



**CITY OF OAK GROVE, MISSOURI  
YEAR ENDED JUNE 30, 2001**

**From The Office Of State Auditor  
Claire McCaskill**

**Report No. 2002-17  
February 28, 2002  
[www.auditor.state.mo.us](http://www.auditor.state.mo.us)**

**AUDIT REPORT**



Office Of The  
State Auditor Of Missouri  
Claire McCaskill

February 2002

The following problems were discovered as a result of an audit conducted by our office of the City of Oak Grove, Missouri.

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The Oak Grove Development Foundation (the Foundation) was established to provide financing for city capital improvement projects and to vest in the city the ownership and control of those facilities; however, there has been a deviation from this purpose and a lack of accountability to the city. During the past several years, there has been much controversy involving city officials and the Foundation, centered on the funding and control of the Davis Memorial Center, a community building built by the Foundation in 1992-1993. This has resulted in various actions and litigation involving the city and the Foundation.

Based on our review of this situation, we identified various problems with past actions of the Foundation and/or former city officials. When the Foundation revised its By-Laws in December 1989, this effectively took the Foundation and its activities away from the control of city officials. Considering the stated purpose of the Foundation, the involvement by the city in the leasing of the facilities and issuance of the related bonds, and the extent of city funds expended through the leases, it is important that the city maintain control of the Foundation and ensure that it is accountable to the city. It was also noted the Foundation has not been in compliance with some provisions of the lease agreements with the city, some information was not disclosed to bondholders, and some information in the bond documents was not accurate. In addition, various deficiencies were noted in the Foundation's records and procedures.

Because of the city's involvement with the Foundation, past city officials share in the responsibility for many of the problems reported. We determined the city was justified in taking action to address some of the concerns noted and make the Foundation accountable to the city.

This situation has been very costly to the city. As of July 2001, the city had incurred legal expenses of approximately \$200,000, paid over \$500,000 in lease payments to the Foundation (since 1992), and was owed approximately \$158,000 from the two Foundation boards. It is important that the city resolve the situation and put this matter behind it. In December 2001, a settlement agreement was entered in by the various parties involved in the litigation related to the Foundation and the Davis Memorial Center. This agreement was subsequently approved by the Circuit Judge in January 2002.

The city has a lagoon system to treat its wastewater. In recent years, the Missouri Department of Natural Resources (DNR) has identified problems with this sewage treatment system. In an effort to address the problems noted, in 1999 the city hired a

(over)

YELLOW SHEET

consulting engineer to prepare a wastewater master plan. A bond issue to finance the plan was defeated by the city's voters in November 2000.

A recent DNR inspection concluded the overall operation and appearance of the facilities was unsatisfactory and if the city continues to grow, it would have to upgrade its facilities. As of August 2001, the DNR has prohibited new connections to the north lagoon and has limited new connections to the south lagoon. The city submitted a revised plan to DNR and put another bond issue on the November 2001 ballot to help finance this plan; however, it was also defeated.

Our review of the board's minutes disclosed formal written minutes are not prepared for all closed meetings. Currently, minutes are prepared only if a decision is made. In addition, some decisions made in closed meetings were not subsequently disclosed in the open meeting minutes.

The city allows police officers that live outside the city limits to take their city-owned patrol cars home daily at the end of their shifts. Allowing police officers living outside the city to take their patrol cars home is not a common practice, results in additional costs to the city, and any tangible benefits the city derives from this practice are not apparent. The city should review this policy.

The city allowed supervisory and professional employees to earn and accumulate a significant amount of compensatory time. At June 30, 2001, the city's liability for compensatory time totaled \$72,800 and over 75 percent of this related to hours accumulated by supervisory or professional staff. The city is not required to provide compensatory time to these employees, and by their nature, these employees should not necessarily receive overtime compensation or compensatory time if extra hours of work are required.

The city reimbursed the former City Administrator for miles driven in his personal vehicle commuting between his home and city hall. There was no documentation indicating these reimbursements were authorized and they were not properly reported as compensation for tax purposes.

Our review of police department procedures and activities disclosed various concerns. A \$500 cash bond collected by the police department is missing and it appears this money was not remitted to the municipal court. Also, the police department took various actions apparently contrary to the municipal judge's orders without getting documented approval from the judge. We noted instances in which the police department released defendants without collecting the required bond amount, reduced the bond amount established by the judge, closed a warrant issued by the judge without collecting the bond amount, or released a prisoner early from jail.

Also included in the audit are recommendations related to the calculation of sewer bills, the monitoring of sales tax collections, procurement and expenditure policies and procedures, and travel expenses. The audit also suggested improvements in the city's handling of restricted revenues, personnel matters, fixed asset records and procedures, and the municipal court.

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CITY OF OAK GROVE, MISSOURI

TABLE OF CONTENTS

		<u>Page</u>
STATE AUDITOR'S REPORT .....		1-3
MANAGEMENT ADVISORY REPORT - STATE AUDITOR'S FINDINGS .....		4-38
<u>Number</u>	<u>Description</u>	
1.	Oak Grove Development Foundation .....	5
2.	Benefits Provided to Officials/Employees .....	12
3.	Problems with Sewer System.....	15
4.	Expenditures .....	17
5.	Monitoring of Sales Tax Collections .....	21
6.	Minutes and Ordinances .....	21
7.	Water and Sewer Records and Procedures .....	24
8.	Restricted Revenues .....	26
9.	Police Department .....	28
10.	Municipal Court .....	31
11.	Personnel Policies .....	34
12.	Fixed Assets .....	35
13.	Park Department Receipts .....	38
HISTORY, ORGANIZATION, AND STATISTICAL INFORMATION.....		39-41

STATE AUDITOR'S REPORT



**CLAIRE C. McCASKILL**  
**Missouri State Auditor**

To the Honorable Mayor  
and  
Board of Aldermen  
City of Oak Grove, Missouri

The State Auditor was petitioned under Section 29.230, RSMo, to audit the city of Oak Grove, Missouri. The city had engaged Randall Fiene, Certified Public Accountant (CPA), to audit the city for the year ended June 30, 2001. To minimize any duplication of effort, we reviewed the report and substantiating working papers of the CPA firm. The scope of our audit of the city included, but was not limited to, the year ended June 30, 2001. The objectives of this audit were to:

1. Perform procedures to evaluate the petitioners' concerns.
2. Review compliance with certain legal provisions.
3. Review certain management practices.

Our audit was conducted in accordance with applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such procedures as we considered necessary in the circumstances. In this regard, we reviewed minutes of meetings, written policies, financial records, and other pertinent documents and interviewed various personnel of the city.

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

The accompanying History, 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 the audit of the city.

The accompanying Management Advisory Report presents our findings arising from our audit of the city of Oak Grove, Missouri.



Claire McCaskill  
State Auditor

August 16, 2001 (fieldwork completion date)

The following auditors participated in the preparation of this report:

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MANAGEMENT ADVISORY REPORT -  
STATE AUDITOR'S FINDINGS



CITY OF OAK GROVE, MISSOURI  
MANAGEMENT ADVISORY REPORT -  
STATE AUDITOR'S FINDINGS

<b>1.</b>	<b>Oak Grove Development Foundation</b>
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The Oak Grove Development Foundation (the Foundation) was established to provide financing for city capital improvement projects and to vest in the city the ownership and control of those facilities; however, there has been a deviation from this purpose and a lack of accountability to the city. Because of the city's involvement with the Foundation, past city officials share in the responsibility for the problems that have resulted. We determined city officials were justified in taking recent actions to address some of these concerns.

The Foundation is a not-for-profit corporation that has in past years served as a vehicle for financing various capital improvement projects for the city. The Foundation has issued revenue bonds and used the bond proceeds to construct various facilities for the city and/or to refinance previous bond issuances. The Foundation and the city have entered into lease agreements for these facilities, with the intent that the city will ultimately purchase the facilities from the Foundation through the lease payments. The lease payments have been structured to be sufficient to pay the Foundation's principal and interest payments on the bonds as they become due.

During the past several years, there has been much controversy involving city officials and the Foundation, centered on the funding and control of the Davis Memorial Center, a community building built by the Foundation in 1992-1993. This has resulted in various actions and litigation involving the city and the Foundation.

The following section provides some background information related to this situation.

**Background**

- March 1984  
A city resolution provided that if the citizens of Oak Grove approved a one-half cent transportation sales tax for street repair and maintenance, general funds of the city would be made available for financing a civic center and community swimming pool complex. In April 1984, the citizens of Oak Grove approved a one-half cent transportation sales tax.
  
- June 1984  
The Foundation was formed. Its Articles of Incorporation provide that the Foundation's purpose is "... to construct, improve, expand, ... or finance land, sites, buildings, facilities, furnishings, and equipment for ... the **benefit of the City** (emphasis added), ...", and the Foundation Board shall conduct the affairs of the Foundation "for the purpose of ultimately **vesting in the City the**

**ownership and operation** (emphasis added) of all land, sites, buildings, facilities, furnishings, and equipment ..."

The Board of Directors of the Foundation was to consist of seven directors, two permanent and five appointed. The permanent directors were designated as the Mayor and City Attorney, and the five appointed directors were to be nominated by the Mayor and approved by the Board of Aldermen. A member of the Board of Aldermen was to serve as one of the appointed directors. The Foundation's By-Laws provided the appointed directors were to serve one-year terms.

