



Office of Missouri State Auditor
Nicole Galloway, CPA

City of Harrisonville

Report No. 2017-035

May 2017

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Nicole Galloway, CPA
Missouri State Auditor

CITIZENS SUMMARY

Findings in the audit of City of Harrisonville

Highway 71/291 Partners in Progress Transportation Development District

The city and the Transportation Development District (TDD) did not plan for the financing of the TDD's share of the estimated \$5.4 million Phase II project costs, which totaled approximately \$1.7 million. The city pledged to loan the TDD up to \$1.5 million, with the majority of this funding to come from restricted utility funds, in violation of the bond covenants for the Electric and Combined Water and Sewer System (CWSS) Funds. The City Council approved Ordinance 3303 amending the agreement between the city and the TDD by an affirmative vote of 5 to 2, with one of Alderwomen voting yes on the measure even though her husband's family had an ownership interest in one of the businesses in the TDD, which gives the appearance of a conflict of interest.

Tax Increment Financing

Revenues generated in the Towne Center Redevelopment Area have not been sufficient to pay the bond principal and interest payments and the city has been required to cover the shortage with general revenues totaling over \$1 million. There are weaknesses with management and oversight, as well as compliance issues, with the city's TIF districts. The city provides accounting services for the Towne Center TDD, Towne Center TIF, Market Place TDD, and the Market Place TIF. The city maintains a fund for each TIF project that accounts for the receipts and disbursements of the TIF, along with the financial activity of the associated TDD, but the TDD's cash balance and TDD portion of the TIF debt is not maintained.

Utility Services

The city has no documentation of any discussions held and has no basis for determining the amount to be transferred from the Electric Fund to the General Fund as a franchise tax. During 2015, \$916,688 was transferred to the General Fund, which was based on 8 percent of electric sales and fees revenues. The city settled a dispute with Cass County in November 2015 involving a failed partnership related to the county's tri-generation project. This project was not discussed with the board or the Electric Department Supervisor prior to applying for a state grant related to the project and was determined to violate the city's agreement with its electric provider. The city does not include any disclosure about its relationship with the Missouri Joint Municipal Electric Utility Commission and the Missouri Public Energy Pool or detail about the city's ownership interest in power generating facilities under construction and/or to be constructed or potential ownership costs in the city's financial statements. Such disclosures are necessary to comply with accounting standards for state and local governments and to fully disclose the financial arrangements, as well as potential, significant future debt, to citizens.

Procurement Procedures and Contracts

The city has not established policies and procedures for the selection of vendors providing professional services. City personnel do not always follow the city's purchasing policy when obtaining goods and services. Significant improvement is needed in the city's handling of change orders related to construction projects. The city has not adopted a purchase order policy and city procedure does not require purchase orders for all goods and services obtained.

Police Station Construction Project	The city did not did not maintain supporting documentation for the final site selection for the police station. The city did not retain requests for qualifications received for civil engineering site construction plan services for the police station totaling \$19,528 and bids were not solicited for a variety of other goods and services related to the police station. The city did not pay timely 54 of 111 invoices reviewed related to the construction of the police station.
Allocations and Restricted Funds	The Finance Director uses several different calculations to allocate costs to various city funds, and some calculations used are questionable. Some disbursements and/or allocations to the Electric Fund and the CWSS Fund were not adequately supported and did not appear reasonable based on the explanations provided. The city does not track the balance of various restricted revenues.
Cash Handling Controls and Procedures	We noted several concerns regarding receipting, recording, and transmitting city monies. The city does not have adequate personnel in most departments where monies are collected to segregate duties and adequate oversight of the transmittal process is not performed.
Sunshine Law and Statutory Compliance	The Board of Aldermen discussed some items in closed meetings that are not allowed by state law and sometimes discussed issues other than the specific reason cited in the open minutes for going into a closed meeting. The city does not ensure minutes of meetings are prepared timely and posted to its website. The city did not comply with state law regarding publishing financial statements.
Accounting Controls and Procedures	The city has not taken steps to correct an accounting control deficiency identified by its independent auditor and included in the audit of the city's comprehensive annual financial report the last several years. The city has not developed written policies and procedures regarding handling and accounting for delinquent utility and emergency services accounts.
Capital Assets and Fuel Usage	The city has not developed procedures to identify capital assets purchases and dispositions throughout the year. City asset records are generally updated annually when physical inventories are performed in conjunction with the city's annual financial statement audit. The city's controls and procedures over fuel use and purchases within some city departments need improvement.

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 Harrisonville

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NICOLE GALLOWAY, CPA

Missouri State Auditor

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

The State Auditor was petitioned under Section 29.230, RSMo, to audit the City of Harrisonville. We have audited certain operations of the city in fulfillment of our duties. The city engaged Dana F. Cole & Company LLP, Certified Public Accountants (CPAs), to audit the city's financial statements for the year ended December 31, 2015. To minimize duplication of effort, we reviewed the report of the CPA firm. The scope of our audit included, but was not necessarily limited to, the year ended December 31, 2015. 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 procedures, including certain financial transactions.

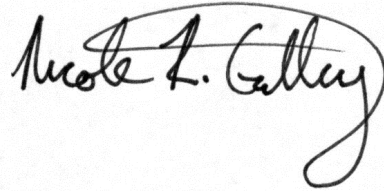
Our methodology included reviewing minutes of meetings, written policies and procedures, financial records, and other pertinent documents; interviewing various personnel of the city, as well as certain external parties; and testing selected transactions. We obtained an understanding of internal controls that are significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We tested certain of those controls to obtain evidence regarding the effectiveness of their design and 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 applicable 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 Harrisonville.

An additional report, No. 2016-028, *Seventeenth Judicial Circuit, City of Harrisonville Municipal Division*, was issued in May 2016.

A handwritten signature in black ink that reads "Nicole R. Galloway". The signature is written in a cursive style with a large, looping flourish at the end of the name.

Nicole R. Galloway, CPA
State Auditor

The following auditors participated in the preparation of this report:

Director of Audits:	Regina Pruitt, CPA
Audit Manager:	Todd M. Schuler, CPA
In-Charge Auditor:	Julie A. Moulden, MBA, CPA
Audit Staff:	Alex Bruner, MBA
	Ruben Lara

City of Harrisonville

Management Advisory Report

State Auditor's Findings

1. Highway 71/291 Partners in Progress Transportation Development District

Problems exist with the city's handling of Phase II of the Highway 71/291 Partners in Progress Transportation Development District (TDD).

The city's petition to form the TDD was approved by court order in January 2009 for the purpose of making improvements to Highways 71 (now Interstate 49) and 291 in Harrisonville. The city serves as the Local Transportation Authority (LTA) on the project, along with the Missouri Department of Transportation (MoDOT). The LTA approved the TDD projects, which were planned to be completed in two phases, with the estimated cost of Phase I being \$18.3 million and Phase II being \$5.4 million.

Phase I of the project consisted of improvements to the Highway 71 and 291 interchange including overpass replacement and was substantially completed in August 2016. The TDD paid for the local share of Phase I by issuing \$8.4 million in sales tax revenue bonds and using \$4.1 million in sales tax revenues generated in the district. The MoDOT funded approximately \$5.8 million of the cost of Phase I.

1.1 Phase II planning

The city and the TDD did not plan for the financing of Phase II of the project, with estimated costs totaling \$5.4 million. On February 17, 2015, the Board of Aldermen approved ordinance 3303, which was an amendment to the original intergovernmental agreement between the city and the TDD. The ordinance documents the city's plan to help fund the TDD's portion of Phase II costs. The city did not perform a feasibility study or other analysis to ensure adequate funding would be available for Phase II before entering into this agreement. Construction of Phase II that includes the widening of Highway 291 began in January 2017. Due to the amount of debt incurred by the TDD to finance Phase I, the TDD was unable to finance the majority of its share of Phase II costs, which were estimated to be approximately \$1.7 million. The remaining \$3.7 million of Phase II costs are being provided by MoDOT. As a result, the city has pledged a maximum of \$1.5 million to the project and as of August 2016, had contributed \$200,000. The remaining portion of the contribution is estimated to be paid during 2017. The TDD is required to pay interest on the loan from the city at 6 percent interest per year from sales tax revenues that remain after making its other debt service payments in October each year. The TDD made its first loan interest payment of \$17,951 in October 2016. The timeline for repayment of the loan is uncertain since the amount available to the TDD for repayment is based on sales tax collections that fluctuate from year to year.

When undertaking such a significant project it is imperative that the Board of Aldermen perform a review of total estimated project costs and identify all available sources of potential funding.



