



Thomas A. Schweich

Missouri State Auditor

City of Pevely

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<http://auditor.mo.gov>



Thomas A. Schweich
Missouri State Auditor

CITIZENS SUMMARY

Findings in the audit of the City of Pevely

Financial Issues

The city inappropriately transferred \$200,000 from the Water and Sewer Fund to finance general operations and does not have a formal plan in place to repay the funds. The Board does not receive and review detailed financial information, which would assist in effectively monitoring cash balances and the financial condition of city funds. Audit staff noted several concerns related to bond issues and tax collections. The city became responsible in 2013 for covering a portion of the general obligation bond payments related to a Neighborhood Improvement District (NID) when the revenue collected from special assessments was not enough to cover the bond payments. The city improperly used monies from the NID bond reserve account to make bond payments, and did not properly enforce several taxes, resulting in lost revenues. The city was not collecting two sales taxes on residential customer utility bills (one to fund road improvements and the other to fund construction of city hall) and was not properly collecting a telecommunications tax.

Budgets and Financial Statements

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

Bidding and Professional Services

The city did not solicit bids for all purchases over \$3,000, including \$24,674 for sewer pumps, \$22,400 for a pickup truck, \$18,235 for playground equipment, and \$13,199 for another pickup truck. The city only provided documentation of the winning bid for one project and did not maintain invoices related to the project. The city has used the same city attorney and Certified Public Accountant for approximately 20 years without periodically soliciting proposals for services.

Mayor's Cellular Phone

For more than 10 years, the city did not require former Mayor Knobloch to submit detailed supporting documentation for his cellular phone bill reimbursements. These payments ranged from \$61 to \$279 per month.

Accounting Controls and Procedures

The city does not timely perform bank account reconciliations and does not routinely follow up on outstanding checks. The city had 35 checks totaling \$4,475 that had been outstanding for more than one year. The City Clerk and two utility clerks are able to make adjustments to customer accounts without independent approval. The city does not reconcile customer utility deposits held to the amounts reported in the city's accounting records. As of June 30, 2013, the city held deposits totaling \$142,000, but the city's accounting system indicated \$120,000 was being held. The city does not have a centralized list of all city property, and assets are not tagged for specific identification. The city allows users to pay monthly utility bills, court costs, fees, and various fines by credit or debit card, but it does not charge users a sufficient convenience fee to offset card service costs and transaction fees assessed.

Employee Compensation	The city does not report the value of personal (commuting) mileage for using a city-owned vehicle on W-2 forms as required by the Internal Revenue Service. The city paid approximately \$12,200 in perfect attendance payments, which violates the Missouri Constitution.
Sunshine Law Violations	The Board did not record roll call votes to go into closed session for 11 of 21 closed sessions reviewed and some issues discussed in closed sessions were not allowable under the Sunshine Law.

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

*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 Pevely

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THOMAS A. SCHWEICH

Missouri State Auditor

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

The State Auditor was petitioned under Section 29.230, RSMo, to audit the City of Pevely. We have audited certain operations of the city in fulfillment of our duties. The city engaged Jeffrey J. Eftink, Certified Public Accountant (CPA), P.C., to audit the city's financial statements for the year ended December 31, 2012. To minimize duplication of effort, we reviewed the CPA firm's audit report. The scope of our audit included, but was not necessarily limited to, the year ended December 31, 2012. 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 Pevely.

An additional report, No. 2014-013, *Twenty-Third Judicial Circuit, City of Pevely Municipal Division*, was issued in March 2014.



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:	Regina Pruitt, CPA
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In-Charge Auditor:	David Olson
Audit Staff:	Morgan Alexander Andrew Roley

City of Pevely

Management Advisory Report

State Auditor's Findings

1. Financial Issues

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

1.1 Inter-fund obligations

The city inappropriately used \$200,000 in restricted Water and Sewer Fund monies to finance general operations. In April 2013, the city transferred the monies from the Water and Sewer Fund to the General Fund. The city did not appropriate the funds to repay the loan in the 2014 budget document or have a formal plan in place to reimburse the Water and Sewer Fund. In January 2014, city officials stated the Board's plan was to pay back the loans during 2014, by making separate \$50,000 transfers throughout the year. However, the entire loan was repaid, without interest, to the Water and Sewer Fund in April 2014. No budget amendments were made to reflect the loan payment.

