

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

**Nicole Galloway, CPA**

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**Missouri State Auditor**

**FOLLOW-UP REPORT ON AUDIT FINDINGS**

**City of Miller**

Report No. 2019-111

November 2019

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

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# City of Miller

## Follow-Up Report on Audit Findings

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\*Includes selected findings



## NICOLE GALLOWAY, CPA Missouri State Auditor

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

We have conducted follow-up work on certain audit report findings contained in Report No. 2019-035, *City of Miller* (rated as Poor), issued in May 2019, pursuant to the Auditor's Follow-Up Team to Effect Recommendations (AFTER) program. The objectives of the AFTER program are to:

1. Identify audit report findings for which follow up is considered necessary, and inform the city about the follow-up review on those findings.
2. Identify and provide status information for each recommendation reviewed. The status of each recommendation reviewed will be one of the following:
  - Implemented: Auditee fully implemented the recommendation, either as described in the report or in a manner that resolved the underlying issue.
  - In Progress: Auditee has specific plans to begin, or has begun, to implement and intends to fully implement the recommendation.
  - Partially Implemented: Auditee implemented the recommendation in part, but is not making efforts to fully implement it.
  - Not Implemented: Auditee has not implemented the recommendation and has no specific plans to implement the recommendation.

As part of the AFTER work conducted, we reviewed documentation provided by city officials and held discussion with city officials to verify the status of implementation for the recommendations. Documentation provided by the city included minutes of meetings, financial records, and other pertinent documents. This report is a summary of the results of this follow-up work, which was substantially completed during October 2019.

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

Nicole R. Galloway, CPA  
State Auditor

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# City of Miller

## Follow-Up Report on Audit Findings

### Status of Findings

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1. Utilities	There were significant weaknesses in the city's utility operations.
1.1 Financial condition	<p>Despite a water and sewer rate increase in February 2016, water and sewer rates charged were not sufficient to pay for the costs of services provided. As a result, the city was using the General Fund to subsidize the Proprietary Fund to avoid a deficit cash balance in that fund. The Proprietary Fund cash balance was not sufficient to refund customer utility deposits also maintained in the fund.</p> <p>In addition, despite a sewer rate study obtained in July 2017 recommending a significant rate increase, the Board of Aldermen did not approve an increase in the rate structure at that time. The Board subsequently approved a water and sewer rate increase to take effect in September 2018. However, the Board did not set the sewer rates at the amounts recommended in the study, and did not obtain a water rate study.</p>
Recommendation	The Board of Aldermen 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.
Status	<b>Implemented</b>  The Board obtained water and sewer rate studies in August 2019, which recommended utility rate increases. The Board passed ordinances in October 2019, increasing water and sewer rates as recommended.
1.2 Compliance with Missouri Clean Water Law	The city repeatedly violated the Missouri Clean Water Law and city officials had not taken sufficient corrective action to correct sewer treatment facility issues.
Recommendation	The Board of Aldermen bring the sewer treatment facility into compliance with the Missouri Clean Water Law.
Status	<b>In Progress</b>  The Maintenance Supervisor indicated the city continues to be non-compliant with E. coli and ammonia discharge limits. However, the city entered into a contract for improvements to the wastewater system in November 2018, and work on the wastewater system project began at that time. The Maintenance Supervisor indicated the city will not likely be compliant until the project is completed in May 2021.
1.3 Utility reconciliations	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 was not tracked for city buildings. Also, the



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

**Recommendation**

The Board of Aldermen 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.

**Status**

**Not Implemented**

The September 2019 monthly reconciliation of gallons of water pumped to gallons billed indicated more than 2 million gallons of water was lost resulting in a water loss rate of approximately 60 percent. An investigation of the significant differences was not performed/documented. The Mayor indicated a bond issue for water/wastewater upgrades was passed in April 2019, and the Board hopes to fix the water leaks and improve the water system with the money generated from the bond issue. The Mayor also indicated the Board plans to start tracking water usage for city buildings. A reconciliation of amounts billed to amounts collected and delinquent accounts is still not being performed.

**1.4 Delinquent utility accounts**

The former City Clerk and the Board were not proactive in following up on utility accounts receivable. Also, the former City Clerk allowed 2 customers with significant utility account balances to make partial payments on their accounts for 3 to 4 years without Board approval, and the city did not have a written policy authorizing partial payments. In addition, the former City Clerk failed to follow city code for disconnection for these 2 accounts. The current City Clerk did not turn over all past due utility accounts to the collection agency.

**Recommendation**

The Board of Aldermen 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.

**Status**

**In Progress**

As of October 28, 2019, the city had 5 utility accounts receivable balances delinquent for over 90 days totaling \$1,160. The Board approved writing off 16 of the previous 17 utility accounts totaling \$26,375 as bad debts. The Mayor indicated none of the customers listed on the October 2019 delinquent list have been turned over to a collection agency, but 6 of the 22 accounts delinquent for 30 days or longer had their utilities disconnected. The remaining 16 accounts had not been disconnected in accordance with city code.



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2.1 Payroll Controls and Procedures - Timesheets and leave records

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

Recommendation

The Board of Aldermen ensure timesheets are accurate, properly signed and approved, and employee leave balances are properly tracked and monitored.