In September 1984, the Internal Revenue Service (IRS) recognized the Foundation as exempt from federal income tax. This status required the Foundation to meet certain federal and state laws/guidelines.

- September 1985  
The Foundation issued \$1 million in revenue bonds for the construction of the Civic Center and swimming pool complex. At the same time, the city entered into an agreement to lease the facilities from the Foundation.
- November 1989  
The Foundation issued \$1,375,000 in revenue bonds to refund the 1985 bonds and to provide additional funds for improvements to the Civic Center and for park improvements. The city entered into a new agreement to lease the facilities from the Foundation.
- December 1989  
The Foundation Board amended its By-Laws to provide that each appointed director would hold office continuously for an eight-year term. In addition, the By-Laws were amended to authorize the Foundation Board itself, rather than the city, to fill any vacancies.
- January 1991  
Mr. Devone Davis dies. Mr. Davis' trust agreement provided that the balance of his residuary estate was to go to the local Masonic lodge (the Masons) to be used for a new lodge hall. However, the trust provided that if the Masons disclaimed or renounced its interest in the estate for a new lodge hall, the residuary estate was to go to the Masons "to be used for the exclusive purpose of acquiring, constructing, erecting, equipping or furnishing a multi-purpose building which shall be used exclusively for charitable or educational purposes as a community center for the residents of the City of Oak Grove, Missouri".
- August 1991  
The Masons disclaimed/renounced their interest in the residuary estate of the Davis trust for a new lodge hall.

- December 1991

The Masons voted 1) to accept the bequest of the Davis trust for the purpose of constructing a community center for the residents of Oak Grove and to authorize the transfer of the Davis bequest to the Foundation for that purpose; 2) to ratify the creation of the Davis Memorial Center, Inc., a corporation established to facilitate the construction, maintenance and operation of the community center; 3) to enter into a lease with the Davis Memorial Center, Inc., for the use of the center for 100 years.
  
- March 1992

The Davis Memorial Center, Inc. was registered with the Secretary of State as a not-for-profit corporation. The Foundation entered into an agreement with the Davis Memorial Center, Inc. that gave this newly established entity control over the daily operations of the Davis Memorial Center.

The Davis Memorial Center, Inc. entered into a lease with the Masons that allowed that fraternal organization to use a portion of the Davis Memorial Center for 100 years.
  
- April 1992

The Foundation issued \$2,855,000 in revenue bonds to refund the 1989 bonds and to finance the Davis Memorial Center and the Emergency Services Building. The city entered into a new agreement to lease the facilities from the Foundation.

The Foundation Board adopted a resolution accepting the residuary estate of Mr. Davis and expressing its intent that the proceeds of the estate are available to supplement payment of principal and interest on the Foundation's 1992 revenue bonds (the portion of the bonds for the Davis Memorial Center). The city and the Foundation agreed to pay 67 and 33 percent of the bond principal and interest payments, respectively.
  
- March 1998

The Foundation issued \$3,215,000 in revenue bonds to refund the 1992 bonds. The city entered into a new agreement to lease the facilities from the Foundation.
  
- August 1999

The Board of Aldermen voted to have the City Administrator hire an attorney to serve as special legal counsel to the City Administrator and/or Board of Aldermen and to investigate and assist with the audit of the Foundation and related entities.
  
- January 2000

The attorney (Frank B. W. McCollum) hired to conduct the investigation/audit of the Foundation issued a preliminary report, which was subsequently followed by an updated preliminary report in June 2000. Those reports identified various problems involving the Foundation and the city's involvement with that entity. These included, but were not limited to, the following:

- 1) There was little accountability to the citizens and city regarding the expenditure of funds and operation of the Davis Memorial Center;
- 2) There was insufficient documentation to determine if the funds administered by the Foundation were appropriately expended;
- 3) Past city and Foundation officials had not properly carried out their fiduciary duties and responsibilities.

■ September 2000

The city appointed new directors for the Foundation. Previously, the city had requested the existing directors of the Foundation to resign and to turn over the Foundation's bank accounts and other records to the city. The original directors of the Foundation have refused to comply with the city's requests, have not recognized the new directors, and have retained control of the bank accounts and records.

■ January 2001

The city filed amended Articles of Incorporation for the Foundation with the Secretary of State. The permanent directors were identified as the Mayor and Chief Financial Officer of the city, and the five appointed directors shall be nominated by the Mayor and approved by the Board of Aldermen. Since the old Foundation Board refused to resign or relinquish control of its bank accounts and records, the newly-appointed board's activities have been very limited.

- During 1999 to 2001, various legal actions were taken involving the city, the Foundation, and other interested parties. This resulted in the city incurring a substantial amount of legal expenses. Currently, there is a lawsuit in the Circuit Court of Jackson County between the old directors and the newly-appointed directors of the Foundation. This suit is to determine which board represents the appropriate directors of the Foundation.

### **Problems Identified**

Based on our review of this situation, we identified various problems with past actions of the Foundation and/or former city officials as follows:

- ▶ When the Foundation revised its By-Laws in December 1989, this effectively took the Foundation and its activities away from the control of city officials. It is unclear to what extent past city officials were involved and/or aware of this action.

Considering the stated purpose of the Foundation, the involvement by the city in the leasing of the facilities and issuance of the related bonds, and the extent of city funds expended through the leases, it is important that the city maintain control of the Foundation and ensure that it is accountable to the city.

- ▶ The Foundation has not been in compliance with some provisions of the lease agreements with the city that were entered into in conjunction with the 1992 and 1998 bond issuances. In addition, some information was not disclosed to bondholders and some information in the bond documents was not accurate.

The lease agreements between the Foundation and the city provided the city was to be the sole lessee of the buildings and gave the city the right to use the buildings for "such public use" as it desired. However, the city has never had clear and unrestricted use of the Davis Memorial Center as indicated in the lease agreements. As discussed above, the Foundation entered into an agreement with the Davis Memorial Center, Inc., giving that entity exclusive control over the use and operation of that facility.

The fact that the city would not have control and use of the Davis Memorial Center was not conveyed to the bondholders. In addition, the Foundation did not disclose to the bondholders the agreement between the Foundation and the Davis Memorial Center, Inc., nor the 100-year lease between the Davis Memorial Center, Inc. and the Masons.

In addition, the bond documents contained incorrect information regarding the terms and appointment of the directors of the Foundation. Those statements indicated the directors would be nominated by the Mayor and approved by the Board of Aldermen, with appointed members serving one-year terms (as was provided in the original By-Laws of the Foundation).

Both the Foundation and the city had a responsibility to ensure the terms of the lease agreements were complied with. In addition, the Foundation and the city had an obligation to the bondholders to ensure the bond documents contained complete and accurate information.

- ▶ Since the Foundation has been given tax-exempt status by the IRS, the interest paid to bondholders has not been considered taxable income to those individuals/entities. However, because the Foundation effectively turned over control of the Davis Memorial Center to an entity (the Davis Memorial Center, Inc.) other than the city, and because a private entity (the Masons) occupies permanent space in the center, it is possible the Foundation has jeopardized its tax-exempt status and the tax-exempt status of its revenue bonds.
- ▶ In December 1992, the Foundation purchased property for \$235,000 for the local school district. The debt related to this purchase is being repaid from lease payments from the school district.

Since the purpose of the Foundation is to finance and build facilities that will vest with the city of Oak Grove, this was a questionable transaction and may be outside the scope of Foundation authorized activities.

During our audit, we requested the Foundation to provide its records for our review. We noted several additional problems based on that review. The majority of the records made available to us related to the construction of the Davis Memorial Center and the Emergency Services Building from the 1992 bond proceeds. Records of activity prior to that time could not be readily located. We noted the following deficiencies in the Foundation's records/procedures:

- ▶ The Foundation's oversight and supporting records of the construction of the Davis Memorial Center and the Emergency Services Building were not adequate, and there was not adequate evidence to assure that applicable state laws and/or good management practices were followed.

Any competitive bids obtained related to the construction of these facilities were not adequately documented. In addition, there was not adequate documentation maintained to indicate the services of the architect, surveyor, and construction manager were procured in accordance with state law. Further, written contracts were not entered into for at least some of the services procured and there was no documentation to indicate the prevailing wage rate was paid, as required.

Competitive bidding procedures for major construction projects provide a framework for the economical management of resources and help ensure that fair value is received by contracting with the lowest and best bidders. Chapter 8, RSMo, requires that contracts for architectural, engineering and land surveying services be procured on the basis of competence and qualifications and at a fair and reasonable price. In addition, Sections 290.210 to 290.340, RSMo 2000, provide that prevailing wages be paid on public projects. Written agreements are necessary to document each party's duties and responsibilities and to prevent misunderstandings.