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1.2 City loan

The majority of the \$1.5 million (maximum) pledged loan to the TDD is planned to come from restricted utility funds as stated in the amended agreement, in violation of the bond covenants for the Electric and Combined Water and Sewer System (CWSS) Funds. The city pledged \$209,000 from the General Fund, \$833,000 from the CWSS Fund, and \$457,700 from the Electric Fund in the amended agreement, with \$200,000 from the Electric Fund already contributed as of August 2016. The city did not obtain a written legal opinion regarding these loans. Monies in the Electric and CWSS Funds are restricted for their intended purpose and cannot be used for the general operation of the city.

Article V, Section 502(e) of the 2010 CWSS bond covenants and Article VI, Section 602(e) of the 2007 Electric bond covenants state no moneys derived by the city from the system will be diverted to the general governmental or municipal functions of the city. Failure to follow the bond covenants could result in the bondholders taking action to call the bonds.

1.3 Appearance of a conflict of interest

As previously discussed, the Board of Aldermen approved an ordinance amending the agreement between the city and the TDD, to include loaning a maximum of \$1.5 million to the TDD and approving Phase II of the project to move forward. The vote on this ordinance was 5 to 2, with one Alderman abstaining due to serving on the TDD Board. Alderwoman Milner did not abstain from voting on the ordinance, even though a business in the TDD was owned by her husband's family trust. According to records obtained from the County Assessor's office, the sale of that business was finalized the day after she voted on the amendment. Alderwoman Milner indicated the sale had been in process for several months prior to this vote and that she had inquired of the former City Attorney whether it was a conflict for her to vote on this ordinance and he verbally told her it was not. The city did not obtain a written legal opinion regarding this matter. This ordinance would not have passed had the Alderwoman abstained as 5 affirmative votes are required to pass an ordinance in the city. Voting on an issue where an alderperson or his/her family has an ownership interest that may benefit from the vote gives the appearance of a conflict of interest and should be avoided in the future.

The Missouri Supreme Court has stated, "A public officer owes an undivided loyalty to the public whom he serves and he should not place himself in a position which will subject him to conflicting duties or expose him to the temptation of acting other than in the best interests of the public." *State ex rel. St. Louis County v. Kelly*, 377 S.W. 2d 328, 332 (Mo. 1964) (quoting 43 Am. Jur., Public Officers, § 266, p. 81). Personal interests in business matters of the city create actual or the appearance of conflicts of interest, and a lack of independence could harm public confidence in the Board of Aldermen and reduce its effectiveness.



Recommendations

The Board of Aldermen:

- 1.1 Determine project feasibility and prepare a complete financial plan for any significant construction projects.
- 1.2 Repay the CWSS Fund and Electric Fund any monies loaned related to this TDD project and ensure restricted utility funds are only used for their intended purpose.
- 1.3 More closely examine transactions to identify and avoid the appearance of conflicts of interest.

Auditee's Response

- 1.1 *We agree and will work with staff to determine project feasibility and prepare a more complete financial plan on all future projects.*
- 1.2 *We agree, and, without compromising basic public services, will repay the utility funds in a fiscally responsible manner for any utility fund money transferred to the TDD that is not related to utility costs, and agree restricted utility funds will be used for their intended purpose in the future.*
- 1.3 *We agree and will work with our attorney to identify transactions that give the appearance of a conflict of interest in the future and encourage individual Board members to abstain from voting in those situations.*

2. Tax Increment Financing

Problems exist with the city's handling of Tax Increment Financing (TIF) project funding and reporting for the Towne Center and Market Place redevelopment areas.

2.1 Debt service requirements

Revenues generated in the Towne Center Redevelopment Area have not been sufficient to pay the bond principal and interest payments and the city has been required to cover the shortage with general revenues. The remaining principal and interest outstanding on the bonds at December 31, 2015, was \$6.92 million and \$2.64 million, respectively.

The city established the redevelopment area and approved the Towne Center TIF Plan (redevelopment plan) and the TIF agreement (redevelopment agreement) with the developer in November 2005 under the Real Property Tax Increment Allocation Redevelopment Act, Sections 99.800 to 99.865, RSMo (TIF Act). The city issued \$6.86 million in tax increment revenue notes in December 2005 to pay a portion of the infrastructure improvements and site development costs. The city issued \$8.63 million in revenue bonds in June 2007 to refinance the 2005 revenue notes and pay the capitalized interest on those notes. The city established the project with the intent to repay the bonds using a portion of the increased revenue from economic



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activity generated as provided by the TIF Act. Under this Act, payments in lieu of taxes (PILOTS) and a portion of the incremental increases to the economic activity taxes (EATS) are placed in a special allocation fund to pay for the bonds. PILOTS are the incremental increases in property taxes on real estate in the TIF area, while EATS are sales taxes, earnings taxes, food and beverage taxes and motor vehicle sales taxes generated within the TIF area. Additionally, the city pledged its own general revenues to secure the debt.

In addition, the Towne Center TDD was formed and the TDD established a one percent sales tax in December 2005 in accordance with Sections 238.200 to 238.275, RSMo. TDD collections of this sales tax are deposited into the same special allocation fund as the project PILOTS and EATS and have been committed to repay the bonds.

Since the project fund was established in 2007, principal and interest payments on the debt have exceeded TDD sales taxes, EATS, and PILOTS by approximately \$1 million. The city has provided \$1,011,083 in subsidies from the General Fund to this project between 2010 and 2015. In addition, the city provided a subsidy of \$130,500 from the General Fund during the year ended December 31, 2016. If the developer does not attract new businesses to the area, the city will need to continue to use general revenue funds to cover portions of the remaining debt service payments, which increase significantly during the latter years of the project and include a principal payment of \$2.12 million in November 2022 and \$4.13 million in November 2028 when the bonds mature.

City management should more carefully review future development projects to ensure the city's financial exposure is limited. In addition, the Board of Aldermen should review the current status of the Towne Center redevelopment project and determine the appropriate course of action to minimize the amount of city general fund subsidies required to cover the debt service requirements.

2.2 Management and oversight

There are significant weaknesses regarding the city's management and oversight of its TIF districts. In addition to the Towne Center Redevelopment Area discussed in section 2.1, the city also established the Market Place Redevelopment Area and approved the Market Place TIF Plan in March 2007 and amended the plan in February 2009. The city issued \$9 million in tax increment and sales tax revenue notes in December 2009 to pay a portion of the project costs. Market Place TDD A and Market Place TDD B were also formed related to this development and 50 percent of the sales tax collections were committed to repaying the bonds, in addition to the EATS and PILOTS. The city's original projections indicated revenues were expected to exceed estimated costs by approximately \$18 million. However, similar to the Towne Center TIF, the project area has not



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developed as expected and revenues have not been sufficient to make the required principal and interest payments on the bonds. Unlike the Towne Center TIF debt discussed in section 2.1, the city has no obligation to ensure payments are made on these revenue notes. We identified weaknesses in management and oversight, as well as compliance issues, with both TIF projects.

- The city has not ensured there is an active TIF Commission to control and timely finish the TIF projects. According to city officials, the TIF Commission has not been active for many years. The Commission has 3 vacancies for city appointed members; one position has been vacant since September 2012 and 2 positions have been vacant since September 2014. Ensuring there is an active TIF Commission would improve the city's ability to oversee and manage the TIF projects and complete them timely.
- The developers have not filed annual progress reports or detailed reports on the progress of the projects on each 5-year anniversary with the Board, as required in the redevelopment agreements. Ensuring these reports are filed and reviewed by appropriate city personnel or TIF Commission members could help in determining actions necessary to complete these TIF projects.
- City officials did not file annual reports for the year ended December 31, 2010, or December 31, 2014, with the Missouri Department of Revenue (DOR). Section 99.865.1, RSMo, requires each municipality to file an annual report with the DOR by November 15 of each year regarding the status of each redevelopment plan and redevelopment project existing as of December 31 of the preceding year. In addition, Section 99.865.7, RSMo, states the municipality shall be prohibited from adopting a new tax increment financing plan for a period of 5 years for failure to file annual reports if the reports are not filed after notification from the DOR regarding failure to comply with the reporting requirements.
- The city has not held public hearings every 5 years for each TIF as required by Section 99.865.3, RSMo. The purpose of the hearing is to determine if the project is making satisfactory progress under the proposed schedule in the project plan.

2.3 Financial reporting

The city provides accounting services for the Towne Center TDD, Towne Center TIF, Market Place TDD A and B, and the Market Place TIF. All monies received and operational disbursements for each TDD and TIF are handled by the city. The city maintains a fund for each TIF project that accounts for the receipts and disbursements of the TIF, along with the financial activity of the associated TDD. The TDD's cash balance and TDD



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portion of the TIF debt is not maintained. As a result, the city cannot ensure each entity is properly paying its portion of the debt service payments and this weakness could allow TDD monies to be improperly used to pay a portion of the TIF debts. TDDs are separate political subdivisions and TDD funds are more restricted in their allowable uses than TIF monies and should be maintained separately.

