



Susan Montee, CPA

Missouri State Auditor

City of Lebanon



July 2008

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Office of
Missouri State Auditor
Susan Montee, CPA

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The following findings were included in our audit report on the City of Lebanon, Missouri.

Several concerns related to two economic development building projects were noted. A member of the city council voted to hire a firm to provide architectural and management services for one building project with apparent knowledge that he would work for this firm on the construction project. In addition to serving as project manager, a construction company owned by the councilman was paid to perform some of the work on both building projects. As project manager the councilman was responsible for approving the work being done by his construction company on one building project, and he also approved additional construction costs of \$250,000 to meet the specific needs of the manufacturing company. Of this amount, the councilman's construction company was paid \$180,341. There was no bidding performed for these additional improvements. Some of these matters may present potential violations of state law.

Bids were not solicited for some amounts paid to other contractors related to these projects and bidding was not handled by the architectural and construction management firm in accordance with the city's bid policy.

It appears the city may be circumventing prevailing wage laws. The city often enters into supplier contracts for various construction projects and the contractor's employees become temporary city employees. Some temporary employees work very few hours while others may work for most of the year. City personnel indicated the city uses supplier contracts in an effort to save the city money resulting from lower wages paid to employees and lower overhead costs of the contractor. In addition, temporary city workers do not receive the same benefits as full-time classified city employees such as health insurance or paid holiday leave. State law requires prevailing wage to be paid to all workers employed by contractors, who perform construction work on public projects other than routine maintenance.

Utility customers may be paying too much for some utility services as a result of subsidizing the promotion of economic development and general city expenses through the payment of their utility bills. The city has transferred substantial amounts from various funds to the Administrative and Economic Development Funds without proper documentation or justification. City officials indicated the transfers are based upon the benefit provided to those funds; however, the city had no documentation to support these allocations. Approximately one percent of customer billings for electric, water and wastewater are transferred to the Economic Development Fund to promote economic development activities. The city has not established an ordinance approving or justifying these transfers.

(over)

YELLOW SHEET

Over \$6.6 million was due to the Electric Fund at October 31, 2007, from the Economic Development and Airport Funds as the result of three interfund loans to cover two building projects for economic development purposes and for the building of an airport hanger. Loan repayments are funded by amounts received from building leases, and based upon current lease agreements, one loan will not be completely repaid until 2026. The city's budget and financial statement do not reflect the amounts owed to the Electric Fund for these loans. In addition, interfund borrowing is not appropriate as a long-term funding mechanism.

The city has not complied with its purchasing policy. There are purchases noted for which bids were not solicited or not documented. Several expenditures in excess of \$10,000 were noted for which bids were solicited through various means; however, the bids were not advertised in the local newspaper. In addition, several instances were noted where the city did not obtain verbal quotations for purchases between \$100 and \$3,000.

Controls and procedures over city expenditures are in need of improvement. We identified Christmas bonuses paid to employees, unnecessary expenditures, and some payments to not-for-profit organizations that were not supported by a written agreement. In addition, the city does not have a formal food or credit card policy and has not evaluated the cost and distribution of cellular phones.

Also included in the audit report are recommendations related to professional services and city contracts, civic center and parks procedures and controls over monies, vehicle usage, payroll policies and procedures, accounting controls and other city procedures, financial reporting and planning, council minutes, and capital assets.

All reports are available on our Web site: www.auditor.mo.gov

CITY OF LEBANON

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STATE AUDITOR'S REPORT



SUSAN MONTEE, CPA
Missouri State Auditor

To the Honorable Mayor
and
Members of the City Council
City of Lebanon, Missouri

The State Auditor was petitioned under Section 29.230, RSMo, to audit the city of Lebanon. The city engaged Officer CPA Firm, LLC to audit the city's financial statements for the year ended October 31, 2007. To minimize duplication of effort, we reviewed the report and substantiating working papers of the CPA firm for the year ended October 31, 2006, audit, since the year ended October 31, 2007, audit had not been completed. The scope of our audit included, but was not necessarily limited to, the year ended October 31, 2007. The objectives of our audit were to:

1. Obtain an understanding of the petitioners' concerns and perform various procedures to determine their validity and significance.
2. Determine if the city has adequate internal controls over significant management and financial functions.
3. Determine if the city has complied with certain legal provisions.

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. However, providing an opinion on the effectiveness of internal controls was not an objective of our audit and accordingly, we do not express such an opinion.

We 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 contract 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. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. Abuse, which refers to behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary given the facts and circumstances, does not necessarily involve noncompliance with legal provisions. Because the determination of abuse is subjective, our audit is not required to provide reasonable assurance of detecting abuse.

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 History, 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.

The accompanying Management Advisory Report presents our findings arising from our audit of the city of Lebanon.

An additional report, No. 2008-27, *Twenty-Sixth Judicial Circuit, City of Lebanon Municipal Division*, was issued in May 2008.



Susan Montee, CPA
State Auditor

The following auditors participated in the preparation of this report:

Director of Audits:	Thomas J. Kremer, CPA
Audit Manager:	Peggy Schler, CPA
In-Charge Auditor:	April McHaffie Lathrom, CPA
Audit Staff:	Natalie McNish

MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

CITY OF LEBANON
MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

1.	Building Projects
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A significant amount of city funds have been used toward economic development building projects and improvements are needed with the handling of these projects.

The city agreed to build a 210,000 square foot warehouse facility in July 2005 for a private manufacturing corporation, to be leased by the manufacturer for ten years. The city spent approximately \$5.4 million to construct the warehouse facility. Monies from the Electric Fund were loaned to the Economic Development Fund and were then used to construct the building (see Management Advisory Report (MAR) 3C). The manufacturer also leases a smaller warehouse from the city that was connected to the larger warehouse as part of the construction project.

In November 2005, the city began a second economic development building project to construct a 25,000 square foot facility in the industrial park costing approximately \$1.6 million. The city entered into a five-year lease with another local manufacturer for this building and Electric Fund monies were again used to fund this project. A review of these two projects noted the following concerns:

- A. A member of the city council voted to hire a firm in July 2005 to provide architectural and construction management services for the first building project with apparent knowledge that he would work for this firm on the construction project. The city's contract with the firm indicated the councilman would perform duties on the project and the councilman did not abstain from voting on the contract. The councilman served as a project manager for the construction project. In November 2005, when the first building project was nearing completion, the councilman voted to hire this firm again to provide architectural and construction management services for the second building project. The councilman's son served as the project manager on the second building project. The city did not solicit proposals for architectural and construction management services (See MAR 6). This firm was paid a total of approximately \$416,000 during the three years ended October 31, 2007.

In addition to serving as project manager, a construction company owned by the councilman was paid to perform some of the work on both building projects.

On the first building project, the councilman's construction company was awarded the bid and was paid \$359,582 to build a connector tunnel and office space. However, as project manager the councilman was responsible for approving the work being done by his construction company. This function is normally

performed by an architect or engineer who is independent of the construction process. Also, as project manager the councilman approved additional construction costs of \$250,000 to meet the specific needs of the manufacturing company. Of this amount, the councilman's construction company was paid \$180,341. There was no bidding performed for these additional improvements.

On the second building project, the councilman's construction company was awarded the bid and was paid \$328,634 to construct the interior offices of the building. In this instance, the councilman's son approved the work done by his father's firm. In addition, the councilman's construction company was paid \$11,652 for general construction expenses, but there was no bidding performed or contract available to support these additional payments.

Further, on the second building project, the councilman's construction company and employees were paid for concrete work on the building. The architect prepared the bid specifications for the concrete work; however, this contract was not awarded similar to the other construction contracts for this project. The city handled this work by using a supplier contract (see MAR 2). The bid specifications prepared by the architect indicated prevailing wages were to be paid on the project. However, after a pre-bid meeting was held, the architect prepared an addendum to the specifications indicating prevailing wages did not apply to this job. The councilman's construction employees became temporary city workers and prevailing wages were not paid to the employees. Of \$158,784 paid by the city for concrete work, \$71,862 was paid to the councilman's construction company, \$72,713 was paid for materials, and \$14,209 was paid to the councilman's construction employees who became temporary city workers. Further, the city did not advertise for bids for the concrete work (see MAR 4). City personnel indicated they solicited bids from local vendors that were familiar with using the city's supplier contracts.

Additionally, bids were not solicited for some amounts paid to other contractors related to these projects and bidding was not handled by the architectural and construction management firm in accordance with the city's bid policy. For example, bidding was not performed for plumbing work totaling \$16,264. Also, city policy requires advertising for expenditures greater than \$10,000 for three consecutive days in the local newspaper (see MAR 4); however, the advertisements for the various phases of construction related to this project were in the local newspaper for only one day. Both economic development projects were handled using the fast track approach. With this approach, components of construction were started before all contracts on the project were finalized.

Officers and agents of a city serve in a fiduciary capacity. Personal interests in business matters of the city create the appearance of conflicts of interest. To avoid the appearance of conflicts of interest, council members should not participate in decisions that may affect related parties.

Some of these matters also present potential violations of state law. Section 105.454, RSMo, prohibits financial transactions between a city and an officer (or spouse, dependent child, or business and corporate interest of the officer or employee) of the city that involved more than \$5,000 per year or \$500 per transaction unless there had been public notice to solicit proposals and (except for real property) competitive bidding, provided that the bid or offer was the lowest received. Section 105.458, RSMo, states that no member of a governing body of any political subdivision shall perform any service for the political subdivision for compensation other than the compensation provided for the performance of his official duties unless the transaction is made pursuant to an award on a contract let after public notice and competitive bidding, provided that the bid or offer accepted is the lowest received.

- B. Prevailing wage rates were not monitored by the city. The architectural and construction management firm hired several contractors on the city's behalf to perform most of the construction work on the two building projects. The city did not require contractors to provide supporting documentation of wages paid to ensure compliance with prevailing wage laws. For example, five contractors were paid a total of approximately \$1.1 million on the second building project and the city did not review payroll records to ensure compliance with prevailing wage laws.

Section 290.230, RSMo, requires prevailing wage to be paid to all workers employed by or on behalf of any public body, who performs construction work projects other than routine maintenance. Without detailed supporting documentation, the city cannot ensure compliance with state law.