- ▶ The Foundation records did not always include written appraisals to support the sale or purchase of property. Without proper appraisals to support real estate transactions, it is uncertain whether fair value is given or received for properties.
- ▶ The Foundation's accounting records and expenditure documentation were not complete and/or adequate and did not properly account for the monies received and disbursed.

Various deficiencies were noted including: 1) not all bank statements were available for all accounts; 2) some deposits were not recorded in the check register; 3) a balance was not maintained in the check register; 4) the bank statements were not reconciled to the check register; 5) many vendor invoices did not adequately indicate the goods and/or services provided or to which building the goods/services pertained.

Some of the problems noted above were also disclosed in the reports issued in 2000 by the attorney (McCollum) hired by the city to audit/investigate the Foundation.

## **Recent Developments**

In June 2001, the city's Board of Aldermen authorized the issuance of Certificates of Participation not to exceed \$2,500,000, and exercised its option to purchase the Civic Center/Pool Complex from the Foundation. In addition, the city canceled the lease with the Foundation regarding the Davis Memorial Center, putting the related revenue bonds in default. According to city officials, it is the city's intent to disassociate itself with the Davis Memorial Center and the Foundation.

## **Summary and Conclusions**

Considering the Foundation was established to provide financing for city capital improvement projects and to vest in the city the ownership and control of those facilities, it is apparent there has been a deviation from that purpose and there has been a lack of accountability to the city. Because of the city's involvement with the Foundation, past city officials share in the responsibility for many of the problems reported in this finding.

The city took various actions to address some of the concerns noted and make the Foundation accountable to the city; however, this situation has been very costly. As of July 2001, the city had incurred legal expenses of approximately \$200,000 (including the costs of the McCollum audit/investigation), paid over \$500,000 in lease payments to the Foundation (since 1992), and was owed approximately \$158,000 from the two Foundation boards. It is important the city resolve the current situation and put this matter behind it.

**WE RECOMMEND** the Board of Aldermen continue its efforts to resolve the current situation regarding the Foundation and the Davis Memorial Center. In the future, if the city enters into a similar financing arrangement with the Foundation or some similar entity, the city should ensure it maintains proper control and oversight over that entity and ensure any agreements or bond documents are complied with and accurately reflect the circumstances of the arrangement.

## **AUDITEE'S RESPONSE**

*The Board of Aldermen concurs and has taken appropriate action.*

## **AUDITOR'S COMMENT**

In December 2001, the various parties involved in the litigation related to the Foundation and the Davis Memorial Center entered into a settlement agreement. This agreement was subsequently approved by the Circuit Judge in early January 2002.

Among the matters included in the settlement, it was agreed the title of the Davis Memorial Center will be conveyed to the Oak Grove Senior Citizens, Inc., a not-for-profit corporation established to operate programs for senior citizens in the city, and the title of the Civic Center is to be conveyed to the city. In addition, it was agreed the city would authorize the bond trustee

to release \$2,040,000, plus accrued interest, from the Certificate of Participation proceeds for the payment of amounts due under the bond indentures. Further, the city agreed to pay an additional \$137,500 to the bond trustee to be applied to the payment of amounts due under the bond indentures. The agreement also provided that actions would be taken to dissolve the Foundation as a corporate entity.

<b>2. Benefits Provided to Officials/Employees</b>
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- A. The city allows police officers that live outside the city limits to take their city-owned patrol cars home daily at the end of their shifts.

Since the establishment of the city's Police Department, the police officers have been allowed to drive their patrol cars home. Because the city's current personnel policy allows city employees to live outside the city limits (within ten miles of city hall), this has resulted in some police officers, who live outside city limits, driving their patrol cars to their residences daily.

While there has been much debate and controversy in the city over this issue, the Board of Aldermen has decided to allow police officers living outside the city to continue to take their patrol cars home. Some reasons cited for this decision include: 1) the relatively low pay of officers; 2) officers were advised that this was a perquisite when they were hired; 3) problems with storing un-manned patrol cars; and 4) better care and accountability for the patrol cars.

It is a common practice for municipalities to allow its police officers to drive their patrol cars home when they live within the city. It is believed the additional costs incurred by this practice are offset by the benefits of the increased visibility of law enforcement in the community and the ability of officers to respond quickly to emergency calls. However, allowing police officers living outside the city to take their patrol cars home is not a common practice, results in additional costs to the city, and any tangible benefits the city derives from this practice are not apparent.

The city should review the current policy. If police officers were hired with the understanding that they would be allowed this perquisite regardless of whether they live in the city, the board may want to apply any revised policy to future hires.

- B. The city has allowed supervisory and professional employees to earn and accumulate a significant amount of compensatory time, resulting in a significant liability to the city.

At June 30, 2001, the city's liability for compensatory time totaled approximately \$72,800, and over 75 percent of this liability related to hours accumulated by supervisory and/or professional staff. At that date, approximately \$31,250 (43 percent) of the total, representing 910 hours of compensatory time, had been



earned and accumulated by former City Administrator Frasher since July 1999. When that official resigned in August 2001, the city paid him over \$31,800 in accumulated compensatory time. All employees have been allowed to earn compensatory time at time and one-half.

The city's overtime compensation policy provides that overtime work "should be avoided" and that generally professional and supervisory positions are exempt from the requirements of the Fair Labor Standards Act (FLSA). However, the policy allows the city administrator to "occasionally" authorize overtime beyond the scope of the FLSA.

It is apparent the city has not adequately monitored the amount of compensatory time earned and accumulated by its supervisory and professional employees. As noted above, these positions are exempt from FLSA requirements and by their nature should not necessarily receive overtime compensation or compensatory time if extra hours of work are required. The city should reevaluate its overtime policy and take steps to restrict and monitor the amount of compensatory time earned by its supervisory and professional employees.

- C.1. The city reimbursed former City Administrator Frasher for miles driven in his personal vehicle commuting between his home and city hall. There was no documentation indicating these reimbursements were authorized and they were not properly reported as compensation for tax purposes. In addition, there was no indication the former City Administrator's mileage or expense reimbursement claims were reviewed and approved by an appropriate official.

Although the city paid a previous City Administrator a monthly mileage allowance, we saw no indication a mileage allowance was authorized or paid to former City Administrator Frasher. Based on the mileage logs maintained by former City Administrator Frasher, we determined he was reimbursed approximately \$975 for mileage driven between his home and city hall for personal travel between August 1999 and May 2001.

While former City Administrator Frasher indicated these reimbursements were provided in his employment contract, we determined such reimbursements were not specifically authorized in the contract. The employment contract only provided that he would receive mileage reimbursements for reasonable travel expenses. It should be noted that no other current city employee received similar mileage reimbursements.

The city should ensure any mileage allowance or mileage reimbursements to be paid to the city administrator are authorized in the employment contract. Any mileage payments/reimbursements that are personal in nature should be reported as taxable income. In addition, the city administrator's mileage or expense reimbursement claims should be reviewed and approved by the Mayor or some other appropriate official.

2. The city is not reporting the value of personal automobile (commuting) use in city vehicles as compensation, if applicable. Federal regulations require all employers to withhold payroll taxes and include the value of personal automobile (commuting) use in taxable income. The Internal Revenue Service (IRS) provides several methods to determine automobile commuting values. Certain vehicles, such as police cars and other emergency vehicles, are exempted from these requirements.

The city allows some public works employees and the park director to drive city vehicles home. It appears there may be tax consequences for these individuals. The city should ensure that commuting use in city vehicles is properly reported as taxable income and payroll taxes withheld for the applicable employees.

3. Monthly mileage allowances paid to elected city officials were not included on their W-2 forms as compensation.

The Mayor and aldermen receive monthly mileage allowances of \$30 and \$20, respectively, to offset mileage driven by those individuals to attend meetings and participate in other city business. These city officials have not been required to account for the actual miles driven on city business or document the actual expenditures incurred.

IRS Regulation Sections 1.62-2 and 31.3401(a)-4 specifically require business expenses not accounted for to be considered gross income and that payroll taxes be withheld from the undocumented payments.

**WE RECOMMEND** the Board of Aldermen:

- A. Review the policy of allowing police officers living outside the city limits to take their police cars home.
- B. Reevaluate its overtime policy and take steps to restrict and monitor the amount of compensatory time earned by its supervisory and professional employees.

- C.1. Ensure that any mileage allowance or mileage reimbursements paid to the city administrator are authorized in the employment contract. Any mileage payments/reimbursements that are personal in nature should be reported as taxable income. In addition, the city administrator's mileage or expense reimbursement claims should be reviewed and approved by the Mayor or some other appropriate official.
- 2. Ensure that commuting use in city vehicles is reported as taxable income and payroll taxes withheld for the applicable employees.
- 3. Ensure any mileage allowances paid to the city's elected officials that are not accounted for to the city be reported as gross income and payroll taxes be withheld from these payments.

