



Thomas A. Schweich

Missouri State Auditor

City of Mountain Grove

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Missouri State Auditor

CITIZENS SUMMARY

Findings in the audit of the City of Mountain Grove

Financial Condition and Monitoring	The General Fund is in poor financial condition due to operating losses of several city activities and increased health insurance costs. The city golf course lost over \$100,000 in each of fiscal years 2011 and 2010, and the senior center operated at a loss of approximately \$100,000 for fiscal year 2011 and \$61,000 for fiscal year 2010. The city does not maintain complete, accurate, and up-to-date accounting records, so the Board of Aldermen does not receive adequate financial information to properly monitor cash balances and the financial condition of city funds. It is a concern that a city responsible for revenues of approximately \$3.6 million annually for all city funds cannot produce timely basic financial reports that should be utilized regularly to manage city finances.
Budgets and Financial Reporting	Annual budgets do not contain all required elements, and the city does not publish complete, accurate, and up-to-date semi-annual financial statements, as required by state law. The Board of Aldermen does not adequately monitor budget to actual revenues and expenditures, and actual expenditures exceeded appropriated amounts for some funds, in violation of state law.
Expenditures	The city has a bid policy, but it was not followed for several purchases. The policy requires the city to advertise for bids for items or services in excess of \$5,000, but the city did not advertise when it purchased chairs and tables, kitchen appliances, billiard tables, or culverts. The city needs to improve its approval process for expenditures and maintain better supporting documentation for expenditures. Vehicle mileage logs need improvement, and the city should maintain documentation to support the manner in which it allocates salaries to different funds.
Contracts and City Property	The city has entered into contracts for public services that do not adequately protect the city's financial interests by requiring the vendor to report on the services performed or provide proof of insurance. The city does not charge rent to three private entities and leases two houses to individuals for \$100 and \$200 per month with no written lease agreements or support for the reasonableness of the rental amounts. Additionally, the city did not solicit proposals to develop real estate owned by the city, so it cannot be sure it received the best value possible for the property.
Accounting Controls and Procedures	Receipting procedures need improvement. The city should use pre-numbered receipt slips, account for their numerical sequence, reconcile the method of payment to the composition of deposits, restrictively endorse checks immediately, and properly account for voided transactions. The city should also ensure individuals with access to city funds are bonded or insured to protect the city from loss.
Golf Course	The golf course pro shop is a private business operated on city property at city expense in violation of the Missouri Constitution's prohibition against using public funds to subsidize a private entity. The city and the pro shop

have no written agreement, the business is operated with the help of city employees who do not track their time, the pro shop pays no rent to the city, and the city pays the pro shop's utilities and insurance. Pro shop receipts are commingled with the city's receipts, and the city does not receive adequate documentation of daily receipt activity. The pro shop cash register does not account for the composition of receipts and does not assign receipt or transaction numbers, making it harder to ensure all transactions are accounted for properly. The city needs to reexamine its employee discount policy related to golf course discounts. The city does not maintain accurate, up-to-date records of golf course membership dues, making it difficult to identify delinquent members.

Payroll	Payroll procedures need improvement. A golf course employee was allowed to accrue compensatory time in excess of the maximum allowed by law, police department employees are paid overtime not required by law, and two full-time city employees who perform janitorial duties for the city after business hours are not awarded compensatory time to which they might be entitled. The city does not require time sheets or maintain records of vacation and sick leave for some of its salaried employees. The city did not report the value of employee use of city vehicles as required by the IRS. Some employees are not paid in accordance with the city salary schedule.
Utility System Controls and Procedures	The city has not reviewed its water and sewer rates since 2008. Preparing a statement of costs would allow the city to determine the appropriate rate to charge to cover the cost of providing the service. Adjustments are sometimes posted to the utility system without adequate documentation of the reason for the adjustment and evidence of independent approval.
Sunshine Law	Closed meeting minutes lack sufficient detail of matters discussed, and the city should consider adopting a formal policy for access to city records.

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

American Recovery and Reinvestment Act 2009 (Federal Stimulus)	The City of Mountain Grove did not receive any federal stimulus monies during the audited time period.
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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 Mountain Grove

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THOMAS A. SCHWEICH

Missouri State Auditor

To the Honorable Mayor
and
Members of the Board of Aldermen
Mountain Grove, Missouri

The State Auditor was petitioned under Section 29.230, RSMo, to audit the City of Mountain Grove. We have audited certain operations of the city in fulfillment of our duties. The city engaged Officer CPA Firm L.L.C., Certified Public Accountants (CPAs), to audit the city's financial statements for the year ended June 30, 2011 and 2010. The audit of the city's financial statements for the year ended June 30, 2011, is not yet completed. To minimize duplication of effort, we reviewed the report and substantiating working papers of the CPA firm for the year ended June 30, 2010. The scope of our audit included, but was not necessarily limited to, the 2 years 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 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 Mountain Grove.

An additional report, No. 2011-23, *Forty-Fourth Judicial Circuit, City of Mountain Grove Municipal Division*, was issued in May 2011.



Thomas A. Schweich
State Auditor

The following auditors participated in the preparation of this report:

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City of Mountain Grove Management Advisory Report State Auditor's Findings

1. Financial Condition and Monitoring

The fund balance of the General Fund is declining and, the Board of Aldermen does not receive timely and complete financial information to adequately monitor the city's financial condition. While the city has historically maintained a relatively low fund balance in the General Fund, some activities of the city have significant operating losses that are contributing to a further decline of the fund balance of the General Fund.