Section 238.235.1(6), RSMo, specifies TDD sales tax revenues shall be deposited in a special trust fund and shall be used solely for such designated purpose. Separate fund accounting is necessary to demonstrate compliance with state law and to provide for accurate reporting of the financial position and activities of the TDD.

A similar condition was noted in a previous report, *Harrisonville Towne Center Transportation Development District*, Report No. 2012-104, issued in September 2012.

Recommendations

The Board of Aldermen:

- 2.1 Refrain from pledging taxpayer funds to assist developers in obtaining financing for projects. Future undertakings of a similar nature should incorporate assurances or other safeguards to avoid exposing the city's financial resources to risk. In addition, review the current status of the Towne Center redevelopment project and determine the appropriate course of action to minimize the amount of city General Fund subsidies required to cover the debt service requirements of this project.
- 2.2 Ensure there is an active TIF Commission to oversee and manage TIF projects to help ensure the projects are completed timely. Adequate records should be maintained to support project costs. In addition, ensure annual reports are filed with the state and public hearings are held on TIF projects as required by state law.
- 2.3 Work with the TDD Boards to establish procedures to track the remaining TDD debt obligations and establish a fund to separately account for TDD receipts, disbursements, and cash balances.

Auditee's Response

- 2.1 *We will critically review requests from developers to pledge taxpayer funds to assist financing for projects. Future undertakings of a similar nature will incorporate assurances or other safeguards to avoid exposing the city's financial resources. We will review the current status of the Towne Center redevelopment project and determine the appropriate course of action to minimize the amount of city general fund subsidies required to cover the debt service requirements of this project.*



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- 2.2 *We will appoint new members to the TIF Commission to fill vacancies and will work with the developers to complete the projects. In addition, we will file annual reports and hold public hearings as required by state law.*
- 2.3 *We agree and will work with the TDD Boards to implement this recommendation.*

3. Utility Services

There are significant weaknesses in city operations related to utility services. The city provides electric, water and sewer, and refuse collection services. According to the city's audited financial statements, the city collected approximately \$11.4 million, \$4.7 million and \$500,000 in electric, water and sewer, and refuse receipts, respectively, during the year ended December 31, 2015.

3.1 Electric transfers

The city has no documentation of discussions held and has no basis for determining the annual franchise tax transfer from the Electric Fund to the General Fund. During 2015, \$916,688 was transferred to the General Fund, based on 8 percent of electric sales and fees revenues. The city has made these transfers for many years using the same percent. In addition, the former Interim City Administrator indicated the city charges electric and natural gas utilities and cable television and telephone providers the same 8 percent franchise tax rate. The transfers from the Electric Fund are significant and accounted for approximately 11 percent of the General Fund revenues during 2015. Because these transfers, along with the administrative fees discussed in Section 6.1 represent a significant revenue source for the General Fund, it is important for the city to periodically re-evaluate their impact, not only on the General Fund budget, but also on electric rates.

To ensure these electric transfers are reasonable, it is important the city evaluate the value of the government services the transfers are offsetting during the annual budget process and document its process for determining the percentage to be charged.

3.2 County tri-generation project

The city settled a dispute with Cass County in November 2015 involving a failed partnership related to the county's tri-generation project. The county built a thermal and electrical generator and planned to partner with the city to provide a biogas power supply to the Cass County Justice Center and the city's wastewater treatment plant. Planning for this project began in 2009 and the city submitted a grant application to the Department of Natural Resources (DNR). The city planned to use the grant funding as a portion of its contribution to the project.

The city issued building permits to the county for construction of the generator in June 2010 and it was constructed and began operating in February 2011. In July 2011, the city was notified by the Missouri Public



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Utility Alliance (MPUA) that Cass County's use of its power generator presented an issue with the city's adherence to the Missouri Public Energy Pool (MoPEP) agreement among the Missouri Joint Municipal Electric Utility Commission (MJMEUC) and MoPEP cities. After receiving this notification, city officials began researching alternatives to bring the city into compliance with the agreement including entering into an inter-governmental agreement with the county that would have required the county to also enter into an agreement with the MJMEUC and MoPEP. These possible agreements were not entered into. In January 2013, the city sent the county an invoice for \$245,497 for the city's costs related to the generator to date including amounts due to the MPUA for lost revenues as a result of the generator's operations. The city did not receive payment for this bill. Subsequently, the city received a letter from the MJMEUC's attorney in September 2013, demanding payment of \$316,381 to compensate the MJMEUC for violation of the purchase power agreement. The city did not make the payment because it reached a settlement with the county in which the county agreed to disconnect the generator and pay the city \$69,603 for equipment the city purchased in relation to the generator that could not be reused. Due to the failed project, the city resubmitted the DNR grant application to use for upgrading street lights. The city incurred \$6,046 in attorney fees related to negotiations and settlement with the county, in addition to an unknown amount of time spent by city personnel on this project, as well as the settlement.

Our review of various email messages from city employees, minutes of board meetings, and other documents identified, in addition to the monetary cost and personnel time spent on this project, the following concerns:

- The project was not discussed with the Board in advance of the December 2009 meeting where the former City Administrator sought Board approval to submit the grant application.
- The former Electric Department Supervisor provided a letter to the board in June 2011 indicating he was not informed about the project by the former City Administrator prior to the former City Administrator seeking board approval for the grant. The letter indicated when the two discussed the project in December 2009, he informed the former City Administrator he believed the project would violate the city's contract with the MPUA.
- The grant application submitted contained errors and inaccuracies and was not provided to the former Electric Department Supervisor for his review. For example, the grant application indicated the city bought its electricity from Kansas City Power and Light, rather than the MJMEUC.



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- The city did not enter into a written contract with the county detailing contributions and responsibilities of both parties.

It is imperative that the city carefully evaluate projects related to electric power within city limits to ensure the city is in compliance with its purchase power agreement with the MJMEUC and to avoid unnecessary costs. The city should clearly document discussions and decisions, obtain legal opinions when necessary, ensure grant applications are accurate, and ensure contracts are entered into when necessary. Had city personnel responsible for this project adequately planned and discussed it in advance with all appropriate city personnel and the Board, this situation may have been avoided.

3.3 Missouri Public Energy Pool disclosures

The Board of Aldermen needs to evaluate its relationship with the MJMEUC, including the MoPEP, to determine proper disclosures about the relationship in the city's financial statements.

Currently, the city does not include any disclosure about the MJMEUC and the MoPEP or detail about the city's ownership interest in power generating facilities under construction and/or to be constructed and the potential ownership costs in the city's financial statements. However, based on the requirements of the Governmental Accounting Standards Board (GASB) for state and local governments, the relationship between the city and the MJMEUC/MoPEP may be a joint venture. Additionally, joint venture participants must disclose specific information including information regarding ongoing financial interests and/or financial responsibility and information to evaluate whether the joint venture is accumulating significant financial resources or causing financial burden on the participating government in the future. Such disclosures are necessary to comply with GASB financial reporting requirements and to fully disclose the financial arrangements, as well as potential, significant future debt, to citizens.

The city contracts with the MJMEUC for the purchase of electrical power and energy. The city, along with other Missouri municipalities, is also a member of the MoPEP. In order to provide the MoPEP members a diversified portfolio of reliable energy resources on a long-term basis due to growing load requirements of the members and to replace power and energy currently purchased under short-term contracts, the MoPEP members directed the MJMEUC to participate in the development and construction of new generating facilities.

The obligations of the MoPEP members include maintaining adequate customer rates and maintenance of power facilities and contracts in order to meet the members' commitments to the pool. If a member city, such as Harrisonville, decides to leave the pool, it must give a 5-year notice. At the end of the 5-year period, the city would be responsible for a pro-rata share



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of the ongoing capital and operation costs of each pool project based on its share of energy. According to the MJMEUC documents, Harrisonville's pro-rata share was 4.8 percent and the city's obligation for the project bonds issued would be approximately \$23.7 million as of December 31, 2015. The city may also be obligated for any purchase power contracts.

3.4 Utility adjustments

Controls over adjustments posted to customer utility accounts need improvement. Adjustments are sometimes needed to change a customer account balance, including adjusting usage for inaccurate meter readings when bills are processed or reducing a balance due to water leaks. Billing clerks are not required to obtain independent approval for adjustments posted to the utility system prior to making the change. Because the billing clerks also prepare billings and receive and post payments to customer accounts, the ability to make adjustments without proper oversight increases the risk of theft or misuse of funds. During the year ended December 31, 2015, the clerks made billing adjustments of \$66,389.