**AUDITEE'S RESPONSE**

- A. *The Board of Aldermen indicated it will take this recommendation under consideration.*
- B. *The Board of Aldermen concurs and indicated action has already been taken to implement this recommendation.*

*Former City Administrator Frasher provided the following response:*

*During the past year and a half of my administration I repeatedly recommended to the Oak Grove Mayor and Board of Aldermen, both orally and in writing, that the City revise its outdated personnel manual to clarify limitations on compensatory time accumulations. I also periodically informed the Mayor and the Board, orally and in writing, about my individual compensatory time accumulations as a contract employee.*

*The management and the elected officials of Oak Grove were informed and concerned about compensatory time accumulations and had undertaken remedial action.*

- C.1. *The Board of Aldermen concurs and indicated steps have been taken to address this matter.*
- 2&3. *The Board of Aldermen concurs, will investigate, and comply with any IRS requirements.*

<b>3.</b>	<b>Problems With Sewer System</b>
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The city currently has a lagoon system to treat its wastewater. For several years, the Missouri Department of Natural Resources (DNR) has identified problems with this sewage treatment system and that agency has concluded the city's sewage lagoons either need to be upgraded or replaced. Although the city has spent a considerable amount of time and money discussing and studying the problems of its sewer system, the city has

made little tangible progress toward a solution. In addition, sewer rates have not been reviewed and revised on a periodic basis.

In July 1998, the DNR conducted an inspection of the city's wastewater treatment facilities and reported problems with both the north and south lagoons. That inspection report indicated that effluent violations (the level of contaminants in the water discharged from the system) had occurred in the preceding twelve months. That inspection reported the north lagoon was approximately 25 years old and was nearing the end of its usefulness and there were indications that lagoon had reached its treatment capacity. Similar concerns were reported regarding the south lagoon.

In an effort to address these problems, in 1999 the city hired a consulting engineer to prepare a wastewater master plan. This plan proposed the construction of a mechanical treatment plant and various other upgrades, as a long-term solution to the city's sewer needs. However, an \$8.8 million bond issue to finance this plan was defeated by the city's voters in November 2000.

In January 2001, the DNR conducted another inspection of the city's sewage treatment facilities and again noted significant problems with the city's sewage lagoons. Effluent violations were again reported and that inspection concluded the overall operation and appearance of the facilities was unsatisfactory and if the city continues to grow, it would have to upgrade its facilities. As of early August 2001, the city has discussed various less expensive options; however, no decision had been made to address the sewer problems.

During our discussions with DNR officials, they indicated the city could face additional future problems. To comply with the Federal Clean Water Act, the city will have to meet even more stringent wastewater limits than are currently required. They indicated it was unlikely the current lagoon system would meet the new limits. In addition, DNR officials indicated the city has not periodically reevaluated and raised its sewer charges to properly maintain its system. Until recently (effective June 2001), the city had not raised its sewer rates since 1991. The most recent rate increase was supported by a study conducted by an engineering firm that concluded additional revenues were needed to finance improvements to the existing utility system.

As of August 2001, the DNR has prohibited new connections to the north lagoon and has limited new connections to the south lagoon. According to DNR personnel, the city needs to make a decision soon. Once a decision is made, it could take up to three years to go through the DNR's review process and to build and get a new system operational. City officials indicated the city has submitted a revised plan, which provides for a mechanical plant, to DNR for review. To help finance this plan, the city put another bond issue on the November 2001 ballot; however, it was also defeated.

**WE RECOMMEND** the Board of Aldermen continue to work with the DNR regarding the upgrading and/or replacement of the sewer system. In addition, the city should review and revise, if necessary, its sewer rates on a periodic basis to ensure sufficient revenues are generated to adequately maintain the sewer system.

## **AUDITEE'S RESPONSE**

*The Board of Aldermen concurs and indicated it will make every effort within its power to address this situation.*

**4.**

### **Expenditures**

- A. The city's procurement and expenditure approval policies and procedures need to be improved.

A city ordinance provides that expenditures in excess of \$1,500 (except in the case of an emergency) should be based on public bids. That ordinance indicates bids are considered public if the bid solicitation is made in one newspaper of general circulation. However, the city is not following this policy. According to city officials, the city advertises for bids only in the case of very large expenditures, such as construction projects. An informal policy has been established that authorizes supervisors to approve purchases up to \$500 without quotes being solicited. For any purchases over \$500, three quotes must be obtained, if possible. Any purchases over \$500 to \$1,500 must be pre-approved by the city administrator and/or finance director; and the Board of Aldermen must approve purchases over \$1,500.

Besides the formal policy not being followed, we determined the informal policy was also not being consistently followed. Quotes were not always obtained or documented for purchases as required. Examples included expenditures for printing, totaling \$1,906; radios for city vehicles, totaling \$853; copier/fax, totaling \$858; and a computer, totaling \$1,115. In addition, the reason why a bid other than the low bid was selected was not always documented. For example, we noted purchases of office furniture and a copier costing \$18,030 and \$8,475, respectively, that were not the low bids, but the reasons for not selecting the low bids were not documented. Further, a purchase order indicating approval and/or pre-approval was not always available and we did not see board approval in the minutes for several purchases over \$1,500.

The city needs to formalize its current procurement and expenditure approval procedures and then ensure those procedures are followed. Bids or quotes should be obtained, as required and proper documentation of this should be maintained. If a bid other than the lowest bid is selected, the reason should be documented. In addition, the approval of expenditures should be properly documented.

- B. Various concerns were noted regarding the procurement and contracting of professional services.

1. The city has hired a private engineering firm to perform much of the engineering services needed by the city. Payments to this firm totaled

approximately \$164,000 and \$176,000 during the years ended June 30, 2000 and 2001, respectively. This firm has provided engineering services for many years, and according to city personnel, proposals from other firms for these engineering services have not been requested during this period.

This engineering firm has designated one of its employees to serve as the "City Engineer" for the city and provides services by other individuals as needed. The firm periodically provides the city a revised schedule of hourly rates; however, the most recent contract between the firm and the city dates back to December 1989.

In addition to general services, the firm also prepared a wastewater master plan, water and wastewater rate studies, and services related to zoning and utility mapping and wastewater sludge removal. The city did not solicit proposals for any of these engineering services.

The city should periodically reevaluate the engineering services provided to the city and solicit proposals from other engineering firms. In addition, Sections 8.285 to 8.291, RSMo 2000, provide that when obtaining engineering services, at least three highly qualified firms should be considered. The firms should be evaluated based on specified criteria and qualifications for the type of service required as well as the fees being charged.

2. According to city officials, the city requests proposals for various professional services such as accounting, legal, engineering (other than provided by the contracted city engineer), and consultants. However, instances were noted in which adequate documentation was not maintained to identify the various proposals received by the city.

During the two years ended June 30, 2001, the city hired a city attorney, prosecuting attorney, a municipal judge, special legal counsel, and consultants for various projects. Adequate documentation was not maintained to identify the various proposals received and the other individuals/firms considered for these services.

Adequate documentation should be maintained to identify any proposals received for professional services. The best proposal should be selected based on cost, experience, type of service to be provided, and any other relevant information.

3. The prior City Attorney served through June 2000; however, his most recent contract with the city dated back to 1992 and it had not been amended to reflect changes in the hourly fee being charged for his services. The contract provided for the attorney to be paid fees at a rate of \$60 per hour; however, during 2000 the city was being charged fees at a rate of \$90 per hour.

The city needs to ensure contracts for professional services are updated on a periodic basis and that any fees or payments made are in accordance with the contracts.

- C. Instances were noted where the city's policy regarding travel expenses was not complied with. In addition, some questionable expenses were reimbursed.

The city's policy provides a limit of \$24 per day for meals, except for the Missouri Municipal League meetings, for which actual expense is reimbursed. We noted a few instances where the meal allowance as provided by the personnel policy was exceeded. These instances occurred when the applicable employees traveled out-of-state for training/conferences. In addition, we noted a few instances where the cost of alcoholic beverages were claimed by employees and reimbursed by the city. The city's policy currently has no provision indicating whether such costs should be reimbursed with city funds. In the governmental sector, the payment of public funds for the purchase of alcohol is generally prohibited.

The city should review its policy regarding the reimbursement of business travel expenses. In addition, any established daily meal limits should be followed.

- D. The city has not developed a formal written policy regarding cellular phone usage. The city has nine cellular phones issued to various employees. The employees who are assigned the phones are not required to review and approve the monthly bills and identify any personal use.

While cellular phones can help increase employee productivity, they are also costly. A formal written policy is needed regarding cellular phones. Such a policy should address which employees need a cellular phone, proper use of the phone, and a review and authorization process. The city should prohibit the personal use of the cellular phones, except in cases of emergency. In addition, proper internal controls require that expenditures are reviewed and authorized before payment.

- E. The city purchases turkeys and hams for city employees at Thanksgiving and Christmas, respectively. In calendar year 2000, the city spent over \$1,300 for these items.

These disbursements do not appear to be a necessary and prudent use of public funds.