General Fund revenues, expenditures, and fund balances for the years ended June 30, 2011, 2010 and 2009, are noted below:

	Year ended June 30,		
	2011*	2010**	2009**
Beginning fund balance	\$ 42,385	240,379	144,895
Revenues	1,805,326	1,677,338	1,741,975
Expenditures	(1,758,931)	(1,636,712)	(1,508,990)
Other financing sources (uses)	-	(238,620)	(137,501)
Ending fund balance	\$ 88,780	42,385	240,379

*Information obtained from unaudited city financial records provided at our request.

**Information obtained from city's audited financial statements.

Although city financial records for June 30, 2011, reflected the General Fund as having a fund balance of \$88,780 and a cash balance of \$54,060, the Senior Center Fund had a negative fund balance of \$79,305. In previous years, the city transferred funds from the General Fund to the Senior Center Fund to compensate for the negative balance; however, city personnel indicated they plan to carry the negative fund balance forward to 2012. The city does not have a clear plan on how to fund the continued operating losses of the Senior Center given the deteriorating financial condition of the General Fund.

Additionally, the Transportation Fund reflected a negative fund balance of approximately \$140,000 at June 30, 2011, that was covered by a transfer from the Capital Improvement Sales Tax Fund. The city did not maintain supporting documentation of capital improvement related expenses paid from the Transportation Fund to ensure this transfer was appropriate.

Several factors have contributed to the decline in the fund balance of the General Fund, including operating losses of several city activities, and increased health insurance costs associated with the city self insurance fund. However, because the city does not prepare timely and accurate financial data for review by the Board of Aldermen and city administration, it is difficult for the Board to monitor the city's financial condition.



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Financial information

As of June 2011, the city was 9 months behind in recording financial transactions to the accounting system and producing a complete financial statement. August 2010 was the most current financial statement the city could provide to us in June 2011. According to the City Clerk, receipt and disbursement transactions are entered monthly but other accounting entries, such as amounts due to and due from the various city funds had not been recorded. The City Clerk indicated this was due in part to the city being unable to update the accounting records for the current year until the auditor prepares year end journal entries for the preceding year.

After our request for current financial statements, the City Clerk updated city accounting records through November 30, 2010. These records showed a negative cash balance for the General Fund of (\$123,611), and accumulated balances in the Due From Other Funds account of \$3.3 million and the Due To Other Funds account of \$3.2 million for the General Fund with no detail of what made up these amounts. According to the City Clerk, the balances in the Due To Other Funds account and Due From Other Funds account may not have been closed out properly at year end and may contain entries from the previous year. As a result, the city's financial records were not complete, accurate, and up-to-date.

In response to our request for financial statements for the year ended June 30, 2011 the city subsequently updated their accounting records and provided to us the financial data shown in the chart above in September 2011.

Monitoring by the Board

The financial information provided to the Board of Aldermen is not adequate to properly monitor cash balances and the financial condition of city funds. The Board periodically, but less frequently than monthly, is provided actual revenues by fund; however, they are only provided a list of itemized expenditures, not categorized by fund. The Board is not provided with cash balances for most city funds. Additionally, the Board of Aldermen does not receive complete and detailed financial information of several city operations, some of which are incurring losses.

Golf course

The city-owned Randel-Hinkle Municipal Golf Course historically operates at a loss; however, financial reports provided to the Board of Aldermen do not adequately report losses associated with the golf course.

Most financial activity for the golf course is accounted for in the General Fund. Amounts paid for employee wages associated with the golf course are combined with other wages and not clearly identified in financial reports. Some water costs incurred by the golf course are not calculated and allocated to the golf course. Additionally, payments for principal and interest related to the golf course are paid from the Capital Improvement Sales Tax Fund and are not clearly separated from other city debt. As a



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result, the financial reports and budget do not clearly reflect all golf course related expenses.

The expenditures included in the table below have been adjusted to include approximate amounts for employees wages, water costs, and principal and interest payments attributable to golf course operations. The revenues, expenditures, and operating loss for the last 2 years are noted in the table below:

	Year ended June 30,	
	2011	2010
Revenues	\$ 130,281	146,734
Expenditures	(259,614)	(263,284)
Operating Loss	\$ (129,333)	(116,550)

Information obtained from city records.

Senior center

The Dora White Community Center (senior center) historically operates at a loss and is subsidized by the General Fund. Although the city maintains a separate fund for the senior center, monies are transferred from the General Fund to compensate for any operating losses. The senior center had revenues, expenditures, and operating losses for the last 2 years as noted in the table below:

	Year ended June 30,	
	2011*	2010**
Revenues	175,996	182,209
Expenditures	(276,305)	(243,539)
Operating Loss	\$ (100,309)	(61,330)

* Information obtained from city records.

** Information obtained from city's audited financial statements.

The operating loss of the senior center has increased significantly. According to city personnel, food costs of the senior center have increased, even though the number of meals served has decreased. City personnel indicated the center is required to serve more frozen meals which cost more than preparing meals from scratch.

Conclusion

It is a concern that a city responsible for revenues of approximately \$3.6 million annually for all city funds cannot produce timely basic financial reports that should be utilized regularly to manage city finances.



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To effectively monitor cash balances and the financial condition of city funds, the Board must receive timely and complete financial information. Activities of the city that operate at a loss should be carefully analyzed for ways to make them more cost effective. While it may be desirable to fund certain operations, funding should be reviewed periodically to ensure activities are operated efficiently and continue to be in the best interest of the city.

