

OFFICES OF THE  
**STATE AUDITOR OF MISSOURI**  
JEFFERSON CITY

CITY OF SLATER, MISSOURI  
YEAR ENDED DECEMBER 31, 1997

**MARGARET KELLY, CPA**



Report No. 99-01  
January 4, 1999

CITY OF SLATER, MISSOURI

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**STATE AUDITOR OF MISSOURI**  
JEFFERSON CITY, MISSOURI 65102

MARGARET KELLY, CPA  
STATE AUDITOR

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To the Honorable Mayor  
and  
City Council  
City of Slater  
Slater, Missouri 65349

The State Auditor was petitioned under Section 29.230, RSMo, to audit the city of Slater, Missouri. The city had engaged Wilson, Toellner, Pilliard & Associates, P.C., Certified Public Accountants (CPA firm), to perform a financial audit of the city for the year ended December 31, 1997. To minimize any duplication of effort, we reviewed the report and substantiating work papers of the CPA firm. Our audit of the city included, but was not limited to, the year ended December 31, 1997. The objectives of this audit were to:

1. Perform procedures we deemed necessary to evaluate the petitioners' concerns.
2. Review compliance with certain constitutional provisions, statutes, ordinances, and attorney general's opinions as we deemed necessary or appropriate in the circumstances.
3. Review certain management practices which we believe could be improved.

Our audit was made in accordance with generally accepted government auditing standards and included such procedures as we considered necessary in the circumstances. We also reviewed council minutes, city policies and ordinances, and various city financial records.

Our audit was limited to the specific matters described above and was based on selective tests and procedures considered appropriate in the circumstances. Had we performed additional procedures, other information might have come to our attention which would have been included in this report.

The accompanying History and Organization is presented for informational purposes. This information was obtained from the city and was not subjected to the auditing procedures applied in the audit of the city.

The accompanying Management Advisory Report presents our findings and recommendations arising from our audit of the city of Slater, Missouri.

A handwritten signature in black ink that reads "Margaret Kelly". The signature is written in a cursive, flowing style.

Margaret Kelly, CPA  
State Auditor

October 1, 1998

## HISTORY AND ORGANIZATION

# CITY OF SLATER, MISSOURI HISTORY AND ORGANIZATION

The city of Slater was originally incorporated in 1878 as a village, and is presently a third-class city. The city is located in Saline County and its population in 1990 was 2,186.

The city has a mayor and an eight-member city council, electing two council members from four different wards within the city. The mayor is elected every four years and four council members are elected every year and serve a term of two years. At December 31, 1997, the Mayor and members of the City Council were as follows:

<u>Elected Officials</u>	<u>Term Expires</u>	<u>Actual Compensation for the Year Ended December 31, 1997</u>	<u>Amount Of Bond</u>
Andree' Petersen, Mayor	April 1998 (1)	\$ 6,500	80,000
Brownell Bryant, Council Member	April 1998 (1)	1	
David Guthrie, Council Member	April 1998 (1)	1	
Cathie Jeffries, Council Member	April 1998 (1)	1	
J.H. Audsley, Council Member	April 1998 (1)	1	
Ron Monnig, Council Member	April 1999	320*	
Stephen Allegri, Council Member	April 1999	320*	
Fred Hayes, Council Member	April 1999	320*	
Terry Jordan, Council Member	April 1999	320*	
 <u>Other Principal Officials</u>			
Russell Griffith, Assistant City Administrator/City Clerk		28,000	80,000
Keith Wright, Chief of Police		29,755	
Patrick Cronan, City Attorney		21,578 **	
Edward McInteer, Municipal Judge		2,475	
James Audsley, Municipal Court Clerk		3,261	7,000

(1) Reelected in April 1998.

\* Actual compensation was \$160 greater than that allowed by city ordinance.

\*\* This amount represents total payments made to the City Attorney's law firm during the year ended December 31, 1997.

At December 31, 1997, the city had approximately 25 full-time employees.

The city's assessed valuation and tax rates for the tax year 1997 are as follows:

ASSESSED VALUATION

Real estate	\$ 7,111,555
Personal Property	2,820,513
Railroad and utilities	<u>106,466</u>
Total	<u>\$10,038,534</u>

TAX RATES PER \$100 ASSESSED VALUATION

General Fund	\$ .63
Park Fund	.17
Library Fund	.19
Debt Service Fund	<u>.32</u>
Total	\$ <u>1.31</u>

Property taxes are collected by the Saline County Collector and disbursed to the city of Slater.

The city had the following sales taxes; rates are per \$1 of retail sales:

	<u>Rate</u>	<u>Expiration Date</u>
General	\$.010	None
Capital improvements	.005	1999
Transportation	.005	1999

## MANAGEMENT ADVISORY REPORT

CITY OF SLATER, MISSOURI  
SUMMARY OF FINDINGS

1. Loan to Slater Development Corporation (pages 9-10)

In December 1997, the City Council authorized the loan of \$608,000 to the Slater Development Corporation for the purpose of financing the construction of a building to be leased to the new Place's Department Store. It appears this economic development venture was not handled in accordance with current statutes which authorize such activity.

2. Use of Utility Funds (pages 10-13)

The city has used city utility funds to subsidize other city operations. No ordinance(s) could be located to authorize the gross receipts tax transfers from the Wastewater and Water Funds to the General Fund. In addition, the gross receipts tax percentages levied on these funds' revenues were increased in 1997. Besides these transfers, from January 1994 to August 1998, the city transferred almost \$450,000 from the Electric Fund to the Capital Improvements Fund to help pay for various expenditures made from that fund. Also, the loan of \$608,000 to the Slater Development Corporation was made from the Electric Fund.

3. Expenditures (pages 13-18)

The city does not have a formal written bidding policy, and the city did not publicly advertise for bids on several large construction projects, including the new city hall building. Several expenditures were noted which do not appear to be a prudent and necessary use of public funds. Excess compensation of \$160 was paid to four council members in 1997.