**WE RECOMMEND** the Board of Aldermen:

- A. Review and formalize its current procurement and expenditure approval procedures and ensure those procedures are followed. Bids or quotes should be obtained, as required, and proper documentation of this should be maintained. If a bid other than the lowest bid is selected, the reason should be documented. In addition, approval of expenditures should be properly documented.
- B. Ensure proposals are solicited for professional services, including engineering services, and maintain adequate documentation of the various proposals received. The best proposal should be selected based on cost, experience, type of service to be provided, and any other relevant information. In addition, written contracts related to these services should be updated on a periodic basis and the fees charged should be in accordance with the contracts.
- C. Review and consider revising the city's policy regarding the reimbursement of business travel expenses. In addition, any established daily meal limits should be followed.
- D. Develop a formal written policy regarding the use of cellular phones, including a provision limiting their personal use. In addition, the related bills should be reviewed by the user before payment and any personal usage should be identified and reimbursed by the employee.
- E. Ensure expenditures are limited to those necessary to operate the city. The board should refrain from expending city monies in a manner that primarily benefits individuals.

**AUDITEE'S RESPONSE**

- A. *The Board of Aldermen concurs, will reevaluate the current procurement policy, and take appropriate action.*
- B-E. *The Board of Aldermen concurs and will take appropriate action.*



**5.****Monitoring of Sales Tax Collections**

The city has not reviewed and compared sales tax information available from the Department of Revenue (DOR) to city businesses on a periodic basis. As a result, when sales taxes remitted by a local business to the DOR were sent to another municipality in error, this situation was not detected on a timely basis.

From May 1997 to December 2000, a business located in the city of Oak Grove remitted sales tax collections to the DOR, which were sent in error to the village of Oak Grove (in Franklin County). The city discovered this problem in early 2001. According to city officials, after questions were raised about the amount of sales tax revenues generated at the business, the city requested available sales information from the DOR. When the information was reviewed and analyzed, city officials discovered the city was not receiving sales taxes from the business. After discussions with the DOR, it was determined the sales tax revenue had been sent to the applicable village by mistake. The city subsequently received the related sales tax revenues from the DOR in May 2001.

Sales tax collections represent a major source of revenues for the city. Considering this, and the growth occurring in the city, sales tax collections should be closely monitored. Sales tax information should be obtained from the DOR on a periodic basis and compared to businesses established in the city to ensure the city is receiving proper credit for the applicable sales taxes remitted by those businesses. According to DOR officials, various reports with local sales tax data are available at minimal or no cost to the city.

**WE RECOMMEND** the Board of Aldermen ensure that sales tax information is obtained from the DOR on a periodic basis and compared to businesses established in the city.

**AUDITEE'S RESPONSE**

*The Board of Aldermen concurs and will take additional appropriate action to the extent reasonable.*

**6.****Minutes and Ordinances**

- A. The Board of Aldermen generally meets twice a month. Our review of the board minutes disclosed the following concerns:
1. Formal written minutes are not prepared for all closed meetings. Currently, minutes are prepared only if a decision is made. In previous years, minutes were not generally maintained for any closed meetings. Because of this, we noted a lawsuit filed by the city in October 1999 was dismissed by the court in March 2000 because the authorization for the lawsuit was not recorded in the minutes.

Although minutes for closed meetings are not specifically required by law, minutes constitute the record of proceedings of the Board of Aldermen. Formal written minutes for closed meetings result in a better record of city transactions, proceedings, and decisions. In addition, such minutes provide evidence that any discussions or business conducted in closed meetings pertains to matters authorized by the Sunshine Law, Chapter 610, RSMo.

2. Some decisions made in closed meetings were not subsequently disclosed in the open meeting minutes. For example, we noted the decision to reinstate a police officer in May 2001 and the settlement of a lawsuit in November 2000 were not disclosed in the minutes.

Section 610.021, RSMo 2000, allows the board to close meetings to the extent the meetings relate to certain specified subjects, including litigation, real estate transactions, and personnel issues; however, the statute requires certain matters discussed in closed meetings to be made public upon final disposition. It appears the decisions noted above should have been disclosed in the open meeting minutes.

3. The board's open meeting minutes do not always include sufficient detail of matters discussed, why actions were taken, and/or disclosures made by officials. For example, the city changed its sick leave policy in March 2001. While this decision was noted in the minutes, the minutes did not include the reason(s) for the change, comments made by the various aldermen and/or an indication of the cost of the change. In addition, in January 2001, during discussions regarding a road extension, the Mayor acknowledged he owned property south of the area under consideration. This disclosure and the related discussion were not recorded in the minutes.

The minutes represent the official record of discussions held and actions taken at the meetings of the city's Board of Aldermen. Therefore, it is important the minutes are complete and accurate.

4. The board minutes prepared by the City Clerk are not always signed by both the City Clerk and Mayor. The minutes should be signed by the City Clerk as preparer and by the Mayor to provide an independent attestation the minutes are a correct record of the matters discussed and actions taken during the board's meetings.

- B. The city needs to codify its ordinances. The individual ordinances maintained by the City Clerk date back to when the city was originally established. In addition, while a summary list of the ordinances is maintained, this list does not always indicate when an ordinance has been repealed or superseded by a subsequent

ordinance. As a result, it is difficult to determine which city ordinances are currently in effect.

Since the ordinances represent legislation passed by the Board of Aldermen to govern the city and its residents, it is important the city's ordinances be maintained in a complete, well-organized, and up-to-date manner.

- C. The city has not incorporated recent changes to Chapter 610, RSM0 2000, the Sunshine Law, in its ordinances. The city's current ordinance related to compliance with Chapter 610, including access to city records, has not been updated since 1988. For example, the city ordinance does not include all reasons to close meetings, records, and votes, such as confidential communications with auditors.

The city needs to update its ordinance related to the Sunshine Law to ensure compliance with state law.

**WE RECOMMEND** the Board of Aldermen:

- A.1. Ensure minutes are prepared for all closed meetings.
  - 2. Ensure decisions reached in closed meetings are subsequently disclosed in the open meeting minutes.
  - 3. Ensure the open meeting minutes are complete and accurate. All significant discussions, decisions by the board, and disclosures by city officials should be reflected in the minutes.
  - 4. Require the City Clerk and Mayor to sign the board minutes to attest to their accuracy and completeness.
- B. Take action to ensure the city ordinances are codified.
- C. Update the city ordinance related to the Sunshine Law to ensure compliance with state law.

**AUDITEE'S RESPONSE**

*A.1-4. The Board of Aldermen concurs and indicated it will make every effort to comply with all provisions of the Sunshine Law.*

*B&C. The Board of Aldermen concurs and indicated it has already begun or taken corrective action.*

- A. In March 2001, the city approved a new rate structure and schedule of charges for water and sewer service, which became effective June 2001. We noted problems with the manner in which some sewer bills have been calculated under the new rate structure.

The new sewer rate structure for residential customers is based on the average water usage for the months of December 2000 through February 2001 (average winter consumption). The monthly sewer billings for the next 12 months are then based on this computed average, until the next average winter consumption amount is computed. During our review of some individual sewer accounts, we noted several instances in which the sewer bills were based on amounts that did not reflect actual water usage. This situation occurred because some of the usage amounts used in the calculations were based on estimates and not actual meter readings. For example, in one instance a customer's sewer charge was based on monthly water usage of 37,900 gallons, 12,280 gallons, and 5,380 gallons in December 2000 to February 2001, respectively. Based on a review of the monthly water consumption of this customer, it was apparent these amounts did not reflect the actual usage in those three months. In this, and other instances noted, it appears the sewer billings were too high.

It is not unusual for municipalities to base some utility billings on estimated readings. However, since the next 12 months of sewer billings are based on the average winter consumption of water, it is important that the usage for this 3-month period is based on actual meter readings. The city should review the usage history of its various sewer customers and identify those for which the average winter consumption appears unreasonable. For those customers, the average winter consumption amount should be recalculated and the sewer billings adjusted accordingly. In the future, the city should ensure the average winter consumption calculations are based on actual usage readings.

- B. The city does not reconcile month-end customer accounts receivable listings to beginning accounts receivable, plus monthly billings, less total utility payments and adjustments. Monthly reconciliations are necessary to ensure that all accounting records balance, transactions have been properly recorded, and any errors or discrepancies are detected on a timely basis. Complete documentation of these reconciliations should be retained to support conclusions and any corrections made, and to facilitate independent reviews.
- C. The Water Clerk maintains a spreadsheet that compares the total gallons of water billed to customers to the gallons of water purchased on a monthly basis. However, this comparison is not used to identify and investigate significant differences between the amount of water billed and the amount of water purchased.

Based on this spreadsheet, from July 2000 to June 2001 the total gallons of water purchased exceeded total gallons billed by over 47 million gallons, or approximately 20 percent. While some of the unbilled usage relates to water usage in non-metered city owned buildings, fire hydrants, or usage by the local fire district, the differences could be the result of significant water losses or unauthorized usage.

To help detect significant water losses on a timely basis and to help ensure all water usage is properly billed, the city should reconcile the total gallons of water purchased to the total gallons of water billed on a monthly basis and investigate any significant differences. The Public Service Commission generally recommends such differences be investigated if unbilled water usage exceeds 15 percent.

- D. A report of refundable water deposits is not reconciled periodically to deposits and refunds. In addition, a general ledger liability account for utility deposits has not been established.