WE RECOMMEND the City Council:

- A. Closely examine city transactions to identify and avoid apparent and actual conflicts of interests. City officials that have a conflict should fully disclose their interests and should not vote on matters which involve them personally. In addition, the city should implement the various recommendations throughout this report to help them improve the management of city operations.
- B. Ensure adequate supporting documentation is submitted to substantiate prevailing wages are paid on all construction projects as required by law.

AUDITEE'S RESPONSE

- A. *The City acknowledges the findings and recommendation of the auditor and agrees to examine its professional services procurement policies and will strive to comply to the greatest extent practical with Qualification Based Selection best practices. The City's contracting and procurement policies are being reviewed (per Mayor's Guidance Statement 11) and will be amended to correlate with the desired business practice of the City Council and in conformance with state law. Further, the City will periodically*

educate management, council members and advisory boards of the need to fully disclose conflicts of interest and to abstain from the decision-making process regarding the same.

The City acknowledges the question regarding the use of supplier contracts and the prevailing wage. An addendum was prepared and acknowledged waiving the prevailing wage component of the contract.

- B. The City acknowledges the findings and recommendation of the auditor and is in the process of reviewing its organization and will establish procedures and personnel to properly coordinate contract(s) administration by October 2008.*

2. Prevailing Wages

It appears the city may be circumventing prevailing wage laws. The city often enters into supplier contracts for various construction projects. As part of these supplier contracts, the cost of labor, materials, and 23 percent of related insurance costs are deducted from the contract amount and the contractor's employees become temporary city employees.

Some temporary employees work very few hours while others may work for most of the year. For example, when the city constructed the public works facility in 2005, approximately 36 temporary workers from 10 contractors were added to the city's payroll for this project. One worker who installed carpeting on the project worked only 12 hours for the city. In addition, the city routinely enters into supplier contracts for various street projects, sidewalk projects, and curb and guttering projects. One of the temporary employees on a street project worked 1,701 hours during calendar year 2006. In addition, supplier contracts were also noted for other projects such as renovations to the bath house at Boswell Pool.

City personnel indicated temporary workers go through the same hiring process as other city employees. For example, they must complete an employment application, take a drug test, receive a copy of the personnel manual, and watch a safety video.

City personnel indicated the city uses supplier contracts in an effort to save the city money resulting from lower wages paid to employees and lower overhead costs of the contractor. In addition, temporary city workers do not receive the same benefits as full-time classified city employees such as health insurance or paid holiday leave.

City personnel also indicated the Department of Labor and Industrial Relations (DOLIR) has investigated complaints related to prevailing wages on several city construction projects. The city provided a letter from DOLIR dated May 15, 2001, which indicated the city should consider workers compensation and unemployment insurance implications; however, the letter did not address the legality of the city's practices.

Section 290.230, RSMo, requires prevailing wage to be paid to all workers employed by contractors, who perform construction work on public projects other than routine maintenance.

While the practice of hiring contractors' employees as temporary city employees may reduce the cost of construction projects, it appears the city may be circumventing prevailing wage laws. To ensure the city is operating within state law, the City Council should reevaluate this practice and consult legal counsel.

WE RECOMMEND the City Council consult legal counsel to determine the city's compliance with prevailing wage laws and reevaluate the practice of hiring contractors' employees as temporary city employees.

AUDITEE'S RESPONSE

The City acknowledges the findings and recommendation of the auditor and will consult with legal counsel and take appropriate measures as determined necessary to comply with all federal and state law requirements.

3. Utility Rates, Fund Transfers, and Interfund Loans

Utility rates charged to customers may not be set at a level consistent with the costs of providing the related services, the city has made several transfers without proper justification or documentation, and over \$6.6 million owed to the Electric Fund for three long-term interfund loans was not reflected in the city's financial statements.

The city of Lebanon operates various city-owned utility operations to provide utility services to its citizens. These operations include electric, water, sewer, and fiber optic services. The operations of each activity are accounted for in separate funds. The city's audited financial statements reflected the following combined operating and nonoperating revenues, expenditures, net transfers, and ending fund balances of these funds for the year ended October 31, 2007:

	Fund		
	Electric*	Water	Sewer**
Revenues	\$ 17,434,034	1,677,419	2,307,550
Expenditures	15,871,572	1,185,949	3,587,154
Net Transfers	(39,059)	(710,492)	1,117,386
Ending Balance	\$ 10,836,081	39,296	146,398

* Includes Fiber Optic

**Includes Wastewater

The ending fund balance of the Electric Fund at October 31, 2007, is exclusive of amounts due from other funds (See Part C below). Our review of the records and activities of the funds disclosed the following concerns:

- A. Utility rates charged to customers may not be set at a level consistent with the costs of providing the related services. Utility customers may be paying too much for some utility services as a result of subsidizing the promotion of economic development and general city expenses through the payment of their utility bills. The following table shows income (loss) before transfers for the last several years:

Fund	Year ended October 31,				
	2007	2006	2005	2004	2003
Electric	\$ 1,562,462	2,525,684	2,207,205	1,773,616	2,439,498
Water	491,470	672,078	834,360	850,345	882,120
Sewer	(1,279,604)	(1,761,427)	(496,691)	(278,275)	(59,888)

As the table indicates, the Electric and Water Funds continue to have significant operating income each year. Electric rates have remained unchanged since 1992 and water rates have not been increased since 2000. The Public Works Director performed an evaluation of utility rates in April 2006 and the council approved a sewer rate increase. The January 28, 2008, city council minutes briefly refer to anticipated rate increases because of increases in the cost of purchasing electricity.

While the city has internally reviewed and adjusted sewer rates, it is essential that the city perform a periodic comprehensive review of all rates to ensure they are set at a level consistent with the costs of providing each specific utility service.

- B. The city has transferred substantial amounts from various funds to the Administrative and Economic Development Funds without proper documentation or justification.
- The city makes monthly transfers from several funds to the Administrative Fund to cover administrative expenditures incurred. Transfers to the Administrative Fund totaled approximately \$2.39 million during the year ended October 31, 2007. Transfers were made from the Electric Fund (\$1,015,000), General Fund (\$680,000), Street Fund (\$225,000), Water Fund (\$220,000), Wastewater Fund (\$220,000), and Fiber Optic Fund (\$26,000). City officials indicated the transfers are based upon the benefit provided to those funds; however, the city had no documentation to support these allocations.
 - Approximately one percent of customer billings for electric, water and wastewater are transferred to the Economic Development Fund to promote economic development activities. Transfers totaling \$191,500 were made

to the Economic Development Fund from the Electric, Water, and Wastewater Operating Funds during the year ended October 31, 2007. The city has not established an ordinance approving or justifying these transfers.

The city needs to properly allocate expenses to the various funds to establish appropriate user fees for its utilities. The city should ensure expenditures are allocated to the various funds in proportion to the benefits received from the expenditures. Documentation should be retained to support the percentages used for allocating expenditures. Furthermore, the use of certain revenues, such as state motor vehicle revenues or transportation sales taxes, is limited by state law for specified purposes. Therefore, documentation and proper allocation of expenses is useful for both management and compliance purposes.

Utility revenues should only be used to fund the operations of the related utility services. Rates for utility services should be set to cover the costs of producing and delivering services (including administrative costs), repaying debt, if applicable, and repairing and replacing infrastructure. These utility services should not generate profits to fund other services provided by the city or other utility departments.

- C. Over \$6.6 million was due to the Electric Fund at October 31, 2007, from the Economic Development and Airport Funds as the result of three interfund loans. These loans were made in July and November 2005 to cover two building projects for economic development purposes and in October 2005 for the building of an airport hanger. Loan repayments are funded by amounts received from building leases, and as a result, these loans will not be repaid for several years. Based upon current lease agreements, one loan will not be completely repaid until 2026. The city's budget and financial statement do not reflect the amounts owed to the Electric Fund for these loans.

Interfund borrowing is not appropriate as a long-term funding mechanism. In addition, without proper presentation of the amounts due, the city's budget and financial statement do not accurately reflect the true financial position of these funds.

WE RECOMMEND the City Council:

- A. Ensure utility rates are set to generate revenues as necessary to produce and deliver the related service.
- B. Develop a methodology for determining the amount of transfers, retain adequate documentation to support the calculation of the transfers, and establish ordinances authorizing the transfers.

- C. Discontinue the practice of making long-term interfund loans and ensure all loans are properly presented on the city's financial statement.

AUDITEE'S RESPONSE

- A. *The City does concur and agree that a comprehensive study of each of the utilities should be done periodically to ensure the rates are consistent with operational costs of each service and such study presented before the Council and public. We are currently studying the electric rates and plan to initiate a water study by October 2008.*
- B. *The City acknowledges the findings and recommendation of the auditor and will perform a comprehensive evaluation of the Administrative Fund and reallocate the distribution of costs as determined necessary from the study. The Council will adopt policies and procedures that document the administration funding process and will establish ordinances authorizing the transfers. This will be completed by November 1, 2008, and will be incorporated in the fiscal year 2010 budget process. October 31, 2008, is the last day for the 2009 budget and if we are adopting this in November, it is too late to incorporate for the fiscal year 2009 budget.*
- C. *The City acknowledges the findings and recommendation of the auditor; however, the City understands that there is no statutory regulation that prohibits long term interfund loans. The City understands and agrees with the auditor's concerns of long term loans considered in the light of best management practices. The City will study and adopt a policy regarding the use of interfund loans including establishment of perhaps reserve minimums to prevent risk overexposure.*

The City does maintain documentation on the interfund loans and has demonstrated a history of budgeted repayment; however, the City agrees that all interfund loans should be reflected in the financial statements. This will be reflected in the financial statements in July 2008.

4. Bidding

The city has not complied with its purchasing policy. Bids were not solicited for some purchases and some bids were not advertised as required.

The city's bidding policy requires a minimum of three verbal quotations for purchases between \$100 and \$3,000, three written quotations for all purchases between \$3,000 and \$10,000, and newspaper publication for three consecutive days for all purchases exceeding \$10,000.