Status

**In Progress**

The city implemented an electronic timecard system and now uses timecards instead of timesheets. Timecards reviewed for September 2019 were still not signed by the employee, but were initialed by the employee's supervisor. The Mayor indicated employees will be required to sign their timecards in the future. All overtime hours worked in September 2019 were reported on the maintenance employees timecards. The payroll system now tracks vacation and sick time earned, used, and any remaining balances. The City Clerk is now maintaining a spreadsheet to track compensatory time.

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2.2 Payroll Controls and Procedures - Salary payments

Employees estimated hours worked for some days on their timesheets because some payroll payments occurred prior to the end of the pay period, and documentation was not available to indicate a comparison was performed between actual hours worked to the reported estimated hours. As a result, full-time employees were sometimes paid in advance for their services.

Recommendation

The Board of Aldermen discontinue compensating full-time employees in advance of receiving services.

Status

**Implemented**

The Mayor indicated employees are no longer paid in advance. Time worked and reported on timecards submitted on Friday are not paid until the following Friday.

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2.3 Payroll Controls and Procedures - Personnel policies

Some city employees were paid for overtime in violation of city policy, and nonworking time (vacation and sick leave, compensatory time, and holidays) was included in total hours worked when determining the amount of overtime earned by employees, which was not required by the Fair Labor Standards Act. In addition, the city's personnel policy did not address the hours to include when determining the number of overtime hours. Also, the policy did not address employment of related individuals.

Recommendation

The Board of Aldermen ensure compliance with personnel policies, and review and update the personnel policies, as necessary.



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**Status**

**In Progress**

The Board amended the employee handbook in April 2019 and it indicates employees will accrue compensatory time at time and a half for overtime hours worked and provides for compensatory time earned to be used within one calendar year from the date accrued. However, nonworking time continues to be included in total hours worked when determining the amount of overtime earned by employees. The Mayor indicated the Board will immediately discontinue using nonworking time in the calculation of overtime earned. The employee handbook was also amended to address the employment and supervision of related employees.

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**3.1 Accounting Controls and Procedures - Segregation of duties**

The Board had 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.

**Recommendation**

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

**Status**

**Not Implemented**

The Mayor indicated the Board and city has experienced significant turnover since May 2019, with 2 of 4 Board members and the City Clerk resigning. As a result, the Board has not been able to establish segregation of duties or supervisory reviews over financial accounting functions. However, a Board member indicated she plans to perform a supervisory review of accounting records in the future.

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**3.2 Accounting Controls and Procedures - Receipting, recording, and depositing**

The City Clerk did not account for the numerical sequence of electronic utility receipt numbers. Utility payments received were not recorded in the computerized utility system at the time of receipt. Checks received were not restrictively endorsed immediately upon receipt, and the former City Clerk did not deposit receipts timely or intact.

**Recommendation**

The Board of Aldermen 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.

**Status**

**Partially Implemented**

Our review of accounting records for September and October 2019, indicated the City Clerk is still not accounting for the numerical sequence of electronic utility receipts numbers or depositing receipts intact. The City Clerk now records utility payments received in the computerized utility system at the



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time of receipt, restrictively endorsing checks immediately upon receipt, and makes deposits more timely.

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4.1 Restricted Funds and  
Disbursements -  
Restricted revenues

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

Recommendation

The Board of Aldermen ensure restricted monies are accounted for in the appropriate fund or category and establish separate funds or a separate accounting of Law Enforcement Training (LET) and Police Officer Standards Training (POST) fees.

Status

**Implemented**

In October 2019, the city transferred \$7,397 for 1/2-cent street sales tax receipts originally recorded in the police department category during the period July through September 2019 to the street category within the General Fund. According to city accounting records during the period of July through September 2019, all payments received for trash services and all related disbursements were recorded in the trash category. The accounting records of the city do not separately track LET and POST fees. However, the Mayor indicated the city has not employed any police officers since February 2019. Therefore, the city did not receive LET or POST fees during the period July through September 2019.

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4.2 Restricted Funds and  
Disbursements -  
Allocation

The city had not established adequate procedures to ensure disbursements were properly allocated or expended only for intended purposes. Several employees performed tasks related to multiple city functions, but the city had no documentation to justify the allocation of salaries to the various categories in the General and Proprietary Funds. Some other disbursements and/or allocations were also not adequately supported.

Recommendation

The Board of Aldermen ensure costs are allocated to the appropriate funds, and supported by adequate documentation, which is retained.

Status

**Partially Implemented**

Accounting records for the period of July through September 2019 indicated the City Clerk's wages were allocated to the general category, the wages of 2 maintenance employees were allocated 45 percent to the water category, 45 percent to the sewer category, and 10 percent to the street category, and the cost of uniforms for maintenance employees were allocated 50 percent to the water category and 50 percent to the sewer category. However, the city had no documentation to justify the allocation of salaries or uniform costs to these categories. The Mayor indicated the Board plans to require maintenance employees to complete daily activity logs in the spring of 2020 to justify the





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allocation of their salaries and uniforms, but plans to continue to allocate the City's Clerk's wages to the general category until the financial condition of the water and sewer categories improve.