The city collects refundable water deposits, which are currently \$100 for residential customers and a minimum of \$100 for commercial customers. These monies are deposited in the Water and Sewer Fund and entered on the utility computerized accounting system. As of August 2001, the city was holding approximately \$72,000 in water deposits.

A report of water deposits should be generated periodically and be reconciled to deposit and refund activity during that period and to a general ledger account set up to account for this liability. Doing so will help ensure records are in balance and all water deposits are accounted for properly.

- E. The city has not established formal procedures regarding the handling of delinquent water and sewer accounts. In addition, adequate efforts have not been made to pursue the collection of delinquent accounts. As of August 2001, water and sewer accounts receivable totaled over \$52,000, with over \$15,000 of that amount (29 percent) being delinquent over 90 days. According to city officials, delinquent accounts are not routinely turned over to a collection agency.

To help maximize water and sewer revenues, the city should establish formal procedures for the handling of delinquent water and sewer accounts. This should include a periodic review of delinquent accounts and appropriate action being taken to pursue amounts owed. In addition, the city should consider writing off those accounts that are considered uncollectable, after proper review and approval.

**WE RECOMMEND** the Board of Aldermen:

- A. Ensure the usage history of the city's various sewer customers is reviewed and any unreasonable average winter consumption amounts are identified. For those customers, the average winter consumption amount should be recalculated and the sewer billings adjusted. Also, in the future, the city should ensure the average winter consumption calculations are based on actual usage readings.
- B. Require monthly accounts receivable listings to be reconciled to beginning accounts receivable, plus billings, less collections and other adjustments.
- C. Ensure the difference between the total gallons of water purchased and the total gallons of water billed is reviewed on a monthly basis. Any significant differences should be investigated.
- D. Ensure a report of water deposits is generated periodically and reconciled to deposit and refund activity during that period and to a general ledger account set up to account for this liability.
- E. Ensure formal procedures are established for the handling of delinquent water and sewer accounts. This should include a periodic review of delinquent accounts and appropriate action being taken to pursue amounts owed.

**AUDITEE'S RESPONSE**

- A. *The Board of Aldermen concurs and indicated it has already taken steps to correct a number of accounts. Where not corrected, the city will continue to evaluate and take corrective action.*
- B. & D-E. *The Board of Aldermen concurs and indicated it will take appropriate corrective action.*
- C. *The Board of Aldermen concurs and indicated action has already been taken to address this matter.*

**8.**

**Restricted Revenues**

- A. Expenditures of the Public Works Department have not been properly allocated between the funds that support that department.

The city pays wage, fringe benefit, retirement, and health insurance expenses for the public works employees from both the Water and Sewer Fund and Transportation Sales Tax Fund (streets). No documentation was available to support the method of allocation used. The city's independent auditor made a similar comment during the city's annual audit for the year ended June 30, 2000.

Bi-weekly time sheets are prepared by public works employees that document the total hours worked by those employees. However, no documentation is maintained to identify the number of hours worked by those employees related to streets, water and sewer, or other activities. According to city officials, public works employees are placed on the payroll of a designated fund based on the work activities it is believed the employee will be primarily involved in.

While we determined expense and equipment expenditures were generally charged to the appropriate fund, we noted in April 2001, the city paid approximately \$25,000 for a new vehicle for the public works director from street funds rather than allocating this cost between the street and water and sewer funds.

The proper allocation of expenses of the Public Works Department is necessary to ensure costs are paid from the fund(s) that receives the benefit.

- B.1. The city has not established a separate accounting for vehicle-related revenues received from the state, and the related disbursements. As a result, there is less assurance these revenues legally restricted for street purposes are used as intended. During the two years ended December 31, 2000, the city received approximately \$373,000 in motor vehicle-related revenues from the state. These monies were deposited to the credit of the city's General Fund.

Article IV, Section 30(a) of the Missouri Constitution, requires motor vehicle-related revenues apportioned by the state of Missouri be expended for street-related purposes, including policing, signing, lighting, and cleaning of roads and streets.

The city needs to establish a separate accounting for the motor vehicle-related revenues and related expenditures to ensure compliance with this constitutional provision.

2. Law enforcement training fees collected by the city's municipal court are not accounted for separately or maintained in a separate fund. While the city tracks law enforcement training fees collected, disbursements are not accounted for separately to ensure the fees are used only for the training of law enforcement officers. During the two years ended June 30, 2001, the city received approximately \$2,100 in training fees that were deposited to the credit of the city's General Fund.

Section 488.5336, RSMo 2000, requires law enforcement training fees to be used only for the training of law enforcement officers. The city should transfer law enforcement training fees collected to a separate fund or maintain a separate accounting of these monies to ensure these fees are used in accordance with state law.

**WE RECOMMEND** the Board of Aldermen:

- A. Ensure expenditures of the Public Works Department are properly allocated between the applicable funds and the allocations are supported by adequate documentation.
- B. Establish separate funds or a separate accounting for the restricted revenues to ensure these monies are spent in accordance with applicable laws and regulations.

**AUDITEE'S RESPONSE**

- A. *The Board of Aldermen concurs and indicated it has already taken corrective action.*
- B. *The Board of Aldermen concurs and indicated it will take appropriate action.*

**9.**

**Police Department**

The police department issues tickets for violations of state laws and municipal ordinances and collects cash bonds for the city of Oak Grove and for other entities, which are then remitted to the city's municipal court. Our review of police department procedures and activities disclosed the following concerns:

- A. A \$500 cash bond collected by the police department is missing and it appears this money was not remitted to the municipal court. These missing monies were not detected on a more timely basis because no independent reviews are performed comparing the monies received and transmitted by the police department to the municipal court's receipt records.

The cash bond was recorded in the police bond ledger on March 17, 2001; however, there was no evidence indicating this money was turned over to/or received by the municipal court. The Court Clerk discovered this matter in late April 2001, when the defendant came to court. That individual presented a copy of the bond form issued by the police department (which indicated \$500 in cash had been received by the police department), and requested the bond be applied against the fines and court costs due.

The city conducted a preliminary investigation of this matter in May 2001, but subsequently requested the Missouri State Highway Patrol complete the investigation of this matter. That investigation is ongoing.

To safeguard against the possible loss or misappropriation of funds and to ensure receipts are properly recorded, an independent review should be performed periodically comparing the monies received by the police department to what is turned over to and received by the municipal court.



- B. The police department maintains a manual log of bonds collected for the municipal court and other entities; however, the log is not complete or adequately maintained to account for all bonds collected. The bond information was not always recorded on the log in a timely manner and all relevant information (such as whether the bond was in cash or was a surety bond, the amount of the bond, etc.) was not always recorded. In addition, copies of the bond forms issued were not always retained.

Without a proper accounting of the bonds collected, the police department and court cannot be assured that all bonds collected are properly submitted to the court for processing. A complete and accurate bond log should be maintained and copies of the bond forms issued should be retained to help ensure all bonds are handled properly.

- C. We noted problems regarding the handling of certain tickets issued by the police department. Instances were noted in which tickets were not turned over to the court on a timely basis and where tickets were voided in an untimely manner.

We noted that one ticket was voided after the ticket had been turned over to the municipal court. In addition, several other tickets were held by the police department and eventually voided one to two months after the tickets were issued. It is unclear why these tickets were held by the police department instead of being turned over to the court. In addition, an affidavit documenting the reason for a ticket being voided was not always completed and signed by the officer voiding the ticket, and there was no evidence these affidavits and/or the voiding of the tickets was reviewed and approved by the Director of Public Safety (the police chief).

To ensure the proper disposition of tickets issued by the Police Department, tickets should be turned over to the court on a timely basis and any voided tickets should be accounted for properly. An affidavit should be prepared for all voided tickets and the Director of Public Safety should review and approve these documents. In addition, once a ticket has been submitted to the court, only the city prosecutor and/or municipal judge should dismiss a ticket.

- D. The police department took various actions apparently contrary to the municipal judge's orders without getting documented approval from the judge. We noted instances in which the police department released defendants without collecting the required bond amount, reduced the bond amount established by the judge, closed a warrant issued by the judge without collecting the bond amount, or released a prisoner early from jail. According to police officials, the judge gave verbal permission for these actions; however, the current Municipal Judge indicated he could not recall giving his approval for such actions since he took office.

To ensure justice is administered in accordance with the court's orders and to ensure all defendants are treated fairly and equitably, the police department should only take actions consistent with the municipal judge's orders. The judge should approve any action(s) taken contrary to the court's initial instructions, and documentation of that action(s) and approval should be filed with the court.

- E. The police department does not maintain adequate records to account for tickets assigned to and issued by police officers.

Although officers sign a form for ticket books assigned, a log is not maintained to account for ticket books assigned and unassigned, and ticket books are not assigned to officers in sequential order. In addition, while a log of tickets issued is maintained, the log did not account for tickets in numerical sequence, all relevant information (including the disposition) was not always recorded on the log, and all tickets were not accounted for properly.

Without a proper accounting of the assignment and issuance of tickets, the police department and the court cannot be assured that all tickets are properly handled and submitted to the court for processing.

