

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

Missouri State Auditor

City of Sturgeon

Report No. 2019-123

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auditor.mo.gov



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Missouri State Auditor

CITIZENS SUMMARY

Findings in the audit of the City of Sturgeon

Mt. Horeb Cemetery Fund	The Board of Aldermen has not maintained restricted revenues of the Mt. Horeb Cemetery Fund in compliance with state law. The Board maintains the assets of the Mt. Horeb Cemetery Fund with other city assets in violation of city code.
Budget, Financial Reporting, and Accounting Records	The city budget prepared for the year ended June 30, 2019, did not contain all required elements. The financial statements submitted to the State Auditor's Office for the year ended June 30, 2019, and 6 prior years were not adequate. The city did not maintain accurate accounting records.
Accounting Controls and Procedures	The Board has not adequately segregated accounting duties or ensured documented supervisory or independent reviews of work performed by city personnel are performed. The city's procedures for receipting, recording, and depositing monies are poor. City personnel did not prepare adequate bank reconciliations for the general bank account.
Sunshine Law	Weaknesses exist in the documentation of minutes for Board meetings.

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

*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 Sturgeon

Table of Contents

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

Management Advisory Report - State Auditor's Findings	1. Mt. Horeb Cemetery Fund.....4 2. Budget, Financial Reporting, and Accounting Records6 3. Accounting Controls and Procedures8 4. Sunshine Law10
---	--

Organization and Statistical Information	11
---	----



NICOLE GALLOWAY, CPA

Missouri State Auditor

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

The State Auditor was petitioned under Section 29.230, RSMo, to audit the City of Sturgeon. We have audited certain operations of the city in fulfillment of our duties. The scope of our audit included, but was not necessarily limited to, the year ended June 30, 2019. The objectives of our audit were to:

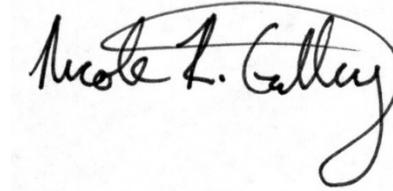
1. Evaluate the city's internal controls over significant management and financial functions.
2. Evaluate the city's compliance with certain legal provisions.
3. Evaluate the economy and efficiency of certain management practices and procedures, including certain financial transactions.

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 control that is significant to the audit objectives and assessed the design and implementation of such internal control to the extent necessary to address our audit objectives. 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 improvement in management practices and procedures. The accompanying Management Advisory Report presents our findings arising from our audit of the City of Sturgeon.

A handwritten signature in black ink, reading "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
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City of Sturgeon
 Management Advisory Report
 State Auditor's Findings

1. Mt. Horeb Cemetery Fund

The city has not established adequate procedures to ensure restricted revenues are maintained in compliance with state law and city code.

1.1 Restricted revenues

The Board of Aldermen has not maintained restricted revenues of the Mt. Horeb Cemetery Fund in compliance with state law.

On May 27, 1969, the city passed City Ordinance 304, which established a perpetual care cemetery fund, under Chapter 214, RSMo, for the Mt. Horeb Cemetery. The statutory purpose of a perpetual care cemetery fund is to fund the preservation, care, upkeep, and adornment of a cemetery. State law authorizes fund revenue to include proceeds from the sale of cemetery lots, gifts, and donations. Fund revenues are to be invested and only the interest income is to be expended for the purpose of maintaining the cemetery. As of June 30, 2019, the balance of the Mt. Horeb Cemetery Fund consisted of monies held in the general bank account and certificates of deposit (CDs) held at a local bank.

Transfers

City officials transferred 2 CDs from the Mt. Horeb Cemetery Fund to the General Revenue Fund in violation of state law. In November 2018, a \$58,105 CD of the Mt. Horeb Cemetery Fund matured and this amount was deposited into the general bank account and credited to the General Revenue Fund. City officials also transferred another CD with a \$26,175 balance from the Mt. Horeb Cemetery Fund to the General Revenue Fund during fiscal year 2019. City officials indicated they transferred the CDs to the General Revenue Fund because they believed the CDs had been erroneously placed in the Mt. Horeb Cemetery Fund in prior years. However, city officials did not have any documentation to support this claim.

Fund balance

The transfer of the CDs from the Mt. Horeb Cemetery Fund has resulted in a significant decline in the fund's fiscal year ending balance. The following table lists the fund's ending balance for the fiscal year ended June 30, 2019, and the previous 5 fiscal years.

Fiscal Year Ended June 30,	Ending Fund Balance
2014	\$ 187,389 ¹
2015	187,165 ¹
2016	181,763 ¹
2017	169,758 ²
2018	177,706 ²
2019	95,051 ³

¹ Fund balances reported in the city's unaudited financial statements.