To ensure adjustments to utility accounts are valid and approved, adjustment transactions should be approved before they are made in the computer system and the posted adjustments should later be compared to the list of approved adjustments.

Recommendations

The Board of Aldermen:

- 3.1 Determine the value of government services being offset by the electric transfers, evaluate the effects of the transfers and their impact on the General Fund, and retain documentation of how the transfer rate is determined.
- 3.2 Ensure future projects of this nature are properly evaluated, including obtaining legal opinions, and discussed with applicable city personnel and the Board. In addition, ensure any grant applications are accurate and reviewed by appropriate personnel before submission, and contracts are entered into when necessary.
- 3.3 Consult with its independent auditor to evaluate the relationship with the MJMEUC/MoPEP and determine the proper and necessary disclosures for the financial statements.
- 3.4 Ensure all adjustments are properly approved and compared to actual changes posted to the computer system.

Auditee's Response

- 3.1 *We will evaluate the value of government services being offset by the electric transfers, and their impact on the General Fund, and retain documentation of how the transfer rate is determined.*



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- 3.2 *The city will properly evaluate all projects, including obtaining legal opinions when appropriate, and discuss with city staff to verify the accuracy of grant applications.*
- 3.3 *We agree and will ensure the disclosure is included in our 2016 audited financial statements.*
- 3.4 *We agree and are in the process of implementing policies and procedures for adjustments.*

4. Procurement Procedures and Contracts

Controls and procedures over city disbursements and construction projects need improvement.

4.1 Professional services and contracts

The city has not established policies and procedures for the selection of vendors providing professional services. The city did not solicit requests for proposals for various professional services, has not periodically conducted a competitive selection process for various professional services, and did not always enter into contracts with the providers selected.

Service Provided	Cost (1)	Competitively Procured?	Written Contract?
City attorney and litigation services	129,584	No	No
Engineering services for airport runway, taxi lanes, and apron areas	66,975 (2)	No	Yes
Auditing services	23,335	No	No
On-call engineering services contract	21,104	No	Yes
City prosecutor	17,090	No	No
Surveying and engineering services for the sanitary sewer system master plan development area	16,345	No	Yes
EMS medical director	12,000	No	Yes
Surveying Lake Harrisonville property boundaries	8,235	No	Yes

(1) Total amount expended for the year ended December 31, 2015, except the airport engineering services.

(2) Represents the total contract amount.

Until August 2016, the same attorney represented the city for 20 years without solicitation of proposals during that time period and the contract had not been updated since 2011. A new city attorney was selected by the Mayor in August 2016 without requesting proposals. In addition, the city has used the same independent CPA firm since 2008 to perform its annual financial statement audits and no proposals have been solicited during that period.



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Soliciting proposals for professional services is a good business practice, helps provide a range of possible choices, and allows the city to make better-informed decisions to ensure necessary services are obtained from the best qualified provider taking expertise, experience, and cost into consideration. Written contracts are necessary to ensure all parties are aware of their duties and responsibilities and to prevent misunderstandings. Sections 8.285 to 8.291, RSMo, provide requirements for the selection of engineering services and Section 432.070, RSMo, requires contracts for political subdivisions to be in writing.

4.2 Bidding

City personnel do not always follow the city's purchasing policy when obtaining goods and services. City Code of Ordinances, Chapter 130, Article II, requires employees to solicit sealed bids for items costing \$10,000 or more and requires notice inviting bids to be published in at least one official newspaper of the city for at least 5 calendar days. For items costing between \$1,000 and \$10,000 sealed bids must be solicited; however, notice inviting bids is not required to be published. In addition, the policy does not address bid requirements when multiple purchases from any one person or vendor total \$10,000 or more during a set period of time (e.g., 90 days). Our review of 37 disbursements requiring bids during the year ended December 31, 2015, determined 20 items were either not bid or were not advertised as required by city code.

Item	Cost (1)
Waste disposal	\$435,142
Water treatment chemicals	106,729
Three law enforcement vehicles	79,196
Poles for electric power lines	75,121 (2)
Road oil	54,763
Fiber optic cable	51,900
Electric system equipment	29,105
Equipment for 3 law enforcement vehicles	19,722
Wastewater equipment repair services	19,155
Firefighting equipment	18,917
Electric power lines	18,378
Electric transmission line construction materials	16,562
Chip seal	15,440
Body cameras	13,548
Audio-visual equipment repair service	13,255
HVAC repair service	8,892
Citizen satisfaction survey	8,000 (2)
Street equipment	4,966
Computer system maintenance service	3,313
Catering - annual employee dinner	2,373
Total	\$991,930

(1) Total amount expended for the year ended December 31, 2015, except the electric power line poles and the citizen satisfaction survey.

(2) Represents the total contract amount.



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The purchase of water treatment chemicals, wastewater equipment repair services, and electric power lines should have been bid because the items purchased within a 90 day period (and paid with the same check) exceeded the \$10,000 threshold.

The city has used the same waste disposal vendor since 2005 without soliciting bids. The city has also used the same vendors for annual citizen satisfaction surveys, computer system maintenance service, and catering the annual employee dinner for many years without soliciting bids.

City personnel indicated the road oil, fiber optic cable, and law enforcement vehicle equipment purchases were not bid because they were considered sole source purchases, but the reasons were not documented. The city's purchasing policy does not address procedures for sole source procurements.

According to city personnel, they did not bid the purchases of electric system and street equipment or the electric transmission line construction materials because they considered these transactions emergency purchases. The purchasing policy requires a full written explanation for an emergency purchase and the approval of the City Administrator or Finance Director; and if neither is available, the department head may authorize the purchase. None of these purchases were supported by such documentation.

Competitive bidding not only ensures the city is complying with the City Code of Ordinances, but also helps ensure all parties are given an equal opportunity to participate in city business. Documentation of the selection process and criteria, including sole source or emergency procurements or changes to approved purchases should be retained to support purchasing decisions. Also, a more comprehensive procurement policy establishing time frames when threshold amounts apply would provide a more effective framework for economic management of city resources.

4.3 Change orders

Significant improvement is needed in the city's handling of change orders related to construction projects.

- The city does not have a formal written change order policy.
- The city did not competitively bid significant changes to construction projects, when appropriate.

The original contract for the south substation electric transmission line re-build totaled \$305,634; however, 2 change orders totaling \$125,643 were processed and not bid. These change orders represent 41 percent of the original contract amount. The first change order was for a distribution line over Lake Harrisonville for \$92,000 that was not included in the initial bid.



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The second change order included a \$23,279 increase to the lake overhead line and a \$10,364 increase to the transmission line re-build for significant items not planned for in the initial bid. The total amount paid for the project, after the change orders, was \$431,277.

In addition, the original contract for sludge removal services was for \$140,202 in 2014. A change order for \$75,000 was approved and paid in 2015 for additional sludge removal. The change order represents 53 percent of the original contract amount.

While change orders often occur on construction contracts, they are normally used to make adjustments for minor problems that are unknown when construction projects are originally bid. Change orders should be kept to a minimum to ensure the maximum amount of construction costs are subjected to competitive bidding and to reduce the amount of administrative time and effort in processing change orders. Change orders should not be used to make significant changes to existing contracts. If the scope of a project changes substantially, consideration should be given to bidding those parts of the project.

4.4 Approval process

The city has not adopted a purchase order policy and city procedure does not require purchase orders for all goods and services. In addition, payment was made on some invoices, which did not require a purchase order, without documented approval. For example, we reviewed 60 disbursements and noted there was no documented review and approval for 4 of 5 disbursements, totaling \$899,749, where a purchase order was not required.

Payment of invoices without documented approval from a department head and/or the City Administrator or Finance Director and a properly completed purchase order increases the risk of paying for goods and services not received.

Recommendations

The Board of Aldermen:

- 4.1 Periodically solicit proposals for professional services and enter into written agreements for those services. In addition, the Board should establish a policy to address the selection of professional services to ensure the city is in compliance with state law.
- 4.2 Solicit bids in compliance with the City Code of Ordinances and amend the policy to add time frames for bid thresholds and procedures addressing sole source procurement.
- 4.3 Implement a change order policy that includes requirements for monitoring change orders and provides guidance on when bidding for substantial project changes is required.



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Auditee's Response

4.4 Establish formal policies and procedures to ensure the proper use, accountability, and review and approval of purchase orders and invoices prior to payment.