**WE RECOMMEND** the Board of Aldermen ensure:

- A. Independent comparisons between the police department records and the court records are performed. In addition, the municipal court and the police department should work with law enforcement authorities regarding the investigation of the missing monies.
- B. The police department establishes adequate controls over the collecting and recording of bonds. A complete and accurate bond log should be maintained and a copy of all bond forms issued by the police department should be retained.
- C. The police department turns tickets over to the court on a timely basis and ensures any voided tickets are accounted for properly. An affidavit should be prepared for all voided tickets and the Director of Public Safety should review and approve these documents. In addition, once a ticket has been submitted to the court, only the city prosecutor and/or municipal judge should dismiss a ticket.
- D. The police department takes actions consistent with the municipal judge's orders. Any action(s) taken contrary to the court's initial decision should be approved by the judge and documentation filed with the court.
- E. Ensure the police department maintains adequate records to account for the assignment, issuance, and ultimate disposition of all tickets assigned to the police officers.

**AUDITEE'S RESPONSE**

- A-E. *The Board of Aldermen concurs and indicated it would take appropriate action, as necessary.*
- A. *The Municipal Judge concurs and indicated he will cooperate with any investigation of this matter.*

<b>10. Municipal Court</b>
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Various problems were noted in the records and procedures of the municipal court. Adequate records were not maintained to account for amounts owed the court, fees were not turned over to the state on a timely basis, receipt slips were not issued for all monies received, checks were not always restrictively endorsed immediately upon receipt, duties were not adequately segregated, the judge did not always sign the court docket or case files, and a schedule of fines and court costs was not posted at the traffic violations bureau as required.

- A. The court allows partial payments of fines and court costs. A summary listing is currently maintained of all monies owed the court; however, the listing is not up-to-date or accurate. In addition, action has not been taken on a timely basis to pursue the collection of amounts owed.

The summary listing includes many old cases, with some dating as far back as 1987; however, warrants and/or show cause orders have not been issued related to any delinquent cases since 1999. In addition, we determined all payments received on cases have not always been properly recorded on the listing. Further, the court does not require the defendants to sign a written agreement documenting their agreement to pay the amounts owed. As of March 2001, the summary listing indicated over 100 defendants owed the court approximately \$16,000.

The court should ensure accurate and up-to-date records of amounts owed the court are maintained. In addition, appropriate actions should be taken to pursue delinquent amounts owed, by ensuring warrants and/or show cause orders are issued on a timely basis. Further, defendants unable to pay the fines and court costs at the time they are assessed should be required to sign payment agreements to aid in accounting for and collecting the amounts due the court. Also, the total amount of monies owed should be monitored on a periodic basis and the court should consider writing off those accounts that are deemed to be uncollectable, after review and approval by the Municipal Judge.

- B. The state's portion of the Crime Victims Compensation (CVC) and the Peace Officer Standards and Training Commission (POSTC) fees collected by the court has not been submitted to the state of Missouri on a monthly basis, as required.

The Court Clerk deposits the CVC and POSTC fees into the city's bank account and then prepares a monthly remittance to the city to document the fees owed to the state. The city then remits the fees to the state based on the remittance. As of April 2001, the Court Clerk had not prepared the necessary remittances since August 2000, and therefore, the city had not properly disbursed these fees to the state. After this matter was discussed with the Court Clerk, she prepared the necessary documentation, and in May 2001 the city remitted \$2,271 to the state for CVC and POSTC fees collected from August 2000 to April 2001.

Section 595.045, RSMo, requires 95 percent of the CVC fees be paid to the state, and Chapter 488, RSMo and Supreme Court Administration Rule 21 provides that the CVC and POSTC fees should be disbursed to the state on a monthly basis.

- C. Receipt slips are not issued for bond monies received through the mail. In addition, receipts slips are not always issued in numerical order. To adequately account for all receipts and to ensure all receipts are deposited intact, receipt slips should be issued for all monies received, and the numerical sequence of receipt slips should be accounted for properly.
- D. Checks received during the night of court are not restrictively endorsed until the next day, when the deposit is prepared. To reduce the risk of loss or misuse of funds, checks should be restrictively endorsed immediately upon receipt.
- E. The duties of receiving, recording, and depositing fines, court costs, and bond monies collected by the municipal court are not adequately segregated. Currently, the Court Clerk performs all these duties. While the city's Finance Director reviews the fines and court costs deposited in the city's bank account by reconciling the amounts recorded on the one-write sheets to the deposits, there is no supervisory review of the bond records or activity.

To adequately safeguard against possible loss or misuse of funds, internal controls should provide reasonable assurance that all transactions are accounted for properly and assets are adequately safeguarded. Internal controls could be improved by segregating duties to the extent possible. If this cannot be achieved, at a minimum, there should be a documented independent review of the bond records and related activity.

- F. The Municipal Judge does not sign the court docket and/or the case file after case dispositions are recorded. To ensure the proper disposition of all cases has been entered in the court record, the Judge should sign the court docket and/or case file to indicate approval of the recorded disposition.
- G. A schedule of fines and court costs charged for designated violations is not posted at the traffic violations bureau. Supreme Court Rule 37.49 provides that a schedule of fines and costs to be imposed for each traffic offense be prominently posted at the traffic violations bureau.

Condition E. was similarly noted in our prior audit of the municipal court.

**WE RECOMMEND** the Municipal Court:

- A. Ensure accurate and up-to-date records of amounts owed the court are maintained and timely action is taken to pursue delinquent amounts owed. Defendants unable to pay the fines and court costs at the time they are assessed should be required to sign payment agreements to aid in accounting for and collecting the amounts due to the court. In addition, the total amount of monies owed should be monitored on a periodic basis and the court should consider writing off those accounts that are deemed to be uncollectable, after review and approval by the Municipal Judge.
- B. Ensure the CVC and POSTC fees are distributed to the state on a monthly basis, as required.
- C. Issue receipt slips for all monies received and account for the numerical sequence of the receipt slips.
- D. Restrictively endorse all checks immediately upon receipt.
- E. Segregate duties in the court to the extent practical. At a minimum, an independent documented review of the municipal court records should be performed, including the bond records.
- F. Ensure the Municipal Judge reviews and signs the court dockets and/or case files for propriety and approval.
- G. Ensure a schedule of fines and court costs charged for designated violations is posted at the traffic violations bureau.

**AUDITEE'S RESPONSE**

*A&B. The Municipal Judge indicated the court records have recently been computerized and the court now has the ability to readily implement these recommendations.*

*C,D,*

*&G. The Municipal Judge indicated these recommendations have already been implemented.*

*E. The Municipal Judge and the Court Clerk indicated they will work with the city in getting another city official to perform a periodic review of the bond records and related activity.*

*F. The Municipal Judge concurs.*

- A. The city has not maintained documentation of the approved employee salaries and any adjustments (e.g. starting salary, raises) in the individual personnel files. According to city officials, after the city's budget ordinance is approved each year, a list is prepared which identifies each employee's salary for the coming fiscal year. However, the approval of this list is not documented and the approved salaries are not documented in the personnel files of the employees.

The city needs to establish procedures to ensure the approval of each employee's salary and any subsequent raises are properly documented and that this information is maintained in the individual personnel files.

- B. Except for the city administrator, whose qualifications and duties/responsibilities are set by ordinance, the city has not established written job descriptions for its employees. In addition, Section 79.320, RSMo 2000, provides that the duties and term of office for the City Clerk are to be set by ordinance.

Written job descriptions are necessary to document the duties, responsibilities, and qualifications for each position, and help ensure that qualified people are hired to fill the respective positions. Written job descriptions could also help the city identify duplicate and overlapping duties, as well as provide a basis to evaluate employee job performance.

- C. The city does not require performance appraisals be prepared for its employees. Periodic performance appraisals can lead to improvement in job performance and are useful in evaluating employees for salary increases, promotion, and other personnel actions.
- D. Some requirements in the city's approved personnel policy are not consistently enforced and may be outdated. In addition, we noted inconsistencies in current city practices. The policy is in need of review and possible revision.

The city's personnel policy was developed from a personnel ordinance established in July 1994. The policy requires a drug/alcohol test be administered for all applicants for city employment. However, only 2 of 11 (18 percent) personnel files reviewed contained documentation of these tests. In addition, according to the policy all applicants are required to receive a pre-employment physical; however, city officials indicated these are not always required. Further, although not required by city policy, police officers are required to submit to drug/alcohol testing if involved in an accident with city property; however, other city employees are not required to submit to such testing under similar circumstances. We also noted that drug/alcohol test results are not maintained in a confidential medical file under the control of the city administrator as required by city policy.

The city's personnel policy should be reviewed and any provisions that are outdated or not consistent with current city practices should be revised. Once any revisions to the policy have been made, the city should ensure the provisions of the policy are followed.