Transfers from restricted funds to general funds should occur only for allowable and specific purposes, and reasons should be adequately documented. Section 250.150, RSMo, restricts the use of water and sewer monies for operating the systems, payment of bonds, establishment of a reserve, fulfillment of any agreements contained in ordinances, and payment of costs of improvements of such systems.

1.2 Financial information and monitoring

The Board does not receive and review detailed financial information, which would assist in effectively monitoring cash balances and the financial condition of city funds. The Board typically receives only a report showing the sales taxes collected for the month and a list of disbursements to be approved. The Board should also be receiving information such as all revenue collected for the month and year-to-date and debt obligations.

To effectively monitor cash balances and the financial condition of city funds, the Board must receive timely and comprehensive financial information.

1.3 Bonds and sales taxes

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

- The city became responsible in 2013 for covering a portion of the general obligation bond payments related to a Neighborhood Improvement District (NID) when the revenue collected from special assessments was not enough to cover the bond payments. According to the city, the developer was given approximately \$7.1 million in bond proceeds and construction advances at the beginning of the project. Special assessments paid by builders and homeowners in the subdivision are intended to pay off the bonds; however, because of the



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difficult economic environment the subdivision has not developed as intended resulting in problems collecting some assessments. In addition, water and sewer tap fees were to be used to reimburse the city for the construction advances. Because of the problems completing the NID project, the city may never receive some of these special assessment fees and water and sewer tap fees. The remaining principal outstanding on the bonds at December 31, 2013, was \$4.4 million. Interest remaining to be paid over the life of the bond issue totals \$1.4 million. The remaining amount due to the city on the construction advances at December 31, 2013, was \$656,854.

- The city improperly used monies from the NID bond reserve account to make bond payments, resulting in the reserve account having a \$161,000 shortage at December 31, 2012. City officials indicated the bond reserve account shortage has been addressed and is \$20,000 short as of July 2014.
- The city did not properly enforce several taxes, resulting in lost revenues.

A sales tax approved by voters in 1993 to fund road improvements was not being collected on residential customer utility bills. The former City Administrator estimated the city has lost total revenues of approximately \$250,000 of this sales tax since 1993.

Another sales tax approved by voters in 2006 to fund the construction of city hall was also not being collected on residential customer utility bills. City officials estimated the city has lost total revenues of approximately \$100,000 of the sales tax since 2006.

According to the city's 2012 financial statement audit report, the Board approved a telecommunications tax in 2002; however, the tax was not being properly collected. The gross receipts of applicable businesses were being taxed only 1 percent instead of the intended 5 percent. Neither the city's independent Certified Public Accountant (CPA) auditor nor city officials estimated the financial impact on the city of not properly collecting this telecommunications tax, and current city officials are uncertain as to how much revenue has been lost by the city.

The city corrected these tax collection issues in June 2013 after city officials noticed tax collections were well below projected amounts. We estimate the city is now collecting an additional \$3,200 per month from the two sales taxes since this issue was corrected. City officials estimate the city is collecting on average an additional \$33,100 per month from the telecommunications tax since this issue was corrected.



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While the city is addressing these issues, it is imperative that the Board receives accurate and complete information to properly manage the city's finances (see section 1.2). With \$10 million in long-term debt at December 31, 2013, the city cannot afford to be unprepared for additional unforeseen situations by not properly collecting all potential sources of revenue. The Board should also ensure disbursements are closely monitored as problems with disbursements were noted in MAR finding numbers 3 and 4.

To ensure the financial obligations of the city can be met, the Board must receive complete financial information. In addition all revenue-related ordinances should be up-to-date and in agreement with voter-approved ballot issues and applicable laws to ensure all possible revenues are being collected.

Recommendations

The Board of Aldermen:

- 1.1 Avoid improper interfund transfers.
- 1.2 Require preparation of timely, detailed, and complete financial reports and closely monitor the city's financial condition.
- 1.3 Ensure all financial obligations can be met and all potential sources of revenue are being properly collected.