- A. The following purchases were noted for which bids were not solicited or not documented:

Asphalt - total fiscal year 2007	\$ 909,544
Chat - total fiscal year 2007	482,620
Various property and miscellaneous insurance	383,674
Phone system for city hall	24,761
Cell phone service for police and fire	15,259
Envelopes	5,029

In addition, the city has not established procedures to bid re-occurring purchases, such as asphalt and chat, on an annual basis.

- B. Several expenditures in excess of \$10,000 were noted for which bids were solicited through various means; however, the bids were not advertised in the local newspaper. Examples include the Elm Street Project (\$362,905 for Phase 1), well drilling (\$246,558), concrete (\$170,617), sewer pumping system (\$55,000), an arborist machine (\$49,519), a used sport utility vehicle for the civic center (\$20,400), a used sport utility vehicle for the police department (\$17,400) and ammunition (totaling approximately \$36,800 during the two years ended October 31, 2007).

In addition, there was no documentation to support the decision to purchase the used sport utility vehicles. City personnel indicated the cost to purchase a vehicle on state contract was reviewed and then the purchases of these vehicles were negotiated with a local vendor. The city had documentation of the state contracts for various trucks and sport utility vehicles. It was not clear whether the lowest priced vehicles were selected and there was no analysis of the decision to purchase the used sport utility vehicles such as consideration of price, mileage, features, etc.

The ammunition was purchased at a local business which is owned by the municipal judge and the Mayor's son. The purchase order did not document price comparison and indicated this was a proprietary vendor; however, documentation of price comparisons was provided by city personnel. Based on the price comparison provided, the lowest bid was not selected and the reason for selecting the higher bid was not documented.

- C. Several instances were noted where the city did not obtain verbal quotations for purchases between \$100 and \$3,000. Also, bidding limits were circumvented by some employees who split purchases to the same merchant on the same day.

Formal bidding procedures for major purchases provide a framework for economical management of city resources and help ensure the city receives fair value by contracting with the lowest and best bidders. Competitive bidding also helps ensure all parties are

given equal opportunity to participate in the city's business. The city should ensure compliance with established procedures. In addition, written documentation of bids should be maintained to provide evidence that the city has complied with its purchasing policy. Bid documentation should include a list of vendors contacted, a copy of the bid specification, copies of all bids received, justification for awarding the bid, and documentation of discussions with vendors.

WE RECOMMEND the City Council ensure compliance with the city's purchasing policy and retain adequate documentation as evidence of compliance with the policy and to support justification of the bid awards.

AUDITEE'S RESPONSE

The City acknowledges the audit findings regarding the bidding and purchasing of materials and services. The City's contracting, services procurement, and general purchasing policies are being reviewed (per Mayor's Guidance Statement(s) 11) and will be amended to correlate with the desired business practice of the City Council and in conformance with state law. We expect to adopt a policy by October 2008 and have full implementation by start of fiscal year 2009.

5.

Expenditures

Controls and procedures over city expenditures are in need of improvement. We identified Christmas bonuses paid to employees, unnecessary expenditures, and some payments to not-for-profit organizations that were not supported by a written agreement. The city lacks a comprehensive food policy and travel expense reports were not always prepared. The city does not have a formal policy on credit card usage and has not evaluated the cost and distribution of cellular phones. Finally, procedures have not been established to ensure revenues are spent for the intended purpose.

A. The city paid Christmas bonuses totaling approximately \$20,600 (\$50 plus taxes per employee annually) to city employees during December 2007 and 2006.

These payments appear to represent additional compensation for services previously rendered in the form of bonuses and, as such, are in violation of Article III, Section 39 of the Missouri Constitution and are contrary to Attorney General's Opinion No. 72, 1955 to Pray, which states, "...a government agency deriving its power and authority from the Constitution and laws of the state would be prohibited from granting extra compensation in the form of bonuses to public officers after the service has been rendered."

B. Some expenditures reviewed did not appear to be prudent and necessary uses of public funds. The following examples were noted:

- The city spent \$3,047, including \$1,244 for food and drinks and \$1,703 for stainless steel thermoses for employee gifts, for an employee Christmas party, in December 2007.
- The city purchased 13 pre-paid VISA cards totaling \$489 in December 2006 for an employee drawing at the annual Christmas party.
- The city provided food costing \$480 at a demonstration presented to the public by a local manufacturer.
- Flowers and/or plants totaling \$180 were purchased for condolences to employees and family members during the year ending October 31, 2007.
- The city paid \$250 to be a sponsor for the Lebanon Area Sports Hall of Fame banquet. The letter requesting support indicated the city would receive mention in the program and a reserved table with eight tickets.

Public funds should be spent only on items which are necessary and beneficial to the city. City residents have placed a fiduciary trust in their public officials to spend city revenues in a prudent and necessary manner.

C. The city gave subsidies to several not-for-profit organizations and generally the specific services to be provided were defined through a written agreement. However, the city contributed \$2,500 to the Lebanon Chamber of Commerce from the Downtown Business District Fund during the year ended October 31, 2007, without entering into a written agreement and did not request or receive any documentation to show how the funds were spent.

In addition, the city paid the Lebanon Optimist Club \$2,500 during the year ended October 31, 2007, to promote Babe Ruth baseball and did not request or receive any documentation to show how the funds were spent.

The Missouri Constitution prohibits the use of public money or property to benefit any private individual, associations, or corporations except as provided in the constitution. Without a written agreement that clearly indicates the governmental purpose being provided by these entities, these uses could be considered to be a violation of the constitution. Written agreements are necessary to quantify the services to be performed and the compensation to be paid for the services, provide a means for the city to monitor compliance with the contract terms, and protect the city in the event of a dispute over the terms of the agreement. Also, Section 432.070, RSMo, requires all contracts to be in writing.

To ensure monies are spent for the intended purpose, the city should establish formal procedures to monitor the use of the monies given to not-for-profit organizations such as requiring detailed financial reports or invoices.

- D. The city has not established a comprehensive food policy or regulations regarding city provided food. Several meal expenses within the city limits of Lebanon were charged to the city's credit card. According to city personnel, these meals were for meetings among city employees or members of various boards. For example, \$1,459 was spent for food provided at Park Board lunches during the year ending October 31, 2007, including one meal at a local steakhouse totaling \$249. In addition, several other receipts reviewed for meals purchased at local restaurants did not include the business purpose or list the persons in attendance.

The city should develop comprehensive policies regarding food purchases and review the need for reimbursing local meal expenses. Guidelines should establish the situations in which local food purchases are acceptable and the required documentation. At a minimum, documentation should include the business purpose and a list of persons in attendance.

- E. We reviewed one credit card billing statement with travel expenses totaling \$322 for gas, meals and lodging; however, no expense report was prepared. City policy requires that all city credit cards and receipts, accompanied by a travel expense report, must be given to the City Clerk immediately following the employee's return to work. Without a detailed travel expense report, the city cannot determine the propriety of payments made for travel expenses.

- F. The city does not have a formal policy regarding credit card usage. The city has 4 bank credit cards and 54 credit cards from 5 local vendors used by various city employees and board members for purchases. While purchases charged to the bank credit cards were primarily for travel (meals, motel, car rental, and gasoline), charges for miscellaneous items and other supplies were also noted. In addition, some items charged did not always contain adequate supporting documentation and some items charged were not bid in accordance with the city's bidding policy. Disbursements to credit card companies totaled approximately \$94,400 during the year ended October 31, 2007.

A policy which establishes levels of purchase authorization, the types and maximum amounts of allowable purchases that may be charged, approval requirements for various purchases, and documentation requirements decreases the possibility that unauthorized purchases will occur.

- G. The city has not evaluated the cost and distribution of cellular phones. The city paid more than \$35,000 to provide cellular phone service to 80 city employees during the year ended October 31, 2007. The usage of city cellular phones ranged from 60 minutes to over 2,800 minutes on the July 2007 billing. Also, several of the detailed phone bills to support these costs were not retained by the city.

Further, while city officials indicated phone bills are reviewed, this review is not always documented. City policy allows employees to use the city provided phones for personal use and only requires such calls to be kept to a reasonable minimum.

While cellular phones can help increase employee productivity, they are also costly. Effective procedures should be implemented by the city to properly monitor cellular phone usage. Additionally, the city should periodically evaluate the cost and distribution of cellular phones to employees to ensure all phones are needed and are of benefit to the city.

- H. Procedures have not been established to ensure dedicated funds are spent for the intended purpose. For example, a vehicle costing \$20,400 purchased from the Lodging Tax Fund in 2006 is used by the Community Service Director of Parks and Civic Center who oversees tourism activities along with civic center and parks activities. A portion of the vehicle cost was not allocated to the Civic Center Fund or Parks and Recreation Fund, and as a result, lodging tax revenues were spent for other than the intended purpose.

Chapter 24, Article VIII, Section 24-183 of the City Code, provides that all revenues received from the two and one-half (2 1/2) percent lodging tax shall be utilized by the city for promoting the city as a convention, visitor and tourist center.

The funds of the city are established as separate accounting entities to account for specific activities of the city. The use of certain funds, such as lodging taxes, is limited by state law and city ordinances for specified purposes. Therefore, proper allocation of expenses is useful to accurately determine the results of operations of specific activities and to ensure restricted funds are spent for the intended purpose.

WE RECOMMEND the City Council:

- A. Discontinue paying bonuses to city employees.
- B. Ensure all disbursements are necessary and prudent uses of public funds.
- C. Ensure subsidies to other entities provide a benefit to the city and do not violate state law or the state constitution. Written agreements should be prepared which specifically address the services to be provided and compensation to be paid. In addition, procedures should be developed to adequately monitor subsidies given to not-for-profit organizations.
- D. Develop comprehensive policies regarding city provided food purchases.
- E. Require all employees to submit detailed travel expense reports in accordance with city policy.

- F. Adopt formal policies and procedures for credit card usage.
- G. Monitor the usage of cellular phones. In addition, an assessment should be performed to determine which city employees need a cellular phone.
- H. Ensure dedicated funds are expended for the intended purpose.