4. Use and Disposal of City Property (pages 18-20)

City employees have been allowed to use city equipment at various times for personal use at no cost. The city did not make a reasonable effort to sell two properties owned by the city at fair value. In 1997, the city donated a building and lot to a private corporation; however, this property was not used for the purpose intended.

5. Council Meetings, Minutes, and Ordinances (pages 21-22)

The City Council minutes do not reflect all significant areas of discussion or actions taken by the council. Matters were discussed in closed session which do not appear to be allowed by Section 610.021, RSMo. Upon final disposition of matters discussed in closed meetings, it is not evident the final disposition is always made public. Closed meeting minutes were not always signed.

6. Budgetary Practices and Financial Reporting (pages 22-24)

The budgets did not include the beginning and projected ending cash balances for any of the funds budgeted, and the city exceeded the budgeted expenditure amounts in various funds during the years ended December 31, 1997 and 1996. The city has not published semiannual financial statements as required by law.

7. City Funds (pages 24-26)

Separate funds have not been established as required by state law to account for the one-half cent transportation sales tax revenues used for street improvements or for the debt service property tax revenues used to pay the principal and interest requirements of its general obligation bonds. The city has credited all interest earned on its main operating account to the General Fund instead of it being properly allocated among the various funds.

8. City Contracts (pages 26-27)

The city does not have a written agreement with its depository bank as authorized by Section 95.285, RSMo 1994, nor has it entered into a written contract with the City Attorney for legal services.

9. Internal Controls (pages 27-28)

The city's segregation of duties could be improved. The city allows personal checks to be cashed from the daily cash receipts. The approval of adjustments made to utility bills is not documented.

CITY OF SLATER, MISSOURI  
MANAGEMENT ADVISORY REPORT

<b>1.</b>	<b>Loan to Slater Development Corporation</b>
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In December 1997, the City Council approved the loan of \$608,000 to the Slater Development Corporation (SDC), a private enterprise, for the purpose of financing the construction of a building to be leased to the new Place's Department Store in Slater. The loan is for 15 years, at 4 percent interest rate, and is to be repaid in equal annual installments of \$54,000. The \$608,000 was disbursed by the city to the SDC in various amounts from December 1997 through May 1998. The monies from the loan were then used to construct a building as well as to pay the costs of acquiring real estate and preparing the site for the new building. The building and land are owned by the SDC. In July 1998, the SDC assigned the monthly rental payments of \$4,500 to the city of Slater to apply to the promissory note.

It is not uncommon for cities to get involved in economic and industrial development ventures; however, it does not appear this project was handled in accordance with current statutes which have been established for that purpose. The SDC has been in existence since 1948. In more recent years, the Missouri General Assembly has enacted laws, including those in Chapter 349, RSMo, pertaining to economic and industrial development.

Provisions in Chapter 349, RSMo, provide for the establishment of industrial development corporations; however, these entities differ from the SDC in various respects. Chapter 349, RSMo, provides that the directors of a corporation established under this chapter's provisions shall be appointed by the chief executive officer of the municipality and approved by a majority of the governing body of that municipality, provides that the notes and bonds of the corporation are securities in which all public bodies (including municipalities) can legally invest, and provides that upon termination or dissolution of the corporation, all rights and properties of the corporation shall pass to the municipality. In addition, such corporations are required to file annual reports with the state Department of Economic Development regarding any note and/or bond issuances of the preceding year. These statutes have been established to provide safeguards and ensure appropriate review, accountability, and legal compliance.

The city should ensure future economic and industrial development projects are handled in accordance with those statutes which authorize such activity.

**WE RECOMMEND** the City Council ensure any future economic or industrial development ventures are handled in accordance with current statutory provisions which authorize such activity.

## **AUDITEE'S RESPONSE**

*The City Council provided the following response:*

*Place's Discount Store: The city has been critiqued for the \$608,000 loan at 4 percent for 15 years from the Electric Fund's retained earnings to the Slater Development Corporation to assist in the acquisition of the new Place's Discount Store. The city recognizes the financial integrity of the Electric Fund as an "Enterprise Fund". However, the city will continue to pursue economic and industrial development opportunities that will ensure the financial integrity of the city while maintaining the competitive pricing of our utilities.*

*Numerous Missouri Revised Statutes, but particularly Section 349.012, authorize the city's governing body the power to spend its funds to promote commercial and industrial development, to engage in any activities either on its own or in conjunction and by contract with any not-for-profit organization which it deems necessary to carry on such promotional work. Given this, it seems legal that the city of Slater does have the authority by state statutes to actively pursue economic development and industrial growth.*

*The city feels the benefits of employment, utilities, sales tax, property tax, the removal of potentially dangerous buildings, downtown revitalization, and economic development outweighs any criticism it has caused.*

*The city would, if at all possible do this project or another one like it in the future the exact same way, as the Slater Development Corporation was in existence long before other current legislation took effect.*

## **AUDITOR'S COMMENT**

We are not criticizing the city for pursuing economic development. Our concern is that the city do so in a prudent manner that ensures public accountability and is consistent with statutes which have been established for that purpose. In addition, the city's reference to Section 349.012, RSMo, would not appear to support the city's handling of this matter since the SDC is not a not-for-profit organization.

<b>2. Use of Utility Funds</b>
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For a number of years, it appears the city has transferred monies from the various utility funds to other city funds, and it appears these transfers have been a regular part of the city's budgeting and funding process. Our review of this area disclosed the following:

- A. During the year ended December 31, 1997, the city levied a gross receipts tax on electric, wastewater (sewer), and water revenues of the city of approximately ten percent, fifteen percent, and fifteen percent, respectively. Gross receipts tax transfers from the Electric Fund, Wastewater Fund, and Water Fund to the city's General Fund

totaled approximately \$126,000, \$30,000, and \$53,000, respectively, during the year ended December 31, 1997.

While the gross receipts tax for the Electric Fund was established by ordinance in 1988, no ordinances could be located to authorize the gross receipts tax being transferred from the Wastewater and Water Funds. In addition, the gross receipts tax percentage levied on wastewater and water revenues represented an increase from recent years prior to 1997, when it appears the gross receipts tax levied on these utilities was between eight and ten percent.

