years remaining. Rather than change practice at this late date, we choose to finish out the remaining 4 years on the same basis.

4. Utility Controls and Procedures

Significant weaknesses were identified in control procedures related to the utility system. As a result of these weaknesses, there is less assurance all utility monies are accounted for properly, and utility user charges are set at the appropriate level to cover the cost of providing the related services. Per the independent audit report, the utility system operating revenues totaled over \$700,000 for the year ended August 31, 2011.

4.1 Water usage

The city does not typically reconcile gallons of water billed to customers to gallons of water pumped each month, and significant differences are not investigated. In addition, city water usage is not tracked, and without this information the city cannot properly perform the reconciliation. During the year ended August 31, 2011, the city only performed reconciliations for the months of June and August. Water pumped exceeded water billed by approximately 900,000 gallons (11 percent) and 2.8 million gallons (28 percent) during June and August 2011, respectively. As a result of not investigating these differences, unauthorized use could occur and not be billed and leaks may go undetected.

Tracking city water usage and investigating significant differences between water billed and water pumped is necessary to help detect significant water loss on a timely basis and ensure water usage is properly billed. According



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

to the U.S. Environmental Protection Agency, the water industry goal for unaccounted for water is 10 percent or less.¹

4.2 Reconciliations

The city has not performed monthly reconciliations of total amounts billed, payments received, and the amount unpaid for utility services since the implementation of the new utility and accounting system in May 2011. Monthly reconciliations are necessary to ensure accounting records balance, transactions are properly recorded, and errors or discrepancies are detected on a timely basis.

4.3 Adjustments

Independent approval is not obtained and documented for adjustments posted to the utility system, and the justification and reasons for the adjustments are not adequately documented. The City Clerk and Utility Clerk review amounts due each year and write off account balances determined uncollectible. In addition, adjustments to utility customer accounts are authorized by the Utility Clerk, who also prepares utility bills and posts adjustments to utility accounts. Utility adjustments (including write offs) for the year ended August 31, 2011, totaled \$11,402.

Proper authorization and adequate documentation, which fully explain the reason for adjustments to customer accounts, are necessary to ensure only the proper accounts and amounts are adjusted and to reduce the risk of theft, loss, or misuse of funds.

4.4 Utility deposits

Controls and procedures over utility deposits need improvement. New customers are required by Ordinance No. 381 to pay a refundable deposit before receiving utility service. Deposits are to be refunded after utility service is terminated by the customer and the balance due has been paid in full or applied to accounts with balances due.

- Utility deposits posted to customer accounts in the utility system are not reconciled to the deposit payable balance in the general ledger. As of October 31, 2011, the list of utility deposits from the utility system totaled \$51,533 and the deposit payable balance in the general ledger totaled \$48,932, resulting in a difference of \$2,601.
- The list of utility deposits from the utility system was incomplete and inaccurate. At least seven utility deposits totaling \$310 were not posted to the utility system, and 52 deposits totaling \$2,510 had already been refunded, but were not removed from the utility system.
- Deposits totaling at least \$3,945 were held on 105 accounts no longer receiving utility services. Of these deposits, 92 totaling \$3,245 should

¹ <http://www.epa.gov/watersense/pubs/utilities.html>, Last updated on Monday, October 10, 2011.



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

be refunded and 13 totaling \$700 should be applied to outstanding account balances.

- The city does not consistently require deposits from owners of rental properties when the rental property is vacant, but utility services are still used. For example, an owner of several rental properties had eight accounts in which the properties were vacant, but only two deposits were on file and those deposits were applied to other accounts in which a tenant had also provided a deposit.

Monthly reconciliations of the list of utility deposits to the utility deposit payable balance are necessary to ensure deposits are properly recorded in both the customer accounts and the general ledger. Any discrepancies should be promptly investigated and resolved. To comply with city ordinance, the city should ensure deposits are refunded or applied to accounts no longer receiving utility services. To ensure deposits on rental properties are handled consistently, the city should require deposits for all active accounts.

4.5 Delinquent accounts

Penalties are not properly assessed on delinquent water accounts. City Ordinance No. 238 states any payment not received by the 20th day of the month after the water billing is delinquent. A late penalty of 5 percent of the bill is to be added to each delinquent bill; however, this penalty was not charged.