Recommendation

The Board of Aldermen ensure timely and complete accounting information is received and reviewed for all city funds and monitor cash balances and financial condition. Additionally, the Board of Aldermen should ensure transfers between funds are supported by adequate documentation, and periodically review operations of the city to ensure activities are operated efficiently and continue to be in the best interest of the city.

Auditee's Response

The Board of Aldermen provided the following response:

We recognize that the financial reports provided us have been lacking, and we intend to ensure this gets corrected. The City Clerk has been behind in entering financial information into the city's computer system. The city's accounting software system does not provide for us to easily prepare financial statements for a current period when accounting entries for prior periods have not been completed and closed. City personnel will begin to obtain totals from the accounting system each month and manually compile financial statements for each fund. The City Administrator advises the Board on the financial status of the Golf Course and Senior Center each year at budget time; however, this review will be performed more often.

2. Budgets and Financial Reporting

The city does not comply with state law related to budget preparation, budget amendments, and published financial statements.

2.1 Budget preparation

Annual budgets do not contain all elements required by state law. Budgets for the years ended June, 30, 2011 and 2010, did not include actual revenues and expenditures for the 2 preceding years, or beginning and estimated ending cash balances. The budgets only included budgeted revenues and expenditures for the prior 2 years.

Section 67.010, RSMo, requires the preparation of an annual budget which shall represent a complete financial plan for the ensuing budget year and also sets specific guidelines for the format. A complete budget should include the beginning available resources and a reasonable estimate of the ending available resources and include comparisons of actual revenues and expenditures for the 2 preceding years. A complete and well planned



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budget, in addition to meeting statutory requirements, can serve as a useful management tool.

2.2 Budget monitoring

The Board of Aldermen does not adequately monitor budget to actual revenues and expenditures. As a result, budget amendments for some city funds were approved after year end, and the city exceeded budgeted appropriations for most city funds.

On July 6, 2010, the Board of Aldermen amended the budget to increase expenditures by \$124,160 for the previous year ended June 30, 2010. A budget amendment was also approved on July 7, 2009, resulting in a net increase in budgeted expenditures of \$185,525 for the previous year ended June 30, 2009.

Even with the inclusions of these late budget amendments, the city's independent auditor reported for the years ended June 30, 2010 and 2009, that expenditures exceeded budgeted appropriations for all funds by \$350,678 and \$86,829, respectively. Further, according to city records it appears expenditures exceeded budgeted appropriations for the General Fund and the Water and Sewer Fund for the year ended June 30, 2011, by \$37,451 and \$320,762, respectively. It also appears actual expenditures exceeded budgeted appropriations in other city funds for the year ended June 30, 2011.

While the Board of Aldermen is periodically provided certain financial information at its meetings, the Board is not regularly requesting or provided financial information to properly monitor actual expenditures compared to budgeted amounts. See MAR finding number 1 regarding the inadequacy of financial information provided to the Board of Aldermen.

Section 67.040, RSMo, requires political subdivisions to keep disbursements within amounts budgeted and allows for budget increases, after the governing body officially adopts a resolution setting forth the facts and reasons. In addition, Section 67.080, RSMo, provides that no disbursement of public monies should be made unless it is authorized in the budget. To ensure compliance with state law, the Board should request adequate financial data to properly monitor actual expenditures compared to budgeted amounts and formally amend the budget before the related expenditures are incurred.

2.3 Financial reporting

While state law requires the city to publish financial statements at the end of each 6 month period, the city only published annual financial statements for the years ended June 30, 2009 and 2010. In addition, these financial statements were each published approximately 12 months after year end. Further, as of September 2011, the city has not published financial statements for the year ended June 30, 2011. As noted in MAR finding



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number 1, the city does not produce accurate and timely financial data to properly comply with state law regarding published financial statements.

In addition, the financial statements that were published did not specify whether beginning and ending balances were cash or fund balances. For example, the financial statement published for the year ended June 30, 2010, reflected an ending balance of \$3,357,313 for the Water and Sewer Fund. This balance represented the fund balance of the Water and Sewer Fund and not the cash balance which was \$480,166. While either method of financial reporting is appropriate, without specifying what the ending balance represents, the financial statements can be misleading to city residents. Further, the city only publishes the total revenues and expenditures for each fund instead of a detailed account of receipts and expenditures, and the published financial statements for the year ended June 30, 2010, did not include the indebtedness of the city.

Section 79.160, RSMo, requires the Board of Aldermen to prepare and publish financial statements within 1 month of the end of each 6 month period which include a full and detailed account of the receipts, expenditures, and indebtedness of the city. Complete, accurate, and detailed financial statements are necessary to keep the citizens informed of the financial activity and condition of the city. In addition, Section 79.165, RSMo, states the city cannot legally disburse funds until the financial statements are published.

Recommendations

The Board of Aldermen:

- 2.1 Prepare annual budgets that contain all information as required by state law.
- 2.2 Obtain adequate financial information monthly and properly monitor actual expenditures compared to budgeted amounts. Also, the Board of Aldermen should ensure expenditures do not exceed budgeted appropriations.
- 2.3 Ensure semiannual financial statements are published which present complete and detailed financial information, as required by state law.

Auditee's Response

The Board of Aldermen provided the following responses:

- 2.1 *We will ensure the budget prepared for the year ending June 30, 2013, complies with state law.*
- 2.2 *We will request and review budget to actual reports monthly and ensure expenditures do not exceed budgeted appropriations.*



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2.3 *We will properly publish financial statements semiannually and ensure they clearly specify fund balance or cash balance.*

3. Expenditures

Weaknesses were noted in controls and procedures related to expenditures.