The increase in the gross receipts tax in 1997 presents a question under the Hancock Amendment as to whether the increase requires voter approval. The council should review this matter and determine whether voter approval is necessary. In addition, the council should ensure any gross receipts tax levied on these utility revenues is properly established by ordinance.

- B. In addition to the transfers noted above, the city transferred additional amounts of almost \$450,000 from the Electric Fund to the Capital Improvements Fund from January 1, 1994, through August 31, 1998, as follows:

<u>Year Ended December 31,</u>	<u>Amount Transferred</u>
1994	\$ 74,000
1995	74,916
1996	75,000
1997	124,992
Period January 1, 1998 through August 31, 1998	100,000

It appears these transfers were made to help pay for various expenditures made from the Capital Improvements Fund, including street construction and materials for paving the city streets, and replacing city vehicles and equipment. In addition, as noted in MAR No. 1, in late 1997 and 1998, the city loaned a total of \$608,000 to the Slater Development Corporation for the purpose of building a new Place's Department Store. This loan was made from the city's Electric Fund.

The city has not changed its electric rates since 1988. In 1996, the new contract with the provider of the city's electricity reduced the city's annual cost of electricity by approximately \$120,000 per year; however, the city did not reduce the electric rates to its customers and has maintained its rates at the same level.

It does not appear appropriate to subsidize other city operations or make loans from electric utility monies. As a result of this situation, utility rates may be set higher than necessary to recover actual costs and city utility customers are being required to subsidize economic development ventures or the cost of other city services through the payment of their utility bills.

**WE RECOMMEND** the City Council:

- A. Review the gross receipts tax levied on the wastewater and water revenues and reconsider whether the recent increase is subject to voter approval. In addition, the council should ensure any gross receipts taxes are established by ordinance.
- B. Limit expenditures or transfers from the Electric Fund to only those that are properly authorized and those which are necessary to properly operate the city's electric utility operations.

**AUDITEE'S RESPONSE**

*The City Council provided the following response:*

*Over the last five years the city has transferred an average of 9.8 percent on electricity, 11 percent on water and 10 percent on wastewater. This is relatively low compared to the 26 and 43 percent from the 1965 budget. We do not feel the 10 percent average is excessive when the General Fund supports a 24-hour police department, 24-hour dispatch (which includes ambulance, rural fire, fire, animal control and police), a volunteer Fire Department, Animal Control, Emergency Management, Municipal Court Legislation, Administration and Public Works (which includes snow removal, storm water drainage, storm clean-up, street maintenance, etc.) At different times the General Fund has had to assist other departments that have not at certain times had enough funds to support themselves in lieu of closing that department, such as the swimming pool.*

*The city feels we provide a high level of utility services at the lowest possible cost without reducing services in other areas. The residents of Slater have not seen an electric rate increase since 1981 and in fact saw a decrease in 1988. The 1991 water rate increase and the 1992 sewer rate increase were due to voter approved bond issues, not transfers. Also, considering the State Auditors' dismal record in court regarding its interpretation of the Hancock Amendment and the fact it does not offer any authority to back up its opinion, no reasonable person would consider Hancock on this subject. Therefore, the city feels Hancock does not apply because no user fee increase has occurred. The city would also like to quote the Missouri Supreme Court's opinion, *Pace vs. city of Hannibal*, 680 S.W.2d 944(1984). Increase in gross amounts of funds voluntarily transferred by city board of public works to the city's general revenue fund as a "payment in lieu of franchise tax" is not violative of the Hancock Amendment. For the future, the city will consider calling the transfers PILOTs (Payments in Lieu Of Taxes) to eliminate the State Auditors' and others' confusion on taxes, licenses, and fees which Hancock refers. The City of Columbia uses this term for gross receipt transfers.*

*During the last five years the city of Slater has transferred an average of 7 percent electric revenue to Capital Improvements to fund swimming pool renovations, purchase police cars, construct a new dog pound, purchase equipment such as a backhoe, bobcat, used bucket truck, make payments on the Public Works building, resurface tennis and basketball courts, contribute toward the new baseball field, etc. A large portion is also spent on street overlays as the sales tax issue generates approximately \$100,000 per year and the city overlay plan costs approximately \$140,000 on the average. We do not feel the 7 percent average is excessive and feel the citizens of Slater benefit greatly from the budgeted use of these funds. The electric department has and will continue to be the bread and butter of the city. All departments do not have the luxury of having funds to perform*

*much needed improvements. There have been no rate changes since 1988 at which time a reduction was made and no increases are planned for the near future. It has been a practice of the city fathers for over 30 years to transfer enterprise funds to other needy departments.*

*Currently, no other enterprise fund (water and sewer) makes contributions to capital improvements as bond covenants do not allow it, but all funds receive the benefits of the Capital Improvements Fund. Any new equipment such as backhoes, bobcats, trucks or other equipment are used by all departments and not just the department that actually paid for it. If that is the way it's supposed to be we will go broke purchasing two or three of everything. However, the city does recognize the financial integrity of the enterprise funds. As no state statute seems to exist that determines if and how much that can be transferred from an enterprise fund to the General and Capital Improvements Funds, the council will establish an ordinance regulating the reasonable amounts (percents) to be disbursed to these funds in the future as has been done in the past.*

*The city's residents, not just property owners, have placed a fiduciary trust in their city officials (by electing them) to expend public funds in a necessary and prudent manner, to ensure as many services as possible at the most reasonable cost.*

### **AUDITOR'S COMMENT**

- A. In the court case referred to by the city in its response, the gross receipts tax rate had not been increased. Therefore, that situation was different from the one cited in this finding. We are not criticizing the quality of city-run programs and services; however, the revenues supporting these programs/services should be approved by the city's voters, if increased since 1980 (when the Hancock Amendment was passed).