AUDITEE'S RESPONSE

- A. *The City acknowledges the finding and recommendation of the auditor. The City strongly believes the traditional practice of paying employees \$50 plus taxes for a Christmas bonus is valid and warranted to show some measure of appreciation for employees. This discussion will be addressed by the Council through the budget development and approval process.*
- B. *The City strongly believes that it should demonstrate its commitment to its employees and their service to the citizens. The City spent \$3,500 for a meal and small gift for all employees, media staff present, Mayor and Council and honored guests. As a part of the celebration, the departmental safety, wellness, and years of service awards were distributed; and, all employees were addressed by the City Administrator regarding the past year and upcoming year events. Although government, we believe this is a best management practice common to private industry and ultimately provides for better employee relations, performance, and thus beneficial to the citizens. In an effort to reduce expenses, the gifts will no longer be given.*
- C. *The City concurs with the finding and recommendation of the auditor. The City will take steps to ensure all agreements are written and properly document the services received. Procedures will be developed to ensure the monitoring of the services provided is per the agreement.*
- D. *The City concurs with the finding and recommendation of the auditor. The City has an adopted travel policy (206.0) which identifies the per diem rate to be paid for meals resulting from travel. The City will study and adopt a policy to govern the provision of food to boards, events and necessary management meetings.*
- E. *The City concurs with the finding and recommendation of the auditor. The City has adopted a travel policy with procedures regarding reimbursement or charging of travel expenses. The City will review the policy for necessary updates and re-communicate its requirements to all employees and staff.*
- F. *The City acknowledges the finding and recommendation of the auditor. Refer to City response MAR 4.*
- G. *The City acknowledges the finding and recommendation of the auditor. Refer to City response MAR 4. The City has bid cell phone service and evaluated need. The City has not maintained justification documentation for cell phones nor formally evaluated the*

costs and productivity effect of cell phone use. Cell phone usage that has been found to incur additional costs to the City have been assessed to the employee and reimbursements made. The City will conduct an evaluation and justification of cell phone allocation before fiscal year 2009 start.

- H. *The City acknowledges the finding and recommendation of the auditor. The purchase was approved by the Council warrants and subsequent budget amendment. The vehicle in question is used for multiple purposes primarily by Civic Center and Tourism staff. The City will continue to monitor the expenditures of dedicated revenues to ensure they are spent for the intended purposes.*

6. Professional Services and City Contracts
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The city has not solicited proposals for various professional and investment services and does not always enter into written contracts for such services.

- A. The city does not always solicit proposals from various firms or individuals for professional services. Also, the specific services to be provided and fees to be charged for such services were not always defined in a written contract. Examples include:

- The city did not solicit proposals for legal services (other than the city counselor) and has used the same three law firms routinely for several years. In addition, the city did not enter into a written contract with any of the firms for the legal services provided. The city paid \$83,221 (excluding payments to the city counselor's law firm) for legal services during the year ended October 31, 2007.
- Requests for proposals were not solicited for various professional services during the year ended October 31, 2007, including \$87,395 paid for consulting on natural gas services, \$27,784 paid for geotechnical engineering services, \$14,563 paid for street engineering, and \$14,100 paid for appraisal services.
- The city paid \$16,401 during the year ending October 31, 2007, for auditing services. The city solicited proposals for these services in 1998 and a firm was selected for a three year period. The city used this same firm until 2007 without soliciting proposals. In 2007, the CPA that provided auditing services to the city started a new firm and the city continued to use this CPA without soliciting competitive proposals.

While professional services, such as attorneys, consultants and engineers may not be subject to the standard bidding procedures, the city should solicit proposals for professional services to the extent practical. Soliciting proposals and subjecting such services to a competitive selection process does not preclude the city from selecting the vendor or individual best suited to provide the service required.

Such practices help provide a range of possible choices and allow the city to make a better-informed decision to ensure necessary services are obtained from the best qualified vendor at the lowest and best cost. Written contracts are necessary to document the rights and responsibilities of all parties involved and to prevent misunderstandings. In addition, Section 432.070, RSMo, requires contracts for political subdivisions to be in writing.

- B. The city has not solicited bids for investment services since 2002. The city has used the same investment firm since 2002 and had approximately \$15.7 million invested at October 31, 2007.

The city should periodically conduct a competitive bid process for investment services to ensure it is receiving the best services and rates. Documentation of this process should be retained.

WE RECOMMEND the City Council:

- A. Periodically solicit proposals for the selection of the various professional service providers. All documentation regarding proposals solicited should be retained. In addition, all contracts should be in writing.
- B. Periodically seek proposals or competitively bid the city's investment services.

AUDITEE'S RESPONSE

- A. *The City acknowledges the finding and recommendation of the auditor. Refer to City responses MAR 1A and MAR 4.*
- B. *The City concurs with the finding and recommendation of the auditor. The City will solicit bids for the city investment services in Fall 2008.*

7.

Civic Center and Parks Procedures

Improvements are needed in the management of civic center and parks activities. The Cowan Civic Center is a multipurpose facility. The facility includes an exhibit hall which will seat 4,000 people, a 675-seat theater, an indoor heated pool, a gymnasium and multipurpose sports room, a fitness area, a commercial kitchen, and meeting rooms for small or large group events. These facilities are rented to businesses or the general public. The city also operates a Parks and Recreation Department which manages meeting rooms at the Wallace Building, Mills Building, and the Ag Barn in addition to providing various activities such as summer sports and recreation. The Community Service Director of Parks and Civic Center oversees the Civic Center and the Parks and Recreation (Parks)Department. We noted the following concerns:

- A. The city has not established a system to periodically evaluate the results of the various events and activities offered by the Civic Center and Parks Department.

Civic center and park activities and expenditures have increased significantly over the last several years resulting in increased subsidies primarily from the city's General Fund. For example, during the year ending October 31, 2005, the General Fund transferred a total of approximately \$442,000 to the Civic Center and Parks and Recreation Funds to subsidize events and activities and the subsidy increased to \$771,000 during the year ending October 31, 2007. In addition, \$92,000 was transferred from the Capital Improvement Sales Tax Fund to the Civic Center Fund to cover free memberships at the civic center.

The Civic Center and Parks Department only recovers a portion of these costs from revenues generated from event or activity fees.

Although the city intends to subsidize the civic center and parks programs, they have not considered ways to minimize the subsidy required from the General Fund. For example, the city does not charge residents who live outside of the city limits but within Laclede County for membership to the civic center and the Lebanon Area Foundation (LAF) is provided office space at the civic center free of charge.

A system evaluating the results of civic center and parks programs should be established. In addition, the long-term effects on the General Revenue Fund and other city funds of increased subsidies should be considered.

- B. Fees were not consistently charged in accordance with the established fee schedule for events held at facilities of the Civic Center and Parks Department. In addition, there was no documentation to support the amount charged for some events. Examples include:

- An organization the Parks and Recreation Director is involved with was allowed to use the theater and three meeting rooms at the civic center. The organization was charged \$350 for the event when the normal charge would have been approximately \$1,000. Also, there was no contract for this rental.
- An organization the Parks and Recreation Director is involved with was allowed to use the exhibition hall and was charged \$500 when the normal charge for the exhibition hall is \$850.
- A meeting room at the Wallace Building was rented to the Community Service Director of Parks and Civic Center's wife and was charged \$25 when the normal rental charge is \$150. Also, there was no contract for this rental.

- An organization the Parks and Recreation Director is involved with was allowed to use the city's ag barn each year for a Halloween celebration at no charge. The normal charge for the ag barn is \$150. The Parks and Recreation Director indicated there was no charge for this event because it was open to the public; however, another organization paid \$850 to use the exhibition hall at the civic center for a Halloween event in 2007 which was also open to the public.
- A part-time employee rented a meeting room at the civic center and was charged \$50 when the normal rental fee is \$150.
- The city charged a group \$9,000 for a five-day concert event and there was no documentation to support how the fee was calculated.
- Deposits are required to reserve an event date or to cover possible damage or clean up for some events. The amount charged for deposits varies; however, we noted a deposit was not required for some events.

To ensure event and rental fees and deposits are collected, and participants and employees receive equitable treatment, fees should be collected in accordance with the established policies. Any exceptions should be documented and approved by the Community Service Director of Parks and Civic Center.

- C. The Parks Department has not performed a formal review of concession prices and related costs. To ensure the city is covering the cost of these services, a periodic review of concession prices and related costs should be performed.

WE RECOMMEND the City Council:

- A. Establish a system to periodically evaluate the income and costs of various civic center and park activities. In addition, the City Council should consider the long-term effects on the General Revenue Fund and other city funds of increased subsidies.
- B. Ensure deposits and fees charged for city facilities are in accordance with the established policies. Exceptions should be fully documented and approved by a supervisor.
- C. Ensure a periodic review of concession prices and related costs is performed.

AUDITEE'S RESPONSE

- A. *The City acknowledges the finding and recommendation of the auditor. The City will establish a system for evaluation of Civic Center and parks activities cost benefit analysis. The City Council evaluates all transfers to operating departments during the budgeting and appropriation process and will continue to evaluate the desired levels of*

services provided by all city departments and the corresponding required financial commitments.

- B. The City concurs with the finding and recommendation of the auditor. The City has taken necessary actions to ensure deposits, fees and cash collections for city facilities are assessed in accordance with established policies including the documentation and approval of exceptions or variances.*
- C. The City concurs with the finding and recommendation of the auditor. Policies and procedures are being drafted regarding the daily operations and management of concessions operations. Concessions operations will be reviewed on a monthly basis and comprehensively reviewed annually.*

8. Civic Center and Parks Controls over Monies

Controls over monies collected at the Civic Center and Parks Department are poor and inadequate controls and oversight resulted in \$1,589 of unaccounted for monies collected by the sports desk to go undetected. In addition, the Civic Center and Parks Department does not have a centralized scheduling and accounting system to track events and related collection of fees. The audited financial statements reflected charges for services revenues of \$216,014 and \$89,551 for the Cowan Civic Center Fund and Parks and Recreation Fund, respectively, for the year ended October 31, 2007.

A. There is no supervisory review performed of the various collection functions for the Civic Center and Parks Department.