3.1 Bidding

The city bid policy was not followed for several purchases, and the bid policy does not include procedures to be followed in instances of sole source procurement. The city has a procurement policy (Ordinance Nos. 2-421 through 2-437) which requires city officials to solicit bids for items or services wherever possible and advertise for bids for items or services costing more than \$5,000.

Bids were not solicited for the purchase of a walk-in cooler (\$10,500) and golf course chemicals (\$7,088). Additionally, the city has not solicited proposals for auditing services since 2004. The city paid \$17,699 and \$19,665 for auditing services for the years ended June 30, 2010 and 2011, respectively.

In addition, bidding procedures used for some purchases did not comply with city policy. For example, the city obtained bids by phone and/or price comparisons for the purchase of kitchen appliances (\$51,516), chairs and tables (\$23,489), and billiard tables (\$21,276), but did not advertise for bids as required by the city procurement policy.

The city also did not bid the purchase of culverts (\$16,240). According to the City Administrator, this was due to an emergency situation. The emergency purchase policy requires a full explanation for the emergency purchase in the minutes. Minutes of the Board of Aldermen do not include documentation as to why the purchase qualified as an emergency.

Further, the procurement policy does not include procedures to be followed in instances of sole source procurement. According to the city, purchases of road oil and salt were sole source purchases; however, this was not documented. During the 2 years ended June 30, 2011, the city paid a total of \$100,527 and \$33,007 for road oil and salt, respectively.

Documentation of the selection process and criteria including sole source procurement should be retained to support purchasing decisions. Competitive bidding not only ensures the city is complying with city ordinances, but also helps ensure all parties are given an equal opportunity to participate in city business. Complete documentation should be maintained of all bids and proposals received including the reasons why a bid or proposal was selected.



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3.2 Approval process

The approval process for expenditures is not adequate. The city ordinance requiring Board approval of expenditures of \$500 or more was not always followed, and reviews of expenditures by the City Administrator and department heads are not documented. For example, a check for \$7,026 was written June 30, 2010, for food and supplies for the Dora White Community Center. The check cleared the bank on July 21, 2010. The invoice for this payment was not approved by the Board until August 17, 2010. We also noted that a \$10,638 expenditure for three pool tables for the senior center was not approved by the Board, and the City Administrator's approval of the expenditure was not documented.

The list of bills approved by the Board each meeting is not complete. A comparison of this list to approved invoices and the actual checks written is not performed and in some instances items are approved after the check has been disbursed. Further, the list of bills approved by the Board each meeting does not include payroll.

To ensure expenditures are an appropriate use of city funds, the City Administrator and department heads should document their review and approve purchases in accordance with city ordinances. In addition, the Board should ensure an adequate review of the list of bills approved, invoices, and checks written is performed prior to checks being disbursed. Further, city ordinance indicates purchases of less than \$500 will be made under the direction and supervision of the city administrator. Therefore, it appears purchases greater than this amount require approval of the Board of Aldermen.

3.3 Supporting documentation

Invoices and supporting documentation are not canceled upon payment, and receipt of goods or services was not always documented. Of the 22 disbursements reviewed, 5 invoices were not canceled and 4 did not contain documentation of receipt of goods or services. Invoices and supporting documentation should be canceled upon payment to avoid duplicate payments. To ensure the validity and propriety of expenditures, documentation of receipt of goods should be included on all invoices and other supporting documentation.

3.4 Vehicle logs

Vehicle mileage logs for the 24 city vehicles are not adequate. The logs do not indicate daily odometer readings and the purpose of trips. Logs should provide sufficient details so the city can effectively monitor vehicle use and fuel costs.

3.5 Allocation of salaries

The city has no documentation to support the allocation of salaries between city funds. The salaries of the City Administrator and City Clerk are allocated one-half to the Transportation Fund, one-fourth to the General Fund, and one-fourth to the Water and Sewer Fund. For the year ended June 30, 2011, the salaries of the City Administrator and the City Clerk were \$62,239 and \$32,914, respectively. Further, the salary of the Public



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Works Director is allocated three-fourths to the Transportation Fund and one-fourth to the Water and Sewer Fund. For the year ended June 30, 2011, the salary of the Public Works Director was \$45,590. In addition, the salaries of the City Collector and the Court Clerk/Utility Clerk are allocated to multiple city funds.

To ensure restricted funds are used for their intended purposes, the city should allocate expenditures to city funds based upon specific criteria, such as the number of hours worked by each employee, and retain documentation to support these allocations.

Recommendations

The Board of Aldermen:

- 3.1 Ensure bids are solicited for all applicable purchases in accordance with city ordinances and sufficient documentation is maintained. In addition, the Board should consider expanding the purchasing policy to address sole source purchases.
- 3.2 Ensure review and approval procedures are followed for expenditures. Further, the Board should ensure the list of bills provided for approval at monthly meetings is complete.
- 3.3 Ensure all invoices are canceled upon payment and require all invoices be initialed or signed by a department head or employee to indicate acceptance of goods or services.
- 3.4 Ensure mileage logs document the beginning and ending odometer readings, and purpose of each trip.
- 3.5 Ensure salary allocations are supported by adequate documentation.