Auditee's Response

The Board of Aldermen provided the following written responses:

- 1.1 *We will develop protocols to address interfund transfers.*
- 1.2 *Beginning in April 2014, the city hired the CPA firm of Thurman, Shinn & Company to prepare monthly financial statements for the city. The firm has prepared and presented financial statements through June 2014. These financial statements include a summary of all funds and detailed information regarding each department of the city. The financial statements show year-to-date actual, annual budget, variance and percentage of budget.*
- 1.3 *The city receives budget-to-actual reports on a monthly basis along with a listing of cash balances that has been adjusted for any due to/due from amounts within funds. We will ensure all financial obligations can be met and all potential sources of revenue are being properly collected.*



2. Budgets and Financial Statements

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

2.1 Budgets

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

Section 67.010, RSMo, requires the budget present a complete financial plan for the ensuing budget year and also sets specific guidelines for the format. A complete budget should include beginning fund balances. A complete and well-planned budget, in addition to meeting statutory requirements, can serve as a useful management tool by establishing specific financial expectations for each area of city operations. It also assists in setting tax levies and utility rates and informing the public about city operations and current finances.

2.2 Financial reporting

The city did not submit an annual financial report to the State Auditor's office as required by law for the year ended December 31, 2012, and, as of July 8, 2014, had not submitted an annual financial report for the year ended December 31, 2013. Section 105.145, RSMo, requires each political subdivision to file annual reports of its financial transactions with the State Auditor's office. In addition, 15 CSR 40-3.030 requires the annual financial report to be filed within 4 months after the end of the political subdivision's fiscal year if an unaudited financial report is filed and within 6 months after the end of the political subdivision's fiscal year if an audit report prepared by a certified public accountant is filed.

Recommendations

The Board of Aldermen:

- 2.1 Prepare budgets in compliance with state law.
- 2.2 Submit annual financial reports to the State Auditor's office as required by state law.

Auditee's Response

The Board of Aldermen provided the following written responses:

- 2.1 *The city will prepare a budget with all necessary parts for each budget year.*
- 2.2 *The city will provide a copy of its 2013 audit as soon as it is completed.*



3. Bidding and Professional Services

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

3.1 Bidding

City officials and employees do not always comply with the city's purchasing policy. City policies 135.120 and 135.190 require written bids to be obtained for purchases over \$3,000. Bids were not solicited for the following items:

Item	Amount
Sewer pumps	\$ 24,674
Pickup truck	22,400
Playground equipment	18,235
Pickup truck	13,199
Auto body repairs	7,984
Mower	6,599
Police radios	6,549
Patrol car equipment	6,025
Total purchases not bid	\$ 105,655

Also, the city was only able to provide documentation of the winning bid for street paving and construction even though multiple bids were received. The contract for this project was approximately \$205,000; however, the city did not maintain invoices related to the \$225,000 paid to the vendor for the project. At our request, the city was able to obtain copies of change orders (invoices) from the vendor to support approximately \$223,000 in payments, resulting in approximately \$2,000 in payments without supporting documentation.

Competitive bidding procedures for major purchases provide a framework for economic management of city resources and help ensure the city receives fair value by contracting with the lowest or best bidders. Competitive bidding also helps ensure all parties are given an equal opportunity to participate in city business. In addition, to ensure obligations were actually incurred and amounts paid were proper, all disbursements should be supported by paid receipts, itemized vendor invoices or other detailed documentation with payment information clearly indicated.

3.2 Professional services

According to city officials, the city has used the same city attorney and CPA for approximately 20 years without periodically soliciting proposals for services. The city's professional services procurement policy sections 135.340-135.360 requires the city to request "expressions of interest" from at least 5 firms and to request "detailed proposals" from at least 3 firms on purchases over \$10,000. During the year ended December 31, 2013, and



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2012, the city paid the city attorney approximately \$44,000 and \$110,000 respectively, and the CPA approximately \$25,000 and \$21,000, respectively. In addition, the city did not have a contract with the city attorney.

Soliciting proposals for professional services is a good business practice. Such procedures help provide a range of possible choices, and allow the city to make better-informed decisions to ensure necessary services are obtained from the best qualified provider after taking expertise, experience, and cost into consideration. Also, 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.

Recommendations

The Board of Aldermen:

- 3.1 Ensure bids are solicited for all applicable purchases in accordance with city policy and maintain all bid and disbursement supporting documentation.
- 3.2 Periodically solicit proposals for professional services as required by city policy.