² Fund balances reported in the city's audited financial statements.

³ Fund balance recorded in the city's accounting system as of June 30, 2019.



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

Disbursements

City officials have expended the principal of the Mt. Horeb Cemetery Fund in violation of state law. The Mt. Horeb Cemetery Fund's disbursements exceeded interest income during the year ended June 30, 2019, by approximately \$10,400. During the years ended June 30, 2014, through 2018, disbursements exceeded interest income each year by approximately \$7,500 to \$19,800.

Section 214.020, RSMo, states the income from the perpetual care cemetery fund "shall be expended by such town, city or village for the preservation, care, upkeep and adornment of such cemetery, for the repurchasing of cemetery lots previously sold, and for no other purpose whatsoever. The principal of said perpetual care cemetery fund shall not be encroached upon for any purpose whatsoever and no money shall be transferred out of such perpetual care cemetery fund except for the purposes of being invested as provided for in this section and for the repurchasing of cemetery lots previously sold."

1.2 Commingled assets

The Board maintains the assets of the Mt. Horeb Cemetery Fund with other city assets in violation of city code. The city separately tracks the Mt. Horeb Cemetery Fund within the city's accounting system. However, the assets of the fund are commingled in the city's general bank account with assets from other city funds.

City Code Section 7.150, states that any "bequest, gift or donation which may be accepted by the City as aforesaid shall be held and kept separate and apart from all other funds of the City and there shall be no commingling of any such cemetery trust funds unless specific authority therefor be granted by the donor(s) thereof."

Recommendations

The Board of Aldermen:

- 1.1 Ensure the Mt. Horeb Cemetery Fund is reimbursed for monies inappropriately deposited and credited to the General Revenue Fund. In addition, the Board should ensure the principal of the Mt. Horeb Cemetery Fund is maintained and only interest income is disbursed in accordance with state law.
- 1.2 Ensure the assets of the Mt. Horeb Cemetery Fund are separately maintained from all other funds as required by city code.

Auditee's Response

- 1.1 *Although the city disagrees that it did not have documentation to support the city's claim that some CDs had been erroneously placed in the Mt. Horeb Cemetery Fund in prior years, the city nevertheless accepts and will implement the recommendation of the State Auditor's Office, and will reimburse monies inappropriately deposited and credited to the General Revenue Fund back to the Mt. Horeb Cemetery Fund. Additionally, in the future, the Board will*



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

ensure only the interest income earned on the principal will be disbursed for cemetery upkeep and maintenance.

1.2 *The city will ensure that separate bank accounts for the Mt. Horeb Cemetery Fund and the Mt. Horeb Maintenance and Upkeep Fund are opened, and that these funds are separately maintained from all other funds to avoid commingling of assets. The city will implement a procedure to document into which fund's account donated monies are to be deposited and maintained.*

Auditor's Comment

1.1 Audit staff received no documentation from city officials indicating CDs were erroneously placed in the Mt. Horeb Cemetery Fund instead of the General Revenue Fund.

2. Budget, Financial Reporting, and Accounting Records

The city's budget, financial reporting, and accounting records are in need of improvement.

2.1 Budget

The city budget prepared for the year ended June 30, 2019, did not contain all required elements. The budget document did not include a budget message, actual or budgeted amounts for the 2 preceding years, beginning and ending fund balances, or a budget summary.

Section 67.010, RSMo, requires the budget to present a complete financial plan for the ensuing budget year and sets specific guidelines for the information to be included in the 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. It also assists in setting the tax levy, utility rates, and informing the public about city operations and current finances. Proper monitoring is necessary for the budget to be an effective management tool and to comply with state law.

2.2 Financial reporting

The financial statements submitted to the State Auditor's Office for the year ended June 30, 2019, and 6 prior years were not adequate. The data submitted consisted of beginning and ending bank account balances and receipts and disbursements for each fund. The information submitted did not include the beginning and ending fund balances and the city's property tax levy as required by state regulations.

Section 105.145, RSMo, requires each political subdivision to file annual reports of its financial transactions with the State Auditor's Office. Regulation 15 CSR 40-3.030 details the elements required, which include beginning and ending balance, summary of receipts and disbursements, statement of



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

indebtedness at the beginning and ending, and the property tax rate levied for each fund for the reporting period.