Auditee's Response

The Board of Aldermen provided the following response:

- 3.1 *We will review the city's bid policy for any potential amendments and ensure compliance with the policy for all future expenditures.*
- 3.2 *We will comply with this recommendation.*
- 3.3 *This recommendation has been implemented.*
- 3.4 *This recommendation has been implemented. Mileage logs now contain odometer readings and the purpose of each trip.*
- 3.5 *We will perform a time study to document salary allocations.*



4. Contracts and City Property

Contracts with private entities for public services lack adequate provisions to protect the financial interests of the city, and do not adequately document the benefit to the city. Additionally, the city did not solicit proposals to develop real estate owned by the city.

4.1 Contracts

The city contracts with several entities to provide services for the public. Some contracts do not adequately protect the financial interests of the city.

- The city contracts with the Ozarks Family YMCA to provide recreational services to the community. These services include promoting and organizing various sports, operating the municipal swimming pool, and promoting and organizing senior adult programs. The city pays the YMCA \$15,000 per year for these services, provides indoor and outdoor recreational facilities, and pays certain other expenses related to the YMCA providing services such as lifeguards for the pool. The contract does not provide for the YMCA to retain fees charged to citizens for these recreational services, and does not require any reporting to the Board of Aldermen on the use of the \$15,000 or the fulfillment of contract terms. Further, although the contract contains a provision to protect the city against liability claims related to the recreational services offered by the YMCA, there is no provision requiring the YMCA to show proof of liability insurance.
- The city contracts annually with the Mountain Grove Chamber of Commerce and the Mountain Grove Central Business District Association paying them \$11,000 and \$3,500, respectively, for various public services including promoting the city and organizing several events. Although the City Clerk indicated a representative from the organization will periodically report to the Board of Aldermen on its activities, there is no provision in the contract requiring such reporting or a contract provision requiring documentation on how the funds were spent.

To provide proper accountability, city management should review future contracts to ensure city financial exposure is adequately limited and all contractual obligations are met. Further, future contracts should address who will receive fees collected for services provided. In addition, the city should establish formal procedures to monitor the use of monies paid to these entities and require financial reporting of how the city funds are used.

4.2 Lease contracts

The city leases property to the Arts Council, the Pregnancy Resource Center, and the Tri-County Fair with no lease payments required. Two of these lease contracts do not document any benefit to be received by the city, and one lease is not in writing. Additionally, the city owns two houses that are leased to individuals for \$100 and \$200 monthly without written lease



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agreements outlining the terms of the lease and without documentation to support the reasonableness of the monthly rent amount.

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. Written contracts are necessary to ensure all parties are aware of their duties and responsibilities and to prevent misunderstandings. Section 432.070, RSMo, requires contracts for political subdivisions to be in writing. In addition, to ensure monthly rent amounts charged to tenants are reasonable, the city should maintain documentation of how the rent amount was determined.

4.3 Real estate procedures

The city did not solicit proposals to develop real estate owned by the city. In December 2007, a building that appraised at \$900,000 was donated to the city for \$1. The city then sold the building to a local business for \$50,000 to be developed. The development included construction of a bowling alley and theaters completed in 2009, and additional development is ongoing. The city did not solicit any other proposals for the development of the building or bids for the sale of the property.

To ensure the best value is received or paid for property sold or purchased and all interested parties are given equal opportunities to participate, the city should solicit proposals for future real estate sales and development projects.

Recommendations

The Board of Aldermen:

- 4.1 Ensure future contracts address who will receive fees charged for services, require proof of liability insurance when applicable, and provide for periodic reporting to ensure all contractual obligations are met and city funds are accounted for properly.
- 4.2 Evaluate leasing property without a documented financial or service benefit to the city, and enter into written contracts/agreements defining services provided and benefits received. In addition, the Board of Aldermen should ensure documentation is maintained to support how the monthly rent amount is determined and its reasonableness.
- 4.3 Solicit proposals for future real estate sales and development projects.

Auditee's Response

The Board of Aldermen provided the following responses:

- 4.1 *We will review all contracts and make the appropriate changes to comply with this recommendation.*



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4.2 *The home that is leased for \$200 per month is leased to an individual who also helps to watch over the city walking trail which is located near this residence. We will document this in a lease agreement. The city no longer leases the other home for \$100. We will also ensure all written agreements define the services provided and benefits received.*

4.3 *We agree with this recommendation.*

5. Accounting Controls and Procedures

Accounting controls and procedures need improvement.

5.1 Receipting procedures

A review of receipting procedures identified numerous weaknesses.

- The City Clerk and police department do not issue receipt slips for some monies received. Receipt slips are not always issued for monies received for police reports and amounts transmitted to the City Clerk by other city departments. In some instances, an invoice is issued by the City Clerk in place of a receipt slip; however, the invoice is not pre-numbered, does not indicate the method of payment, does not indicate who received the monies, and does not indicate the purpose for which the monies were received.
- Police department receipt slips do not indicate the method of payment.
- Receipt numbers are not accounted for in the computerized receipt system. During a cash count, we identified two missing receipt numbers on the daily cash drawer report. The computer system does not maintain a record of voided receipts and no copies of the receipt were retained.
- The Collector's office issues manual receipt slips for city licenses, ATV permits, animal licenses, and new water meter deposits. The corresponding computer receipt slip number is not recorded on the manual receipt slip after the information is entered into the city computer system, and there is no independent review to ensure all manual receipts are properly entered into the computer and subsequently deposited.
- The police department, City Clerk, and golf course do not endorse checks immediately upon receipt.

To properly account for all receipts and ensure monies are properly deposited, prenumbered receipt slips should be recorded in numerical order



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for all monies received, the method of payment should be recorded for each receipt record and reconciled to the composition of deposits, and checks should be restrictively endorsed immediately upon receipt. Further, all voided transactions should be accounted for properly.