Auditee's Response

The Board of Aldermen provided the following written responses:

- 3.1 *The city will review its purchasing policy and make sure that all purchases are made in accordance with the policy. We will also ensure all documentation relating to disbursements and bids is maintained.*
- 3.2 *The city is actively soliciting requests for qualifications (RFQ) for the legal representation. A RFQ for accounting services has been published and to date the city has received no responses. Effective immediately, the city will periodically solicit proposals for legal and financial services.*

4. Mayor's Cellular Phone

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

While the city generally paid the Mayor's cellular phone provider a set amount for most months for any given year, documentation was not provided showing the Board's approval of the original amount set or subsequent increases, and many years had 1 or 2 payments that were significantly higher than payments for other months of the year. There was



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also no documentation explaining why the city chose to pay the Mayor's personal cellular phone bill instead of providing him with a city-owned cellular phone or paying a set allowance each month.

The city's monthly payments gradually increased over the years, starting at \$61 per month in 2003 and increasing to \$138 in 2011. However, there was 1 or 2 months in many years where a significantly higher amount was paid without explanation. For example, during the year ended December 31, 2012, the city paid the cellular phone provider approximately \$138 per month, except in June when the city paid \$275. Also, the number of payments varied with some years having more than 12 payments and some having less than 12 payments. Overall, the city made 123 payments to the Mayor's cellular phone provider from 2003 to 2013.

The Mayor typically did not submit the current month's bill, only submitted the summary page, and sometimes handwritten amounts were on the bills submitted. We reviewed all cellular phone bills submitted by the Mayor for the period January 2003 through August 2013 and identified several concerns. Some bills are discussed in more than one point.

- For most months, the Mayor did not submit the billings specifically pertaining to the month for which he was seeking payment. Rather he repeatedly submitted bills pertaining to only 7 months as supporting documentation from January 2003 through August 2013. The Mayor submitted 3 of the 7 bills at least 20 times each. For example, from April 2009 to February 2012, the Mayor submitted the same April 2009 cellular phone bill. The city paid approximately \$5,400 based on this April 2009 bill that was submitted repeatedly.
- The Mayor frequently submitted bills with correction fluid covering the amount due and a handwritten amount for the city to pay. This situation occurred 60 times from April 2003 to July 2013. The city paid the Mayor's cellular phone provider approximately \$7,800 based on the handwritten amounts.
- For one bill, which was submitted 7 times, the cellular phone provider showed a credit balance and the words "Do Not Pay," but the city paid the amount that was handwritten on the bill. Payments related to these bills totaled approximately \$960.
- In the last few months before the city stopped paying the Mayor's cellular phone bill in August 2013, the Mayor began submitting current bills with a few additional details. The bills submitted for July and August 2013 showed 2 phone numbers on the account, both in the Mayor's name, and the city paid the entire bill.



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In addition, the July 2013 bill was paid twice. The payment was submitted by the city late, resulting in the July balance and a \$5 late fee being included on the August 2013 bill. The city then paid the full balance due of \$276.

The following table summarizes the city's payments related to the Mayor's cellular phone bills.

Mayor's Cellular Phone Payments

Year	Number of Payments	Total Amount Paid ¹	Range of Monthly Payments ¹		Bill Dates Submitted for Payment ³
			Low	High	
2003	14	\$ 953	\$ 61	\$ 143	August 12, 2002 September 11, 2003
2004	8	680	67	200	September 11, 2003
2005	9	735	67	134	September 11, 2003
2006	12	1,069	67	267	September 11, 2003
2007	12	877	67	79	September 11, 2003 August 8, 2007
2008	13	1,287	79	279	August 8, 2007
2009	12	1,167	79	109	August 8, 2007 April 13, 2009
2010	12	1,304	109	109	April 13, 2009
2011	12	1,820	109	275	April 13, 2009
2012	12	1,788	138	275	April 13, 2009 September 13, 2012
2013 ²	7	1,073	110	276	September 13, 2012 July 13, 2013 August 13, 2013
Totals	123	\$ 12,753			

¹ Amounts are rounded to the nearest whole dollar amount.

² The city's last payment to the Mayor's cellular phone provider was issued on August 27, 2013.

³ Dates of the bill submitted by the mayor for payment during each year. The Mayor typically did not submit the current month's bill.