4.1 *We will develop and adopt a policy for solicitation of professional services, and enter into written agreements for those services. Such policy will include a selection process for professional services that complies with state law.*

4.2 *We will solicit bids in compliance with the City Code of Ordinances and develop policies and procedures to be followed in instances of sole source procurement.*

4.3 *We agree and will establish thresholds for change orders to require a separate bidding process.*

4.4 *We agree and will draft and adopt a purchase order and invoice policy.*

5. Police Station Construction Project

Several problems exist with the handling of the city's police station construction project. The city expended approximately \$1.9 million on construction and approximately \$50,000 for furnishings.

5.1 Site selection and real estate purchase

The city did not did not maintain supporting documentation for the final site selection for the police station. We noted discussions in the May, June, and July 2011, open Board meeting minutes regarding the sites being considered for the new police station. These sites included 3 existing buildings that would need to be remodeled/refurbished and another property adjacent to a city-owned parking lot behind the existing jail where a metal building could be constructed if the existing building was purchased and demolished. The minutes of a meeting in July 2011 indicate the Board would be touring the 3 existing buildings and property for the sites being considered for remodeling/refurbishment.

On August 1, 2011, the Board of Aldermen unanimously approved the purchase of the property adjacent to the city-owned parking lot for \$50,000, although an appraisal of this property was not obtained. According to minutes of Board meetings held between May and July 2011, efforts were made to evaluate various options; however, there was not sufficient documentation in the minutes or elsewhere to support the final decision made. An analysis of all options considered was not prepared detailing the criteria used to evaluate each option, the pros and cons of each option such as cost and proximity to city hall, and the reasons for selecting the chosen option.



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5.2 Procurement and
documentation

Documentation of sites and building options considered, and the selection process and criteria is important to support decisions made and address concerns or questions regarding the decisions. In addition, good business practice requires real estate purchases be formally and independently appraised to ensure prices are reasonable.

The city did not retain requests for qualifications received for civil engineering site construction plan services for the police station totaling \$19,528 and did not solicit requests for qualifications for structural revisions performed by another engineer for \$1,000. In addition, bids were not solicited for some disbursements incurred for the construction and furnishing of the police station as required under city policy (see MAR finding number 4.2 for bid requirements).

Item	Cost(1)
Furniture	\$ 26,790
Phone system	24,452
Controlled entry system	16,574
Phone system hardware	14,539
Building demolition	7,500
Generator switch	7,085
Carport ceiling	4,175
Electric supplies	4,054
Phone system installation	3,500
Copier	2,622
Ornamental landscaping rock	2,126
Landscaping rock	1,980
Keying	1,553
Sod	1,213
Sod pins and landscaping fabric	1,087
Furniture for dispatch	1,020
Total	\$ 120,270

(1) Amounts expended between April 2012 and December 2014.

The city had no documentation showing the furniture, phone system, controlled entry system, or copier were sole source purchases as indicated by city personnel. As indicated in MAR finding number 4.2, the purchasing policy does not include procedures for sole source procurements.

Competitive bidding not only ensures the city is complying with the City Code of Ordinances, but also helps ensure all parties are given an equal opportunity to participate in city business. Documentation of the selection process and criteria, including sole source procurement or changes to approved purchases should be retained to support purchasing decisions.



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Section 8.285 to Section 8.291, RSMo, provide requirements for the selection of engineering services.

5.3 Untimely payments

The city did not pay timely 54 of 111 invoices we reviewed related to the construction of the police station. Although the city did not incur late payment fees or interest, paying invoices late could cause the city to incur unnecessary costs and discourage vendors from bidding on future city projects.

Recommendations

The Board of Aldermen:

- 5.1 Maintain documentation of the reasons for selecting a particular site for future construction projects and make the documentation available to the public. Obtain appraisals before purchasing real estate.
- 5.2 Select engineering services in accordance with state law and obtain bids in compliance with city code for construction projects. Ensure supporting documentation including invoices and bid documents are retained for the entire project.
- 5.3 Ensure all invoices are paid timely.

Auditee's Response

- 5.1 *We agree with these recommendations.*
- 5.2 *We will select engineering services in accordance with state law and obtain bids in compliance with city code for construction projects. We will require that supporting documentation including invoices and bid documents are retained according to state record retention requirements.*
- 5.3 *We will establish a policy for paying invoices, and pay timely those that are not disputed in some way.*

6. Allocations and Restricted Funds

The city has not established adequate procedures to allocate administrative costs and various disbursements to restricted funds to ensure restricted monies are used only for intended purposes.

6.1 Cost allocations and charges to restricted funds

The Finance Director uses several different calculations to allocate costs to various city funds, and some calculations used are questionable. Approximately \$2 million in costs paid by the General Fund in 2014 were allocated in 2015 to other city funds using various methods. Overhead costs were added to the allocations for each fund, and payment in lieu of taxes (PILOT) amounts were added for some funds. Our review of these allocations and additional charges identified multiple concerns.



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Administrative costs

The administrative costs allocated include personnel costs, fringe benefits, and travel and training costs for various finance and administrative employees, along with legal costs, insurance, other contractual services, and utility costs for city hall. The Finance Director allocates these administrative costs and makes monthly transfers from various city funds to repay the General Fund. Administrative costs allocated to various funds totaled approximately \$1.52 million during the year ended December 31, 2015.

Fund	Allocated Costs
Refuse	\$ 56,949
Electric	493,748
CWSS	633,665
Park	13,654
Aquatic Center	8,892
Community Center	33,964
EMS	282,191
	\$1,523,063

The Finance Director allocates most administrative costs based upon the average of a fund's percentage of full-time equivalents (employees), operating expenditures, fund balance (governmental funds) or net assets (proprietary funds), and insured asset values. None of the administrative costs were allocated based on specific documentation, such as time sheets, maintained by city personnel to indicate the amount of time or actual costs incurred in direct relation to a specific department/fund. Based on the factors used in the allocation by the city, the percentage of administrative costs charged to the utility funds are disproportionately high. The restricted utility funds of the city have significant numbers of employees (that are already paid out of each restricted fund), large operating budgets (especially the CWSS and Electric Funds) and a high value of net assets and insured asset values. As a result, each of the utility funds is paying a large percentage of the general administrative costs of the city, although we cannot determine if the amounts allocated to any department/fund are reasonable compared to the benefits derived by each fund from the shared activities/costs. Cost allocations should be based on time spent or activities performed by employees/contractors that share responsibilities for certain functions benefitting multiple departments/funds.

In addition, some administrative costs are allocated based on estimated percentages. For example, the utility billing department costs, totaling approximately \$206,000 and originally paid from the General Fund, are allocated 20 percent to the Refuse Fund, 40 percent to the CWSS Fund, and 40 percent to the Electric Fund. There is no documentation to support how those percentages were determined. The percentage charged to the Refuse Fund seems unreasonably high, considering the city contracts refuse services to a contractor and simply puts the amount due from each customer



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on their utility bill each month and pays the contractor monthly from the collections. The CWSS and Electric Funds require the billing department to read meters, input usage to calculate bills, etc., which would require much more time than billing for refuse, which is a constant amount each month. In addition, engineering costs, totaling approximately \$143,000 are allocated 50 percent to the General Fund, 40 percent to CWSS, 5 percent to the Park Fund, and 5 percent to the Electric Fund. No documentation supported this allocation method.

Overhead costs added

An overhead rate of 20 percent is applied to the administrative costs allocated to each fund and added to the amount to transfer to the General Fund. The overhead charged to the other funds and added to the administrative allocation amounts totaled approximately \$269,000 for the 2015 allocations. These are not costs paid by the General Fund and the former Interim City Administrator could not provide an explanation for why this calculation is performed or what the overhead rate represents.

The administrative costs and overhead costs allocated to the Aquatics, Parks, and Community Center Funds are reduced by 75 percent because the financial condition of these funds does not allow for the full amount to be transferred. The administrative costs allocated to the Aquatics, Parks, and Community Center Funds were reduced by \$26,676, \$40,961, and \$101,894, respectively, in 2015 due to low fund balances.

PILOT payments

In addition to the administrative costs and overhead allocated to the Electric and CWSS Funds, the city also charges a PILOT to each of these funds, which totaled approximately \$72,000 (\$25,644 to the Electric Fund and \$47,146 to the CWSS Fund) in the 2015 allocations. The former Interim City Administrator indicated that these costs are charged to replace what would be taxable if a private company provided these services. However, the calculation is based on 32 percent (the percent of the true value of commercial and industrial property that is taxable per Section 137.115.5, RSMo) of the average of each fund's insured value and total net assets, as opposed to the property's true value. City officials did not provide any statutory authority for charging this PILOT to the Electric and CWSS Funds.