2.3 Accounting records

The city did not maintain accurate accounting records. The city implemented a new accounting system in April 2019. However, city officials did not ensure current year receipts and disbursements were accurately transferred into the new system. Therefore, fund balances in the new accounting system for the year ended June 30, 2019, were not accurate when compared to recorded current year activity and prior year ending balances. For example, the beginning fund balance of the Recreation Center Fund was \$50,575. Receipts and disbursements recorded in the new accounting system during the year ended June 30, 2019, resulted in a decrease of \$303 in the fund balance. The expected ending fund balance should have been \$50,272. However, the new accounting system's ending fund balance totaled \$52,018, resulting in a difference of \$1,746.

Accurate accounting transactions and financial information are necessary for the Board to make informed decisions and to provide residents with reliable information about city finances. Inaccurately recorded financial information makes it more difficult to detect loss, theft, or misuse of funds.

Recommendations

The Board of Aldermen:

- 2.1 Prepare annual budgets that contain all information as required by state law.
- 2.2 Ensure financial data filed complies with state regulations and statutes.
- 2.3 Ensure accounting transactions are appropriately recorded.

Auditee's Response

- 2.1 *The city will implement procedures to correct its budget, financial reporting, and accounting records formats to comply with standard practice and ensure that annual budgets contain all information as required by Section 67.010, RSMo, and any other provisions of state law.*
- 2.2 *The city will utilize the sample templates it received from the State Auditor's Office website to submit future financial data reports to ensure it complies with state regulations and statutes.*
- 2.3 *The city will research this finding with its accounting and financial software provider, and ensure that its accounting transactions are being correctly recorded.*



3. Accounting Controls and Procedures

Accounting controls and procedures need improvement. During the year ended June 30, 2019, city receipts totaled \$1,068,481 (excluding transfers).

3.1 Segregation of duties

The Board has not adequately segregated accounting duties or ensured documented supervisory or independent reviews of work performed by city personnel are performed. The City Clerk and Assistant City Clerk are responsible for receipting, recording, and depositing monies. In addition, the Assistant City Clerk is responsible for performing bank reconciliations. Reviews of the detailed accounting records and the bank reconciliations are not performed by other city personnel or Board members.

Proper segregation of duties helps ensure all transactions are accounted for properly and assets are adequately safeguarded. If proper segregation of duties cannot be achieved, documented independent or supervisory reviews of accounting and bank records should be performed.

3.2 Receipting, recording, and depositing

The city's procedures for receipting, recording, and depositing monies are poor. As a result, there is no assurance all monies collected are properly receipted, recorded, and deposited. City personnel do not:

- Issue receipt slips for some water and sewer monies received. The stubs from the water and sewer bills received are maintained, but they do not indicate the date, amount, and method of payments received.
- Issue receipt slips for recreation center monies received. City records indicate recreation center revenues totaled approximately \$36,400 during the year ended June 30, 2019.
- Deposit security deposits received. The city obtains a security deposit when individuals rent city buildings for events. During our cash count on July 31, 2019, we noted \$2,252 in security deposits on hand. The oldest check for \$100 had been receipted in October 2017.
- Always issue receipt slips sequentially and do not always indicate the method of payment on the receipt slips. Therefore, the composition of receipts cannot be reconciled to the composition of deposits.
- Account for the numerical sequence of receipt slips issued.

Failure to implement adequate receipting, recording, and depositing procedures increases the risk that loss, theft, or misuse of funds will go undetected.

3.3 Bank reconciliations

City personnel did not prepare adequate bank reconciliations for the general bank account. In April and May 2019, the city closed the water and sewer,



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

recreation center, fairgrounds, fairs and festivals, and wetland improvement bank accounts. The balances of these accounts were transferred into the general bank account.

The bank reconciliation process for April 2019 through June 2019 only included documenting the transactions that had cleared the bank; however, reports of outstanding checks and deposits in transit were not prepared. City personnel prepared bank reconciliations properly prior to April 2019, but after the implementation of the new accounting system they did not. The June 2019 general account bank balance was \$333,658.

Performing adequate monthly bank reconciliations helps ensure receipts and disbursements have been properly handled and recorded, and increases the likelihood errors will be identified and corrected timely.

Recommendations

The Board of Aldermen:

- 3.1 Segregate the accounting duties. If proper segregation cannot be achieved, ensure documented independent or supervisory reviews of detailed accounting and bank records are performed.
- 3.2 Ensure prenumbered receipt slips are issued sequentially for all monies received and ensure all receipts are deposited. The Board should also ensure the method of payment is indicated, the numerical sequence of receipt slips is accounted for, and the composition of receipts is reconciled to the composition of amounts recorded and deposited.
- 3.3 Ensure adequate monthly bank reconciliations are prepared, and lists of outstanding checks and deposits in transit are prepared. Any differences between accounting records and reconciliations should be promptly investigated and resolved.

