



Office of Missouri State Auditor
Nicole Galloway, CPA

FOLLOW-UP REPORT ON AUDIT FINDINGS

City of Harrisonville

Report No. 2018-123
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City of Harrisonville

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 Harrisonville, Missouri

We have conducted follow-up work on certain audit report findings contained in Report No. 2017-035, *City of Harrisonville*, (rated as Poor), issued in May 2017, 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 discussions 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 July and August 2018.

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

Nicole R. Galloway, CPA
State Auditor

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Status of Findings

1.2 Highway 71/291 Partners in Progress Transportation Development District - City loan

The majority of the \$1.5 million (maximum) pledged loan to the Highway 71/291 Partners in Progress Transportation Development District (TDD) was planned to come from restricted utility funds as stated in the amended agreement, in violation of the bond covenants for the Electric and Combined Water and Sewer System (CWSS) Funds. The city pledged \$209,000 from the General Fund, \$833,000 from the CWSS Fund, and \$457,700 from the Electric Fund in the amended agreement, with \$200,000 from the Electric Fund already contributed as of August 2016. The city did not obtain a written legal opinion regarding these loans. Monies in the Electric and CWSS Funds were restricted for their intended purpose and could not be used for the general operation of the city.

Recommendation

The Board of Aldermen repay the CWSS Fund and Electric Fund any monies loaned related to this TDD project and ensure restricted utility funds are only used for their intended purpose.

Status

Implemented

The city repaid \$200,000, plus interest, to the Electric Fund on October 31, 2017, from TDD funds and has not loaned additional restricted revenues to the TDD. As of September 30, 2018, the city has loaned \$896,913 from the General Fund to the TDD.

2. Tax Increment Financing

Problems existed with the city's handling of Tax Increment Financing (TIF) project funding and reporting for the Towne Center and Market Place redevelopment areas.

2.1 Debt service requirements

Revenues generated in the Towne Center Redevelopment Area were not sufficient to pay the bond principal and interest payments and the city was required to cover the shortage with general revenues. The remaining principal and interest outstanding on the bonds at December 31, 2015, was \$6.92 million and \$2.64 million, respectively.

The city issued \$6.86 million in tax increment revenue notes in December 2005 to pay a portion of the infrastructure improvements and site development costs. The city issued \$8.63 million in revenue bonds in June 2007 to refinance the 2005 revenue notes and pay the capitalized interest on those notes. The city established the project with the intent to repay the bonds using a portion of the increased revenue from economic activity generated as provided in the Tax Increment Allocation Redevelopment Act. In accordance with this Act, payments in lieu of taxes (PILOTS) and a portion of the incremental increases to the economic activity taxes (EATS) were placed in a special allocation fund to pay for the bonds. Additionally, the city pledged its own general revenues to secure the debt.



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In addition, the Towne Center TDD was formed and the TDD established a one percent sales tax in December 2005. TDD collections of this sales tax were deposited into the same special allocation fund as the project PILOTS and EATS and were committed to repay the bonds.

Since the project fund was established in 2007, principal and interest payments on the debt have exceeded TDD sales taxes, EATS, and PILOTS by approximately \$1 million. The city provided \$1,141,583 in subsidies from the General Fund to this project from 2010 to 2016.

Recommendation

The Board of Aldermen refrain from pledging taxpayer funds to assist developers in obtaining financing for projects. Future undertakings of a similar nature should incorporate assurances or other safeguards to avoid exposing the city's financial resources to risk. In addition, review the current status of the Towne Center redevelopment project and determine the appropriate course of action to minimize the amount of city General Fund subsidies required to cover the debt service requirements of this project.

Status

In Progress

The Board of Aldermen continues to provide the required subsidies to the Towne Center redevelopment project, but has not approved any additional incentives or provided assistance to any developers on new projects since at least May 2017. The Board held a public hearing on the status of the Towne Center redevelopment project in November 2017 and the City Administrator indicated recent discussions have been held with a developer regarding additions to the Towne Center redevelopment project. The Board decided to refund the bonds issued in 2007 for this project and passed ordinance 3436 in April 2018 authorizing the issuance of annual appropriation-supported tax increment revenue bonds to refund the 2007 revenue bonds. City officials estimate refunding the bonds will eventually save the city at least \$50,000 per year. In 2017 and 2018, the General Fund provided a subsidy of approximately \$150,000 each year, but city officials project the subsidy will decrease to an estimated \$100,000 in 2019.