**WE RECOMMEND** the Board of Aldermen ensure:

- A. Procedures are established to ensure the approval of each employee's salary and any subsequent raises are properly documented. This information should be maintained in the individual personnel files.
- B. Written job descriptions are developed for all positions, which include duties, responsibilities, and qualifications. In addition, the duties and term of office for the City Clerk should be set by ordinance as required by statute.
- C. Employees receive written performance appraisals on a periodic basis.
- D. The city's personnel policy is reviewed and revised, as needed. Once revisions to the policy have been made, the board should ensure the provisions of the policy are followed.

**AUDITEE'S RESPONSE**

*The Board of Aldermen concurs, and indicated it has already made some corrections and will make any additional changes necessary after the new City Administrator starts to work for the city.*

**12.**

**Fixed Assets**

Various problems were noted regarding the city's fixed assets records and related procedures. The city has not established a capitalization policy, annual physical inventories have not been performed, fixed assets records are not complete or accurate, and fixed asset acquisitions are not accounted for as they occur. In addition, adequate records are not maintained of fixed asset dispositions and the usage of vehicles is not accounted for properly.

- A.1. The city has not established a capitalization policy. The city's informal policy is to capitalize assets that cost \$500 or more and have a useful life of a year or more. However, we noted items on the fixed asset records valued as low as \$100.

The capitalization policy (dollar value threshold) for fixed assets should reflect the degree of control and accountability the city believes is necessary to safeguard its assets.

2. An annual physical inventory of the fixed assets is not performed. Annual physical inventories are necessary to ensure the accuracy of fixed asset records and to detect the loss, theft, or misuse of assets. The city should conduct annual physical inventories and reconcile the results of the inventories to the detailed fixed asset records.
3. The fixed asset records are not complete and/or accurate. Property is not tagged for specific identification; serial numbers are not always recorded; and a specific location is not identified. The property records should include a detailed description of assets including the name, make and model numbers, an asset identification number, the physical location of the assets, and the date and method of disposition, if applicable. All property items should be identified with a tag or other similar device.
4. Fixed asset acquisitions are not accounted for as they occur. No property acquisitions during fiscal year 2001 were reflected on the detailed records. Fixed assets records should be maintained on a perpetual basis, accounting for property acquisitions as they occur. In addition, equipment purchases should be reconciled to fixed asset additions on a periodic basis.

Adequate fixed asset records are necessary to secure better internal control and safeguard city assets that are susceptible to loss, theft, or misuse. In addition, fixed assets records provide information needed by the city for financial reporting and provide a basis for determining adequate insurance coverage.

- B. The city has not maintained adequate records related to the disposition of fixed asset items and formal procedures have not been established to guide city officials in the proper handling and approval of such transactions.

The city provided a list of items that were reportedly disposed of during the two years ended June 30, 2001; however, we determined this list was not complete or accurate. The records maintained did not always document the manner in which the assets were disposed of and any bids received. It appears the city did not advertise the sale of some items and board approval of the dispositions was not always documented. In addition, dispositions are not recorded in the fixed asset records. The city has not established formal procedures for the handling of fixed asset dispositions and this has contributed to this situation.

The city needs to establish formal procedures in this area to ensure the disposition of city fixed assets is properly handled, approved, and recorded in the fixed asset records. These procedures should ensure the method of disposal (e.g. bids, public sale, etc) allows for participation by the public and provides the best price for the city.

- C. Control over the usage of vehicles is not adequate. The city owns over 20 vehicles, but does not maintain mileage and/or usage logs for any of these



vehicles. Mileage and/or usage logs are necessary to document the appropriate use of the vehicles and are useful in evaluating fuel costs.

These logs should include the beginning and ending odometer readings, destination, and purpose of each trip. The logs should be reviewed by city management to help ensure vehicles are used for city business, are being properly utilized, and help identify any vehicles that should be replaced. In addition, the logs should be reconciled to gasoline and other maintenance charges.

**WE RECOMMEND** the Board of Aldermen:

- A. Ensure the city establishes adequate fixed asset records and procedures. This should include:
  - 1. Establishing a capitalization policy for fixed assets.
  - 2. Requiring that annual physical inventories be conducted. The physical inventories should be reconciled to the detailed fixed assets records.
  - 3. Maintaining detailed fixed assets records that include all pertinent information for each asset including tag number, description, cost, acquisition date, location, and date and method of disposition, if applicable.
  - 4. Ensuring the fixed assets records are maintained on a perpetual basis. In addition, equipment purchases should be reconciled to fixed asset additions on a periodic basis.
- B. Ensure formal procedures are established related to the handling and approval of fixed asset dispositions. Complete records should be maintained to support all dispositions and such transactions should be recorded in the detailed fixed asset records.
- C. Require complete and accurate mileage/use logs be maintained for each city vehicle. Management should periodically review the logs for completeness and reasonableness.

**AUDITEE'S RESPONSE**

*The Board of Aldermen concurs and will take appropriate action.*

13.

**Park Department Receipts**

The controls over cash receipts collected by the Park Department are not adequate. That department collects monies for admissions and concessions at the swimming pool and for facility use and concessions at the city parks. For the years ended June 30, 2001 and 2000, park receipts totaled approximately \$73,600 and \$63,000, respectively.

The daily swimming pool receipts were being left overnight in a locked area of the swimming pool complex. The next morning, the receipts and cash register tapes were turned over to city hall personnel for reconciliation and deposit. The daily concession receipts received at the parks were being collected each night by the parks director and kept at his home overnight. Again, the receipts and cash register tapes were not turned over until the following morning to personnel at city hall for reconciliation and deposit.

To adequately safeguard receipts and reduce the risk of loss, theft, or misuse of funds, park receipts should be deposited each night in the night depository of the city's depository bank. City hall personnel can reconcile the deposit to the cash register tapes the next day.

**WE RECOMMEND** the Board of Aldermen require park receipts be deposited daily.

**AUDITEE'S RESPONSE**

*The Board of Aldermen concurs.*

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

HISTORY, ORGANIZATION, AND  
STATISTICAL INFORMATION

CITY OF OAK GROVE, MISSOURI  
HISTORY, ORGANIZATION, AND  
STATISTICAL INFORMATION

The city of Oak Grove is located in eastern Jackson County. The city was incorporated in 1881 as a fourth-class city. The population of the city in 2000 was 5,535.

The city government consists of a mayor and a six-member board of aldermen. The board members are elected for two-year terms, one from each of the three wards each year. The mayor is elected for a two-year term, presides over the board of aldermen, and votes only in a case of a tie. The Mayor, Board of Aldermen, and other principal officials at June 30, 2001 were:

<u>Elected Officials</u>	<u>Term Expires</u>	<u>Actual Compensation for the Year Ended June 30, 2001</u>
Jim Dent, Mayor	April 2002	\$ 1,200
Brad Alexander, Alderman	April 2002	1,225
Shirley Johnson, Alderwoman	April 2002	1,225
Mike Johnston, Alderman	April 2002	1,175
Karen Prewitt, Alderwoman (1)	April 2003	150
John Ray, Alderman	April 2003	1,100
Greg Rector, Alderman (2)	April 2003	150
Richard Powell, Collector	April 2002	50
<u>Other Principal Officials</u>		
David Frasher, City Administrator (3)		71,491
Cathy Smith, City Clerk		31,257
Russell Pratt, Finance Director		49,150
Tom Gentry, Public Safety Director		45,014
Ron House, Public Works Director (4)		12,976
Scott Matson, Parks Director		34,607
Heather Hagedorn, Court Clerk		31,841
Chris Williams, City Attorney		(5)
Gary Helm, Municipal Judge (6)		1,533
Ellen Greenberg, City Prosecutor (7)		1,488

The amounts presented for the Mayor and Board of Aldermen represent compensation for attending meetings. These officials receive compensation of \$25 per meeting. In addition to this compensation, the Mayor receives a \$30 monthly mileage allowance, and each alderman receives a \$20 monthly mileage allowance.

- (1) Replaced Kerry Lutjen in April 2001.
- (2) Replaced Tim Taylor in April 2001.
- (3) David Frasher resigned as City Administrator in August 2001. That position has not yet been filled.
- (4) Hired in March 2001 to this newly created position.
- (5) The law firm of Stinson, Mag and Fizzel receives a monthly payment of \$2,640 (22 hours of general service) for Chris Williams to serve as city attorney. In addition, the firm bills for general services above the 22 hours and for additional services. For fiscal year 2001, the city paid Stinson, Mag & Fizzel over \$176,000 for general and other legal services. Chris Williams replaced Clay L. Barton as city attorney in July 2000.
- (6) Replaced William Piedmonte in February 2001.
- (7) Replaced George Lehnen in March 2001.

As of June 30, 2001, the city of Oak Grove employed 33 full-time employees.

Assessed valuation and tax rate information for tax year 2000 were as follows:

#### ASSESSED VALUATION

Real estate	\$ 38,008,042
Personal property	<u>11,731,836</u>
Total	\$ <u>49,739,878</u>

#### TAX RATE PER \$100 ASSESSED VALUATION

General Fund	\$ .65
Debt service	.23

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

	<u>Rate</u>	<u>Expiration Date</u>
General	0.005	None
Transportation	0.005	None
Capital improvement	0.005	None

\* \* \* \* \*