



Nicole Galloway, CPA

Missouri State Auditor

City of New Bloomfield

Report No. 2019-052

July 2019

auditor.mo.gov



Nicole Galloway, CPA
Missouri State Auditor

CITIZENS SUMMARY

Findings in the audit of the City of New Bloomfield

Segregation of Duties	The Board of Aldermen has not adequately segregated accounting duties or ensured documented supervisory or independent reviews of work performed by city personnel are performed.
Budget and Financial Reporting	The city budget prepared for the year ended December 31, 2018, did not contain all required elements. The city did not maintain accurate accounting records.
Sunshine Law	The Board did not make specific reference to the section of law allowing the closure of Board meetings when voting to go into a closed session for 3 of the 8 closed meetings held during the year ended December 31, 2018.
Bidding	The city has not followed established policies and procedures for the selection of professional audit services in accordance with the city's bidding policy.

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

*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 New Bloomfield

Table of Contents

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

Management Advisory Report - State Auditor's Findings	1. Segregation of Duties4 2. Budget and Financial Reporting4 3. Sunshine Law6 4. Bidding6
---	--

Organization and Statistical Information	7
---	---

Appendixes

A	Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Fund Year Ended December 31, 20188
B	Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Funds Year Ended December 31, 20189



NICOLE GALLOWAY, CPA

Missouri State Auditor

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

The State Auditor was petitioned under Section 29.230, RSMo, to audit the City of New Bloomfield. We have audited certain operations of the city in fulfillment of our duties. The city engaged Gerding, Korte & Chitwood, P.C., Certified Public Accountants, to audit the city's financial statements for the year ended December 31, 2018. The scope of our audit included, but was not necessarily limited to, the year ended December 31, 2018. The objectives of our audit were to:

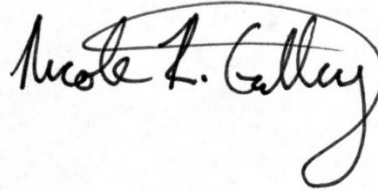
1. Evaluate the city's internal controls over significant management and financial functions.
2. Evaluate the city's compliance with certain legal provisions.
3. Evaluate the economy and efficiency of certain management practices and procedures, including certain financial transactions.

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

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

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

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

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

Nicole R. Galloway, CPA
State Auditor

The following auditors participated in the preparation of this report:

Director of Audits:	Randall Gordon, M.Acct., CPA, CGAP
Audit Manager:	Lori Melton, M.Acct., CPA
In-Charge Auditor:	Steven J. Barton
Audit Staff:	Michaela N. Shaver Zachery L. Harris

City of New Bloomfield

Management Advisory Report

State Auditor's Findings

1. Segregation of Duties

The Board of Aldermen has not adequately segregated accounting duties or ensured documented supervisory or independent reviews of work performed by city personnel are performed. The City Clerk is responsible for receipting and recording payments received, making deposits, issuing checks, and performing bank reconciliations. Reviews of the detailed accounting and bank records 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.

Recommendation

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

Auditee's Response

Segregation of duties for the City Clerk is cost prohibitive for the city at this time. Until such time as funds are available to fund a second employee, the Board will review all financial records and provide general oversight accountability.

2. Budget and Financial Reporting

The 2018 annual budget was not prepared in accordance with state law and the city did not maintain accurate accounting records.

2.1 Budget

The city budget prepared for the year ended December 31, 2018, did not contain all required elements. The budget document did not include a budget message, actual or budgeted amounts for the 2 preceding years, payments of interest and principal for debt, the actual beginning and estimated ending cash balance for any funds, or a budget summary. In addition, the Board does not receive a report of the city's budget-to-actual financial information at its meetings, and as a result, does not adequately monitor the city's annual budget. As a result, the public is not provided a complete overview of city finances.

Section 67.010, RSMo, requires the budget 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.



City of New Bloomfield
Management Advisory Report - State Auditor's Findings

2.2 Accounting records

The city did not maintain accurate accounting records. We performed a test of 35 disbursements and identified 5 errors (14 percent) including:

- The amounts recorded in the accounting records for the principal and interest on a loan did not agree to the principal and interest amounts per the United States Department of Agriculture loan agreements. The principal and interest amounts paid on this loan fluctuates monthly. The payment made on April 1, 2018, totaled \$3,749 with \$1,521 to be applied to principal and \$2,228 to interest; however, the city recorded \$2,847 to principal and \$902 to interest. This error resulted in overstating the principal paid by \$1,326 and understating interest by that amount.
- The city paid a vendor \$2,108 on June 20, 2018, and again on July 18, 2018, for the same invoices. The vendor applied the overpayment to subsequent invoices.

Accurate financial information is necessary for the Board to make informed decisions and to provide residents with reliable information about city finances. Inaccurately recorded transactions make 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. In addition, the Board periodically obtain and review reports of budgeted and actual disbursements to properly monitor the annual budget.
- 2.2 Ensure accounting transactions are appropriately recorded.

Auditee's Response

- 2.1 *The Board is taking steps to assure that all budget forms are in full compliance with Section 67.010, RSMo, and any other provisions, as well as being comprehensive and understandable to the general public. The 2019 budget was correctly presented in the budget-to-actual 3 year format. The budget message for the year 2018 was presented in the 2017 audit report, however, it was not presented as part of the 2018 budget. The Board is adopting procedures to maintain compliance. Section 67.010, RSMo, does not require a Board to review their budget at each monthly meeting; however, in interest of increased supervision, the Board will be monitoring the budget-to-actual financial information on a more frequent basis.*
- 2.2 *Accounting transactions are reviewed together frequently with the City Clerk and a member of the Board to ensure transactions are accurately recorded. Two signatures have always been and will continue to be required from the Mayor and an Alderman or two*



City of New Bloomfield
Management Advisory Report - State Auditor's Findings

Aldermen to validate every check. In the past, the city auditor has corrected the loan allocation of principal versus interest annually. This problem will be corrected in future financial documents.