Generally accepted accounting principles and various legal restrictions require reflecting receipts and disbursements associated with specific activities in the fund established to account for those activities. The proper allocation of expenses is necessary for the city to accurately determine the results of operations of specific activities, thus enabling the city to establish the level of taxation and/or user charges necessary to meet all operating costs. To ensure restricted funds are used for intended purposes, the allocation of expenditures to city funds should be based on specific criteria, such as the number of hours worked by each employee, if possible, or by



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determining a reasonable basis to allocate costs from shared functions/employees benefiting multiple funds.

6.2 Disbursement allocations Some disbursements and/or allocations made from/to the Electric Fund and the CWSS Fund were not adequately supported and did not appear reasonable based on the explanations provided.

- The city paid \$510,000 to the Missouri Director of Revenue for the local match portion of grant funds for a road project in July 2015. The cost was allocated as follows: \$220,250 to the General Fund, \$29,750 to the Electric Fund, and \$260,000 to the CWSS Fund. The former Interim City Administrator indicated the cost was allocated to the funds based on the benefit each fund would receive from the work to be completed during the project; however, no supporting documentation explaining these benefits was retained. This project was done in conjunction with the MoDOT and the intergovernmental agreement indicated MoDOT was responsible for utility relocation on the project, not the city. It is unclear what benefits would be derived by the utility funds from this project.
- During 2015, street lights costs, totaling \$100,502 were paid out of Electric Fund rather than street revenues as allowed by state law. Electric Fund revenues are intended for costs associated with operating the electric utility.
- During 2015, the city paid \$51,899 for materials and \$114,906 for installation of the city's fiber optic project out of the Electric Fund. Although the project benefited several city funds and departments, the entire cost of this project was charged to the Electric Fund.

To ensure restricted monies are used for the intended purpose, disbursements from restricted funds should occur only for allowable and specific purposes, reasons should be adequately documented, and any allocations amongst funds should be supported by adequate documentation.

6.3 Restricted revenues City personnel do not track the balance of various restricted revenues, including \$393,009 in state motor vehicle-related revenues, \$166,994 in county road and bridge sales tax revenues, \$2,674 in Law Enforcement Training (LET) fees and Police Officer Standards Training (POST) fees, \$251,158 in public safety sales tax revenues, and \$215,466 in federal and state grant monies received during the year ended December 31, 2015.

With the exception of grant program monies, revenues and expenditures transactions for the various restricted revenues are separately identified within the General Fund; however, the balances of these restricted monies



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are not tracked. As a result, city officials cannot determine at a point in time what portion of the General Fund balance represents restricted monies.

Missouri Constitution, Article IV, Sections 30(a) and 30(b), requires motor vehicle-related revenues apportioned by the state of Missouri be expended for street related purposes. Section 488.5336.2, RSMo, requires LET and POST fees be used only for the training of law enforcement officers. By city ordinance, the public safety sales tax is restricted for equipment, salaries and benefits for police. Grant funds can only be used for purposes provided in the grant agreement. A separate accounting, with a current balance, would help ensure restricted revenues are accounted for and expended properly.

Recommendations

The Board of Aldermen:

- 6.1 Allocate administrative costs to city funds based on specific criteria and retain documentation to support the allocation.
- 6.2 Ensure disbursements from or allocated to the Electric and CWSS Funds are reasonable, supported by adequate documentation, and the documentation is retained.
- 6.3 Determine the balance of restricted monies in the General Fund and establish separate funds or a separate accounting for these monies, including the current balance.

Auditee's Response

- 6.1 *We will work with the City Administrator to develop a documented basis for allocating administration costs and will maintain documentation to support the allocations.*
- 6.2 *We will identify a reasonable cost structure for allocations to the Electric and CWSS Funds, supported by adequate documentation, which will be retained.*
- 6.3 *The Finance Director is in the process of developing methods to track these restricted balances and will provide this information to the Board of Alderman on a periodic basis in the future.*

7. Cash Handling Controls and Procedures

Significant improvements are needed in the handling of fees collected at the Finance Department, Municipal Court, Animal Shelter, Police Department, Airport, Utility Billing Department, Emergency Services (EMS) Department, and the Community Center. These types of receipts are at greater risk since there are numerous collection points throughout the city with a variety of handling and record-keeping methods. As a result of the numerous control weaknesses, there is less assurance all city monies have been handled and accounted for properly.



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7.1 Recording, receipting, and transmitting

We noted several concerns with the receipting, recording, and transmitting of city monies.

Accounting for receipt slips

The Finance Department does not account for all receipt slip numbers issued from the accounting system. Receipt slips are issued through the accounting system by the Finance Department, Municipal Court, and Utility Billing Department. The city's financial accounting system uses one numerical receipt slip sequence, even though receipt slips are issued at each of these cash collection locations, and each cash collection location can only access receipt slips issued at its location. The Finance Department, which has access to receipt reports for each of these cash collection points, does not account for the numerical sequence of receipt slips issued to ensure all monies are accounted for properly.

Community Center personnel issue receipt slips for the Parks and Recreation Department in an accounting system separate from the city's main accounting system. The numerical sequence of receipt slip numbers issued from this accounting system also are not accounted for properly.

Manual receipt slips

Manual receipt slips are issued at the Animal Shelter, Police Department, Airport, and EMS Department and monies collected are transmitted to the Finance Department for deposit. The procedures associated with these receipts need improvement.

- Manual receipt slip numbers are not accounted for at the Animal Shelter or EMS Department.
- The composition of receipts is not reconciled to the composition of transmittals by personnel at the Animal Shelter, Police Department, or EMS Departments.
- The Airport Manager issues receipt slips from an electronic template. The receipt slips are not prenumbered. In addition, he does not retain copies for airport records.
- The Utility Billing Department issues unnumbered manual receipt slips when the accounting system is unavailable. No review is performed to ensure these receipts are subsequently posted to the accounting system.

Transmitting

In addition to the problems already discussed, Animal Shelter personnel do not issue receipt slips for all monies received and do not always complete all information on the receipt slips including indicating the method of payment, the customer's name, or adoption number. Also, the method of payment and/or amount received on the receipt slip does not always agree with the transmittal report and receipts are not always transmitted intact or timely.



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We reviewed transmittals to the Finance Department from December 9, 2015, December 30, 2015, January 7, 2016, January 22, 2016, and February 3, 2016, and identified \$95 in cash from 3 receipt slips that could not be traced to a transmittal report. We also identified \$3,220 in cash and checks included on transmittal reports that could not be traced to a receipt slip. Many transmittal reports did not include names or receipt slip numbers associating the entries to a manual receipt.

The Finance Department does not compare the composition of receipt slips issued by the various departments within city hall (Finance, Utility Billing, and Municipal Court) to the composition of deposits. In addition, adequate documentation is not maintained to support the transmittal of monies between the various cash collection points outside of city hall to the Finance Department. The Animal Shelter does not provide copies of its transmittal reports and the Police and EMS Departments do not provide copies of their manual receipt slips to the Finance Department upon transmittal.

Conclusion

Failure to implement adequate receipting, recording, and transmitting and depositing procedures increases the risk that loss, theft, or misuse of monies received will go undetected.

7.2 Segregation of duties and oversight

The city does not have adequate personnel in most departments where monies are collected to segregate duties and adequate oversight of the transmittal process is not performed. The Animal Shelter, Police Department, Airport, and EMS Department all collect fees, issue receipt slips, and prepare transmittals that are sent to the Finance Department for deposit. Each department has from one to several employees who perform the receipting and transmittal preparation functions. None of these departments have procedures in place to ensure the amount collected agrees to the receipt slips issued and personnel in the Finance Department do not verify the composition of transmittals agrees to the composition of receipt slips issued by each department.

Proper segregation of duties helps ensure all transactions are accounted for properly and assets are adequately safeguarded. If proper segregation of duties is not possible, a timely supervisory review of work performed is necessary.

Recommendations

The Board of Aldermen:

- 7.1 Require the issuance of prenumbered receipt slips for all monies received and ensure all manual receipts slips are timely posted to the accounting system. In addition, account for the numerical sequence of receipt slips, deposit or transmit receipts intact and timely, and reconcile the composition of deposits and transmittals to the method of payment indicated on the receipt slips. Additionally,



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ensure adequate documentation is maintained to support the transmittal of monies.

- 7.2 Ensure the duties of receipting and transmitting/depositing monies are segregated or implement timely adequate supervisory reviews if duties cannot be appropriately segregated.

Auditee's Response

7.1&

- 7.2 *New procedures for issuing receipts and transmitting monies collected have already been implemented and procedures have been implemented for independent oversight of these functions by city staff.*

8. Sunshine Law and Statutory Compliance

The Board of Aldermen's procedures for complying with the Sunshine Law and maintaining minutes of meetings need improvement. The Board met in closed session 17 times during the year ended December 31, 2015. In addition, financial statements were not published as required by state law.