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



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In 2013, several board members and residents began to question whether paying the Mayor's cellular phone bill was a prudent use of city funds and asked for additional documentation. Instead of providing more detailed documentation, the Mayor announced he would no longer ask the city to pay his cellular phone bill. Board members wanted to seek reimbursement for the cellular phone payments. After discussions with the Mayor at board meetings over the course of several months, a settlement agreement was reached in June 2014. The Mayor reimbursed the city \$3,610 in disputed cellular phone bills and the city reimbursed the Mayor \$3,360 for legal fees he incurred related to the city's investigation of the Mayor's cellular phone bills. The Mayor resigned effective July 7, 2014.

In addition, the city does not have a cellular phone policy. The city provided 21 cellular phones to city employees and elected officials and spent \$16,224 on cellular phones (excluding the Mayor) during the year ended December 31, 2013.

Adequate supporting documentation should be required before the city makes the related cellular phone payments. To ensure the efficient and effective use of cellular phones, the Board should develop a comprehensive written policy regarding appropriate cellular phone usage and monitoring to ensure the plan most beneficial to the city is used.

Recommendation

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

Auditee's Response

The Board of Aldermen provided the following written response:

The city no longer reimburses individuals for individual cell phones and the city is developing a cell phone policy at this time.

5. Accounting Controls and Procedures

Accounting controls and procedures need improvement.

5.1 Bank reconciliations

The city does not perform timely reconciliations of bank accounts. Our review of the December 2013 and May 2013 bank reconciliations noted that the bank reconciliation for these bank statements were not completed until March 2014 and July 2013, respectively.



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Timely monthly bank reconciliations are necessary to ensure accounting records balance, transactions are properly recorded, and errors or discrepancies are detected and corrected timely.

5.2 Outstanding checks

The city has not established procedures to routinely follow up on outstanding checks. As of December 2013, the city had 35 checks totaling \$4,475 that had been outstanding for more than one year. Some checks were more than 2 years old. These checks included 4 issued to employees and 8 issued to local businesses.

Proper follow up procedures are necessary to prevent the accumulation of old outstanding checks and ensure monies are appropriately disbursed to the payee or as otherwise allowed by state law. Old outstanding checks should be voided and reissued to those payees who can be readily located, and amounts remaining unclaimed should be disposed of in accordance with state law.

5.3 Utility adjustments

The city does not require independent approval to be obtained for adjustments posted to the utility system. The City Clerk and two utility clerks are able to make adjustments to customer accounts. The utility clerks also prepare bills and post payments to the customer accounts. The adjustments are not reviewed by anyone at the city to ensure the adjustments are proper. During the year ended December 31, 2013, clerks made approximately \$15,800 in adjustments to the city's utility system.

Requiring someone independent of receipting and recording functions to review and approve adjustments would help ensure all adjustments are valid. In addition, for the Board to be aware of the number and amount of adjustments, a report of adjustments should be presented periodically to the Board.

5.4 Utility deposits

The city is not reconciling customer utility deposits held in the utility deposit bank account to the amounts reported in the city's accounting records. Also, procedures for closing inactive customer accounts need improvement. As of June 30, 2013, the city held deposits totaling approximately \$142,000. However, the city's accounting system indicated approximately \$120,000 was being held. City personnel stated the \$22,000 difference was due to monies from closed customer accounts that had not been refunded, which are not included in the reports generated by the accounting system due to a system error. The city does not have a list showing to whom this money is owed. City officials indicated the system would have to be fixed before a proper list can be generated and the monies refunded. The city requires deposits of \$100 from residential customers and \$200 from business customers. The city needs to ensure that any inactive customer accounts are properly closed out in the city's accounting system



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and refund applicable deposits to these customers if necessary. Any unclaimed refunds should be handled in accordance with state law.

5.5 Capital assets

The city does not have a centralized list of all city property and assets are not tagged for specific identification. Lists of property are updated periodically and are kept on a departmental basis, but the lists are not always turned in to the City Clerk's office. A 2013 inventory was not conducted for the city administration offices, parks department, planning and zoning department, and police department. The last inventories in these departments occurred in 2012.

Adequate capital asset records and procedures are necessary to provide controls over city property; safeguard city assets that are susceptible to loss, theft, or misuse; and provide a basis for proper financial reporting and insurance coverage.