2.2 Management and oversight

There were significant weaknesses regarding the city's management and oversight of its TIF districts. In addition to the Towne Center Redevelopment Area discussed in section 2.1, the city also established the Market Place Redevelopment Area and approved the Market Place TIF Plan in March 2007 and amended the plan in February 2009. We identified weaknesses in management and oversight, as well as compliance issues, with both TIF projects.

- The city had not ensured there was an active TIF Commission to control and timely finish the TIF projects. According to city officials, the TIF



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Commission had not been active for many years, and the Commission had 3 vacancies for city appointed members.

- The developers had not filed annual progress reports or detailed reports on the progress of the projects on each 5-year anniversary with the Board, as required in the redevelopment agreements.
- City officials had not filed annual reports for the year ended December 31, 2010, or December 31, 2014, with the Missouri Department of Revenue (DOR).
- The city had not held public hearings every 5 years for each TIF as required.

Recommendation

The Board of Aldermen ensure there is an active TIF Commission to oversee and manage TIF projects to help ensure the projects are completed timely. Adequate records should be maintained to support project costs. In addition, the Board should ensure annual reports are filed with the state and public hearings are held on TIF projects as required by state law.

Status

Implemented

On September 9, 2017, the Board of Aldermen appointed 6 new members to fill the vacant positions on the TIF Commission, which then held its first meeting in October 2017. The minutes of that meeting indicate discussions were held regarding the status of TIF projects. A public hearing was held by the Board in November 2017 to discuss the status of each TIF project in the city, as required by state law. Annual progress reports were filed in October and November 2017 by the developers of the Towne Center and Market Place TIF districts. In addition, the 2017 TIF annual reports were filed with the DOR for both the Towne Center and Market Place TIFs by November 15, 2017, as required by state law.

2.3 Financial reporting

The city provided accounting services for the Towne Center TDD, Towne Center TIF, Market Place TDD A and B, and the Market Place TIF. The city maintained a fund for each TIF project that accounted for the receipts and disbursements of the TIF, along with the financial activity of the associated TDD. The TDD's cash balance and TDD portion of the TIF debt was not maintained. As a result, the city could not ensure each entity was properly paying its portion of the debt service payments and this weakness could have allowed TDD monies to be improperly used to pay a portion of the TIF debts.

Recommendation

The Board of Aldermen work with the TDD Boards to establish procedures to track the remaining TDD debt obligations and establish a fund to separately account for TDD receipts, disbursements, and cash balances.



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Status

In Progress

The Finance Director has updated an excel spreadsheet used to track the balance of the TDD Boards' debts. A separate account maintained by the bond trustee has been established for TDD Boards but the city still accounts for TDD and TIF monies in the same fund. The Finance Director is developing ledger accounts in the city accounting system to allow the city to track the receipts, disbursements, and cash balances for each of the TDD Boards' monies separately from the TIF monies.

**3.1 Utility Services -
Electric transfers**

The city had no documentation of discussions held and had no basis for determining the annual franchise tax transfer from the Electric Fund to the General Fund. During 2015, \$916,688 was transferred to the General Fund, based on 8 percent of electric sales and fees revenues.

Recommendation

The Board of Aldermen determine the value of government services being offset by the electric transfers, evaluate the effects of the transfers and their impact on the General Fund, and retain documentation of how the transfer rate is determined.

Status

In Progress

The city continues to make unsupported transfers from the Electric Fund to the General Fund, with \$925,375 transferred during 2017 and \$1,010,250 budgeted to be transferred during 2018. City personnel solicited requests for proposals from 5 firms in the greater Kansas City area to perform a study of cost allocations, including the electric transfers, but none of the firms submitted a proposal. One firm did provide the name of a company from another state that provides this type of service. The city contacted the company, which indicated verbally this type of study would cost approximately \$20,000. Sufficient appropriations were not included in the 2018 budget to cover this cost, but city personnel indicated the Board plans to appropriate funds in the 2019 budget for this study.