5.2 Bond coverage

Although the Mayor is an authorized signature on the bank accounts, he is not covered by a bond. Additionally, the Senior Center Director and volunteers at the Senior Center all handle monies and are not bonded or covered by a blanket insurance policy. Failure to properly bond or insure individuals who have access to funds exposes the city to risk of loss.

Recommendations

The Board of Aldermen:

- 5.1 Require receipt slips be issued in numerical order for all monies received with the method of payment indicated on the receipt slip and reconcile the composition of the amounts recorded to deposits. Additionally, the Board of Aldermen should take steps to ensure checks are endorsed upon receipt, and voided transactions are accounted for properly.
- 5.2 Obtain bond coverage or insurance for all officials and employees with access to city assets.

Auditee's Response

The Board of Aldermen provided the following responses:

- 5.1 *All these recommendations have now been implemented.*
- 5.2 *We have discussed coverage for all these employees and officials with our bonding company and will obtain coverage as recommended.*

6. Golf Course

Concerns relating to the golf course pro-shop, the handling of receipts, discount policies, and membership tracking were noted. The golf course processes membership fees, greens fees, cart rentals, shed rentals, and other miscellaneous receipts of approximately \$139,000 annually, according to city accounting records.

6.1 Pro-shop

The golf course pro shop is a private business operated on city property at city expense. There is no written agreement between the city and the Golf Club House Manager for operation of the pro shop. The golf course pro shop, called The First Tee, is a private business inside the golf course club house and is personally owned by the Golf Club House Manager who is a city employee. This business is operated with the help of other city employees. The city requires no rent payment, pays utilities and insurance for the pro shop, and has not solicited proposals for its operation. Further,



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the amount of city employee time spent to operate the pro shop is not tracked.

If the city continues to allow the Golf Club House Manager to own and operate the pro shop as a private business on city property, it should enter into a written agreement establishing appropriate terms for the operation of this private business on city property. The city should cease using city resources to subsidize the operation of the privately owned pro shop and periodically solicit proposals for the operation of the pro shop, if it is to continue being operated as a private business. Article VI, Section 25, Missouri Constitution, prohibits the use of public money or property to benefit an individual, except as provided in the constitution. Without a written agreement that clearly indicates the governmental purpose provided to the city, this could be considered a violation of the constitution. In addition, Section 432.070, RSMo, requires all contracts be in writing.

6.2 Receipts

Concerns were noted regarding golf course procedures related to receipts.

- Receipts of the pro shop, a private business, are comingled with city receipts. All receipts collected at the golf course, both for the pro shop and the city, are receipted using one cash register. If the city continues to allow the pro shop to operate as a private business, it should cease the comingling of city and private business receipts to ensure all public monies are accounted for properly.
- The city does not receive adequate documentation of daily receipt activity at the golf course. A daily report and receipt tape are submitted to City Hall with the city receipts; however, the city does not receive a copy of the daily report and register tape on days that only pro shop monies are received and no city fees are collected. As a result, there are some days that the city does not receive any reports from the golf course. To ensure all city fees collected are turned over, the city should receive a copy of the daily report and register tape for each day the golf course is open. Without obtaining and properly reviewing adequate documentation, the city cannot ensure all monies are transmitted.
- The cash register does not account for the composition of receipts or assign receipt or transaction numbers; and, golf course monies are not transmitted to the city intact. When the pro shop has credit card sales, an equal amount of cash is taken out of monies to be transmitted to the city since all credit card payments automatically post to a city bank account. When there is not enough cash to cover the credit card payments for pro shop items, the city issues a check to the employee who owns the pro shop for the amount of credit card sales. In addition, the city pays the credit card company fees for each credit card transaction and these fees are not considered when pro shop sales are withheld. The failure to account for the composition of receipts, assign receipt or transaction



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numbers, and transmit intact increases the risk of theft or misuse of funds going undetected.

6.3 Policy

The city approved a golf course use policy that gives a 50 percent discount to city employees. The golf course also applies the discount to family members of city employees; however, the city policy does not clearly state if the discount applies to family members. To ensure all fees due the golf course are received and city policy is followed, the city should reexamine the policy and clarify who should receive a discount.

6.4 Membership billings

The city does not adequately track amounts due for golf course memberships. In response to a recommendation by its independent auditor, the city began maintaining a spreadsheet of amounts billed by the golf course for membership fees and amounts paid. However, we noted a \$790 payment for a membership and shed rental received by check on January 28, 2011, had not been recorded on the spreadsheet as of May 26, 2011. The city should maintain adequate up to date, records to ensure all golf course membership dues are paid and to facilitate contacting delinquent members.

Recommendations

The Board of Aldermen:

- 6.1 Evaluate the current arrangement of allowing the Golf Club House Manager to operate the pro shop as a private business, and if the city decides to continue this arrangement, enter into a written agreement establishing appropriate terms for the operation of the business on city property. Further, the Board should cease using city resources to subsidize the operation of the privately owned pro shop and periodically solicit proposals for the operation of the pro shop, if it is to continue being operated as a private business.
- 6.2 Require copies of all daily reports and register tapes from the golf course, evaluate the practice of allowing the Golf Club House Manager to withdraw city cash receipts for pro shop credit card transactions, ensure the composition of all receipts is indicated, and evaluate the possibility of adding receipt/transaction numbers to the cash register at the golf course to properly account for all transactions.
- 6.3 Review the golf use policy and clarify whether the 50 percent discount includes family members of city employees.
- 6.4 Ensure billings and collections of golf memberships are adequately monitored.