Recommendations

The Board of Aldermen:

- 4.1 Investigate significant differences between gallons of water pumped and gallons of water billed and track city usage on a monthly basis.
- 4.2 Ensure monthly reconciliations of amounts billed to amounts collected and delinquent accounts are performed. In addition, the Board should ensure adequate documentation to support reconciliations is retained.
- 4.3 Require an independent review and approval of all utility system adjustments and ensure adequate documentation is retained to support such adjustments.
- 4.4 Ensure a complete list of utility deposits is prepared monthly and reconciled to the utility deposit payable balance. Any discrepancies should be investigated and resolved. The Board should also ensure deposits are refunded or applied to balances due in accordance with city ordinance and require deposits for all active accounts.



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

4.5 Ensure penalties are assessed on delinquent water accounts in accordance with city ordinance.

Auditee's Response

The Board of Aldermen provided the following written responses:

4.1 *The meters at city-owned properties are now being read monthly and water loss is monitored on a monthly schedule.*

4.2 *The city has instituted a new reconciliation procedure to correct this problem.*

4.3 *A request form for all adjustments has been developed which requires the signature of the person making the request. This is reviewed by a supervisor for recommendations and forwarded to the Mayor and the Board of Aldermen for approval.*

4.4 *When the old system was converted to the new system, it was noted by staff that numerous water deposits needed to be applied to final bills or refunded. This issue is being worked with old deposits being returned or where necessary, sent to State Unclaimed Property. Deposits are monitored monthly. The new software system applies the deposit to the account and refunds the balance when the account is closed.*

4.5 *An ordinance was revised earlier in the year. The new computer billing system has now been implemented so penalties are applied to appropriate accounts.*

5. Accounting Controls and Procedures

Accounting controls and procedures need improvement.

5.1 Receipting, posting, and depositing procedures

We noted the following areas of concern related to receipting, posting, and depositing:

- Receipt slips are not issued for some monies received at city hall.
- The method of payment and actual amount received is not always documented on utility stubs used to receipt utility payments.
- The method of payment is not documented on receipt slips issued by the park attendant for park fees.
- Checks are not always restrictively endorsed upon receipt.



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

- Utility shutoff, turn on, and certified mail fees charged and collected by the city are not recorded in /posted to the utility system.
- Receipts are not always deposited timely and intact. A cash count performed on November 1, 2011, revealed 15 water deposits received between October 12, 2011, and October 31, 2011, totaling \$750 were not deposited until November 3, 2011. In addition, city officials often cash city checks from utility collections. For example, a \$250 city check was cashed from utility collections on June 28, 2011. City officials indicated the cash was used as prize money for a barbeque cook off sponsored by the Chamber of Commerce. Several other instances were noted where city checks were cashed from utility receipts.

Failure to implement adequate receipting, posting, and depositing procedures increases the risk that loss or misuse of monies received will go undetected.

5.2 Business licenses

Business licenses (including liquor licenses) are not prenumbered, receipt slips are not issued for these monies, and there is no procedure to reconcile business licenses issued to fees collected and amounts deposited. To ensure fees for all licenses are properly collected, recorded, and deposited, the licenses should be prenumbered and the numerical sequence accounted for properly. Licenses issued should be periodically compared to fees recorded and deposited.

5.3 Bank reconciliations

The City Clerk does not prepare complete bank reconciliations. While the City Clerk denotes deposits in transit and outstanding checks for each account, a comparison of the reconciled bank balance to the book balance in the general ledger is not performed, and the bank reconciliations contained some errors.

- At August 31, 2011, the reconciled bank balance for the General Fund checking account was \$104 short of the book balance recorded on the general ledger. In addition, the bank reconciliation for August 2011 listed a \$20 check as outstanding, but the check had already cleared the bank on June 28, 2011. No explanation for the remaining \$84 shortage was determined.
- Bank balances for two certificates of deposit were not compared to the book balances in the general ledger, and as a result, interest earned totaling \$1,248 had not been recorded in the accounting records as of August 31, 2011.