**3.3 Utility Services -
Missouri Public Energy
Pool disclosures**

The Board of Aldermen needed to evaluate its relationship with the Missouri Joint Municipal Electric Utility Commission (MJMEUC), including the Missouri Public Energy Pool (MoPEP), to determine proper disclosures about the relationship in the city's financial statements.

According to the MJMEUC documents, Harrisonville's pro-rata share was 4.8 percent and the city's obligation for the project bonds issued was approximately \$23.7 million as of December 31, 2015. The city may also have been obligated for any purchase power contracts. However, the city did not include any disclosure about the MJMEUC and the MoPEP in the city's financial statements.



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Recommendation The Board of Aldermen consult with its independent auditor to evaluate the relationship with the MJMEUC/MoPEP and determine the proper and necessary disclosures for the financial statements.

Status **Implemented**
The city's 2016 and 2017 audited financial statements included appropriate disclosures regarding the city's relationship with the MJMEUC/MoPEP.

3.4 Utility Services - Utility adjustments Controls over adjustments posted to customer utility accounts needed improvement. Billing clerks were not required to obtain independent approval for adjustments posted to the utility system prior to making the change.

Recommendation The Board of Aldermen ensure all adjustments are properly approved and compared to actual changes posted to the computer system.

Status **Implemented**
Utility adjustments are required to be approved by the Finance Director. Adjustment reports are now printed by the billing clerks and provided to the Finance Director, who then compares approved adjustments to actual changes posted to the computer system.

4. Procurement Procedures and Contracts Controls and procedures over city disbursements and construction projects needed improvement.

4.1 Professional services and contracts The city had not established policies and procedures for the selection of vendors providing professional services. The city did not solicit requests for proposals for various professional services, had not periodically conducted a competitive selection process for various professional services, and did not always enter into contracts with the providers selected.

Recommendation The Board of Aldermen periodically solicit proposals for professional services and enter into written agreements for those services. In addition, the Board should establish a policy to address the selection of professional services to ensure the city is in compliance with state law.

Status **Partially Implemented**
The Board of Aldermen solicited proposals for audit services in November 2017 and a written agreement was entered into with the selected firm. The city has not solicited proposals for legal services and continues to contract with the same attorney selected in August 2016. The Board has amended the city's purchasing policy to address the selection of professional services.



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4.2 Bidding

City personnel did not always follow the city's purchasing policy when obtaining goods and services. Our review of 37 disbursements requiring bids during the year ended December 31, 2015, determined 20 items were either not bid or were not advertised as required by city code. In addition, the policy did not address bid requirements when multiple purchases from the same vendor exceeded the bid threshold during a set period of time.

City personnel indicated several purchases were not bid because they were considered sole source purchases, but the reasons were not documented. The city's purchasing policy did not address procedures for sole source procurements.

According to city personnel, they did not bid several other items because they considered these transactions emergency purchases. The purchasing policy requires a full written explanation for an emergency purchase and the approval of the City Administrator or Finance Director; and if neither is available, the department head may authorize the purchase. None of these purchases were supported by such documentation.

Recommendation

The Board of Aldermen solicit bids in compliance with the City Code of Ordinances and amend the policy to add time frames for bid thresholds and procedures addressing sole source procurement.

Status

Implemented

The Board of Aldermen has amended the city's purchasing policy by adding a section that states contracts or purchases will not be subdivided to avoid the requirements of the policy. In addition, a section was added to the policy addressing situations where annual bids for multiple purchases of the same product from the same vendor could be awarded when it is advantageous to the city. A section was also added to address procedures to be followed when a sole source procurement is necessary. We selected 6 purchases/services obtained during the period April through June 2018 and all 6 were properly bid and/or advertised in accordance with city policy.

4.3 Change orders

Significant improvement was needed in the city's handling of change orders related to construction projects.

- The city did not have a formal written change order policy.
- The city did not competitively bid significant changes to construction projects, when appropriate.