The city's annual financial statement audit for the year ended June 30, 2019, has not been completed; therefore, audit costs have not been paid or allocated. The cost of utilities for the period July through September 2019, were appropriately allocated based on each utility location to the fire, general, police department, sewer, street, and water categories.

4.3 Restricted Funds and  
Disbursements -  
Procurement procedures

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

Recommendation

The Board of Aldermen 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.

Status

**In Progress**

The Mayor indicated fuel is being purchased at the only gas station in town, bulk fuel is no longer purchased, and stipends are provided to employees for health insurance; therefore, bids are not needed on these items. Property and liability insurance was obtained in accordance with Section 537.620, RSMo. The Board solicited proposals for auditing and attorney/legal services and the Municipal Judge position; however, the Mayor indicated proposals were not solicited for banking services. The Mayor indicated bids will be solicited for banking services in the future, as necessary.

4.4 Restricted Funds and  
Disbursements - Credit  
cards

Fifty-nine purchases of items and services made with the city's 2 credit cards did not have supporting documentation, and an independent review of purchases made on these cards was not performed.

Recommendation

The Board of Aldermen require documentation be maintained and reconciled to credit card billing statements, and purchases be approved by someone other than the cardholder.

Status

**Implemented**

The city maintained supporting documentation for all credit card purchases included on the September 2019 credit card statement, and the Board performed an independent review of the transactions.



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5.1 Budgets and Published  
Financial Statements -  
Budgets

The city's budgets did not contain all statutorily required elements and were not accurate, and budgeted and actual receipts and disbursements included on the budget summary page did not agree to the individual fund's budgets. In addition, the Board budgeted a deficit cash balance in the Proprietary Fund, and did not adequately monitor budget-to-actual receipts and disbursements. Also, the Board voted 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 the time, and an amended budget document was not prepared to support the amendment.

Recommendation

The Board of Aldermen 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.

Status

**Partially Implemented**

A budget message was not prepared for the year ended June 30, 2019, budget, but was prepared for the year ending June 30, 2020, budget. A formal budget document was not prepared for the year ended June 30, 2019, or the year ending June 30, 2020, that included the actual beginning and estimated ending cash balances or actual receipts and disbursements for the 2 preceding years. Without beginning and ending cash balances, city officials cannot determine if they are deficit budgeting. The city maintains a profit and loss statement from its accounting system, which reports budget to actual amounts for the current year and is used by the Board to help monitor spending. The profit and loss statement for the year ended June 30, 2019, showed actual disbursements exceeded budget disbursements by approximately \$59,000 and a formal amended budget document was not prepared.

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6. Board Qualifications  
and Sunshine Law

Procedures over Board qualifications and closed meetings needed improvement.

6.1 Board qualifications

The city did not have procedures in place to ensure information regarding a person who may have been unqualified to run for or hold elected office was reported timely to the appropriate authority.

Recommendation

The Board of Aldermen 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.

Status

**Implemented**

The Mayor indicated the Board does not plan to seek legal advice regarding the current Board's qualifications to serve because 2 of the Aldermen are no longer Board members, and the remaining Alderwoman paid her delinquent



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taxes. The Mayor indicated city personnel now confirms with the County Collector whether persons running for city office have paid their taxes. If taxes have not been paid, this information will be transmitted to the appropriate authority.

## 6.2 Closed meetings

Some issues discussed in closed meetings held were not allowable under the Sunshine Law.

### Recommendation

The Board of Aldermen ensure only topics allowed by state law are discussed in closed Board meetings.

### Status

#### **Implemented**

The topics discussed for closed meeting minutes reviewed during the period of July through September 2019 were allowed by state law.

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## 7. Electronic Data Security

Controls over some city computers were not sufficient to prevent unauthorized access, and sufficient plans and processes were not in place for recovering systems and data. As a result, city records were not adequately protected and were susceptible to unauthorized access, and the city faced an increased risk of not being able to resume normal business operations timely.

### 7.1 Passwords

The city had not established adequate password controls to reduce the risk of unauthorized access to computers and data.

### Recommendation

The Board of Aldermen 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.

### Status

#### **Partially Implemented**

The Mayor indicated each computer has separate passwords; however, there is only one password to the utility software and it is shared by system users. The Mayor indicated she has no plans to create separate passwords for each user since other users typically only use the utility software when the City Clerk is not working. The Mayor indicated passwords are being periodically changed and require a minimum numbers of characters.

### 7.2 Security controls

Security controls were not in place to lock computers after a certain period of inactivity.

### Recommendation

The Board of Aldermen require each computer to have a security control in place to lock it after a certain period of inactivity.



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**Status**

**Implemented**

The Mayor indicated each city computer now locks after a certain period of inactivity.

**7.3 Contingency plan and backup data**

The city had 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 did not periodically test backup data to ensure essential data could be restored.

**Recommendation**

The Board of Aldermen 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.

**Status**

**In Progress**

The Mayor indicated city officials have not had time to develop a formal, written contingency plan or test restoration of backup data, but the Board plans to do this in early 2020.