- 1. Employees, including the receptionist, plan events, prepare contracts for events, and collect the related fees. There is no supervisory review throughout this process. Collections are given to the receptionist in the main civic center office who prepares a summary report and transmits the monies to the city cashiers where the monies are recorded by the city and deposited into the city's bank account.

Segregation of duties and supervisory review helps to ensure that all transactions are accounted for and assets are properly safeguarded. Proper segregation would require distribution of these responsibilities among available personnel or provide for some supervisory review and independent reconciliation of records.

- 2. The sports desk at the civic center collects monies from gym and pool rentals, floor aerobics, swim lessons, lifeguard training, out-of-county memberships and other activity fees. Receipt slips are not issued for some monies received; however, all monies received are to be recorded on the daily cash deposit re-cap report. These fees are small amounts primarily paid for with cash.

The sports desk is staffed by several employees who collect fees. Collections are transmitted by the sports desk supervisor to the receptionist in the main civic center office. There is no process to reconcile receipt slips issued to monies turned over to the receptionist.

The CPA firm engaged to audit the city's financial statements reported that amounts recorded for activities on the sport desk receipt slips did not agree to the amounts transmitted to city cashiers. The CPA firm identified receipt slips totaling \$1,589 that were not recorded or deposited. The CPA firm also reported that records were not sufficient to determine if these receipts slips were voided due to cancellations.

Had anyone compared the receipt slips from the sports desk to the amounts transmitted these discrepancies may have been detected.

B. The receipting system is cumbersome and procedures need improvement as follows:

- Seven receipt books are used to record the different activity receipts and the numerical sequence of receipt slips issued is not accounted for. Multiple receipt books are cumbersome and reduce the assurance that all monies received are accurately recorded and that all receipt slips can be accounted for.
- Monies are not transmitted intact to the city cashier's office. For example, some monies are held until all related program fees for a specific event are collected. Also, cleaning and damage deposit checks are held until after an event has occurred. These deposit checks are then transmitted to the city if necessary, returned to the vendor, or destroyed. In addition, employees sometimes issue cash refunds when a customer changes their mind about a facility or room rental.
- Cash, checks, and money orders are accepted for activity fees. Some receipt slips issued do not indicate the method of payment.
- Some receipt slips are not retained. We noted several instances where all copies of the receipt slips were torn out of the receipt book.

- Several receipt slips were not properly voided.
- Some receipt slips issued do not include all necessary information such as payor and receipt date and some receipt slips were written in pencil which allows easier alteration of the receipt slips.
- Rediform receipt slips are issued for monies collected.

Failure to implement adequate receipting procedures increases the risk that loss or misuse of monies received will go undetected. To adequately account for all monies received, the numerical sequence of receipt slips issued should be accounted for, the method of payment should be indicated on all receipt slips, and the composition of receipt slips should be reconciled to amounts transmitted to the city cashiers office. In addition, monies should be transmitted intact and all refunds made by check. Duplicate copies of receipt slips should be retained and voided receipt slips should be properly defaced and maintained. Sufficient information should be recorded on all receipt slips and completing receipt slips in pencil should be discontinued. Official prenumbered receipt slips should be issued for all monies received.

C. The Civic Center and Parks Departments do not have a centralized scheduling and accounting system to track events and related collection of fees. The following concerns were noted:

- Records do not always document whether rental amounts have been paid or are still due. Civic Center and Parks Department employees currently use seven day planners or calendars when a room is reserved. Some day planners indicate if the related fee has been paid while others do not. In cases where the day planner does not indicate if the related fee has been paid, receipt slips have to be reviewed to determine this information.
- For some events where the city could not locate the payment of rental fees, city personnel indicated the event had been canceled; however, it was not always clear from the day planners or calendars if the event had been canceled.
- Some event rental and meeting room contracts are prepared and retained while others are not. For example, rental agreements for the pool and gymnasium are not retained by the sports desk. Contracts for several other events could not be located.
- Routine procedures to follow up on unpaid rental fees have not been established. In some cases, several months had passed after an event was held and the rental fee remained unpaid.

To ensure all rental fees are collected and properly accounted for, the city should maintain a central record of the dates the various facilities are rented, the name of the individual or organization renting the facilities, the rental charge, and amounts received. Procedures should be developed to follow-up on and pursue collection of any delinquent amounts due.

WE RECOMMEND the City Council:

- A. Provide for adequate segregation of duties and supervision over collection and transmittal procedures of the Civic Center and Parks Department. Any unaccounted for monies should be investigated and legal counsel consulted regarding appropriate action to be taken.
- B. Provide for improved receipting procedures at the Civic Center and Parks Department to adequately account for all monies received. Such procedures should include: reducing the number of receipt books used, accounting for the numerical sequence of all receipt slips issued, including the method of payment on all receipts slips, reconciling the composition or receipt slips to amounts transmitted to the cashiers office, transmitting monies intact, refunding amounts by check only, retaining duplicate copies of receipt slips, defacing and maintaining voided receipt slips, recording sufficient information on all receipt slips, and issuing official prenumbered receipt slips for all monies received.
- C. Develop a centralized scheduling system which also accounts for amounts charged, collected, and unpaid. Procedures should be developed to pursue collection of any delinquent amounts due.

AUDITEE'S RESPONSE

- A. *The City acknowledges the finding and recommendation of the auditor. The City did investigate the unaccounted monies in dispute and finds no definitive evidence indicating theft or misappropriation; rather poor documentation practice and lack of supervisory oversight. Policies and procedures are being drafted and implemented to ensure proper accountability of collection and deposit of monies collected at the Civic Center and Parks Department.*
- B. *The City concurs with the finding and recommendation of the auditor and has begun implementation of auditor recommendation. The City will continue to evaluate, adopt and monitor policy adherence to ensure proper accountability of all monies collected for Civic Center and Parks Department activities and facilities use.*
- C. *The City concurs with the finding and recommendation of the auditor and has taken steps to establish a centralized scheduling system to include accountability for accounts receivable coordination with the City Clerk and ensure all monies due are collected.*

9.**Vehicle Usage**

Controls over vehicle usage need improvement. There is no documentation to indicate the city has analyzed vehicle usage to ensure all city-owned vehicles are used efficiently and the city does not report taxable benefits associated with city vehicles used for commuting purposes. Also, the city does not have a policy regarding use of city-owned vehicles for commuting and the amount of fuel pumped from the city's metered tanks, is not reconciled to the gallons purchased.

- A. There is no documentation to indicate the city has made an effort to analyze vehicle usage to ensure all city-owned vehicles are used efficiently. Mileage records that include the purpose and destination of each trip, and the daily beginning and ending odometer readings are not maintained to document the use of city-owned vehicles.

Upon our request the city estimated annual mileage for vehicles fueled at the public works facility based on fuel logs which document odometer readings each time the vehicle is fueled. According to this information, several vehicles were driven less than 5,000 miles during the year. Low mileage may indicate a city has too many vehicles or is not efficiently utilizing vehicles.

Complete and detailed mileage records for all city owned vehicles should be maintained, and a review of these records should be periodically performed to ensure all city owned vehicles are used efficiently and for city business.

- B. The city does not report taxable benefits associated with city vehicles used for commuting purposes. In addition, the city does not have a policy regarding use of city-owned vehicles for commuting. A list provided by the City Administrator reflected 28 employees (excluding Police and Fire Department employees) were assigned vehicles which they are also allowed to use for commuting purposes. City officials indicated supervisors and other employees that are on 24-hour call for emergency situations are allowed to commute with city vehicles. Further, some of the commuting mileage incurred on some city vehicles appeared excessive. Based upon residence information and work schedules reviewed for some employees, as much as 60 percent of the mileage on vehicles used by two city employees was for commuting purposes.

Internal Revenue Service (IRS) Code reporting guidelines indicate personal commuting mileage is a fringe benefit that should be reported on the individuals' W-2 forms. Clearly marked police and fire vehicles are exempt from these guidelines, as well as unmarked law enforcement vehicles if their use is officially authorized. However, for non-exempt vehicles, IRS guidelines require the full value of the provided vehicle to be reported on the employees' W-2 forms if the

employer does not require the submission of detailed logs, which distinguish between business and personal (commuting) usage, and as noted in Part A above, usage logs are not maintained for city vehicles. Because procedures have not been established to ensure the IRS regulations are followed, the city may be subject to penalties and/or fines for failure to report all taxable benefits.

The city should review the necessity of providing vehicles for commuting purposes. To provide guidance and avoid misunderstandings, a policy should be developed which addresses issues such as when a vehicle may be used for commuting and the related approval process. For those employees where commuting in city-owned vehicles is considered necessary, vehicle logs should be maintained which clearly distinguish between business and commuting use, and taxable benefits for commuting should be reported on applicable employees' W-2 forms.

- C. The city purchases gasoline and diesel in bulk and stores the fuel in city-owned tanks located at the public works facility. While logs are maintained to record the amount of fuel pumped from the city's metered tanks, the logs are not reconciled on a periodic basis to the gallons purchased. The city spent more than \$416,000 to purchase fuel for all departments during the year ended October 31, 2007.

To ensure that fuel expenditures are reasonable and that fuel is properly accounted for, the usage recorded on the fuel logs should be reconciled to the fuel purchased on a periodic basis and significant differences should be investigated.

WE RECOMMEND the City Council:

- A. Require complete and detailed mileage records be maintained for all city owned vehicles and periodically analyze vehicle usage to ensure city owned vehicles are used efficiently.
- B. Review the necessity of allowing employees to commute with city vehicles. If allowed, the City Council should develop a policy and comply with IRS guidelines for reporting fringe benefits related to commuting with city-owned vehicles.
- C. Reconcile fuel usage to fuel purchases and investigate any significant differences.