Auditee's Response

The Board of Aldermen provided the following responses:

- 6.1 *We will review the current situation and make changes as recommended. A written agreement will be prepared that complies with the State Auditor's recommendations.*
- 6.2 *A new cash register will be purchased that will track transactions and all reports will be reviewed. All receipts will be deposited and any funds owed to the Golf Club House Manager will be paid by check from the city.*
- 6.3 *We will review the policy and amend it as appropriate.*
- 6.4 *This recommendation has been implemented. The spreadsheet maintained by the City Clerk is reconciled to records maintained at the Golf Course.*

7. Payroll

Procedures over compensatory time, timesheets and leave records, and commuting miles need improvement.

7.1 Compensatory time

Several areas of concern were noted with compensatory time.

- A golf course employee was allowed to accrue compensatory time in excess of the maximum allowed by the Fair Labor Standards Act (FLSA) of 1938. City payroll records indicate one golf course employee had a compensatory time balance of 595 hours at November 30, 2010. According to city officials, golf course employees work long hours during nice weather and receive compensatory time at the rate of time and one-half for hours worked in excess of 40 hours per week. The compensatory time is used by the employees during winter months when the golf course is closed. However, the FLSA states covered employees may accumulate a maximum of 480 hours (for seasonal personnel) of compensatory time. Hours in excess of this maximum are to be paid to or taken off by the employee in the next pay period.
- Overtime is paid to police department employees when not required by the FLSA. The city currently pays overtime to police department employees for any time worked over 40 hours in one week; however, the FLSA only requires police department employees to be compensated at time and one-half for work hours in excess of 171 hours in a 28-day pay period, not including holiday, vacation, or sick leave hours. Paying overtime for law enforcement based on a 40 hours week results in higher police department payroll costs.
- Compensatory time is not calculated for two full time city employees who performed janitorial duties after business hours. Two full-time city



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employees are also employed by the city as janitors at city hall and the senior center. The janitor at city hall is the Fire Chief, a salaried city employee who does not prepare a time sheet and who as fire chief is exempt from overtime provisions. The janitor at the senior center is the cook and prepares one time sheet for her duties as cook and another time sheet for her duties as janitor; however, her timesheet as janitor only documents the days she cleans and not the hours she spends cleaning. Both employees receive two W-2 forms annually from the city for their separate duties. The city personnel policy and the FLSA require any time worked over 40 hours in a week (for non-emergency personnel such as the cook and janitorial services) to be paid at time and one-half. Because the city Fire Chief and the senior center cook are full time city employees, it is likely their time working as janitors would cause them to exceed 40 hours during the week.

To ensure the city complies with the FLSA, the city should establish better controls over the management of compensatory time balances. This would include evaluating balances for reasonableness, reviewing the reasons for large or increasing balances, and providing solutions to prevent excessive balances. Additionally, to limit city liability for overtime costs for law enforcement officers and ensure compliance with the FLSA and the city personnel policy, the city should review the method in which overtime is computed for law enforcement officers and require adequate documentation from the Fire Chief and the senior center cook for all time worked to ensure compensatory time is awarded as appropriate.

7.2 Timesheets and leave records

The city does not require timesheets be prepared for its seven salaried employees and the city hall janitor. Additionally, the city does not maintain records of vacation and sick leave for one of the salaried employees, the Golf Club House Manager (owner of the pro shop business referred to in MAR finding number 6).

Timesheets are necessary to document hours worked, substantiate payroll expenditures, and provide the city with a method to monitor hours worked and leave taken. In addition, without leave records, the city cannot ensure vacation and sick leave balances are accurate and all employees are treated equitably. Leave records also help the city in determining unused leave upon termination of employment.

7.3 Commuting miles

The commuting use of city vehicles is not reported to the Internal Revenue Service (IRS) and city vehicle logs do not distinguish between business and personal use. The City Administrator, Parks Supervisor, and Public Works Director take city vehicles home.

With certain exceptions, such as law enforcement personnel, the IRS reporting guidelines provide that personal commuting mileage is a



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reportable fringe benefit. Furthermore, IRS guidelines require the full value of the provided vehicle be reported on the employee W-2 forms if the employer does not require submission of detailed logs which distinguish between business and personal use. Additionally, the city may be subject to penalties and/or fines for failure to report all taxable benefits.

7.4 Compensation

Some employees are not paid in accordance with the city salary schedule. We noted several positions, including the City Administrator, Police Chief, and Golf Club Manager, for which the salary amount paid was less than the amount on the salary schedule. According to the City Administrator, salary amounts for a few employees are not calculated using the salary schedule even though their position is specifically listed on the schedule. While the salaries of these employees are also specifically listed in the city budget which is approved by the Board of Aldermen, the salary schedule is also approved by the Board of Aldermen and there is no documentation indicating why the salary amount paid does not agree to the schedule.

To ensure salary amounts paid to employees are accurate, authorization of employee compensation by the Board of Aldermen should be consistent or adequate documentation should be maintained to document reasons why salaries for some city positions do not agree with approved salary schedules.

Recommendations

The Board of Aldermen:

- 7.1 Closely monitor compensatory time of city employees to limit potential city liabilities and ensure the maximum allowable balance is not exceeded. In addition, the Board of Aldermen should review the method in which overtime is computed for law enforcement officers and require adequate documentation from the Fire Chief and the senior center cook for all time worked for the city to ensure overtime is awarded as appropriate.
- 7.2 Require timesheets and leave records be maintained for all employees.
- 7.3 Comply with IRS guidelines for reporting fringe benefits related to commuting in city owned vehicles.
- 7.4 Ensure authorization of employee compensation is consistent or adequate documentation is maintained to document reasons why salaries for some city positions do not agree with approved salary schedules.



