



John Watson
Missouri State Auditor

FOLLOW-UP REPORT ON AUDIT FINDINGS

City of Pevely



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City of Pevely

Follow-Up Report on Audit Findings

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*Includes selected findings



JOHN WATSON

Missouri State Auditor

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

We have conducted follow-up work on certain audit report findings contained in Report No. 2014-100, *City of Pevely*, issued in October 2014, 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 that require immediate management attention and any other findings for which follow up is considered necessary at this time, 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 indicates that it will not do so.

Our methodology included working with the city, prior to completion of the audit report, to develop a timeline for the implementation of corrective action related to the audit recommendations. As part of the AFTER work conducted, we reviewed the written status of selected findings and recommendations and supporting documentation submitted by city officials, and met with city personnel. This report is a summary of the results of this follow-up work, which was substantially completed during February 2015.

John Watson
State Auditor

City of Pevely

Follow-Up Report on Audit Findings

Status of Findings

1. Financial Issues The city inappropriately transferred \$200,000 from the Water and Sewer Fund to finance general city operations and the Board of Aldermen (Board) did not receive and review financial information that would have assisted in monitoring the city's finances. In addition, the city improperly used money from a bond reserve account and did not properly enforce several taxes.

1.1 Inter-fund obligations The city inappropriately used \$200,000 in restricted Water and Sewer Fund monies to finance general city operations. In April 2013, the city transferred the monies from the Water and Sewer Fund to the General Fund. The city did not appropriate the funds to repay the loan in the 2014 budget document or have a formal plan in place to reimburse the Water and Sewer Fund. However, the entire loan was repaid, without interest, to the Water and Sewer Fund in April 2014. No budget amendments were made to reflect the loan payment.

Recommendation The Board of Aldermen avoid improper interfund transfers.

Status **Implemented**

The city has stopped making improper interfund transfers. We reviewed the financial statements presented to the Board in January 2015 and noted the only transfer made was for \$9,878 from the General Fund to the Neighborhood Improvement District (NID) Debt Service Fund. This transfer is properly made each month for the same amount and is the only transfer that is budgeted. No other transfers have been made.

1.2 Financial information and monitoring The Board did not receive and review detailed financial information, which would have assisted in effectively monitoring cash balances and the financial condition of city funds.

Recommendation The Board of Aldermen require preparation of timely, detailed, and complete financial reports and closely monitor the city's financial condition.

Status **Partially Implemented**

Currently at its meetings, the Board receives financial statements from the city's accountant showing the status and performance of the city's finances including year to date budget to actual information by department. The statements also include operating and debt service account balances as well as a statement of revenues and expenditures organized by department. However, the information is for periods dated approximately 2 months before the Board meeting date. For example, the Board was presented with financial statements for November 2014 at its January 28, 2015, meeting.



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Status of Findings

1.3 Bonds and sales taxes

We identified the following concerns related to bond issues and tax collections:

- The city became responsible in 2013 for covering a portion of the general obligation bond payments related to a NID when the revenue collected from special assessments was not enough to cover the bond payments. According to the city, the developer was given approximately \$7.1 million in bond proceeds and construction advances at the beginning of the project. The remaining principal outstanding on the bonds at December 31, 2013, was \$4.4 million. Interest remaining to be paid over the life of the bond issue totaled \$1.4 million. The remaining amount due to the city on the construction advances at December 31, 2013, was \$656,854.
- The city improperly used monies from the NID bond reserve account to make bond payments, resulting in the reserve account having a \$161,000 shortage at December 31, 2012. City officials indicated the bond reserve account shortage had been addressed and was \$20,000 short as of July 2014.
- The city did not properly enforce several taxes, resulting in lost revenues. The city corrected these tax collection issues in June 2013 after city officials noticed tax collections were well below projected amounts.

Recommendation

The Board of Aldermen ensure all financial obligations can be met and all potential sources of revenue are being properly collected.

Status

In Progress

The city has been collecting amounts due from letters of credit associated with the NID general obligation bonds. However, the city does not anticipate being able to collect any additional funds using these letters of credit. The letters of credit will be rescinded when 51 percent of the lots in the NID are developed and current construction is anticipated to put the NID over that threshold.