<b>3. Expenditures</b>
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- A. The city does not have a formal written bidding policy. As a result, the decision of whether to solicit bids or proposals for a particular purchase is made on an item-by-item basis. In addition, it appears the city does not generally publicly advertise for bids or solicit written bids even in instances where the circumstances would seem to warrant doing so. While city officials indicated they frequently obtain proposals or quotes over the telephone, documentation of these proposals is often not maintained. Our review disclosed the following expenditures which we do not believe were procured in a reasonable and prudent manner:

- In January 1998, the city entered into a construction contract with a contractor from outside the area for a new city hall building at a cost of \$199,864, with the building scheduled to be completed in November 1998. The city did not publicly advertise for bids for the construction of this building. Although it appears the city contacted several companies/contractors about submitting proposals, this was done over a two-year period. It appears the city obtained written proposals from three different contractors dated November 1996, October 1997, and January 1998,

respectively. The city ultimately accepted the last proposal dated in January 1998.

While the last proposal was the lowest submitted, by not requiring and evaluating proposals submitted by contractors at the same time, the competitive bidding process may have been compromised.

- In 1998, the city spent over \$26,000 on concrete for new sidewalks on Main Street. It appears the city solicited two proposals for this material, receiving one written proposal and another by telephone. Although the city took the lower of the two proposals, the city did not publicly advertise for bids for this material.
- Since 1994, the city has contracted to have several city streets resurfaced. According to city officials, the city has used one particular contractor to perform the curbing and guttering work and another to spread the asphalt on the city streets. During the year ended December 31, 1997, and the period from January to August 1998, the city paid these contractors over \$22,000 and \$252,000 for curb and gutter and asphalt work, respectively. The city did not publicly advertise or solicit written proposals regarding this street work.

In these situations, it appears the city did not assure itself that it received the lowest and best price on the completed projects since the work was not properly bid. Considering the extent of these expenditures, it appears that advertising for bids on these projects would have been a reasonable and prudent procedure.

In addition to those expenditures noted above, other expenditures made by the city in which bids were not solicited or documentation was not maintained included \$8,468 for utility poles, \$11,622 for transformers, \$2,131 for maintenance on city computers, \$2,267 for the purchase of a computer for the police department, \$1,604 for chlorine for the city swimming pool, and \$14,744 for the purchase of lime for the sewer plant.

Formal bidding procedures provide a framework for economical management of city resources and help ensure the city receives fair value by contracting with the lowest and best bidders. Competitive bidding also helps ensure all parties are given equal opportunity to participate in the city's business. Bids can be handled by telephone quotation, by written quotation, by sealed bid, or by advertised sealed bid. Various approaches are appropriate, based on dollar amount and type of purchase. Whichever approach is used, complete documentation should be maintained of all bids received and reasons noted why the bid was selected.

- B. We noted several expenditures which do not appear to be a prudent and necessary use of public funds. These included:

- 1) Various donations totaling \$200 and \$75 during the year ended December 31, 1997 and first eight months of 1998, respectively, were made to the Purple Ribbon Club, Slater After Prom, and to a local Girl Scout troop.
- 2) During the year ended December 31, 1997, the city purchased \$500 in tickets from the Old Age Transportation Service (OATS) for senior citizens to ride the OATS bus.
- 3) During the year ended December 31, 1997, the city expended \$1,477 on behalf of city employees and their families for Christmas dinners held in 1996 and 1997 and for an employee picnic held in the summer of 1997.
- 4) In December 1997, all full-time employees, including the Mayor and City Clerk, received a bonus of \$30 (net of taxes) and all part-time employees received a bonus of \$20. The cost of these bonuses totaled approximately \$1,100. It appears year-end bonuses were also paid to employees in previous years.

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

- 5) In August 1997, the city paid over \$60 to a restaurant for a going away dinner for a city employee.

The expenditures noted above do not appear to be necessary costs of operating the city and constitute a questionable use of public funds. The city's residents have placed a fiduciary trust in their city officials to expend public funds in a necessary and prudent manner.

- C. In December 1996, the City Council passed an ordinance authorizing the compensation of council members to be raised to \$20 per month. Compensation to council members had previously been set at \$1 per year. This increase was effective May 1997 for those council members whose term of office expired April 1997. The city's policy is to pay council members in December for all compensation owed in that calendar year.

Four city council members were authorized to receive this increased compensation in 1997 and should have received total compensation of \$160 for the eight months ended December 31, 1997. However, in December 1997, each of these council members was paid \$320, resulting in excess compensation of \$160. It appears these overpayments occurred because the compensation was computed on a per meeting

basis rather than a per month basis. In addition, the city did not withhold any payroll taxes from the council members' salaries.

According to city officials, the overpayments were noted prior to our review and the city had planned to adjust the compensation paid in December 1998 to correct this matter.

The city should ensure the excess compensation paid to the applicable council members in 1997 is corrected, and withhold the necessary payroll taxes from council members' salaries in the future. In addition, the city should ensure compensation paid to council members is paid in accordance with city ordinances.

**WE RECOMMEND** the City Council:

- A. Establish formal bidding policies and procedures, including documentation requirements regarding the bids or quotes received and justification for the bid selected. The city policy should require publicly advertising for bids on significant construction projects.
- B. Ensure expenditures from city monies are a prudent use of public funds and are limited to those necessary to properly operate the city.
- C. Ensure the excess compensation paid to council members in 1997 is corrected, and ensure payroll taxes are properly withheld from the council members' salaries in the future. In addition, the city should ensure council members are paid in accordance with city ordinances.