3. Sunshine Law

The Board did not make specific reference to the section of law allowing the closure of Board meetings when voting to go into a closed session for 3 of the 8 closed meetings held during the year ended December 31, 2018.

Section 610.022, RSMo, requires public bodies announce the specific reasons allowed by law for going into a closed session and to enter the reason into the minutes.

Recommendation

The Board of Aldermen ensure the specific section of law allowing the meeting to be closed is announced publicly and recorded in the minutes.

Auditee's Response

It is and has been the policy of the Board that before entering into each executive session, the Board announces the specific section of Section 610.021, RSMo, that applies. However, it was not always recorded correctly in the minutes. Minutes will be carefully reviewed to ensure accuracy.

4. Bidding

The city has not followed established policies and procedures for the selection of professional audit services in accordance with the city's bidding policy. The city did not solicit requests for proposals and did not periodically conduct a competitive selection process when the current CPA firm was contracted to perform the annual audit for the last 4 years. During the year ended December 31, 2018, the city paid \$9,400 to the CPA firm for the 2017 audit. The city's procurement policy requires the city to advertise bids for expenditures over \$5,000.

Soliciting proposals for professional services is good business practice, helps provide a range of possible choices, and allows the city to make better-informed decisions to ensure necessary services are obtained from the best qualified provider taking expertise, experience, and cost into consideration.

Recommendation

The Board of Aldermen periodically solicit proposals for professional services in accordance with the established city bidding policy.

Auditee's Response

The Board has consistently bid out professional contracts approximately every 3-5 years. Requests for proposals have been requested for the 2019 annual independent audit to be reviewed at the August 12, 2019, monthly meeting. Due to time constraints of the 2018 audit deadline of June 1, 2019, and personnel shortages, we were not able to accommodate a 2018 bid. The Board has now corrected personnel issues to prevent future occurrences.

City of New Bloomfield

Organization and Statistical Information

The City of New Bloomfield is located in Callaway County. The city was incorporated in 1971 and is currently a fourth-class city. The city employed 2 full-time employees on December 31, 2018.

City operations include utility services (water, sewer, and trash), and street maintenance.

Mayor and Board of Aldermen

The city government consists of a mayor and 4-member board of aldermen. The members are elected for 2-year terms. The mayor is elected for a 2-year term, presides over the board of aldermen, and votes only in the case of a tie. The Mayor and Board of Aldermen, at December 31, 2018, are identified below. The Mayor and Board of Aldermen receive no compensation.

Terry Shaw, Mayor
Rosemary Augustine, Alderwoman
Gary Hoelscher, Alderman
Bryan Manes, Alderman (1)
Martha Siegel, Alderwoman (2)

(1) Replaced by Daniel Kliethermes, who was elected in April 2019.

(2) Replaced by Michael Lowe, who was elected in April 2019.

Financial Activity

Appendixes A and B present a summary of the city's financial activity for the year ended December 31, 2018. We obtained this information from the city's audited financial statement report.

CITY OF NEW BLOOMFIELD, MISSOURI
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
YEAR ENDED DECEMBER 31, 2018

	General Fund
REVENUES COLLECTED	
Taxes	\$ 188,632
Licenses and permits	3,100
Fines and forfeits	1,256
Miscellaneous	6,345
Interest	240
Total Revenues Collected	199,573
EXPENDITURES PAID	
General government	60,699
Public safety	32,966
Street	27,521
Courts	4,826
Debt service:	
Principal	38,000
Interest and fees	5,215
Total Expenditures Paid	169,227
Excess (Deficit) of Revenues Collected over Expenditures Paid	30,346
Fund Balance, beginning of year	71,063
Fund Balance, end of year	\$ 101,409

CITY OF NEW BLOOMFIELD, MISSOURI
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2018

	Business-Type Activities - Enterprise Funds			
	Water	Sewer	Trash	Total
Operating Revenues:				
Charges for services	\$ 121,931	\$ 124,073	\$ 53,382	\$ 299,386
Miscellaneous	829	3	-	832
Total Operating Revenues	<u>122,760</u>	<u>124,076</u>	<u>53,382</u>	<u>300,218</u>
Operating Expenses:				
Administrative costs	10,331	11,216	-	21,547
Depreciation	60,896	28,856	-	89,752
Insurance	2,512	1,301	-	3,813
Professional fees	6,124	5,924	-	12,048
Replacements and repairs	898	966	-	1,864
Operational costs	16,757	32,986	44,544	94,287
Personnel services	45,033	45,033	-	90,066
Total Operating Expenses	<u>142,551</u>	<u>126,282</u>	<u>44,544</u>	<u>313,377</u>
Net operating income (loss)	<u>(19,791)</u>	<u>(2,206)</u>	<u>8,838</u>	<u>(13,159)</u>
Nonoperating Revenue (Expense):				
Transfers in/(out)	8,299	-	(8,299)	-
Investment income	238	254	-	492
Interest expense and fees	(17,510)	(9,875)	-	(27,385)
Net Nonoperating Revenue (Expense)	<u>(8,973)</u>	<u>(9,621)</u>	<u>(8,299)</u>	<u>(26,893)</u>
Net income (loss)	(28,764)	(11,827)	539	(40,052)
Net position - beginning of year	<u>533,909</u>	<u>638,538</u>	<u>3,532</u>	<u>1,175,979</u>
Net position - end of year	<u>\$ 505,145</u>	<u>\$ 626,711</u>	<u>\$ 4,071</u>	<u>\$ 1,135,927</u>