The city has been transferring money from the General Fund to the NID Debt Service Fund in order to build up the NID bond reserve account. The city is currently paying \$9,800 per month to help replenish this fund. City officials said they are also considering using some monies from the Water and Sewer Fund and Streets Fund to pay for some of the costs of the NID bonds because the bond proceeds paid for streets, sewer, and water infrastructure in that subdivision. The city has now budgeted transfers from the General Fund to cover the bond payments.



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Status of Findings

The city has been collecting all types of taxes the city is authorized to collect since June 2013.

2. Budgets and Financial Statements

The city did not prepare complete budgets, or prepare and submit annual financial reports as required by state law.

2.1 Budgets

Annual budgets did not contain all elements required by state law. Budgets did not include a budget message, budget summary, information on city indebtedness, or the beginning fund balances.

Recommendation

The Board of Aldermen prepare budgets in compliance with state law.

Status

Implemented

We reviewed the city's 2015 budget and noted it included a budget message, budget summary, information on the city's indebtedness, and beginning fund balances.

2.2 Financial reporting

The city did not submit an annual financial report to the State Auditor's office as required by law for the year ended December 31, 2012, and, as of July 8, 2014, had not submitted an annual financial report for the year ended December 31, 2013.

Recommendation

The Board of Aldermen submit annual financial reports to the State Auditor's office as required by state law.

Status

Implemented

The city filed the 2013 and 2012 audited annual financial reports with the State Auditor's office on February 2, 2015. The deadline for filing the 2014 financial report has not passed.

3. Bidding and Professional Services

Bidding decisions were not well documented. City procedures for selecting and contracting for goods and services were not sufficient and proposals were not periodically solicited for some professional services.

3.1 Bidding

City officials and employees did not always comply with the city's purchasing policy. City policies 135.120 and 135.190 require obtaining written bids for purchases over \$3,000.

Also, the city was only able to provide documentation of the winning bid for street paving and construction even though the city received multiple bids. The contract for this project was approximately \$205,000; however, the city did not maintain invoices related to the \$225,000 paid to the vendor for the project.



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Status of Findings

Recommendation

The Board of Aldermen ensure bids are solicited for all applicable purchases in accordance with city policy and maintain all bid and disbursement supporting documentation.

Status

Implemented

City officials indicated they are now obtaining written bids for any purchases over \$3,000 and obtaining telephone bids on items costing from \$1,500 to \$3,000. City officials provided us with bid documentation for certain significant purchases the city made since release of our audit. We reviewed bid documentation for equipment and vehicle maintenance, water tower improvements, and salt purchases.

3.2 Professional services

According to city officials, the city had used the same city attorney and CPA for approximately 20 years without periodically soliciting proposals for services, as required by city policy. In addition, the city did not have a contract with the city attorney.

Recommendation

The Board of Aldermen periodically solicit proposals for professional services as required by city policy.

Status

Implemented

The city issued a Request for Qualifications (RFQ) for legal services and signed a contract with its new attorney. The City Administrator provided us with a copy of this RFQ. An RFQ was also issued for auditing services, but the city did not receive any responses. However, the city's contracted accountant assisted the city in obtaining auditing services.

4. Mayor's Cellular Phone

For more than 10 years, the city did not require former Mayor Knobloch to submit detailed supporting documentation with his requests for the city to pay a portion of his monthly personal cellular phone bill. The city spent \$12,753 on cellular phone bills submitted by the Mayor since 2003.

The bills submitted by the Mayor provided no assurance the Mayor actually incurred cellular phone expenses for the period for which reimbursement was requested, or that amounts paid were proper and related solely to the Mayor's phone and did not include costs related to other lines, if any, included on the Mayor's cellular phone plan. The Board approved payment of these bills without requiring appropriately detailed documentation to support the payments. In addition, the city did not have a cellular phone policy.

Recommendation

The Board of Aldermen should require adequate supporting documentation for cellular phone payments made to or on behalf of officials and employees. Also, the Board of Aldermen should develop a comprehensive written policy regarding the use of cellular phones.