8.1 Closed meetings

The Board discussed some items in closed meetings that are not allowed by state law and sometimes discussed issues unrelated to the specific reason cited in the open minutes for going into a closed meeting. For example, in several closed meetings the Board discussed the recruitment procedures and qualification requirements for a new city administrator, which is not an allowable topic for a closed meeting. In addition, on more than one occasion the Board closed the meeting citing personnel as the reason for the closure, but instead reviewed proposals from recruiting firms being considered to assist the city in selecting a new city administrator, which would also not be an allowable topic.

Section 610.022, RSMo, limits discussions in closed meetings to only those specifically allowed by law and prohibits discussion of any business during the meeting that differs from the specific reasons used to justify such meeting, record, or vote.

8.2 Meeting minutes

The city does not ensure minutes of meetings are prepared timely and posted to its website. Minutes of open meetings of the Board are posted to the city's website, but we identified multiple dates where meetings were held, but no minutes posted. The City Clerk indicated she does not always prepare official minutes for meetings. The official minutes for the June 15, 2015, work session, open session, and closed session, and the June 29, 2015, special meeting were not prepared until April 2016, when we inquired why minutes for these meeting were not available on the website. We also identified several others dates where minutes were not available on the website because the City Clerk had failed to ensure they were posted timely.



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In addition, the Board does not review and approve closed meeting minutes. Closed meeting minutes are only signed by the City Clerk.

Section 610.020.7, RSMo, requires meeting minutes be maintained as a record of business conducted and to provide an official record of Board actions and decisions. The meeting minutes should be signed by the City Clerk as preparer and subsequently approved by the Board to provide an independent attestation that the minutes are a correct record of matters discussed and actions taken during meetings.

8.3 Financial statements

The city did not comply with state law regarding publishing financial statements. Semiannual financial statements were not published in a local newspaper for the 6 months ending June 30, 2014; December 31, 2014; and June 30, 2015.

Section 79.160, RSMo, requires the city prepare and publish semiannual financial statements in a local newspaper. Section 79.165, RSMo, states the treasurer of such city shall not pay out any money of the city on any warrant or order of the board of aldermen after the end of the month in which such financial statement should have been published until such time as such financial statement is published. Any treasurer violating the provisions of this section shall be deemed guilty of a class A misdemeanor.

Recommendations

The Board of Aldermen:

- 8.1 Ensure issues discussed in closed meetings are allowed by state law, and limit issues discussed in closed meetings to only those specific reasons cited for closing the meeting.
- 8.2 Ensure meeting minutes are prepared, approved, and posted to the city website timely for all open meetings.
- 8.3 Ensure financial statements are published as required by state law, and that no disbursements are made until the statement has been published.

Auditee's Response

- 8.1 *We agree and will work with our attorney to ensure closed meeting discussions are limited to those allowed by state law and those discussions are limited to the specific reasons cited for closing the meeting.*
- 8.2 *We agree and will ensure this is done in the future.*
- 8.3 *Since December 2015, our Finance Director has ensured that financial statements are published as required by state law.*



9. Accounting Controls and Procedures

Accounting controls and procedures need improvement.

9.1 Accounting manual

The city has not taken steps to correct an accounting control deficiency identified by its independent auditor and included in the audit of the city's comprehensive annual financial report (CAFR) the past several years. The auditor has repeatedly reported city personnel do not possess the ability or expertise to draft the year-end financial statements, supplementary information, and notes to the financial statements. As a result, these portions of the city's comprehensive annual financial report are drafted by the auditors from a trial balance and other documentation provided by city personnel.

In addition, the city does not have an accounting (policies and procedures) manual related to processing and recording financial transactions and thus, is not making all required accounting entries. An accounting manual would help city personnel properly record needed transactions and adjustments and prepare the financial statements and related disclosures without assistance from the auditors.

The city is responsible for establishing and maintaining internal controls and for the fair presentation of the financial statements, including notes to the financial statements. Failure to implement such controls allows for the possibility that material misstatement of the financial statements could occur and not be prevented or detected. Employees need written policies and procedures to ensure operations are conducted in accordance with the city's intent, assist them in properly performing assigned duties, and aid in the training of new employees. An accounting manual would also assist in the preparation of annual financial statements.

9.2 Delinquent accounts

The city has not developed written policies and procedures regarding handling and accounting for delinquent utility and EMS accounts. The city collected approximately \$16.7 million for utility services and approximately \$1.3 million for EMS services during the year ended December 31, 2015.

At our request the utility billing and EMS departments generated reports of delinquent accounts. As of March 2, 2016, 1,828 utility accounts, totaling \$590,102, were more than 60 days delinquent, including 964 accounts (totaling \$325,632) more than 5 years old. In addition, as of January 25, 2016, 3,980 emergency service accounts, totaling \$2,810,873, were over 120 days delinquent including 1,948 accounts (totaling \$1,440,232) more than 5 years old. City officials do not have a process to periodically review these reports and evaluate the likelihood of collection, and has not removed



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delinquent accounts from the utility system in many years or the emergency services billing system since 2009. As a result, many of the delinquent accounts listed are old and are likely uncollectible and the value of the reports are diminished.

We reviewed 21 delinquent utility accounts and noted 4 accounts, totaling \$3,442, have been delinquent over 60 days and were not sent to a collection agency until March 2016 when we inquired about collection efforts on these accounts. Utility billing department personnel indicated they sent no accounts to collections between August 2015 and March 2016 because the department was short a staff member and did not have the resources to perform this function.

To help maximize revenues, policies and procedures should be developed to ensure adequate steps are taken to collect delinquent accounts and to monitor delinquent balances.

Recommendations

The Board of Aldermen:

- 9.1 Develop an accounting policies and procedures manual.
- 9.2 Establish policies and procedures regarding the collection of delinquent accounts.

Auditee's Response

- 9.1 *We agree and will seek guidance from our independent auditor in developing such a policy.*
- 9.2 *We will review uncollectible amounts and will develop a policy for collection of outstanding balances.*

10. Capital Assets and Fuel Usage

Controls and procedures over city property and fuel usage need improvement.

10.1 Capital asset policies and procedures

The city has not developed procedures to identify capital assets purchases and dispositions throughout the year. City-owned capital assets including land, buildings, equipment, and other property were valued at approximately \$59 million at December 31, 2015.

City asset records are generally updated annually when physical inventories are performed in conjunction with the city's annual financial statement audit. The former City Clerk indicated if an item is no longer on hand during the physical inventory, it is assumed to have been disposed of and is removed by the department head. Approval of dispositions is not required. Performing physical inventories with incomplete asset listings does not ensure all assets are accounted for properly. In addition, the city has not



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tagged or otherwise identified most property items as belonging to the city. Assets acquired in the past 12 years have no tags affixed to them and older assets have tags affixed indicating ownership by the city, but the tag numbers are not included on city asset records.

Adequate capital asset records are necessary to secure better internal control over city property. Capital asset records should be maintained on a perpetual basis, accounting for property acquisitions and dispositions as they occur. Records should include a detailed description of the assets such as acquisition cost, descriptions, make and model numbers, and asset identification numbers; the physical location of the assets; and, the date and method of disposition of the assets. In addition, property control tags should be affixed to all property items to help improve accountability and ensure assets are properly identified as belonging to the city.

10.2 Vehicle and fuel usage The city's controls and procedures over fuel use and purchases within some city departments need improvement. The city utilizes a local gas station for fuel for its 93 vehicles and 51 pieces of equipment. City fuel purchases totaled \$133,850 during the year ended December 31, 2015. City policy does not require maintaining fuel and usage logs for city-owned vehicles and equipment and procedures for monitoring fuel usage are up to each department head. Logs are not maintained for vehicles and equipment at the airport, electric department, and city hall. In addition, a reconciliation of fuel purchased to usage is not performed at the Parks and Recreation, Public Works, Police, and EMS Departments where logs are maintained.

Failure to reconcile fuel used to fuel purchased and to maintain mileage logs or other mileage records could result in theft or misuse going undetected. Adequate procedures for monitoring fuel purchases, including mileage logs and comparison of mileage to fuel, are necessary to ensure the reasonableness of vehicle use and to prevent and detect theft and misuse of fuel.

Recommendations

The Board of Aldermen:

- 10.1 Ensure complete and detailed capital asset records are maintained on a perpetual basis, assets are properly tagged for identification, and annual physical inventories are performed and compared to detailed records.
- 10.2 Require usage and fuel logs to be maintained for all city vehicles and equipment. In addition, ensure a documented periodic reconciliation of fuel purchased to fuel used is performed, and investigate any significant discrepancies.



