



# Thomas A. Schweich

Missouri State Auditor

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## City of Pacific

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November 2011  
Report No. 2011-104



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<http://auditor.mo.gov>



**Thomas A. Schweich**  
Missouri State Auditor

# CITIZENS SUMMARY

## Findings in the audit of the City of Pacific

Legal Services	The city has not obtained proposals for legal services and has not performed a cost analysis to determine if legal services should be performed in-house instead of being contracted. In fiscal year 2011, the city paid approximately \$171,000 for contracted City Attorney services.
Property Records	The city did not ensure it obtained the best possible price when it disposed of two police vehicles. The city auctioned one police vehicle for \$2,200 and traded another for \$9,700 worth of lights and sirens installed on a new vehicle, but it could not provide documentation showing how much the vehicles were worth at the time of disposal. The city also needs to ensure property records contain sufficient detail and city property is tagged and properly identified.
Sewer Rates	The city does not charge enough in sewer fees to cover the cost of operating the sewer system.
Senior Center	The city has not adequately monitored the Senior Center's operations, and it cannot ensure city funds are spent properly, because it has not required supporting documentation of disbursements.

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

American Recovery and Reinvestment Act 2009 (Federal Stimulus)	<p>The City of Pacific received the following Federal Stimulus funding:</p> <p>A \$93,750 Wastewater and Water Treatment Efficiency Grant, \$79,958 of which was received during fiscal year 2011 and expended for a new blower.</p> <p>A \$709,891 Highway Planning Construction Grant, \$347,640 of which was received during fiscal year 2011 and expended for sidewalk and street light construction.</p>
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\*The rating(s) cover only audited areas and do not reflect an opinion on the overall operation of the entity. Within that context, the rating scale indicates the following:

- Excellent:** The audit results indicate this entity is very well managed. The report contains no findings. In addition, if applicable, prior recommendations have been implemented.
- Good:** The audit results indicate this entity is well managed. The report contains few findings, and the entity has indicated most or all recommendations have already been, or will be, implemented. In addition, if applicable, many of the prior recommendations have been implemented.
- Fair:** The audit results indicate this entity needs to improve operations in several areas. The report contains several findings, or one or more findings that require management's immediate attention, and/or the entity has indicated several recommendations will not be implemented. In addition, if applicable, several prior recommendations have not been implemented.
- Poor:** The audit results indicate this entity needs to significantly improve operations. The report contains numerous findings that require management's immediate attention, and/or the entity has indicated most recommendations will not be implemented. In addition, if applicable, most prior recommendations have not been implemented.

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# City of Pacific

## Table of Contents

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

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Management Advisory	
Report - State Auditor's	
Findings	
1. Legal Services .....	4
2. Property Records .....	5
3. Sewer Rates .....	6
4. Senior Center .....	7

---

Organization and Statistical	9
Information	



# **THOMAS A. SCHWEICH**

## **Missouri State Auditor**

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

The State Auditor was petitioned under Section 29.230, RSMo, to audit the City of Pacific. We have audited certain operations of the city in fulfillment of our duties. The city engaged Tochtrop and Associates, P.C., Certified Public Accountants (CPAs), to audit the city's financial statements for the year ended June 30, 2011. To minimize duplication of effort, we reviewed the report of the CPA firm for the June 30, 2010 audit, since the June 30, 2011, audit had not been completed. The scope of our audit included, but was not necessarily limited to, the year ended June 30, 2011. The objectives of our audit were to:

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

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

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

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

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

An additional report, 2011-84, Twentieth Judicial Circuit, City of Pacific Municipal Division, was issued in October 2011.



Thomas A. Schweich  
State Auditor

The following auditors participated in the preparation of this report:

Deputy State Auditor:	Harry J. Otto, CPA
Director of Audits:	Alice M. Fast, CPA, CGFM, CIA
Audit Manager:	Debra S. Lewis, CPA
In-Charge Auditor:	Carl Zilch Jr., CIA
Audit Staff:	Jay Dowell, MBA Kenneth Erfurth

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# City of Pacific Management Advisory Report State Auditor's Findings

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## 1. Legal Services

Legal services are procured without a competitive process, and the city has not performed a cost analysis to determine if outsourcing legal services is cost beneficial. The city paid the City Attorney approximately \$171,000 for the year ended June 30, 2011.