**AUDITEE'S RESPONSE**

*The City Council provided the following response:*

*No bidding policy: You are correct in saying that we have no written bidding policy. Our existing policy is to bid when we think we can save money, and to not bid when we think that procedure will save us money. This is the same bidding policy that most people have in their private homes. Bidding is not a cost-free activity. There is no state statute which requires bidding. The purpose of the bidding policy is to save the taxpayers money, and not to be some slavish device which costs more than the benefits. We can point to several instances where a rapid purchase of a major item "on sale" or "at a steal" has saved the people of Slater significant amounts of money. Delaying the procedures and taking formal bids would not have resulted in as good a price. The city does follow state bidding procedures on all state and federally funded projects. A written policy might be considered in the future and better documentation will be kept. However, the best bid is not always the low bid. Patronizing your town, a supplier, county etc. does mean a lot.*

*City Hall was not officially bid in all respects. However, Samson, Buller and Esser developed plans and specifications over two years ago. After different proposals were solicited that exceeded expectations, changes were made, more proposals received and award of contract on an engineered*

*metal building with no basement. For not being officially bid, the city did consult with seven contractors.*

*City crews did the demolition work and the city bought all materials on the sidewalks. The State Bank of Slater paid for the installing labor for this project. Bids were solicited by the city for the red concrete from two local suppliers.*

*Donations. You criticize some donations which have been made by the City of Slater totaling \$275 to the FFA Purple Ribbon Club, Girl Scouts, and the drug and alcohol free after prom party. We are well aware that the Constitution requires a public purpose for any expenditure of funds. The Mayor made these contributions because of the work of these groups in helping to raise our children and to prevent juvenile delinquency. One of the primary purposes of our government is to assist in the education of our children and to help them become productive citizens. While your staff says that such donations were not “prudent”, we believe that they were of small amount and a definite “prudent” use of the city’s money. The Missouri Municipal League (MML) mission policy strongly supports the use of funds for community education; i.e. alcohol and other drug related programs, prevention of juvenile delinquency, gang activities, teenage pregnancy etc. Do these donations qualify?*

*OATS Bus Tickets: The City of Slater has for many years purchased \$500 worth of tickets for the OATS bus service and distributed those tickets to persons over the age of 55 who requested. The first year that we did this, we had a written contract. In subsequent, the matter has been renewed on an oral basis. We believe it is important for the older citizens of our community to have access to medical care. As we have been unable to attract a physician, and there is no hospital within walking distance of Slater, Missouri, we think providing OATS bus tickets is reasonable to support our elderly citizens.*

*We do not impose a “means test” for the tickets-even the wealthiest person can request this OATS subsidized bus ticket. We believe that the system is not being abused, and that there is a decided advantage in making the tickets available to everyone so there is not stigma attached to those who use the tickets. The city will look closely at all future donations and try to establish contracted activities for these donations. Again, the (MML) policy urges all levels of government to recognize the needs of senior adults and strive to provide transportation assistance necessary for shopping, doctor visits, education, entertainment and most importantly, access to nutrition sites.*

*Overpayment of Council Members. The City Council set the pay for members of the Council at \$20 per month. This was done to attempt to encourage more people to run for the office and compensate those that are in office for their time and public scrutiny they must endure. In 1997, Council Members were paid \$20 per meeting due to an error. The city staff pointed this out to your staff upon arrival. We intend to correct the problem during the calendar 1998, by deducting the overpayment from the pay of members of the City Council.*

*You criticize our Christmas party and the picnic that we have for our employees. These activities are held two or three times a year and cost the taxpayers about \$1,500 total for both. You seem to think that those expenditures do not have a public purpose.*

*However, if we had “required” meetings instead of the “voluntary party”, we would have to pay our employees their hourly rate of pay. Such requirements would also either result in a reduction of service to the citizens or have the requirement that we pay overtime. The hourly rate for our employees would probably be more expensive than the cost of the individual picnic or party. Having an event with social overtones is cheaper for the city than having mandatory meetings, and it also allows us to express our appreciation to the spouses of our employees for any impositions that may be imposed upon them. We expect to continue this practice. For a relatively modest amount of money (\$1,500 a year), we improve the morale and productivity of our workers, and the citizens of Slater are benefited as a result. We will be referring to our future gathering as safety programs for future references.*

*Bonuses: What you call bonuses, we call “Christmas presents”. We have provided small gifts to our employees every holiday season since at least 1948. We do not intend to change. You apparently think that such payments are prohibited by the Constitution; we disagree. We are working to gradually improve productivity of our work force, and one of the ways we are doing so is by thanking our employees for excellent behavior. We think these small gifts serve a useful purpose. Obviously there can be a point at which the bonuses are excessive in relation to the benefit provided to the taxpayers. The City of Slater is nowhere near that point.*

<b>4. Use and Disposal of City Property</b>
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- A. City employees have been allowed to use city street equipment (i.e. dump truck, bobcat, backhoe, etc.) at various times for personal use at no cost. City officials indicated such personal use is allowed if approved verbally by the Mayor. The city does not have a written policy regarding the personal use of city equipment by city employees/officials.

It does not appear appropriate for city employees/officials to use city equipment for personal reasons at no cost. In addition, use of city equipment for personal reasons could expose the city to additional liability. The city should review whether it is appropriate to allow city employees to use city equipment for personal reasons. If the city wishes to allow such use of city-owned equipment, the city should adopt a written policy addressing this matter and establish a reasonable charge structure which will cover the costs of operating the equipment.

- B. The city disposed of several pieces of real estate in recent years. Our review of this area disclosed the following concerns:
- 1) In 1995, a local businessman donated a building and lot to the city. According to city officials, this individual received a certificate of value from the bank valuing this property at \$12,000 to \$15,000. City officials indicated that the city did not have a use for the property and did not want to bear any expense of possible demolition of the building. As a result, the city council decided to sell the building. In September 1995, the city advertised the sale of the building in the local newspaper on a Wednesday, with the ad

stipulating that the bids would be accepted until the following Tuesday (less than a week later), on the day of the regular City Council meeting. The city received only one bid for the property in the amount of \$2,400 from Councilman Allegri. The City Council voted to accept the bid for the property, with Councilman Allegri abstaining.

A similar transaction also occurred in 1996. The City Council again decided to sell a building and lot which had been donated to the city. According to city officials, this building was valued by the bank at around \$12,000. In October 1996, the city advertised this property, again only in the local newspaper on a Wednesday with bids required to be submitted by the following Tuesday. Again, only one bid was received for this property in the amount of \$2,000 which was from former Councilman Muse. The city council voted to accept this bid, with former Councilman Muse abstaining. According to city officials, Councilman Muse eventually sold this building and lot to the Slater Development Corporation (SDC) for \$8,000.