City of Pevely
Follow-up Report on Audit Findings
Status of Findings

Status	In Progress The city no longer reimburses employees for cellular phone expenses. The city has a cellular phone account and provides cellular phones for several city employees. The City Administrator reviews and initials bills for this account monthly. The city currently has a committee of 4 employees that meet weekly and are in the process of reworking the employee manual. The city anticipates the new employee manual will be in place by May 2015 and will include a cellular phone policy.
5.1 Accounting Controls and Procedures - Bank reconciliations	The city did not perform timely reconciliations of bank accounts.
Recommendation	The Board of Aldermen ensure bank reconciliations are completed timely.
Status	Not Implemented As of March 25, 2015, the most recent bank reconciliations completed were for December 2014.
5.2 Accounting Controls and Procedures - Outstanding checks	The city had not established procedures to routinely follow up on outstanding checks. As of December 2013, the city had 35 checks totaling \$4,475 that had been outstanding for more than one year. Some checks were more than 2 years old.
Recommendation	The Board of Aldermen establish procedures to routinely follow up and reissue old outstanding checks and dispose of unclaimed monies in accordance with state law.
Status	Implemented The city's accountant has implemented procedures to routinely follow up on outstanding checks. The accountant indicated that he investigated the 35 old checks and determined that they were incorrectly shown as outstanding. These checks had cleared the bank but not been marked as cleared in the accounting system. These checks are no longer included on the outstanding check list.
5.3 Accounting Controls and Procedures - Utility adjustments	The city did not require obtaining independent approval for adjustments posted to the utility system. Adjustments were not reviewed by anyone at the city to ensure the adjustments were proper.



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Status of Findings

Recommendation

The Board of Aldermen require an independent review and approval of all utility system adjustments.

Status

Implemented

Adjustments are now reviewed and approved by the City Administrator. We reviewed 4 utility adjustments. The adjustments were stamped by the City Administrator. The stamp requires the City Administrator's initials to indicate his approval, the date, and the appropriate account code.

**5.4 Accounting Controls
and Procedures - Utility
deposits**

The city was not reconciling customer utility deposits held in the utility deposit bank account to the amounts reported in the city's accounting records. Also, procedures for closing inactive customer accounts needed improvement. As of June 30, 2013, the city held deposits totaling approximately \$142,000. However, the city's accounting system indicated approximately \$120,000 was being held. City personnel stated the \$22,000 difference was due to monies from closed customer accounts that had not been refunded, which were not included in the reports generated by the accounting system due to a system error.

Recommendation

The Board of Aldermen ensure reconciliations of utility deposits are performed between the utility deposit bank account and the deposits held per the city's accounting records. Any discrepancies should be promptly investigated. In addition, the Board of Aldermen should ensure applicable utility deposits are refunded or applied to balances due.

Status

In Progress

The city's accountant indicated he is currently tracking this liability and is conducting periodic reviews. The accountant indicated the excess balance in the utility deposit account occurred because the city issued deposit refunds from the city's general account instead of the utility deposit account and had not transferred money between the accounts to reimburse the general account.

The city will be transferring the excess money in the utility deposit account to the general account. Starting in mid-2015 the city will begin reconciling the cash accounts and deposit listing on a monthly basis. The city's accountant indicated that during his review of the utility deposits he did not note any deposits that needed to be refunded or applied to customer accounts. At the end of each billing cycle the city now generates a report showing accounts with remaining deposit balances. Deposit balances are first applied to final bills and then checks are issued to refund any remaining deposit balances.



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Status of Findings

**5.5 Accounting Controls
and Procedures - Capital
assets**

The city did not have a centralized list of all city property and assets were not tagged for specific identification. Lists of property were updated periodically and were kept on a departmental basis, but the lists were not always turned in to the City Clerk's office. A 2013 inventory was not conducted for the city administration offices, parks department, planning and zoning department, and police department.

Recommendation

The Board of Aldermen ensure adequate property records are maintained in a centralized location. The Board of Aldermen should also properly tag, number, or otherwise identify all applicable city property and ensure an annual inventory of all property is conducted.

Status

In Progress

The City Administrator indicated city staff are in the process of tagging and recording applicable city assets. The inventory list has been updated for assets in City Hall and the city is currently adding the public works department assets to the list. After the inventory list is updated, it will be used to conduct an annual inventory.

**7. Sunshine Law
Violations**

The Board did not always comply with the Sunshine Law. Roll call votes to go into closed session were not recorded for 11 of 21 closed sessions reviewed during the audit. In addition, based on closed meeting minutes, some issues discussed in these meetings were not allowable under the Sunshine Law.

Recommendation

The Board of Aldermen ensure roll call votes to close a session are documented in the open minutes. In addition, the Board of Aldermen should only discuss issues in closed session allowable by state law.

Status

Implemented

The minutes now document the roll call votes for going into closed session. We reviewed the closed meeting minutes from October 2014 through February 2015 and noted that the topics discussed were allowable under the Sunshine Law.