5.6 Credit and debit card fees

The city allows monthly utility bills, court costs, fees, and various fines to be paid by credit or debit card; however, card users are not charged a sufficient convenience fee to offset card transaction fees assessed. On April 30, 2012, the city began charging a \$4 service costs and convenience fee for payments made by credit or debit card. Credit and debit card service costs and transaction fees in 2012 totaled approximately \$3,500, but the city only received approximately \$1,970 in convenience fees. In 2013, service costs and transaction fees totaled approximately \$5,600 while the city received approximately \$3,050 in convenience fees. City officials should consider increasing the convenience fee to offset the card costs. In addition, absorbing a portion of the credit and debit card transaction fees is a possible violation of Article VI, Section 23, Missouri Constitution, which prohibits the granting of public funds to individuals.

Recommendations

The Board of Aldermen:

- 5.1 Ensure bank reconciliations are completed timely.
- 5.2 Establish procedures to routinely follow up and reissue old outstanding checks and dispose of unclaimed monies in accordance with state law.
- 5.3 Require an independent review and approval of all utility system adjustments.
- 5.4 Ensure reconciliations of utility deposits are performed between the utility deposit bank account and the deposits held per the city's accounting records. Any discrepancies should be promptly investigated. In addition, the Board of Aldermen should ensure applicable utility deposits are refunded or applied to balances due.



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- 5.5 Ensure adequate property records are maintained in a centralized location. The Board of Aldermen should also properly tag, number, or otherwise identify all applicable city property and ensure an annual inventory of all property is conducted.
- 5.6 Evaluate convenience fees as compared to processing fees and increase fees assessed as appropriate to a level sufficient to cover the costs of the service.

Auditee's Response

The Board of Aldermen provided the following written responses:

- 5.1 *All bank reconciliations have been completed for 2014.*
- 5.2 *The city will review old outstanding checks and ensure that monies are appropriately disbursed to payees or as otherwise allowed by state law.*
- 5.3 *The city is in the process of reviewing the financial internal controls of the city, including the utility department. A control will be put in place to make sure that all adjustments are reviewed and signed off by a second individual.*
- 5.4 *All customer accounts will be reviewed to make sure that utility deposits for closed customer accounts are disbursed back to the customer when appropriate. Reconciliations between the utility deposit bank account and the deposits recorded in the city's accounting system will be performed. Any differences will be investigated.*
- 5.5 *The city receives an inventory listing with its annual property insurance policy. However, at this time, the city does not tag inventory. The city will develop a dollar threshold to determine which items will be tagged and inventoried. We will ensure an annual inventory is conducted each year and maintain the inventory records in a centralized location.*
- 5.6 *The city feels that the difference of the convenience fees collected and the actual credit card charges paid is the cost of doing business. It is felt that this amount is much like service charges charged on checking accounts. The city will evaluate this policy.*

6. Employee Compensation

The city does not report commuting mileage benefits and some employees receive additional compensation related to tasks performed as a part of regular job duties.



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6.1 Commuting mileage

The city does not report the value of personal (commuting) mileage for using a city-owned vehicle to commute between home and work on individual W-2 forms as required by Internal Revenue Service (IRS) guidelines. According to the City Clerk, the Water Supervisor, Streets Supervisor, Animal Control Officer, and 2 Codes Enforcement Officers are assigned city-owned vehicles. These employees are not required to maintain a mileage log indicating business and personal use of the vehicle.

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

6.2 Additional compensation

The city paid approximately \$12,200 in perfect attendance payments, which violates the Missouri Constitution, for the year ended December 31, 2012. As part of the perfect attendance program employees could receive an extra week of pay at the end of the year if they did not use any sick leave during the calendar year. While such payments were implemented by the city to encourage and reward good work attendance, such payments pose legal questions because courts have held that attendance is part of normal job duties. Thus, providing such payments appears to represent additional compensation for services previously rendered. City officials terminated the program in January 2014 and made no perfect attendance payments for the 2013 calendar year after we discussed our concerns with them.

Additional compensation for services previously rendered is in violation of Article III, Section 39, Missouri Constitution, and 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 had been rendered."

Recommendations

The Board of Aldermen:

- 6.1 Comply with IRS guidelines for reporting fringe benefits related to commuting in city-owned vehicles. In addition, the Board of Aldermen should ensure usage logs are required when vehicles are used for commuting.
- 6.2 Ensure all employee compensation is in compliance with state law.