It appears the city did not make a reasonable effort to sell these properties at fair value. The city did not obtain appraisals to determine the market value of the buildings and lots. In addition, by advertising these properties only once locally and requiring any interested parties to submit a bid in a period of time less than a week, it appears the city possibly reduced the number of individuals interested in bidding on these properties. Further, it seems unreasonable, and possibly inappropriate, for the city to have accepted the lone bids on these properties considering it had reason to believe the value of the properties was considerably higher and the bids were submitted by members of the council.

The city should make a reasonable effort to ensure city property is sold at fair value. The city should determine market value through appraisals or other means, and then advertise the sale of the properties and/or develop a reasonable marketing plan which will assure a reasonable number of interested bidders. If the initial bid(s) do not offer an acceptable amount for the applicable properties, the city should consider rejecting all bids and resoliciting bids.

- 2) In June 1996, another building and lot was donated to the city to be used as it wished to improve the area around Main Street. The city eventually decided to donate the building and lot to the SDC with the intent that the lot be used as part of the property where the new Place's Department Store would be located. Ultimately, this property was not used for this purpose and according to city officials was sold by the SDC for \$3,500, with the proceeds of the sale being retained by the SDC.

The city should take steps to ensure that any city-owned property donated for an economic development or other similar purpose is used for the purpose

intended. This could be done by requiring the property to revert back to the city if not used for the purpose intended.

**WE RECOMMEND** the City Council:

- A. Discontinue allowing city employees to use city-owned equipment for personal reasons at no cost. If the city wishes to allow personal usage of city equipment, a written policy should be established along with a reasonable charge structure.
- B.1. Ensure reasonable efforts are made to sell city properties at fair value.
- 2. Ensure any city-owned property donated for economic development or other purposes is used for the purpose intended. If it is not used for that purpose, the city should consider requiring the property to revert back to the city.

**AUDITEE'S RESPONSE**

*The City Council provided the following response:*

*Should not have sold donated buildings to council after public bids. The city feels that the property was publicly advertised by local paper and STV, but the only bids received were from Dr. Allegrì and Mr. Muse. The objective of this council was to get this property back into the hands of taxpayers and to promote business downtown and to prohibit storage buildings. Both parties did start businesses in their buildings, pay taxes on the property, pay utility bills, etc. What does constitute enough advertising? It should also be mentioned these properties were for sale prior to being donated to the city, but no offers were received.*

*As far as the donation of the Old Variety Store to the Slater Development Corporation for the Place's project, we feel that the cost to demolish this property at a later date on our own would exceed what the city feels the property is actually worth. So, the city feels we saved the citizens of Slater money. The property has been sold and a third new building is going up (Slater Main Street News). This does constitute economic development in Slater and is just as beneficial to Slater's downtown revitalization as Places.*

*No policy on use of city equipment: Again, your staff is in favor of killing a lot of trees to put things on paper. We do, in fact, have a policy but it is not in writing. Our policy is to allow our employees to use city equipment when they request it to the Mayor or Assistant Administrator. It is to be used by employees only for their private use. The council feels this is a benefit to its employees who are not underworked and overpaid. A written policy will be considered in the future and MIRMA, the city's insurance carrier, will be contacted. If the city equipment is used by our employees for others a charge is assessed according to the current rate schedule.*

**5.****Council Meetings, Minutes, and Ordinances**

- A. A review of the City Council minutes disclosed that the minutes do not reflect all significant items of discussion or actions taken by the council. For example, there was no mention of the \$608,000 loan to the Slater Development Corporation (SDC) in the regular minutes of the council. Other significant decisions/items which were not properly documented in the minutes included the donation of a building and lot to the SDC in 1997, the various proposals received from contractors regarding the construction of the new city hall building, and the proposals received and the award of the construction of new sidewalks on Main Street.

City Council minutes document the activity of the council and should contain all important items of discussion and actions taken. By not disclosing all important items of discussion and actions by the council, the minutes are not complete and adequate.

- B. Matters were discussed in closed session which do not appear to be allowed by Section 610.021, RSMo Cum. Supp. 1997. Examples of such matters discussed in closed meetings included forming a committee to procure a new fire engine and the performance of a water hydrant study. These do not appear to be valid issues to be discussed in a closed meeting.

Section 610.021, RSMo allows the city council to close meetings to the extent the meetings relate to certain specified subjects, including litigation, real estate transactions, and personnel. In addition, this law provides that public governmental bodies shall not discuss any other business during the closed meeting which differs from the specific reasons justifying such meeting, record, or vote.

- C. Upon final disposition of matters discussed in closed meetings, it is not evident that the final disposition is always made public. Actions taken by the City Council in closed session are not generally recorded in the regular minutes. Section 610.021, RSMo Cum. Supp. 1997, requires certain matters discussed in closed meetings to be made public upon final disposition.
- D. The City Council's open meeting minutes were properly signed by the Mayor and City Clerk; however, the closed meeting minutes were not always signed. All board minutes (including those for closed meetings) should be signed by the Mayor and City Clerk to provide an attestation that the minutes are a correct record of the matters discussed and actions taken during the council's meeting.

**WE RECOMMEND** the City Council:

- A. Ensure the council minutes are complete and reflect all significant items of discussion and actions taken by the council.

- B. Limit closed meetings only to purposes specifically allowed by state law.
- C. Ensure the final disposition of certain matters discussed at closed meetings is made public as required by state law.
- D. Ensure all minutes (including those for closed meetings) are properly signed to attest to their accuracy.

