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Missouri State Auditor

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# FOLLOW-UP REPORT ON AUDIT FINDINGS

## City of Mountain Grove

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July 2012

Report No. 2012-70



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<http://auditor.mo.gov>

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# City of Mountain Grove

## Follow-Up Report on Audit Findings

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# THOMAS A. SCHWEICH

## Missouri State Auditor

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

We have conducted follow-up work pursuant to the Auditor's Follow-Up Team to Effect Recommendations (AFTER) program on certain audit report findings contained in Report No. 2011-106, *City of Mountain Grove*, issued in November 2011. The objectives of the AFTER program are to:

1. Identify audit report findings that require immediate management attention and any other findings for which follow up is considered necessary at this time, and inform the city about the follow-up review on those findings.
2. Identify and provide status information for each recommendation reviewed. The status of each recommendation reviewed will be one of the following:
  - Implemented: Auditee fully implemented the recommendation, either as described in the report or in a manner that resolved the underlying issue.
  - In Progress: Auditee has begun to implement and intends to fully implement the recommendation.
  - Partially Implemented: Auditee implemented the recommendation in part, but is not making efforts to fully implement it.
  - Not Implemented: Auditee has not implemented the recommendation and indicates that it will not do so.

Our methodology included working with the city prior to completion of the audit report, to develop a timeline for the implementation of corrective action related to the audit recommendations. As part of the AFTER work conducted, we reviewed reports summarizing the status of our recommendations, and supporting documentation submitted by city officials. We also met with city representatives and discussed the status of significant findings and any corrective action taken with regards to the recommendations. Some of the documentation reviewed included various financial reports and accounting records, meeting minutes, contracts, and the city's published financial statements. This report is a summary of the results of this follow-up work, which was substantially completed during May 2012.

Thomas A. Schweich  
State Auditor

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# City of Mountain Grove

## Follow-Up Report on Prior Audit Findings

### Status of Findings

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#### 1. Financial Condition and Monitoring

The fund balance of the General Fund was declining and the Board of Aldermen did not receive timely and complete financial information to adequately monitor the city's financial condition.

Several factors contributed to the decline in the General Fund, including operating losses of the Randel-Hinkle Municipal Golf Course and the Dora White Community Center (senior center), and increased health insurance costs associated with the city self insurance fund. However, financial information provided to the Board of Aldermen was not timely, and did not include a complete and detailed accounting of the operating losses incurred by the golf course and senior center. As a result, it was difficult for the Board to monitor the city's financial condition.

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

#### Recommendation

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

#### Status

##### **In progress**

City personnel are now preparing various monthly financial reports, and the Board of Aldermen has requested to see these reports quarterly. However, financial reports are not prepared for city operations, such as the golf course or senior center, that provide for the determination of an operating gain or loss.

The city has not prepared documentation to support the appropriateness of the \$140,000 transfer from the Capital Improvement Sales Tax Fund to the Transportation Fund on June 30, 2011; however, city personnel indicated documentation would be maintained for future transfers.

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#### 2. Budgets and Financial Reporting

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

##### 2.1 Budget Preparation

Annual budgets did not contain all elements required by state law. Budgets for the years ended June, 30, 2011 and 2010, did not include actual revenues and expenditures for the 2 preceding years, or beginning and estimated



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ending cash balances. The budgets only included budgeted revenues and expenditures for the prior 2 years.

**Recommendation**

The Board of Aldermen prepare annual budgets that contain all information as required by state law.

**Status**

**In progress**

The City Administrator provided us with the budget format to be used by the city which includes actual revenues and expenditures for the 2 preceding years, and beginning resources taken from monthly financial information which is now prepared.

**2.2 Budget Monitoring**

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

While the Board of Aldermen was periodically provided certain financial information at its meetings, the Board did not regularly request or was not provided financial information to properly monitor actual expenditures compared to budgeted amounts.

**Recommendation**

The Board of Aldermen obtain adequate financial information monthly and properly monitor actual expenditures compared to budgeted amounts. Also, the Board of Aldermen should ensure expenditures do not exceed budgeted appropriations.

**Status**

**Implemented**

Monthly budget to actual financial statements are now prepared by the City Clerk and reviewed by the City Administrator. The Mayor and a Board member indicated the Board also reviews these reports quarterly.

**2.3 Financial Reporting**

While state law required the city to publish financial statements at the end of each 6 month period, the city only published annual financial statements for the years ended June 30, 2009 and 2010. In addition, these financial statements were each published approximately 12 months after year end. The financial statements that were published did not specify whether beginning and ending balances were cash or fund balances. Further, the city only published the total revenues and expenditures for each fund instead of a detailed account of receipts and expenditures, and the published financial statements for the year ended June 30, 2010, did not include the indebtedness of the city.