Reconciled bank balances should be compared to book balances monthly, and any differences should be investigated and corrected on a timely basis to ensure the accuracy of cash and liability balances.



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

Recommendations

The Board of Aldermen:

- 5.1 Require receipt slips or utility stubs, documenting the actual amount paid and method of payment, be issued for all monies received. The Board should also ensure checks are restrictively endorsed immediately upon receipt, ensure all charges and payments related to the utility turn on/off process are posted to the utility system, and deposit all monies intact and in a timely manner.
- 5.2 Issue prenumbered business licenses, account for the numerical sequence, and reconcile licenses issued to fees recorded and deposited.
- 5.3 Prepare complete bank reconciliations for all bank accounts and resolve any differences in a timely manner.

Auditee's Response

The Board of Aldermen provided the following written responses:

- 5.1 *The city has acquired receipting software with the new computer system and it will be implemented in the June/July timeframe. We will give priority to its implementation. The current process calls for the utility stub to be stamped "Paid" otherwise a receipt is issued where the stub is not available. A notation on all subs is made by city staff indicating the amount paid, the method of payment, and the person receiving the payment. Checks are now restrictively endorsed at time of receipt with a policy of no exceptions. A procedure has been devised and implemented in the new computer system to record and post all fees into the utility system. Water deposits are deposited daily and entered into the utility system. There were date-related timing issues in the old system that have been resolved in the new system. Checks are no longer cashed from on-hand cash. The new policy is to cash them at the bank.*
- 5.2 *The new billing system for merchant licenses automatically numbers and records them. We will work with the software vendor to ensure a reconciliation process is in place. This software will be fully implemented on May 24th.*
- 5.3 *The City Clerk and Deputy City Clerk reconcile accounts monthly and address discrepancies. During the changeover to the new software system, some errors were made which have been subsequently corrected. Bank balances to book balances are being closely monitored and any differences resolved monthly. A schedule to check interest income from all of the city's certificates of deposit are checked quarterly and an entry made for interest earned.*



6. Expenditures

Weaknesses were noted in controls and procedures over expenditures.

6.1 Bidding

The city bid policy was not followed for several purchases. The city has a procurement policy, which requires city officials to advertise and solicit written bids for items or services costing more than \$2,500, and solicit quotes for items or services costing more than \$1,000 but less than \$2,500.

Bids were not solicited for the purchase of trash and recycling services (\$200,896), a sewer water sampler (\$4,505), and park paint (\$3,843). Additionally, while city officials indicated verbal quotes were obtained for bulk fuel (\$42,253) and road salt (\$2,205), documentation of the quotes was not retained. Also, according to city officials, the purchase of a sewer pump (\$44,675) was a sole source purchase; however, this was not documented.

Documentation of the selection process and criteria, including sole source procurement, should be retained to support purchasing decisions. Competitive bidding not only ensures the city is complying with city policy, but also helps ensure all parties are given an equal opportunity to participate in city business. Complete documentation should be maintained of all bids and proposals received including the reasons why a bid or proposal was selected.

6.2 Approval process

The approval process for expenditures and transfers is not adequate.

- The list of bills approved by the Board each month is not complete, and a comparison of this list to approved invoices and the actual checks written is not performed. The list of bills approved by the Board each meeting does not include payroll. In addition, non-payroll expenditures are sometimes not included on the lists, or amounts listed are not accurate. For example, the list of bills for December 2010, did not include non-payroll expenditures totaling \$74,516.
- The Board does not review or approve transfers between restricted funds or transfers between bank accounts. During the year ended August 31, 2011, the City Clerk made 53 transfers totaling \$811,345 without Board approval.

To ensure expenditures and transfers are appropriate, the Board should conduct an adequate review of the list of bills, invoices, and checks written, prior to checks being issued, and develop policies and procedures to review and approve transfers.

6.3 Fire call pay

The Fire Chief was paid additional compensation, totaling \$1,158, for responding to fire calls during the year ended December 31, 2011. It is unclear how responding to fire calls is not within the normal job duties of



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

the Fire Chief. In addition, an independent review and approval of fire call payments to the Fire Chief is not performed and documented.