Auditee's Response

- 3.1 *The city's current procedure of handling accounting duties will be segregated between the City Clerk and Assistant City Clerk. The city will implement the best practice of ensuring proper documentation of accounting transactions and that supervisory review occurs. This implemented procedure will also apply to bank records, ordering and receiving of office supplies, and proper verification of payroll calculations and paycheck issuance.*
- 3.2 *The city has implemented a procedure to ensure prenumbered receipt slips are issued sequentially for all monies received, and that each receipt records the amount received, date received, and method of payment. In addition, the city will deposit all receipts and ensure the composition of receipts is reconciled to the composition of amounts recorded and deposited.*



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

3.3 *The city has implemented a procedure where bank reconciliations will be performed by both the City Clerk and the Assistant City Clerk. Additionally, the city will ensure adequate bank reconciliations are prepared for the general bank account, and will prepare reports of all outstanding checks and deposits in transit. Any difference between accounting records and reconciliations will be promptly investigated and resolved. Finally, the Mayor will review bank reconciliations each month.*

4. Sunshine Law

Weaknesses exist in the documentation of minutes for Board meetings. The city has 6 different boards and committees.

- The Recreation Center Board meeting minutes did not indicate results of votes taken to approve purchases.
- The Fairgrounds Board meeting minutes did not indicate the time and place of meetings and the Board members absent. In addition, the minutes were not signed to indicate Board approval.
- The Park and Trees Board meeting minutes did not indicate the Board members absent. In addition, the minutes were not signed to indicate Board approval.

Section 610.020.7, RSMo, states minutes of open and closed meetings shall be taken and retained by the public governmental body, including, but not limited to, a record of any votes taken at such meetings. The minutes shall include the date, time, place, members present, members absent, and a record of any votes taken. In addition to the statutory requirements, the meeting minutes should be signed by the preparer and subsequently approved by the Boards to provide an independent attestation that the minutes are a correct record of the matters discussed and actions taken during the meetings.

Recommendation

The Board of Aldermen work with the Boards to ensure meeting minutes include all information required by law and are signed by the preparer and approved by the Boards.

Auditee's Response

The Mayor, City Clerk, and Board will conduct a special training session with each advisory Board. Attendance at this training session will be mandatory and copies of the Missouri Sunshine Law booklet will be distributed. This process should educate members on the proper steps of conducting and documenting an advisory Board meeting. The city will establish a plan for follow-up trainings every six months to ensure continuing compliance.

City of Sturgeon

Organization and Statistical Information

The City of Sturgeon is located in Boone County. The city was incorporated in 1856 and is currently a fourth-class city. The city employed 5 full-time employees and 5 part-time employees on June 30, 2019.

City operations include utilities (water, sewer, and trash), police, maintenance of streets, recreational facilities (park, recreation center, youth center, and fairgrounds), and 2 cemeteries.

Mayor and Board of Aldermen

The city government consists of a mayor and a 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, 2019, are identified below. The Mayor is paid \$100 per month and Board of Aldermen members are paid \$75 per month.

Steve Crosswhite, Mayor
Zane Arends, Alderman
Stan Robinson, Alderman
Ron Sage, Alderman
Janice Butler, Alderwoman

Financial Activity

A summary of the city's financial activity, prepared using the city's bank statements, for the year ended June 30, 2019, follows:

City of Sturgeon
Schedule of Receipts, Disbursements, and Changes in Cash and Investments
Year Ended June 30, 2019

	General	Water/Sewer	Recreation Center	Fairgrounds	Fairs and Festivals	Wetland Improvement	Total
RECEIPTS							
Receipts ¹	\$ 615,779	399,002	18,341.00	23,576	523	11,260	1,068,481
Transfers in ²	320,088	0	0	0	0	0	320,088
Total Receipts	935,867	399,002	18,341	23,576	523	11,260	1,388,569
DISBURSEMENTS							
Disbursements ¹	684,800	333,615	17,455	12,433	6,508	0	1,054,811
Transfers out ²	0	200,024	52,306	26,577	9,091	32,090	320,088
Total Disbursements	684,800	533,639	69,761	39,010	15,599	32,090	1,374,899
RECEIPTS OVER (UNDER) DISBURSEMENTS	251,067	(134,637)	(51,420)	(15,434)	(15,076)	(20,830)	13,670
CASH AND INVESTMENTS, JULY 1, 2018 ³	406,005	134,637	51,420	15,434	15,076	20,830	643,402
CASH AND INVESTMENTS, JUNE 30, 2019 ³	\$ 657,072	0	0	0	0	0	657,072

¹ Receipts and disbursements present all transfers in and out except transfers made to close bank accounts.

² Transfers in and out present transfers made to close bank accounts and transfer balances into the General bank account.

³ Balances includes certificates of deposit.