AUDITEE'S RESPONSE

- A. *The City concurs with the finding and recommendation of the auditor and has begun implementation pursuant to Mayor's Guidance Statement(s) 22, 23, 26, 27, 30 and City policies 290.01 – 290.05. Further the City is in the process of hiring a fleet manager to evaluate, manage and make recommendations regarding fleet management best practices to City Administration.*

- B. *The City concurs with the finding and recommendation of the auditor and has complied with recommendation pursuant to implementation of Mayor's Guidance Statements 22, 23, 26, 27, 30 and policy 290.01 – 290.05.*
- C. *The City concurs with the recommendation of the auditor. The City currently performs regular checks of fuel usage, deliveries and purchases. The City will investigate any significant differences and promptly report same to City Administration.*

10.	Payroll Policies and Procedures
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Improvements are needed over payroll policies and procedures. Payroll duties are not adequately segregated, timesheets are not submitted for some employees, and outside employment activities are not adequately monitored. The city does not enforce its policy that prohibits an employee from supervising a member of their immediate family. Additionally, one instance of potential nepotism was noted, performance evaluations are not prepared in accordance with city policy, and job descriptions were not on file for some positions.

- A. Payroll duties are not adequately segregated. One clerk enters all payroll information for administrative staff and verifies payroll information entered by other departments. The payroll clerk is also responsible for all other payroll duties including record keeping, disbursing payroll checks, distributing employee W-2 forms, and maintaining personnel files. Proper internal controls over payroll functions should include adequate segregation of duties such as segregating record keeping functions from disbursing payroll checks. If segregation of duties is not possible, periodic supervisory review of payroll disbursements would minimize the risk for loss, theft or misuse of funds.
- B. Some employees are not required to submit timesheets to the payroll clerk. Supervisors of each department enter hours worked into the electronic payroll system and then submit a signed copy of the timesheet to the payroll clerk; however, timesheets prepared by the Electric and Construction Departments are not submitted to the payroll clerk. The supervisors of these departments indicated there was some miscommunication and they did not realize the time sheets should be submitted.

In addition, employee timesheets are not always approved and signed by a supervisor. We noted that on occasion some Civic Center and Parks Department employee timesheets are not reviewed and signed by the Community Service Director of Parks and Civic Center; instead his signature stamp is applied to timesheets by his receptionist.

Submission of timesheets which are signed by the employee and approved by supervisors would provide full support for payroll processed by the city. The city cannot adequately ensure the legitimacy of payroll payments without adequate

supporting documentation. Employee timesheets should include documentation of supervisory approval to ensure all salary payments are based upon hours actually worked.

- C. The city does not adequately monitor its outside employment policy. The city's outside employment policy allows employees to engage in other employment activity, provided that such work does not interfere with the employee's work at the city. City officials indicated that several city employees engage in outside employment; however, the city does not have procedures to track which employees engage in such outside employment. For example, the Community Service Director of Parks and Civic Center worked as a senator staff and was paid \$8,246 by the state during calendar year 2007.

To ensure the outside employment activities of city employees do not interfere with their official city duties or result in a conflict of interest, the city should develop procedures to track outside employment activity.

- D. Some situations were noted which may be conflicts of interest.
1. Several city employees are related to other city employees. In some instances, city employees are under the supervision of a related employee. For example, the Captain in the Police Department supervises his son and daughter-in-law who both work as patrol officers. City policy prohibits an employee from supervising a member of the employee's immediate family. While there are supervisory levels between the Captain and his family members, the organization chart indicates he does have oversight over these individuals.
 2. The nephew of the Community Service Director of Parks and Civic Center was hired in May 2007 to work in the Parks and Recreation Department for the summer. The payroll form authorizing the hiring of the nephew was signed by the Parks and Recreation Director on May 14, 2007; however, the payroll form establishing the starting pay rate was signed by the Community Service Director of Parks and Civic Center on May 4, 2007. As a result, it is unclear what role the Community Service Director of Parks and Civic Center had in the hiring decision.

Chapter 2, Article IX, Section 2-620, of the City Code, states, that, "Two (2) or more members of an immediate family may be employed in the same department under the same supervisor; however, an employee shall not supervise a member of such employee's immediate family. This policy applies to promotions, demotions, transfers, reinstatements, and new appointments". The code also defines immediate family. Article VII, Section 6, of the Missouri Constitution defines the penalty for nepotism and states "Any public officer or employee in this state who by virtue of his office or employment names or appoints to public

office or employment any relative with the fourth degree, by consanguinity or affinity, shall thereby forfeit his office or employment."

To avoid potential conflicts of interest, the city should enforce its policy addressing supervision of relatives and avoid the appearance of nepotism. All situations in which two city employees are related should be reviewed and legal counsel should be consulted regarding compliance with the city code and the Missouri Constitution.

- E. Performance evaluations were not prepared in accordance with city policy. The payroll clerk indicated evaluations were not performed in 2007 because the evaluation form was being updated. The city's policy requires performance evaluations be prepared at the end of six months for new hires and annually thereafter.

The city should ensure employees are properly evaluated in accordance with city policy. Such evaluations are necessary to provide documentation for raises, promotions, and employee discipline.

- F. Job descriptions for some city employees have not been established by the city. Job descriptions were not on file in the payroll office for the Police Department Lieutenant and the Community Service Director of Parks and Civic Center. Upon bringing this to the payroll clerk's attention, the Community Service Director of Parks and Civic Center provided a job description.

Formal job descriptions are necessary to ensure the city and employees have a clear understanding of the duties and responsibility of each position. Job descriptions should include a detailed list of duties and minimum education and experience requirements.

WE RECOMMEND the City Council:

- A. Provide for adequate segregation of duties or ensure a supervisory review of the payroll duties performed by the payroll clerk is performed.
- B. Ensure timesheets are submitted to the payroll clerk. Also, the City Council should require documentation of supervisory approval on all timesheets.
- C. Develop procedures to better monitor outside employment activities and ensure that any potential conflicts are avoided.
- D. Enforce city policy addressing supervision of related employees and ensure the appearance of nepotism is avoided. Legal counsel should be consulted to ensure compliance with city code and the Missouri Constitution.
- E. Ensure employee performance evaluations are prepared in accordance with city policy.

F. Establish job descriptions for all city employees.

AUDITEE'S RESPONSE

- A. *The City acknowledges the finding and recommendation of the auditor. Multiple personnel enter time for all City employees. One clerk enters payroll data for the administrative staff; however, Human Resources reviews time entry and payroll information. The City is in the process of cross training other staff to enter payroll data and will assign part of the duties to the accounting staff. Further, the City will evaluate payroll process and implement additional measures to ensure accuracy and improve accountability.*
- B. *The City concurs with the findings and recommendation of the auditor. All departments have been instructed to submit signed timesheets to Human Resources.*
- C. *The City concurs with the findings and recommendation of the auditor. The City will address this with Mayor's Guidance Statement 28 which is currently being reviewed and is expected to be adopted by the Council by August 2008. The City will re-communicate its policy regarding outside employment (102.12, Article IX Sec. 2-623 of Code) and draft authorization forms with appropriate reviews regarding outside employment by classified City employees.*
- D. *The City acknowledges the findings and recommendation of the auditor. The City will reevaluate its policy regarding supervision of related employees including educating staff of City policy, nepotism and state law requirements.*
- E. *The City concurs with the findings and recommendation of the auditor. Evaluations are in the process of being redeveloped pursuant to Mayor's Guidance Statement 13 and will be fully implemented by end of calendar year 2008.*
- F. *The City concurs with the findings and recommendation of the auditor. The City currently has job descriptions for most of the employee positions. The City will reevaluate its positions, standardize descriptions, and review periodically to keep said descriptions current. The City is currently in the process of conducting these reviews as a response to Mayor's Guidance Statement Number 10, Establishment of Standardized Labor Categories and Pay-scales.*

11.

Accounting Controls and Procedures

The city does not have adequate procedures to account for all receipt slip numbers, controls over adjustments made to customer utility accounts could be improved, and the city does not adequately follow-up on old outstanding checks. Internal controls could be strengthened related to processing expenditures. In addition, expenditure approval was not always documented as required by city policy and purchase orders were not always

completed timely. Also, the Mayor is not bonded, city employees are allowed to cash personal checks, the cashier's office petty cash fund is not operated on an imprest basis, and some monies collected by the Police Department are not transmitted timely to the city cashier's office.

The city cashier's office collects payments for utilities, court fines, and other miscellaneous fees. The city also has collection points at the Civic Center and Parks Department and the Police Department which collect monies and remit those monies to the cashier's office. During our review we noted the following concerns:

- A. The city does not have adequate procedures to ensure all receipt numbers are adequately accounted for. The City Clerk indicated all of the clerks have the ability to delete batches of receipts. All cashiers responsible for collecting city monies share the same receipt slip number sequences. The computer assigns the receipt slip numbers as transactions are entered into the system, and at the end of each day each clerk prints out their daily receipt activity report. No one has been assigned the responsibility of accounting for all receipt numbers and there is no report generated to account for the numerical sequence of all receipt numbers.

To ensure proper accountability over receipts, the city should develop procedures to account for the numerical sequence of all receipt numbers issued.

- B. Controls over adjustments made to customer utility accounts could be improved. The cash collection clerks along with the utility billing supervisor have the ability to record some of these adjustments without any independent review or approval of the adjustment. Authorization forms for some adjustments to customer receipt information and meter readings are prepared by the clerks and approved by the City Clerk; however, these clerks have the ability in the computerized accounting system to process these adjustments without the City Clerk's approval. While the city's computer system generates a monthly report of all adjustments made to utility accounts, this report is not reviewed by the City Clerk to ensure all adjustments are proper. Monthly utility re-cap reports reflect approximately 3,500 adjustments (\$36,260 positive and \$26,465 negative) were made during the year ended October 31, 2007, to customer accounts.

Proper approval/authorization for adjustments is necessary to ensure only the proper accounts and amounts are adjusted and to reduce the risk of misstatement or misappropriation. A periodic independent comparison of authorized adjustments to the adjustment report should be performed to ensure all adjustments are proper.

- C. The city does not adequately follow-up on old outstanding checks. At October 31, 2007, there were 69 checks totaling approximately \$2,600 which had been outstanding for more than one year.

Procedures should be adopted to routinely follow up on old outstanding checks. If the payees cannot be located, various statutory provisions provide for the disposition of unclaimed monies.