At the end of each month, the Fire Chief prepares a worksheet from the incident reports to document how much should be paid to each volunteer and himself for responding to fire calls. The payments to the Fire Chief were in addition to the his normal salary.

City ordinance No. 248 indicates the duties of the fire chief include organizing, coordinating, and directing the use of manpower and equipment at the scene of a fire.

6.4 City Attorney payments

The City Attorney was not paid in accordance with city ordinance, and invoices did not provide adequate detail. City Ordinance No. 354 provides for the City Attorney to be paid a retainer of \$300 per month and \$100 per hour for special meetings or projects; however, according to one invoice reviewed, the City Attorney was paid \$150 per hour for a special project. Invoices for additional work totaling \$2,800 during the year ended August 31, 2011, only included the date the service was provided and the total amount requested. Additional detail including the work performed (special projects or meetings) and the number of hours worked was not provided. Detailed invoices should be obtained to support services provided and payments made, and to ensure compliance with city ordinances.

6.5 Supporting documentation

Adequate supporting documentation was not maintained for some credit card transactions. Our review of credit card purchases for the month of March 2011 totaling \$1,028, identified nine transactions totaling \$620 which did not have adequate supporting documentation. These transactions included lodging, food, tools, and training expenses. The city expended over \$7,000 through credit cards during the year ended August 31, 2011.

To ensure all charges to the city credit cards are proper, detailed supporting documentation, such as itemized receipts and vendor invoices, should be maintained for all transactions and reconciled to billing statements.

Recommendations

The Board of Aldermen:

- 6.1 Ensure bids are solicited for all applicable purchases in accordance with city ordinances and sufficient documentation is maintained.
- 6.2 Ensure the list of bills provided for approval at monthly meetings is complete, and establish adequate review and approval procedures for transfers.
- 6.3 Compensate the Fire Chief in compliance with city ordinance.



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

- 6.4 Ensure amounts paid to the City Attorney are in compliance with city ordinance, and require adequately detailed invoices for legal services provided.
- 6.5 Require adequate supporting documentation be obtained and reconciled to credit card billing statements.

Auditee's Response

The Board of Aldermen provided the following written responses:

- 6.1 *Documentation requirements have been strengthened. The trash removal contract had originally gone out to bid. The contract included extension options which the Board chose to exercise only after negotiating additional concessions from the vendor. The salt was acquired after Taney County was called for their supplier and price. On verbal quotes, we will better document them in the future.*
- 6.2 *A complete list of bills to be paid and transfers between funds is now presented to the Mayor and Board of Aldermen for approval.*
- 6.3 *The auditor is correct. The Fire Chief has been instructed to no longer take fire-call pay. Fire call payments are now reviewed and approved by the Mayor prior to payment, and a list is provided to the Board of Aldermen.*
- 6.4 *The city ordinance has been amended and detailed invoices will be required prior to payment for extra services.*
- 6.5 *Supporting documentation is now a requirement for all city credit cards.*

7. Payroll Controls and Procedures

Controls and procedures over timesheets and compensatory time and records need improvement.

7.1 Timesheets

During 2011, the city paid the former Police Chief \$12,600 for consulting work; however, timesheets or other supporting documentation was not required to support these payments. In addition, timesheets were not signed by some employees and were not always reviewed or signed by supervisors to ensure accuracy.

In April 2011, the city signed an employment contract with the former Police Chief for consulting services not to exceed 20 hours per week in exchange for \$1,800 per month during the period June through December 2011.



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

Timesheets or other supporting documentation are necessary to document hours worked, substantiate payroll expenditures, and ensure compliance with contract provisions. In addition, timesheets should be reviewed and signed by the employee and the employee's supervisor to indicate their agreement to the actual time reported each month and to ensure the accuracy of time worked and leave taken.

7.2 Compensatory time records

Compensatory time records maintained by the City Clerk are not correct. Compensatory time accrued and taken is tracked and reviewed by each department and sent to the City Clerk's office for payment. However, this compensatory information is not always entered into the computerized payroll records. As a result, the computerized payroll records maintained by the City Clerk's office understated compensatory leave balances totaling 105 hours for at least nine employees as of December 15, 2011. Balances should be properly maintained and monitored to ensure employees are properly compensated.