Auditee's Response

The Board of Aldermen provided the following responses:

7.1 *Comp time for Golf Course employees no longer exceeds 480 hours. We will contact the Department of Labor regarding the employment arrangements with the Fire Chief and the Senior Center Cook. We have already implemented the new comp time calculations for police department personnel.*

7.2&3 *We will comply with these recommendations.*

7.4 *Beginning this year we discontinued approving a separate salary schedule. All employee salaries are detailed in the city's budget and approved when the budget is approved.*

8. Utility System

The city has not reviewed water and sewer rates since 2008, and significant weaknesses were noted in control procedures over utility system adjustments.

8.1 Water and sewer rates

According to the City Clerk, there has not been a review of utility rates since 2008, and per the audited financial statements, the Water and Sewer Fund had net income of only \$382 for the year ended June 30, 2010. Further, the Board does not receive and review timely financial information necessary to adequately monitor fund balances (see MAR finding number 1).

Water and sewer fees are user charges which should cover the cost of providing the related services. The city should perform a detailed review of its water and sewer costs, including depreciation and debt service costs, and set rates to cover the total cost of operation. Preparing a statement of costs would not only allow the city to determine the rates necessary to support current and future operations, but also provide documentation to customers of the rationale behind the rates. Such rate studies should be performed periodically.

8.2 Adjustments

Independent approval is not always obtained and documented for adjustments posted to the utility system, and the justification and reasons for the adjustments are not always adequately documented.

Adjustments to customer water accounts are authorized by the City Administrator; however, his approval and reasons for adjustments are not always documented. In addition, adjustments to customer sewer accounts are authorized only by the utility clerk, who also prepares utility bills and posts adjustments to utility accounts. Utility adjustments for the year ended June 30, 2011, decreased amounts owed by \$8,609.



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Proper authorization and adequate documentation, which fully explains the reason for adjustments to customer accounts, are necessary to ensure only the proper accounts and amounts are adjusted and to reduce the risk of theft, loss, or misuse of funds.

Recommendations

The Board of Aldermen:

- 8.1 Review water and sewer rates periodically to ensure receipts are sufficient to cover all costs of providing these services.
- 8.2 Require an independent review and approval of all utility system adjustments and ensure adequate documentation is retained to support such adjustments.

Auditee's Response

The Board of Aldermen provided the following responses:

- 8.1 *We reviewed rates in July and we are considering an increase because of additional cost requirements.*
- 8.2 *This recommendation has been implemented.*

9. Sunshine Law

Closed meeting minutes did not include sufficient detail, and the city did not always comply with the Sunshine Law and city ordinances.

9.1 Meeting minutes

Closed meeting minutes did not include sufficient detail of matters discussed. For example, some closed session minutes stated topics such as litigation and personnel were discussed but provided no further detail as to the specifics of the discussions. Further, no minutes were taken for a budget workshop held by a quorum of the Board in a conference room off the back of Council Chambers on July 5, 2011. Due to lack of documentation, it is unclear whether the workshop was an open meeting.

To ensure compliance with Chapter 610, RSMo (the Sunshine Law), the Board should adequately document discussions held in closed meetings and maintain minutes for all meetings of the Board of Aldermen, including workshops.

9.2 Public access policy

The city has not adopted a policy regarding public access to city records. A formal policy regarding access to city records would establish guidelines for the city to make the records available to the public. This policy should establish a person to contact, an address to mail requests for access to records, and a fee schedule for document retrieval and research. Section 610.023, RSMo, lists requirements of making city records available to the public, and Section 610.026, RSMo, establishes the fees for copying public records.



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Recommendations

The Board of Aldermen:

- 9.1 Ensure closed meeting minutes contain sufficient detail of all significant matters discussed and minutes are maintained for all meetings of the Board of Aldermen, including workshops.
- 9.2 Establish written policies and procedures regarding public access to city records.

Auditee's Response

The Board of Alderman provided the following responses:

We will comply with these recommendations.

City of Mountain Grove

Organization and Statistical Information

The City of Mountain Grove is located in Wright County. The city was incorporated in 1886 and is currently a fourth-class city. The city employed 47 full-time employees and 7 part-time employees on June 30, 2011.

City operations include law enforcement services, utilities (water and sewer), street maintenance, fire protection, planning and zoning, and recreation services.

Mayor and Board of Aldermen

The city government consists of a mayor and eight-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 \$500 per month and members of the Board of Aldermen are paid \$100 per month. The compensation of these officials is established by ordinance.

Delbert Crewse, Mayor
Glenn Kemper, Alderman
Amber Raney, Alderwoman
Dan Bartlett, Alderman
Victor Richards, Alderman
Kay Rogers, Alderwoman
Wayne Jones, Alderman
Jeff Holman, Alderman
Bill Davault, Alderman

Other Elected Official

The City Marshall/Ex Officio Collector at June 30, 2011, was Daniel Parker and his annual compensation was \$2. The City Marshall/Ex Officio Collector 's compensation is established by ordinance. Daniel Parker also serves as the chief of police, an appointed position, at an annual salary of \$37,226.

American Recovery and Reinvestment Act 2009 (Federal Stimulus)

The City of Mountain Grove did not receive any federal stimulus monies during the 2 years ended June 30, 2011.