### **AUDITEE'S RESPONSE**

*The City Council provided the following response:*

*According to the MO. Sunshine Law, pg. 18 of the revised August 1998 edition received from Attorney General Jay Nixon, open minutes should include date, time, place, members present and members absent, and votes attributed to each member. RSMo Section 610.020.6. It does not include she said/he said discussion. However, in the future the city will try to improve on all regular and executive minutes. The city feels the State should consider developing some workshops on this issue in the future as this seems to be a common recommendation in all state audits.*

### **AUDITOR'S COMMENT**

- A. Section 610.020.6, RSMo 1994, provides:

"A journal or minutes of open meetings shall be taken and retained by the public governmental body, **including, but not limited to** (emphasis added), a record of any votes taken at such meeting. The minutes shall include the date, time, place, members present, members absent and a record of any votes taken . . ."

Therefore, the information referred to above as well as in the council's response should be viewed as the minimum information required, and not necessarily all information needed to adequately document matters brought before the City Council. We have never suggested that all discussions of the council be presented in detail in the minutes; however, we believe that any significant points of discussions should be reflected in the minutes in at least some limited manner.

<b>6. Budgetary Practices and Financial Reporting</b>
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- A. A review of the city's 1997 and 1998 budgets and related procedures disclosed the following concerns:
  - 1) While the budgets were generally complete and included adequate detail, the budgets did not include the beginning and projected ending cash balances for any of the funds budgeted.

Section 67.010, RSMo 1994, provides the city's budget shall present a complete financial plan for the ensuing budget year. A budget should include the beginning and projected ending cash balances of all city funds.

- 2) The city exceeded the budgeted expenditure amounts in various funds during the years ended December 31, 1997 and 1996, as follows:

<u>Fund</u>	<u>Year Ended December 31,</u>	
	<u>1997</u>	<u>1996</u>
Electric Fund	\$ 35,683	-0-
Refuse Fund	2,353	-0-
Park Fund	14,662	13,489
Library Fund	1,999	-0-
Capital Improvement Fund	-0-	341
Water Fund	127,112	-0-

The Water Fund's budget was overspent in 1997 due to the city receiving and expending over \$200,000 in flood disaster relief monies. The city did not prepare an amended budget for this fund or any of the other funds where the budget was overspent, nor did the city set forth any reasons for exceeding the budgeted amounts in the council minutes or adopt a resolution authorizing the additional expenditures.

Section 67.040, RSMo 1994, requires political subdivisions to keep expenditures within amounts budgeted. If there are valid reasons which necessitate excess expenditures, a resolution should be adopted by the governing body setting forth the amount of the budget increase and the facts and reasons for such.

- B. The city has not published semiannual financial statements as required by law. It appears the city has not published financial statements since at least 1991.

Section 77.110, RSMo 1994, requires the city council to publish semiannual financial statements. These financial statements are to include a detailed statement of the receipts and expenditures and indebtedness of the city at the end of each fiscal year and six months after the end of each fiscal year.

**WE RECOMMEND** the City Council:

- A.1. Ensure the city budgets include the beginning and projected ending cash balances of all city funds.
  2. Ensure expenditures are kept within budgeted amounts. If it is necessary to incur additional expenditures, a resolution setting forth the increase and reasons for such should be adopted.
- B. Publish semiannual financial statements as required by state law.

## **AUDITEE'S RESPONSE**

*The City Council provided the following response:*

*Budget: You have stated that the budget adopted by the city has no "beginning and ending balances". What we think you mean is that the printed document does not have any beginning and ending balances stated in it. Clearly we do have beginning balances on our computer and those beginning balances are checked and adjusted by our auditors when they do our annual audit. Clearly the ending balance for our budget is never going to be better than an estimate because the new budget is adopted while the old budget is still being worked through. So the ending balance for the current fiscal year will have to be an estimate, and so will the starting balance in the subsequent year.*

*We do not believe that it is particularly helpful to the City Council or the citizens to have estimates rather than hard figures in the budget. We do not see any particular problem, however, in complying with your suggestion and Section 67.010, RSMo 1994, that some numbers (either accurate or inaccurate) be placed at the beginning and at the end of the budget document. We will implement your suggestion when we do the budget for fiscal year 1999.*

*No published semi-annual financial statement. The City of Slater was for many years a city operating under the "council/manager form of government". The council/manager form of government is not required to publish a semi-annual financial statement.*

*When the voters of the city decided to abolish the council/manager form of government we became subject to a different set of statutes, including the one requiring the publishing of a semi-annual financial statement.*

*We intend to begin publishing the financial statement beginning in June 1999 (six months into our fiscal year).*

<b>7. City Funds</b>
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- A. In April 1994, the citizens of the city of Slater passed a one-half cent transportation sales tax to be used for street improvements. This sales tax is for a five-year period and will expire in 1999, unless city residents vote to extend the tax. A separate fund has not been established to account for these monies as required by statute. Instead, these sales tax revenues have been accounted for in the city's Capital Improvement Fund. It appears the monies have been spent from this fund for street improvements, which is an allowable use of these revenues.

Section 94.745, RSMo 1994, requires transportation sales tax revenues be deposited in a special fund to be known as the City Transportation Trust Fund and be used only for transportation purposes.

- B. For a number of years, the city has levied a debt service property tax to pay the principal and interest requirements of its general obligation bonds. The related property tax revenues have not been maintained in a separate fund as required by law. Instead these monies have been accounted for in the city's Water Fund. The city estimated that debt service revenues of approximately \$2,800 remained in the Water Fund at December 31, 1997.

Section 108.180, RSMo 1994, requires that monies derived from a tax levy for the payment of interest and principal of bonds shall be kept separate and apart from all other funds so that there shall be no commingling of such funds with any other funds of the city.

- C. The city maintains most of the operating monies of its various funds in one interest bearing checking account. The interest revenue earned each month from this account is credited to the city's General Fund, instead of being allocated to the various funds which maintain monies in this account. Approximately \$1,400 per month in interest income was earned on this account during the year ended December 31, 1997. Although all of this interest was credited to the General Fund, had it been properly allocated a majority of this interest would have been credited to the city's utility (electric, water, and wastewater) funds.

Interest should be credited to the funds whose monies generated the revenue. To ensure all city funds receive the appropriate amount of revenue, interest earned on the city's main operating account should be properly allocated among the various city funds.