- D. Control over expenditures could be improved. The Accounts Payable Clerk has unrestricted access to signature stamps and signature plates of the Mayor and City Project Manager and uses them to sign checks. In addition to retaining control over the signature stamps and signature plates, the Accounts Payable Clerk posts expenditure transactions to accounting records, maintains the supporting documentation for transactions, and prepares the checks. Although the city's checking account requires two signatures for all disbursements, allowing the accounts payable clerk unrestricted use of the signature stamps and signature plates diminishes the control intended by two signatures.

To effectively strengthen internal controls, one individual should not be performing all accounting duties related to processing expenditures and also have unrestricted access to the signature stamps or plates.

- E. The City Administrator's approval was not always documented for expenditures in excess of \$1,000. Documented approval was not found for the following purchases: drilling of city well (\$234,230), airport runway sealant (\$93,745), sewer pumping system (\$55,000), electric substation parts (\$45,640), electrical supplies (\$26,750), event calendars and visitor guides (\$14,306), airport engineering (\$8,471), geo-technical engineering (\$6,138), street engineering (\$4,220), conference fee (\$3,000), and vending products (\$2,315). The city's purchasing policy states that the City Administrator's approval is required before commitment on purchases over \$1,000.

Failure to document purchase approval reduces the city's ability to monitor and control expenditures.

- F. Some purchase orders were prepared after the expenditure was incurred. For example, a fence repair invoice totaling \$2,930 was dated February 16, 2007, and the accompanying purchase order was not completed until March 19, 2007. The city requires that a purchase order be completed and authorized by both a department head and city administrator for all expenditures exceeding \$100, excluding regular recurring expenditures such as telephone bills.

Purchase orders are meant to document the bidding and approval practices that take place before a purchase is made as required by the city's purchasing policy. To monitor and ensure purchases are properly authorized, the city should prepare timely purchase orders.

- G. The Mayor is not bonded. The Mayor's signature is required on checks along with the City Project Manager. Failure to bond individuals with access to assets exposes the city to risk of loss.

- H. The city allows employees to cash personal checks totaling up to \$50 from daily cash receipts. Cashing personal checks from daily cash receipts reduces the accountability over monies received. This practice should be discontinued.
- I. The cashier's office petty cash fund is not maintained on an imprest basis. When petty cash monies are needed, monies from the cash drawers are used. The daily cash collection receipt register reflects when monies are taken out of deposits for petty cash and codes the petty cash disbursement to a specific expenditure category; however, good internal controls require petty cash to be set at an established amount and to be reimbursed by check when necessary. An imprest petty cash fund would improve accountability over petty cash monies.
- J. Some monies received for copies of police reports by the Police Department are not transmitted timely to the city cashier's office. We noted some monies were held as long as twelve days by the Police Department before being transmitted. Also, checks are not restrictively endorsed upon receipt. To adequately safeguard monies and reduce the loss or misuse of funds, checks should be restrictively endorsed immediately upon receipt and transmitted to the city cashier's office in a timely manner.

WE RECOMMEND the City Council:

- A. Ensure procedures are in place to account for the numerical sequence of all receipt numbers.
- B. Develop procedures to adequately monitor adjustments made to customer accounts.
- C. Attempt to resolve the old outstanding checks and establish routine procedures to investigate checks that are outstanding for a considerable time.
- D. Ensure proper controls are established over expenditures and the signature stamps and signature plates.
- E. Ensure all expenditures are properly authorized.
- F. Require purchase orders to be completed before purchases are made.
- G. Obtain bond coverage for all individuals having access to city assets.
- H. Discontinue the practice of cashing personal checks for employees.
- I. Maintain the petty cash fund on an imprest basis.

- J. Ensure checks are restrictively endorsed immediately upon receipt and monies are transmitted timely.

AUDITEE'S RESPONSE

- A. *The City concurs with the findings and recommendation of the auditor. The City's software automatically assigns receipt numbers and there is no bypass or manual override capability to this process. However, deleted batches can create gaps in receipt numbers. The City Clerk has changed the password to require City Clerk or designee to approve all batch deletions. The City Clerk will periodically audit batches to ensure proper numerical sequencing of receipts.*
- B. *The City concurs with the findings and recommendation of the auditor. The City Clerk currently approves all post billing adjustments. The City Clerk will audit on a monthly basis, adjustments approved against actual system adjustments.*
- C. *The City concurs with the findings and recommendation of the auditor. The City has taken necessary action to comply with this recommendation.*
- D. *The City acknowledges the findings and recommendation of the auditor. Currently City warrants are reviewed by the City Clerk, City Administrator, and City Council. The City Clerk verifies check number sequencing to ensure proper accountability of all checks. The City Clerk has secured and maintains the check signing key and all stamps bearing multiple signatories names.*
- E. *The City acknowledges the findings and recommendation of the auditor. The City has modified its organization since development of purchasing policy. City code 2-98, e, i, provides authority for the Public Works Director to authorize expenditures as does 2-102h of ordinance 4479 (not yet codified) for the Project Manager. It was contemplated by management and the Council that these two positions were of a senior level and therefore were authorized; or, at minimum could be delegated such responsibility by the City Administrator. The issue will further be addressed as the City's contracting, services procurement and general purchasing policies are being reviewed (per Mayor's Guidance Statement 11) and will be amended to correlate with the desired business practice of the City Council and in conformance with state law. We expect to adopt a policy by October 2008 and have full implementation by start of fiscal year 2009.*
- F. *The City concurs with the findings and recommendation of the auditor. The City's contracting, services procurement and general purchasing policies are being reviewed (per Mayor's Guidance Statement 11) and will be amended to correlate with the desired business practice of the City Council and in conformance with state law. We expect to adopt a policy by August 2008 and have full implementation by start of fiscal year 2009.*
- G. *The City concurs with the findings and recommendation of the auditor. The City has bonded the Mayor and all signatories for disbursement of funds are bonded.*

- H. *The City concurs with the findings and recommendation of the auditor. The City has complied with this recommendation via memo to staff dated June 20, 2008.*
- I. *The City acknowledges the findings and recommendation of the auditor. The City has researched its system and has determined that reports can be generated and reviewed to properly account for all petty cash expenditures. The reports will be generated and periodically reviewed by the City Clerk.*
- J. *The City concurs with the findings and recommendation of the auditor. The City accounting staff has complied with the recommendation and is picking up all funds daily from the Police Department. The City will provide the Police Department a restrictive endorsement stamp to comply with auditor recommendation.*

12.	City Procedures
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The city does not periodically examine the accounting records of hotels, motels, and campgrounds to ensure gross receipts taxes levied are accurate. The city did not retain documentation of the reasons supporting the decision to declare an area blighted. In addition, city ordinances do not address penalties for late payment of utilities by industrial companies and the City Council has not established written guidelines to define the levels of authorization or approval for entering into various agreements.

- A. The city does not periodically examine or inspect the accounting records of hotels, motels and campgrounds to ensure the amounts paid to the city for a gross receipts tax levied on these businesses are accurate. Gross receipt taxes of approximately \$160,000 were collected by the city during the year ended October 31, 2007.

A lodging tax of two and one-half percent is levied by the city on the gross receipts of hotels, motels and campgrounds located within city limits. A monthly report of gross receipts is required to be submitted by the hotels and motels to the city along with the taxes due. Chapter 24, Article VIII, Section 24-186 of the City Code authorizes the city administrator or an authorized representative to examine and inspect the accounting records of the hotels and motels in the city to ensure the amounts reported are accurate.

To ensure all lodging taxes due are received, the city should consider implementing procedures to periodically examine the records of the hotels, motels, and campgrounds in the city.

- B. The city did not retain documentation of the reasons supporting the decision to declare an area blighted. In July 2007, the city approved a redevelopment plan for a local manufacturer and declared the redevelopment area blighted. This allowed the local business under provisions of Chapter 353, RSMo, to obtain tax abatements on city and county real estate taxes on the improvements to be erected and maintained on the real estate. Section 353.020, RSMo, defines a blighted area as that portion of the city that by reason of age, obsolescence, inadequate or outmoded design or physical deterioration has become economic and social liabilities, and that such conditions are conducive to ill health, transmission of disease, crime or inability to pay reasonable taxes.

Failure to document the reasons for declaring an area blighted reduces the city's ability to justify the decision to the taxpayers and to ensure equitable treatment of local businesses.

- C. City ordinances do not address penalties for late payment of utilities by industrial companies. The City Clerk indicated the city assesses penalties for late payment of utilities by industrial customers based upon an ordinance that applies to residential and commercial customers. Chapter 26, Article V, Section 26-149, City of Lebanon Code of Ordinances, provides, "...the city shall add a ten (10) percent service charge to the monthly amount of the bill due and payable for each thirty (30) days of delinquency. If the bill is not paid on or before the fifteenth day after the due date services shall be disconnected. This section shall not apply to industrial customers". We noted one industrial customer was charged late penalty fees of \$2,157 and was as much as three months delinquent on payments without utilities being disconnected.

Complete and detailed written policies are necessary to provide guidance for the effective and consistent management of the city's funds. Further, written policies for late payment penalties and the disconnection of services would help to encourage prompt payment.

- D. The City Council has not established written guidelines to define the levels of authorization or approval for entering into various agreements. While most agreements were formally approved by the City Council, some agreements were not. For example, the Mayor entered into a two-year lease agreement with a local manufacturer in December 2006 that did not require the manufacturer to pay any rent for the first year which was not approved by the City Council. Annual rent for the building after the first year will be \$28,000.

Written policies and procedures defining levels of authorization or approval requirements for entering into agreements on the city's behalf are necessary to strengthen internal controls, provide guidance, and avoid misunderstandings.

WE RECOMMEND the City Council:

- A. Consider implementing procedures to periodically examine the accounting records of hotels, motels, and campgrounds to ensure amounts paid to the city are accurate.
- B. Retain documentation to support the decision for declaring an area blighted and ensure the criteria is equitably applied in future decisions.
- C. Review and update city policies to address delinquent payment of utilities by industrial customers.
- D. Develop written policies and procedures defining levels of authorization or approval for entering into agreements on the city's behalf.