Auditee's Response

The Board of Aldermen provided the following written responses:

6.1 *During 2014 the city stopped allowing city-owned vehicles to be taken home. The city will determine the dollar amount of the commuting fringe benefit for the time that commuting was allowed during 2014 and follow IRS guidelines for reporting the fringe benefit.*

6.2 *The city no longer provides compensation for perfect attendance.*

7. Sunshine Law Violations

The Board did not always comply with the Sunshine Law. Roll call votes to go into closed session were not recorded for 11 of 21 closed sessions reviewed during the audit. In addition, based on closed meeting minutes, some issues discussed in these meetings were not allowable under the Sunshine Law. For example, closed meeting minutes indicated the Board discussed the city budget, city financial issues, increases in fees and taxes, traffic control issues, and appointing a city Prosecuting Attorney.

Section 610.022, RSMo, requires roll call votes when closing a meeting, and Section 610.021, RSMo, limits discussions in closed meetings to only those specifically allowed by law.

Recommendation

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

Auditee's Response

The Board of Aldermen provided the following written response:

The current Board of Aldermen is following strict procedural protocols in accordance with the state of Missouri's Sunshine Law. All members of the Board of Aldermen have been provided with Sunshine Law publications and the opportunity to attend a Sunshine Law seminar.

City of Pevely

Organization and Statistical Information

The City of Pevely is located in Jefferson County. The city was incorporated in 1953 and is currently a fourth class city. The city employed 42 full-time employees on December 31, 2012.

City operations include law enforcement services, utilities, and recreational facilities.

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 December 31, 2012, are identified below. The Mayor is paid \$275 per month and members of the Board of Aldermen are paid \$75 per meeting. The compensation of these officials is established by ordinance.

John Knobloch, Mayor
Freddie Busch, Alderman
Linn Duncan, Alderman
Marlin Hahn, Alderman
Dave Shelley, Alderman
Warren Zemple, Alderman
Ed Ziegelmeyer, Alderman

Other Elected Official

The Municipal Judge at December 31, 2012, was Denis Huston. Because he was unable to fulfill his duties for personal reasons, Steven Davis was appointed Chief Administrative Judge in March 2013. During the year ended December 31, 2013, Judge Huston was paid \$8,400 and Judge Davis was paid \$5,500.

Financing Arrangements

The city issued \$6.2 million in general obligation bonds in 2004 after creating a Neighborhood Improvement District for the Southern Heights subdivision. The bonds are to be paid from special assessment property taxes collected within the district. The bonds are scheduled to be paid off in 2025. The remaining principal outstanding at December 31, 2013, was \$4.4 million. Interest remaining to be paid over the life of the bond issue totals \$1.4 million.

The city issued \$4.4 million in revenue bonds in 2007 for the construction and lease-purchase of city hall. The bonds are to be paid using the city's capital improvement sales tax. The bonds are scheduled to be paid off in 2032. The remaining principal outstanding at December 31, 2013, was \$4 million. Interest remaining to be paid over the life of the bond issue totals \$2.1 million.

In 2011, the city refinanced the remaining balance of \$595,000 on revenue bonds issued in 2001 for the construction and lease-purchase of the



City of Pevely
Organization and Statistical Information

wastewater treatment plant and issued \$490,000 in new bonds. The bonds are to be paid from the Water and Sewer Fund. The remaining principal outstanding at December 31, 2013, was \$615,000. Interest remaining to be paid over the life of the bond issue totals \$33,150.

The city issued construction advances, not to exceed \$912,500, to the developer of the Southern Heights subdivision for public infrastructure improvements. The advances are to be paid from water and sewer tap fees from the subdivision. The agreement expires on April 18, 2017. The remaining amount due the city at December 31, 2013, was \$656,854.

A developer spent \$55,000 to construct a sewage system lift station for a subdivision. The city agreed to reimburse the developer using special assessment revenues. The remaining amount owed by the city at December 31, 2013, was \$54,691.

The city entered into a 10-year lease agreement in 2008 for \$105,000 for city hall office furniture. The remaining principal outstanding at December 31, 2013, was \$60,000. Interest remaining to be paid over the life of the agreement totals \$8,550.