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Recommendation	The Board of Aldermen ensure semiannual financial statements are published which present complete and detailed financial information, as required by state law.
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Status	<b>Partially implemented</b>  A financial statement was published in February 2012, for the 6 months ended December 31, 2011, which included outstanding debt and specifically indicated ending balances were fund balances; however, the financial statement did not contain a detailed account of receipts and expenditures.
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3.1 Bidding	The city bid policy was not followed for several purchases, and the bid policy did not include procedures to be followed in instances of sole source procurement. In addition, bidding procedures used for some purchases did not comply with city policy.
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Recommendation	The Board of Aldermen ensure bids are solicited for all applicable purchases in accordance with city ordinances and sufficient documentation is maintained. In addition, the Board should consider expanding the purchasing policy to address sole source purchases.
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Status	<b>Implemented</b>  The Board passed a new ordinance in December 2011, which amended the procurement policy to require bids for supplies and contractual services when the estimated cost exceeds \$5,000. The new ordinance requires due notice of bids be published in a local newspaper and provides for an exception when there is a single source or no source within the city.
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4.1 Contracts	The city contracted with several entities, such as the Ozarks Family YMCA, the Mountain Grove Chamber of Commerce, and the Mountain Grove Central Business District Association, to provide services for the public; however, the contracts did not adequately protect the financial interests of the city. The contract with the YMCA did not include clauses related retaining fees or providing proof of liability insurance. The contracts with the previously noted entities did not include provisions for the entities to provide documentation on how city funds were spent.
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Recommendation	The Board of Aldermen ensure future contracts address who will receive fees charged for services, require proof of liability insurance when applicable, and provide for periodic reporting to ensure all contractual obligations are met and city funds are accounted for properly.
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Status	<b>In progress</b>  The City Administrator provided a copy of the draft agreement with the Mountain Grove Chamber of Commerce which contained a detailed
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breakdown by amount of how monies received from the city are to be spent and requires detailed documentation from the Chamber of the expenditure of the funds with dates, check numbers, payee, and amounts. The City Administrator indicated agreements with other entities will be similar and will take effect after the prior agreements expire on July 1, 2012.

## 4.2 Lease Contracts

The city leased property to the Arts Council, the Pregnancy Resource Center, and the Tri-County Fair with no lease payments required. Two of these lease contracts did not document any benefit to be received by the city, and one lease was not in writing. Additionally, the city owned two houses that were leased to individuals for \$100 and \$200 monthly without written lease agreements outlining the terms of the lease and without documentation to support the reasonableness of the monthly rent amount.

## Recommendation

The Board of Aldermen evaluate leasing property without a documented financial or service benefit to the city, and enter into written contracts/agreements defining services provided and benefits received. In addition, the Board of Aldermen should ensure documentation is maintained to support how the monthly rent amount is determined and its reasonableness.

## Status

### **In progress**

When contracts are renewed on July 1, 2012, the City Administrator indicated contracts for all properties leased from the city will be in writing, document the benefit to the city of the lease, require adequate liability insurance, and be based on fair market value. The city no longer rents the two houses it owns but indicated that if they are rented in the future, it will be to a not-for-profit organization providing a benefit to the general public.

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## 6.1 Golf Course Pro Shop

The golf course pro shop was a private business operated on city property at city expense. The business was owned by the Golf Club House Manager, a city employee. There was no written agreement between the city and the Golf Club House Manager for operation of the pro shop. The business was operated with the help of other city employees, and the city required no rent payment, paid utilities and insurance for the pro shop, and had not solicited proposals for its operation. Further, the amount of city employee time spent to operate the pro shop was not tracked.

## Recommendation

The Board of Aldermen evaluate the current arrangement of allowing the Golf Club House Manager to operate the pro shop as a private business, and if the city decides to continue this arrangement, enter into a written agreement establishing appropriate terms for the operation of the business on city property. Further, the Board should cease using city resources to subsidize the operation of the privately owned pro shop and periodically solicit proposals for the operation of the pro shop, if it is to continue being operated as a private business.



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Status

**Implemented**

The pro shop is no longer operated as a private business but is now owned and operated by the City of Mountain Grove.

6.2 Golf Course Receipts

Concerns were noted regarding golf course procedures related to receipts. Receipts of the pro shop, a private business, were comingled with city receipts, and the city did not receive adequate documentation of daily receipt activity at the golf course. Additionally, the cash register did not account for the composition of receipts or assign receipt or transaction numbers, and golf course monies were not transmitted to the city intact. When the pro shop had credit card sales, an equal amount of cash was taken out of the monies to be transmitted to the city, and the city paid the credit card company fees.

Recommendation

The Board of Aldermen require copies of all daily reports and register tapes from the golf course, evaluate the practice of allowing the Golf Club House Manager to withdraw city cash receipts for pro shop credit card transactions, ensure the composition of all receipts is indicated, and evaluate the possibility of adding receipt/transaction numbers to the cash register at the golf course to properly account for all transactions.

Status

**Implemented**

Daily reports of golf course activity are now submitted to City Hall, and a new cash register was purchased for the golf course which records a transaction number for each receipt as well as its composition. Comingling golf course receipts with pro shop receipts is no longer a problem as the pro shop is now operated by the City of Mountain Grove.

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9.1 Meeting Minutes

Closed meeting minutes did not include sufficient detail of matters discussed. Further, no minutes were taken for a budget workshop held by a quorum of the Board in a conference room off the back of Council Chambers on July 5, 2011. Due to lack of documentation, it was unclear whether the workshop was an open meeting.

Recommendation

The Board of Aldermen ensure closed meeting minutes contain sufficient detail of all significant matters discussed and minutes are maintained for all meetings of the Board of Aldermen, including workshops.

Status

**Implemented**

The city provided copies of minutes of all closed meetings since our audit report was issued which included detail of significant matters discussed. No budget workshops of the Board have been held since the issuance of our audit report.