AUDITEE'S RESPONSE

- A. *The City acknowledges the findings and recommendation of the auditor. The City Clerk's Office maintains a system to account and review each month's lodging tax receipts from hoteliers. The City will evaluate implementing procedures to examine books and records of hotels, motels, and campgrounds to verify accuracy of receipts.*
- B. *The City concurs with the findings and recommendation of the auditor and will retain supporting documentation for decisions made by the City Council.*
- C. *The City acknowledges the findings and recommendation of the auditor. The City will reevaluate the codes regarding delinquency, penalties, etc. with regards to industrial customer accounts.*
- D. *The City acknowledges the findings and recommendation of the auditor. The City will evaluate and develop written policies and procedures regarding authorization levels of approving agreements.*

13.

Financial Reporting and Planning

The city has not published financial statements and procedures have not been established to ensure revenues are spent for the intended purpose.

- A. The city has not published financial statements as required by state law. Section 77.110, RSMo, requires the City Council to publish a full and detailed statement of the receipts and expenditures and indebtedness of the city every six months,

including at the end of each fiscal year, in a newspaper of general circulation in the city.

- B. A formal street maintenance plan for the city streets has not been prepared annually. City personnel indicated the city moves from one ward to another ward each year and solicits input from the public related to street improvements; however, a street maintenance plan should be prepared in conjunction with the annual budget and include the streets to be worked on, the type of work to be performed, estimated work dates, cost estimates, and any other relevant information. The plan should be included in the budget message and approved by the City Council. In addition, a public hearing should be held to obtain input from the city residents and the plan should be updated throughout the year as necessary.

A formal maintenance plan would serve as a useful management tool and provide greater input into the overall budgeting process. Such a plan provides a means to more effectively monitor and evaluate the progress made in the repair and maintenance of streets throughout the year.

WE RECOMMEND the City Council:

- A. Ensure the city's financial statements are published as required by state law.
- B. Prepare a formal street maintenance plan for the city streets at the beginning of the year and periodically update the plan throughout the year. In addition, the council should review the progress made in the repair and maintenance of streets to make appropriate decisions on future projects.

AUDITEE'S RESPONSE

- A. *The City concurs with the findings and recommendation of the auditor and will comply with auditor recommendation.*
- B. *The City acknowledges the findings and recommendation of the auditor. While the City has presented similar plans annually to the Council, the City has not formally adopted a street maintenance plan. The City is in the process of developing a formal master plan for street maintenance including identification of ADA barriers.*

14.

City Council Minutes

Improvement is needed in the procedures and documentation related to closed meetings of the council. In addition, the council minutes are not signed by the Mayor to attest to their accuracy.

- A. The handling and documentation related to matters discussed by the council in closed session could be improved. The city did not document how some items

discussed in closed session complied with state law. These items included changes to the city's organization chart and salary increases. In addition, open meeting minutes did not always document all items required by the Sunshine Law including the related vote to close the meeting, the specific reasons for closing the meeting, and actions taken by the council in closed meetings. The tentative agenda for each council meeting indicates a closed session meeting will be held to discuss real estate or personnel matters regardless of whether such meeting is needed. We noted several examples where it appeared decisions were made in closed session; however, a roll call vote was not taken.

The Sunshine Law, Chapter 610, RSMo, allows the council to discuss certain subjects in closed meetings, including litigation, real estate transactions, bid specifications and sealed bids, personnel matters, and confidential or privileged communications with auditors. The council should restrict the discussion in closed sessions to the specific topics listed in Chapter 610 of the state statutes. In addition, the Sunshine Law requires that before any meeting may be closed, the question of holding the closed meeting and the reason for the closed meeting shall be voted on at an open session. In addition, this law provides that public governmental bodies shall not discuss any other business during the closed meeting that differs from the specific reasons used to justify such meeting, record, or vote and requires certain matters discussed in closed meetings to be made public upon final disposition.

- B. The council minutes are prepared and signed by the City Clerk; however, they are not signed by the Mayor. The minutes should be signed by the Mayor upon approval to provide an independent attestation that the minutes are a correct record of the matters discussed and actions taken during the council meetings.

WE RECOMMEND the City Council:

- A. Ensure only allowable, specified subjects are discussed in closed session. In addition, the City Council should ensure minutes document the vote to go into closed session, state the reasons for going into closed session, and publicly disclose the final disposition of applicable matters discussed in closed session.
- B. Ensure council minutes are properly signed by the Mayor or some other official to attest to their accuracy.

AUDITEE'S RESPONSE

- A. *The City acknowledges the findings and recommendation of the auditor. The City acknowledges that improvement can and has been made with regards to documentation of closed session proceedings including the basis for closing the session. The City disputes any implication of violating Sunshine Law requirements specifically with regards to discussing issues outside the parameters of the intent for closing the meeting and has made closed session information available to the public on request as specified*

in the Sunshine Law. The City will strive to continue compliance with Sunshine Law requirements and has adopted policy pursuant to Mayor's Guidance Statements 2, 4, and 12.

- B. The City concurs with the findings and recommendation of the auditor and has implemented procedures to comply with the recommendation.*

15. Capital Assets

The city does not maintain records to account for its capital assets. Also, property is not tagged for specific identification and an annual physical inventory is not performed. Property records should be maintained on a perpetual basis, accounting for property acquisitions and dispositions as they occur. The records should include a detailed description of the assets including the name, make and model numbers, asset identification numbers, the physical location of the assets, and the date and method of disposition of the assets. In addition, all property items should be identified with a tag or other similar device, and the city should conduct annual inventories.

Adequate general fixed asset records are necessary to secure better internal controls and safeguard city assets which are susceptible to loss, theft, or misuse, and provide a basis for determining proper insurance coverage required on city property.

WE RECOMMEND the City Council ensure property records are maintained which include all pertinent information for each asset such as description, cost, acquisition date, location, and subsequent disposition. The city should also properly tag, number, or otherwise identify all applicable city property and conduct an annual inventory.

AUDITEE'S RESPONSE

The City concurs with the findings and recommendation of the auditor. The City has begun compliance with recommendation pursuant to Mayor's Guidance Statements 5 and 21.

HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

CITY OF LEBANON, MISSOURI
HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

The city of Lebanon is located in Laclede County. The city was incorporated in 1877 and is currently a third class city. The population of the city in 2000 was 12,155.

The city government consists of a mayor and an eight-member city council. The members are elected for 2-year terms. The Mayor is elected for a 4-year term, presides over the city council, and only votes in the case of a tie. The Mayor, City Council, and other officials at October 31, 2007, are identified below. Ward one covers north Lebanon, ward two covers east and southeast Lebanon, ward three covers southwest Lebanon, and ward four covers west Lebanon. The Mayor is paid \$400 per month and City Council members \$200 per month. The compensation of these officials is established by ordinance.

<u>Elected Officials</u>	<u>Dates of Services During the Year Ending October 31, 2007</u>
Stanley "Bud" Allen, Mayor (1)	November 2006 – October 2007
Dan True, Ward One Councilmember	November 2006 – October 2007
Chase Waggoner, Ward One Councilmember	November 2006 – October 2007
Robert Brown, Ward Two Councilmember (2)	November 2006 – October 2007
Jim Davis, Ward Two Councilmember (3)	December 2006 – October 2007
J. L. Kinnett, Ward Two Councilmember (3)	November 2006
Allen Richert, Ward Three Councilmember	November 2006 – October 2007
David Troutman, Ward Three Councilmember (4)	November 2006 – October 2007
Robert Thieman, Ward Four Councilmember (5)	November 2006 – October 2007
Bill Wheeler, Ward Four Councilmember	November 2006 – October 2007

- (1) Stanley Allen received \$28,049 during the year ending October 31, 2007, for increased supervisory responsibilities of the Police Department, Fire Department, and Project Manager; resulting in total compensation of \$32,849. C.P. Craig was elected Mayor in April 2008 and receives an annual salary of \$4,800.
- (2) David Layman was elected Councilmember in April of 2008.
- (3) J. L. Kinnett resigned in November 2006 and the Council appointed Jim Davis to fill his term ending in April 2007. Jim Davis was elected to this position in April 2007.
- (4) Brian Anthony was elected Councilmember in April of 2008.
- (5) Chuck Jordan was elected Councilmember in April of 2008.

<u>Other Officials</u>	<u>Dates of Service During the Year Ended October 31, 2007</u>	<u>Compensation Paid for the Year Ended October 31, 2007</u>
Joe Knapp, City Administrator	November 2006 - October 2007	\$ 75,227
Laina Starnes, City Clerk	November 2006 – October 2007	46,722
Jon Morris, City Attorney *	November 2006 – October 2007	21,600

David Wilhite, City Counselor	November 2006 – October 2007	25,194
Mark Rector, Municipal Judge *	November 2006 – October 2007	25,920
Samuel Mustard, Police Chief (6)	November 2006 – October 2007	54,308
Sam Schneider, Fire Chief	November 2006 – October 2007	55,531
Scott Shumate, Project Manager (7)	November 2006 – October 2007	88,413
Richard Shockley, Public Works Director (8)	November 2006 – October 2007	63,677
Sam Allen, Community Service Director of Parks and Civic Center (9)	November 2006 – October 2007	55,940
Cathy Mustard, Planning & Zoning Director	November 2006 – October 2007	35,991

* Elected position

- (6) Samuel Mustard announced his retirement as Police Chief in May 2008. Raymond Blackburn has been appointed as interim Police Chief.
- (7) Scott Shumate served as the Public Works Director from November 2006 until April 2007 when he became Project Manager.
- (8) Richard Shockley served as Utility Operations Manager from November 2006 until April 2007 when he became the Public Works Director.
- (9) Sam Allen resigned his position in April 2008.

In addition to the officials identified above, the city employed 231 full-time and part-time employees on October 31, 2007.

Assessed valuations and tax rates for 2007 were as follows:

ASSESSED VALUATIONS

Real estate	\$ 127,502,570
Personal property	47,367,732
Railroad and utility	1,044,762
Total	<u>\$ 175,915,064</u>

TAX RATES PER \$100 ASSESSED VALUATION

	<u>Rate</u>
General Fund	\$.2525
Parks and recreation	.2525
Lebanon Special Business District	.6651

TAX RATES PER \$1 OF RETAIL SALES

	<u>Rate</u>
General	\$.0100
Capital improvement	.0050
Transportation	.0050