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Auditee's Response

- 10.1 *The Finance Director will develop a policy for updating capital asset records on a perpetual basis, tagging assets, and for conducting annual physical inventories.*
- 10.2 *We will require usage and fuel logs for all city vehicles and equipment. In addition, city staff will be required to document periodic reconciliation of fuel purchased to fuel used, and investigate any significant discrepancies.*

City of Harrisonville

Organization and Statistical Information

The City of Harrisonville is located in Cass County. The city was incorporated in 1851 and is currently a fourth-class city. The city employed 121 full-time employees and 163 part-time employees on December 31, 2015.

City operations include police and fire protection, emergency medical services (ambulance), utilities (electric, water and sewer, and refuse collection), airport services, street maintenance, economic development, and recreational facilities (pool, community center, and parks).

Mayor and Board of Aldermen

The city government consists of a mayor and 8-member board of aldermen. The members are elected for 4-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, 2015, are identified below. The Mayor is paid \$400 per month and Board of Aldermen members are paid \$200 per month. The compensation of these officials is established by ordinance.

Brian Hasek, Mayor
Stacey Dahlman, Alderwoman, Northeast Ward
Judy Bowman, Alderwoman, Northeast Ward
Morris Coburn, Alderman, Northwest Ward
Marcia Milner, Alderwoman, Northwest Ward
David Dickerson, Alderman, Southwest Ward
Clint Long, Alderman, Southwest Ward
Ivan Stull, Alderman and Board President, Southeast Ward
Josh Stafford, Alderman, Southeast Ward

Other Principal Officials

The City Administrator, City Clerk, Finance Director, Chief of Police, and Fire Chief are appointed positions. The City Attorney is a contracted position. The city's principal officials at December 31, 2015, are identified below:

Mike Tholen, Interim City Administrator (1)
Kim Hubbard, City Clerk (2)
Marcela McCoy, Finance Director
John Hofer, Chief of Police
Larry Francis, Fire Chief (3)
Steven E. Mauer, City Attorney (4)

(1) Mike Tholen was appointed Interim City Administrator in September 2015 when Kevin Moody resigned. Happy Welch was appointed City Administrator in December 2016 and Mike Tholen left his position in January 2017.

(2) Kim Hubbard resigned her position in December 2016 and this position is currently vacant.

(3) Larry Francis resigned his position in October 2016. Eric Meyler is currently serving as EMS Director.

(4) Steven Mauer resigned in August 2016 and John Fairfield was appointed City Attorney the same month.



City of Harrisonville
Organization and Statistical Information

Financial Activity

A summary of the city's financial activity for the year ended December 31, 2015, which was obtained from the City of Harrisonville Comprehensive Annual Financial Report, follows. Nonmajor governmental funds include the Park and Debt Service Funds. Nonmajor proprietary funds include the Aquatic Center and Refuse Funds. The Agency Fund accounts for the financial activity of the Highway 71/291 Partners in Progress Transportation Development District (TDD) and the Hospital Interchange TDD.

Appendix A

CITY OF HARRISONVILLE, MISSOURI
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCES (DEFICIT) - GOVERNMENTAL FUNDS
 YEAR ENDED DECEMBER 31, 2015

	General Fund	Sales Tax Fund	Community Center Fund	Towne Center TIF Fund	Emergency Services Fund	Nonmajor Funds	Total Governmental Funds
REVENUES							
Taxes							
Property	661,482			144,052		165,609	971,143
Sales	2,506,546	1,140,669		337,156	546,561		4,530,932
Franchise	1,904,019						1,904,019
Other	328,316					17,328	345,644
Licenses, fees, and permits	148,648						148,648
Charges for services	1,710,861		880,798		1,332,256	68,955	3,992,870
Grants	293,635						293,635
Fines and forfeitures	227,768						227,768
Interest	37,671	3,092	21	95		231	41,110
Proceeds from the sale of assets	11,300					3,300	14,600
Miscellaneous	86,364		34,029	66	31,871	14,510	166,840
Reimbursements	89,812						89,812
Total revenues	<u>8,006,422</u>	<u>1,143,761</u>	<u>914,848</u>	<u>481,369</u>	<u>1,910,688</u>	<u>269,933</u>	<u>12,727,021</u>
EXPENDITURES							
Current							
General Government	1,578,196						1,578,196
Administration of Justice	2,545,685						2,545,685
Street	759,010						759,010
Economic Development	431,365						431,365
Animal Control	194,045						194,045
Airport	177,497						177,497
Emergency Services					2,224,086		2,224,086
Park						463,685	463,685
Community Center			1,122,009				1,122,009
Towne Center Project				7,654			7,654

Appendix A

CITY OF HARRISONVILLE, MISSOURI
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES (DEFICIT) - GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2015

	General Fund	Sales Tax Fund	Community Center Fund	Towne Center TIF Fund	Emergency Services Fund	Nonmajor Funds	Total Governmental Funds
EXPENDITURES (Continued)							
Debt service							
Principal	42,726		22,610	300,000		665,000	1,030,336
Interest	10,308		3,637	333,719		152,813	500,477
Capital outlay	706,372					27,475	733,847
Total expenditures	<u>6,445,204</u>		<u>1,148,256</u>	<u>641,373</u>	<u>2,224,086</u>	<u>1,308,973</u>	<u>11,767,892</u>
REVENUES OVER (UNDER) EXPENDITURES BEFORE OTHER FINANCING SOURCES (USES)							
	<u>1,561,218</u>	<u>1,143,761</u>	<u>(233,408)</u>	<u>(160,004)</u>	<u>(313,398)</u>	<u>(1,039,040)</u>	<u>959,129</u>
OTHER FINANCING SOURCES (USES)							
Transfers in	251,158		228,000	224,000	755,880	1,392,238	2,851,276
Transfers out	(1,232,855)	(1,618,421)					(2,851,276)
Total other financing sources (uses)	<u>(981,697)</u>	<u>(1,618,421)</u>	<u>228,000</u>	<u>224,000</u>	<u>755,880</u>	<u>1,392,238</u>	
NET CHANGE IN FUND BALANCES	579,521	(474,660)	(5,408)	63,996	442,482	353,198	959,129
FUND BALANCES (DEFICIT),							
January 1, 2015	<u>5,083,745</u>	<u>583,785</u>	<u>110,060</u>	<u>858,111</u>	<u>(306,023)</u>	<u>60,830</u>	<u>6,390,508</u>
FUND BALANCES, December 31, 2015	<u>5,663,266</u>	<u>109,125</u>	<u>104,652</u>	<u>922,107</u>	<u>136,459</u>	<u>414,028</u>	<u>7,349,637</u>

The notes to the financial statements are an integral part of this statement.

Appendix B

CITY OF HARRISONVILLE, MISSOURI
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2015

	Electric Fund	Water/Sewer Fund	Nonmajor Enterprise Funds	Total
REVENUES				
Charges for services	<u>11,451,836</u>	<u>4,747,235</u>	<u>631,544</u>	<u>16,830,615</u>
EXPENSES				
Production		1,210,357		1,210,357
Distribution	8,170,812	630,421		8,801,233
Administration	2,441,232	879,976	654,973	3,976,181
Depreciation	299,906	914,560	87,585	1,302,051
Total expenses	<u>10,911,950</u>	<u>3,635,314</u>	<u>742,558</u>	<u>15,289,822</u>
INCOME (LOSS) FROM OPERATIONS	<u>539,886</u>	<u>1,111,921</u>	<u>(111,014)</u>	<u>1,540,793</u>
NONOPERATING INCOME (EXPENSE)				
Transfers out	(200,000)			(200,000)
Gain on sale of assets	22,000			22,000
Other income	79,785	52,086		131,871
Interest income	26,509	212,956	403	239,868
Interest expense	(57,838)	(318,285)		(376,123)
Total nonoperating income (expense)	<u>(129,544)</u>	<u>(53,243)</u>	<u>403</u>	<u>(182,384)</u>
INCOME (LOSS) BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	410,342	1,058,678	(110,611)	1,358,409
Capital grants and contributions	<u>91,811</u>			<u>91,811</u>
CHANGE IN NET POSITION	502,153	1,058,678	(110,611)	1,450,220
TOTAL NET POSITION, beginning of year (as restated)	<u>9,284,628</u>	<u>25,231,566</u>	<u>974,752</u>	<u>35,490,946</u>
TOTAL NET POSITION, end of year	<u>9,786,781</u>	<u>26,290,244</u>	<u>864,141</u>	<u>36,941,166</u>

The notes to the financial statements are an integral part of this statement.