Recommendation

The Board of Aldermen implement a change order policy that includes requirements for monitoring change orders and provides guidance on when bidding for substantial project changes is required.



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Status

Implemented

The Board of Aldermen amended the city's purchasing policy to stipulate that no change order exceeding 1 percent of the total approved bid amount would be allowed without following the normal purchasing policy procedures. If quotes or sealed bids are not obtained when required, that decision must be approved by the applicable department director, the City Administrator, and the Mayor. We reviewed 2 contracts that had a total of 3 change orders. The 2 change orders that exceeded the threshold requiring the change to be bid were not bid, but both were properly approved. Change orders of less than 1 percent of the total contract amount do not require supervisory approval.

4.4 Approval process

The city had not adopted a purchase order policy and city procedure did not require purchase orders for all goods and services. In addition, payment was made on some invoices, which did not require a purchase order, without documented approval.

Recommendation

The Board of Aldermen establish formal policies and procedures to ensure the proper use, accountability, and review and approval of purchase orders and invoices prior to payment.

Status

Implemented

A policy requiring purchase orders for all purchases was adopted. It specifies the type of information to be included on the purchase order, such as a description, specifications, unit purchase price, and freight conditions and place of delivery. The policy also requires approvers to ensure invoices are in conformity with the related purchase orders. We selected 6 disbursements made during the period April to June 2018 for testing. Purchase orders were maintained for all items tested, each invoice was approved, and each invoice was in conformity with the purchase order.

6.1 Allocations and
Restricted Funds - Cost
allocations and charges
to restricted funds

The Finance Director used several different calculations to allocate costs to various city funds, and some calculations used were questionable. Approximately \$2 million in costs paid by the General Fund in 2014 were allocated in 2015 to other city funds using various methods.

Administrative costs

The administrative costs allocated included personnel costs, fringe benefits, and travel and training costs for various finance and administrative employees, along with legal costs, insurance, other contractual services, and utility costs for city hall. Administrative costs allocated to various funds totaled approximately \$1.52 million during the year ended December 31, 2015.



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The Finance Director allocated most administrative costs based upon the average of a fund's percentage of full-time equivalents (employees), operating expenditures, fund balance (governmental funds) or net assets (proprietary funds), and insured asset values. None of the administrative costs were allocated based on specific documentation, such as time sheets, maintained by city personnel to indicate the amount of time or actual costs incurred in direct relation to a specific department/fund. Each of the utility funds was paying a large percentage of the general administrative costs of the city, although we could not determine if the amounts allocated to any department/fund were reasonable compared to the benefits derived by each fund from the shared activities/costs. In addition, some administrative costs were allocated based on estimated percentages.

Overhead costs added

An overhead rate of 20 percent was applied to the administrative costs allocated to each fund and added to the amount to transfer to the General Fund. The overhead charged to the other funds and added to the administrative allocation amounts totaled approximately \$269,000 for the 2015 allocations. These were not costs paid by the General Fund and the former Interim City Administrator could not provide an explanation for why this calculation was performed or what the overhead rate represented.

PILOT payments

In addition to the administrative costs and overhead allocated to the Electric and CWSS Funds, the city also charged a PILOT to each of these funds, which totaled approximately \$72,000 (\$25,644 to the Electric Fund and \$47,146 to the CWSS Fund) in the 2015 allocations. City officials did not provide any statutory authority for charging this PILOT to the Electric and CWSS Funds.

Recommendation

The Board of Aldermen allocate administrative costs to city funds based on specific criteria and retain documentation to support the allocation.

Status

In Progress

The city has made no changes to its allocation methods. However, as discussed in the status comments of finding number 3.1, the city plans to appropriate funds in the 2019 budget for a study of cost allocations.

6.3 Allocations and
Restricted Funds -
Restricted revenues

City personnel did not track the balance of various restricted revenues received during the year ended December 31, 2015. Motor vehicle-related revenues, county road and bridge sales tax revenue, law enforcement and public safety revenues, and federal and state grant monies are all accounted for within the General Fund, but the balances of those restricted monies are not tracked. As a result, city officials could not determine at a point in time what portion of the General Fund balance represented restricted monies.