Recommendations

The Board of Aldermen:

- 7.1 Require timesheets or other supporting documentation to support consulting payments, and ensure timesheets are signed by the employee and their supervisor and adequate reviews of timesheets are performed.
- 7.2 Ensure compensatory time records of city employees are accurate.

Auditee's Response

The Board of Aldermen provided the following written responses:

- 7.1 *All consulting work will be documented prior to payment. The city has implemented this recommendation with all employees and supervisors reviewing and signing employee time cards. The Mayor currently reviews and signs all supervisor and direct report time cards.*
- 7.2 *Compensatory time has been updated in the new computer system. We will reconcile payroll and leave records quarterly.*

8. Budgets and Ordinances

The city does not comply with state law regarding budgets, and improvement is needed in city ordinances.

8.1 Budgets

City budgets do not comply with state law. The budgets do not include a budget message or a budget summary, the actual beginning and ending and estimated ending fund balances, actual revenues and expenditures for the 2 preceding years, and city indebtedness.



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

Sections 67.010 to 67.040, RSMo, set specific guidelines for the format of the annual operating budget. A complete and well planned budget, in addition to meeting statutory requirements, can serve as a useful management tool by establishing specific financial expectations for each area of city operations and provides a means to effectively monitor actual costs and revenues.

8.2 Budget monitoring

The Board of Aldermen does not adequately monitor budget to actual revenues and expenditures. As a result, budget amendments for some city funds were approved just before year end, and the city exceeded budgeted appropriations for the Water and Sewer Fund.

On July 18, 2011, after expenditures had already exceeded budgeted amounts, the Board of Aldermen amended the budget to increase expenditures by \$130,289 for the year ended August 31, 2011. In addition, even with the inclusions of these late budget amendments, expenditures exceeded budgeted appropriations for the Water and Sewer Fund for the year ended August 31, 2011, by \$123,322.

Section 67.040, RSMo, requires political subdivisions to keep expenditures within amounts budgeted and allows for budget increases, after 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. To ensure compliance with state law, the Board should properly monitor actual expenditures compared to budgeted amounts and formally amend the budgets before the related expenditures are incurred.

8.3 Ordinances

The city has not adopted ordinances to establish the compensation of some city officials. Ordinances have not been adopted addressing the specific compensation of the city prosecuting attorney and the municipal judge. Sections 79.270 and 79.290. RSMo, require the Board of Aldermen to fix the salaries of all city officials and employees by ordinance.

Recommendations

The Board of Aldermen:

- 8.1 Ensure budgets comply with state law.
- 8.2 Properly monitor actual expenditures compared to budgeted amounts and ensure expenditures do not exceed budgeted appropriations.
- 8.3 Establish the compensation of all city officials by ordinance.



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

Auditee's Response

The Board of Aldermen provided the following written responses:

- 8.1 *We are already working on the budget for the next year and a budget message and summary will be prepared and communicated with this and all future budgets.*
- 8.2 *The Board will monitor budgets more closely. We will ensure expenses do not exceed budgeted appropriations.*
- 8.3 *Ordinance 454 has been passed setting the compensation for the City Attorney, Prosecutor, and Municipal Judge. Each year's budget will outline the compensation for each of the city's employees.*

City of Forsyth

Organization and Statistical Information

The City of Forsyth is located in Taney County. The city was incorporated in 1928 and is currently a fourth-class city. The city employed 19 full-time employees on August 31, 2011.

City operations include fire services, law enforcement services, utilities (water, sewer, and trash), street maintenance, building inspections, and park services.

Mayor and Board of Aldermen

The city government consists of a mayor and four-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 August 31, 2011, are identified below. The Mayor and members of the Board of Aldermen were not compensated during the year ended August 31, 2011.

Ronald Potter, Mayor
Missi Smith Hesketh, Alderwoman
Jack Baker, Alderman
Cheryl Altis, Alderwoman
Mike Chipman, Alderman

American Recovery and Reinvestment Act 2009 (Federal Stimulus)

The City of Forsyth did not receive any federal stimulus monies during the year ended August 31, 2011.