### 1.1 Proposals for legal services

The city has not obtained proposals for legal services. As a result, the city cannot ensure it has the best qualified individual at the lowest and best cost for the position. The city engaged the City Attorney and his law firm based on the type of specialized services needed. The City Attorney is considered a contracted position and paid at an hourly rate. The city has used the same individual as City Attorney since 2002, without periodically soliciting proposals for this position.

While professional services, such as attorneys, may not be subject to standard bidding procedures, the city should solicit proposals for legal 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.

### 1.2 Cost analysis

The city has not performed a cost analysis to determine if legal services should be performed in-house or continue to be outsourced. As a result, the city cannot ensure the services are obtained in the most economical way. All legal services are outsourced including general services provided by the City Attorney.

## Recommendations

The City of Pacific Board of Aldermen:

- 1.1 Periodically solicit proposals for legal services and maintain all related documentation, including reasons for the city's decisions.
- 1.2 Perform a cost analysis to determine the most cost effective method of obtaining legal services.

## Auditee's Response

*The Board of Aldermen and the Mayor provided the following written responses:*

- 1.1 *The City's ordinances regarding bidding and purchasing Section 105.080, states that the "the competitive bidding requirement of this Article shall not apply to professional services" including in the hiring of "physicians, attorneys, engineers, certified public accountants, planners and auditors." This public policy reflects the importance of trust, reliability and quality as factors as well as cost that preclude effective competitive bidding on price or rates for such services. The City has contracted or been represented by other*



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

*counsel during the current City Attorney contract period and has received information regarding the qualifications, performance and cost of other counsel.*

1.2 *The City routinely reviews its contracting services and makes adjustments where appropriate. Hiring a full-time attorney to replace contracted fees has been determined not to be viable for numerous reasons, including that no one attorney has the experience or competence to provide the services used by the City, such as bond counsel, litigation counsel, general municipal, employment, economic development financing, and otherwise. In addition, the cost of insurance, benefits, payroll taxes, legal libraries, and office space, among other costs, would substantially increase the non- contracted costs if in-house counsel was used, and still not fully eliminate the need for contracted services. This practical assessment is shared by virtually all cities of our size in the entire state, and the City has confirmed that not one of the 91 cities in St. Louis, County, for example, uses a full-time in- house attorney rather than contracting for legal services.*

## Auditor's Comment

1.1 The State Auditor's office agrees that professional services such as attorney services do not require competitive bidding; however, a periodic review of potential alternative providers for attorney services would ensure the city has contracted with the vendor or individual best suited to provide the service required.

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## 2. Property Records

The city did not ensure the best possible price was obtained when disposing of city vehicles. In addition, various city property records and procedures need improvement.

### 2.1 Disposal of city property

The city did not ensure the best possible price was obtained when it disposed of two police vehicles. One vehicle was given away in a raffle which raised \$2,200, of which \$1,100 was given to the senior center. The city gave the other vehicle to a vendor in exchange for the installation of sirens and lights on new police vehicles, invoiced at approximately \$9,700. The city could not provide documentation of the value of the vehicles at the time of disposal and therefore, could not document an equitable amount was received.

Disposing of vehicles through a bid process helps ensure the city is receiving the best possible price for the assets sold. If other disposal methods are used, the city should clearly document the estimated value of the vehicles to ensure an equitable amount is received.



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

## 2.2 Property records

City property records maintained do not include all necessary information such as date and method of disposal. In addition, city property is not tagged and properly identified.

Adequate city property records and procedures are necessary to secure better internal control over city property, and provide a basis for determining proper insurance coverage. Property control tags should be affixed to all property, including capital assets, to help improve accountability and ensure assets are properly identified as belonging to the city. Property records should also include information such as acquisition/disposition dates.

## Recommendations

The City of Pacific Board of Aldermen:

- 2.1 Ensure dispositions of city property such as vehicles is handled in a manner that ensures the best possible price.
- 2.2 Ensure property records for city property are maintained and include all pertinent information for each asset, such as cost, acquisition date, and subsequent disposition, if applicable.