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Recommendation The Board of Aldermen determine the balance of restricted monies in the General Fund and establish separate funds or a separate accounting for these monies, including the current balance.

Status **Implemented**

The city has developed a spreadsheet to use when preparing the budget showing, among other things, the amount of restricted monies received into the General Fund and the planned expenditure amounts for these specific purposes, such as street-related expenditures. The City Administrator indicated restricted revenues accounted for in the General Fund are normally fully spent in the year received. He indicated if any of those monies were not fully spent, the city has mechanisms in place to determine the unspent amount and those monies would be restricted within the General Fund.

7.2 Cash Handling Controls and Procedures - Segregation of duties and oversight The city did not have adequate personnel in most departments where monies were collected to segregate duties and adequate oversight of the transmittal process was not performed.

Recommendation The Board of Aldermen ensure the duties of receipting and transmitting/depositing monies are segregated or implement timely adequate supervisory reviews if duties cannot be appropriately segregated.

Status **Implemented**

A worksheet has been developed for the various departments to document all funds received and receipt slip numbers issued. The departments then bring the funds along with the worksheet to city hall for entry into the accounting system and deposit. The Finance Director or other independent personnel perform site visits and audits of transmittals periodically to ensure amounts transmitted agree to receipt slips issued.

8.1 Sunshine Law and Statutory Compliance - Closed meetings The Board discussed some items in closed meetings that were not allowed by state law and sometimes discussed issues unrelated to the specific reason cited in the open minutes for going into a closed meeting.

Recommendation The Board of Aldermen ensure issues discussed in closed meetings are allowed by state law, and limit issues discussed in closed meetings to only those specific reasons cited for closing the meeting.

Status **Implemented**



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The Board of Aldermen had the City Attorney review closed meeting minutes from 2015 through June 2017 to determine which minutes contained discussion of unallowable topics. The minutes identified were subsequently made public by the Board and posted on the city's website. We reviewed closed meeting minutes for the period August 2017 to June 2018 and identified no instances in which unallowable topics were discussed. Topics discussed agreed to the reasons cited for closure.

8.2 Sunshine Law and
Statutory Compliance -
Meeting minutes

The city did not ensure minutes of meetings were prepared timely and posted to its website. In addition, the Board did not review and approve closed meeting minutes. Closed meeting minutes were only signed by the City Clerk.

Recommendation

The Board of Aldermen ensure meeting minutes are prepared, approved, and posted to the city website timely for all open meetings.

Status

Implemented

We reviewed open meeting minutes for Board meetings and work sessions held in May, June, and July 2018 and located minutes for each meeting/session on the city's website. The City Administrator indicated he checks regularly to ensure the minutes are posted and indicated the new City Clerk is conscientious about posting minutes timely.

Procedures were changed in regard to closed meeting minutes approval. Minutes of closed meetings are now distributed to board members in sealed packets before the next open meeting. Closed minutes are approved at the open meeting, along with the open meeting minutes, and signed by the Mayor. If an amendment is necessary, the Board will discuss the proposed change at the next closed meeting, vote to approve the minutes, and have them signed by the Mayor. The closed meeting minutes for the period August 2017 to June 2018 were reviewed and were approved by the Board and signed by the Mayor.

9.2 Accounting Controls
and Procedures -
Delinquent accounts

The city had not developed written policies and procedures regarding handling and accounting for delinquent utility and Emergency Medical Services (EMS) accounts.

At our request the utility billing and EMS departments generated reports of delinquent accounts. The reports included 2,912 accounts (totaling \$1,765,864) more than 5 years old. City officials did not have a process to periodically review these reports and evaluate the likelihood of collection, and had not removed delinquent accounts from the utility system in many years or the EMS billing system since 2009.



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Recommendation

The Board of Aldermen establish policies and procedures regarding the collection of delinquent accounts.

Status

Not Implemented

City officials indicated they are committed to developing policies and procedures regarding the collection of delinquent accounts, but none have been implemented as of September 30, 2018.