**WE RECOMMEND** the City Council:

- A. Establish a separate City Transportation Trust Fund to account for the receipt and expenditure of the transportation sales tax revenues.
- B. Establish a separate Debt Service Fund to account for the receipt of the debt service property tax revenues and the related payments of the principal and interest requirements of its general obligation bonds.
- C. Ensure the interest income earned on the city's main operating account is properly allocated among the various city funds.

**AUDITEE'S RESPONSE**

*The City Council provided the following response:*

*Your staff suggested that we should set up some additional "funds" in order to better account for the city's capital improvement sales tax, the city's transportation sales tax, and the debt service, which we pay out, on outstanding municipal bonds. The implication of the statement was that they wanted us to have different "bank accounts". As your staff already knows, we do account for these items separately and it is very easy using our existing system to determine that we are complying with the*

*law in how we spend our capital improvement sales tax money, or how we are spending our transportation sales tax money. It is also obvious that we are paying our debts on a timely basis. However, the city will establish separate paper funds for each of these in the future.*

*Interest Income. Interest income from the operating account is currently deposited into the General Fund instead of dividing it among all accounts. On the average this amounts to \$1,400 a month. This seems to be irrelevant when the city has 10 different funds. We will try and develop a journal entry sheet with some percentages that will disburse some of this interest to other accounts.*

<b>8. City Contracts</b>
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- A. The city does not have a written agreement with its depository bank as authorized by Section 95.285, RSMo 1994. A written depository contract helps both the bank and the city understand and comply with the requirements of any banking arrangement.

The contract's provisions should include, but not be limited to, collateral security requirements; any bank fees for check printing, checking account services, and safe deposit boxes; interest charges on any borrowed funds; and interest rates for invested funds.

- B. The city has appointed an attorney in the area to serve as City Attorney. The city has not entered into a written contract with this individual, defining the services to be rendered and compensation to be paid for legal services.

Section 432.070, RSMo 1994, requires contracts of political subdivisions be in writing. The city should enter into written contracts for services rendered or obtained. A written contract, signed by the parties involved, should specify the services to be rendered and the manner and amount of compensation to be paid. Written contracts are necessary to ensure all parties are aware of their duties and responsibilities and to provide protection to both parties.

**WE RECOMMEND** the City Council:

- A. Enter into a written agreement with its depository bank.
- B. Enter into a written contract with the City Attorney for legal services.

**AUDITEE'S RESPONSE**

*The City Council provided the following response:*

*No Contract with Bank Depository: It is absolutely true that we do not have a contract with our bank depository, other than the individual (implied) contracts entered into with respect to each individual account. Again, there is no possible advantage to the city in having such a contract, as we do not bid our banking services. We chose to bank in Slater as Section 95.280, RSMo allows. We believe we get better service, more flexible pricing, and serve the people of Slater better by banking*

*in Slater. The city will contact the State Bank of Slater about this recommendation and if it has any benefit to the city and its citizens. Again, the MML supports passage of legislation that would repeal the archaic laws governing depositories for funds and clarify the investment authority of statutory cities.*

*No Contract with City Attorney: You are absolutely correct that we do not have a contract with our city attorney. Our city attorney has advised us that there is no benefit to such a contract, because under the present arrangement, the city is free to fire the attorney at any time, with or without a reason, and to decline to pay for the attorney's services. Having a contract with the city attorney would only benefit the attorney. Under those circumstances, we see no reason to enter into a contract with our lawyer. In the future, the city will require a rate schedule for the upcoming year with some general terms and conditions.*

<b>9. Internal Controls</b>
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- A. The city could improve its segregation of duties, particularly over cash receipts. For monies received by the city, the same individual receives the monies, records the transactions, and prepares the bank deposit slips. No periodic review or reconciliation of recorded receipts to bank deposits is performed by an independent person. A similar control weakness exists for monies received by the municipal court.

To ensure monies are properly safeguarded, duties should be segregated to the extent possible. In regard to cash receipts, a periodic reconciliation of recorded receipts to bank deposits should be performed by an independent person.

This condition was similarly reported by the city's independent auditors.

- B. Cash receipts are not always deposited intact. City officials and employees are allowed to cash personal checks from daily cash receipts. This is a poor practice and reduces accountability over receipts. To ensure all receipts are properly handled, they should be deposited intact. Personal checks should not be cashed from the daily cash receipts.

- C. The approval of adjustments made to individual utility bills is not documented. All adjustments made to the monthly utility bills are recorded on adjustment sheets. Although we were told adjustments made to the utility bills are verbally approved by the Mayor or Assistant City Administrator/City Clerk, the adjustment sheets are not reviewed or approved by the Mayor or Assistant City Administrator/City Clerk.

To ensure all adjustments to utility bills are appropriate and have been recorded properly, the utility adjustment sheets should be reviewed and approved by the Mayor or Assistant City Administrator/City Clerk. That review and approval should be documented.

**WE RECOMMEND** the City Council:

- A. Ensure the duties related to the handling, recording, and depositing of cash receipts is segregated to the extent possible. In addition, a periodic reconciliation of recorded receipts to bank deposits should be performed by an independent person.
- B. Require all cash receipts to be deposited intact. The cashing of personal checks from daily cash receipts should be prohibited.
- C. Ensure an independent review and approval of any adjustments to utility bills is performed and documented.

**AUDITEE'S RESPONSE**

*The City Council provided the following response:*

*Segregation of Duties: This has been written up in the city audit for years. With a staff of the City's size it is impossible to have total segregation of duties. This statement is a safety statement that covers our auditor as well as the State Auditor if something would be found years from now. It says we told you there could be problems someday. We will try to develop some additional checks and balances, but will not consider hiring more staff, as the General Fund cannot support it, nor need it. The city staff will ensure all receipts are deposited intact, cashing of personal checks will be regulated and any utility adjustments will be approved in writing by a second person in the office. The Mayor and City Clerk will be advised of these adjustments.*

This report is intended for the information of the city's management and other applicable government officials. However, this report is a matter of public record and its distribution is not limited.

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