## Auditee's Response

*The Board of Aldermen and the Mayor provided the following written responses:*

- 2.1 *The City has on occasion disposed of property by raffle or other means other than bid, that has resulted in increased revenue for the taxpayer. These means are fully compliant with law and no law prohibits these methods. The alternative means such as raffle are open to all in the public, are available for public scrutiny, and the net price resulted in a greater than market value return for the public as well as positive publicity. The City acknowledges that a lower value is possible if minimum dollar amounts are not set, but the City has been aware of market value prior to engaging in these successful property sale methods. Although not required by law, the documentation of property value reviews will be maintained as public record to have duplicative proof of the success of these measures.*
- 2.2 *Certain measures, such as use of property control tags, has now been implemented consistent with the Auditor suggestion.*

## 3. Sewer Rates

The sewer rates charged to customers are insufficient to cover sewer operations. As a result, the 2011 budget for the Sewer Fund indicates a deficit of approximately \$7,300 and contains a note indicating any deficit in the Sewer Fund would be covered by the Water Fund. The city received a



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

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study of water and sewer rates in August 2011, and the Board of Aldermen was still considering possible action as of August 11, 2011.

Rates for utility services should be set to cover the costs of producing and delivering services (including administrative costs) and maintain reserves adequate to sustain the system. Section 67.042, RSMo, provides that fees may be increased if supported by a statement of the costs necessary to maintain the funding of such service.

## Recommendation

The City of Pacific Board of Aldermen review sewer rates periodically to ensure receipts are sufficient to cover all costs of providing this service.

## Auditee's Response

*The Board of Aldermen and the Mayor provided the following written response:*

*The City is currently reviewing its recent rate study to determine what action if any is needed regarding utility rates.*

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## 4. Senior Center

The city has not received or reviewed invoices and supporting documentation from the Senior Center as required by contract. As a result, the city cannot ensure city funds are spent appropriately. In April 2011, the city entered into a formal written agreement with the Senior Center to collect \$1 donations for the center from residents through water bills and to pay a portion of the city recycling rebate (received as part of its recycling contract) to the center. The agreement requires the Senior Center to submit invoices with any necessary supporting documentation for these monies and keep complete and accurate records of expenditures, which are open to the city for inspection. During the year ended June 30, 2011, the city paid \$5,000 to the Senior Center under this contract.

A periodic review of the accounting records and invoices with supporting documentation would help ensure the monies are spent for the benefit of senior citizens residing in the city.

## Recommendation

The City of Pacific Board of Aldermen should monitor the operations of the Senior Center to ensure city funds are spent appropriately.

## Auditee's Response

*The Board of Aldermen and the Mayor provided the following written response:*

*The City agrees that accountability for any City expenditures is essential and has included such accountability and requirements for public uses as a condition of payments to the Senior Center and other private organizations, including non-profit organizations. The City monitors Senior Center activities, has received reports reflected in the minutes, and has also requested that the contract requirement for*



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

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*documentation be provided so that our monitoring may be available as a public record. Similar accounting and cost requirements are also required of other parties receiving public funds.*

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# City of Pacific

## Organization and Statistical Information

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The City of Pacific is located in Franklin and St. Louis Counties. The city was incorporated in 1859 and is currently a fourth-class city. The city employed 47 full-time employees and 15 part-time employees on June 30, 2011.

City operations include water, sewer, and law enforcement services; operation and maintenance of city parks; economic development; and street maintenance.

### Mayor and Board of Aldermen

The city government consists of a mayor and six-member board of aldermen. The members are elected for 2-year terms. The mayor is elected for a 4-year term, presides over the board of aldermen, and votes only in the case of a tie. The Mayor and Board of Aldermen, at June 30, 2011, are identified below. The Mayor is paid \$641 per month and Board of Aldermen members \$366 per month. The compensation of these officials is established by ordinance.

Herbert Adams, Mayor  
 Mike Bates, Alderman  
 Edward O. Gass, Alderman  
 Jerry Eversmeyer, Alderman  
 Brad Reed, Alderman  
 Walter Arnette, Alderman  
 Mike Pigg, Alderman

### Other Elected Officials

Name and Title	Compensation Paid for the Year Ended June 30, 2011
Matt Mansell, City Marshal	\$54,334
Debbie Kelley, Collector	33,500
Ronald F. Reed, Municipal Judge	6,495

### American Recovery and Reinvestment Act 2009 (Federal Stimulus)

According to city personnel, the city was awarded the following American Recovery and Reinvestment Act of 2009 funding:

A \$93,750 Wastewater and Water Treatment Efficiency Grant was awarded by the Missouri Department of Natural Resources for sewer plant efficiency. During the year ended June 30, 2011, \$79,958 was received and expended for a new blower.

A \$709,891 Highway Planning and Construction Grant was awarded by the Missouri Department of Transportation for sidewalk and street light construction. During the year ended June 30, 2011, \$347,640 was received and expended by the city related to this grant.