



Claire McCaskill

Missouri State Auditor

February 2005

City of Nevada, Missouri

Year Ended

December 31, 2003



Office Of The
State Auditor Of Missouri
Claire McCaskill

February 2005

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

This audit is the second of two reports of the City of Nevada. The first report issued in September 2004 identified receipts totaling at least \$39,701 collected by the City of Nevada from January 2002 to April 2004 but were not deposited, and apparently misappropriated. This report's 12 findings focus on the city's financial condition and internal controls over management and financial functions.

The city regularly uses water and sewer funds to compensate for negative balances in other city funds. City officials indicate that it has been approximately 20 years since water and sewer rates have been reviewed. Water and sewer revenues should be used to fund the operations of water and sewer services only, and should not generate profits to fund other services provided by the city. The existing water and sewer rate structures have allowed the city to, in effect, levy additional taxes without a vote of the citizens.

As of August 31, 2004 the city's General, Park, Park Construction, Street and Airport Funds had a negative cash balance totaling approximately \$1.3 million. The city's water and sewer fund had a cash balance of approximately \$2 million and was used to cover the shortfall in the city's checking account. Contributing to the city's negative cash balances were poor controls over city revenues, inadequate procurement procedures, and construction of the city's new swimming pool prior to receiving adequate funding.

The city regularly operates their general fund with a deficit cash balance throughout the year making interfund loans from water and sewer at year end to bring the cash balance above zero. The city's audited financial statements show that interfund loans to the city's general fund are a trend that has increased from \$90,000 in 2001 to \$450,000 in 2003.

The city's budget does not reflect the need for interfund loans to cover deficit balances. Additionally, budgets were amended during 2004 by the City Council to include additional expenditures without sufficient revenues to pay for the additional budgeted expenditures. As a result deficit budgets were approved which are prohibited by state law and the City Charter. Considering the poor financial condition of several city funds, it is imperative that the City Council adequately monitor the city's financial condition and develop a plan which will allow the city to operate without subsidies from the city's water and sewer funds.

(over)

YELLOW SHEET

In 1997, the city received land and a building (The Ozark Building) from the State Department of Mental Health (DMH), and \$587,104 in state appropriations representing an economic development grant for the building. The Ozark Building has remained unoccupied and no improvements have been made since it was transferred to the city. Reports have not been properly submitted to the state, and the monies have remained in the city's bank account.

The city needs to improve its process of procuring and monitoring most of its professional services. Proposals were not always solicited, written contracts were not always obtained, and documentation was not always adequate to support amounts paid. In one example, the city paid \$88,000 to a public relations firm between January and August 2004 without soliciting proposals or adequate supporting documentation, and approximately \$65,000 was incurred prior to the city signing an agreement.

The City Council does not adequately monitor the use of the hotel/motel tax monies paid to the Nevada/Vernon County Chamber of Commerce to provide tourism services. While the contract with the chamber indicates periodic reports will be provided to the city, no reports have been obtained from the chamber.

In 1999 the city entered into an exclusive ten-year contract with a local vendor to provide non-alcoholic beverages at city facilities. The city did not retain a copy of the contract, and there is no documentation to indicate proposals were solicited, or that the agreement was approved by the City Council. In addition, monthly commissions totaling \$8,464 paid to the city between January 2002 and October 2004 were not properly tracked. Commission monies were classified in several different accounts in the city's financial records, some commission monies were held as long as nine months before being deposited, and some commission monies are unaccounted for by the city.

The city purchased more than \$69,000 in fuel during 2003 through the use of 71 fuel credit cards. Additionally, the city has ten discount store credit cards, four bank credit cards, two home improvement store credit cards, and two office supply credit cards. Purchases on these cards totaled approximately \$126,400 during 2003. Credit card purchases are not always reviewed and approved by someone other than the credit card holder and adequate supporting documentation was not maintained for many credit card purchases.

Travel expenditures were not always supported by adequate documentation, and some appeared unreasonable and excessive.

Also included in the report are recommendations related to city expenditures, cellular phones, city vehicles, bonus and incentive payments, closed meetings, and the city code.

All reports are available on our website: www.auditor.mo.gov

CITY OF NEVADA, MISSOURI

TABLE OF CONTENTS

	<u>Page</u>
STATE AUDITOR'S REPORT	1-3
MANAGEMENT ADVISORY REPORT - STATE AUDITOR'S FINDINGS.....	4-34
<u>Number</u>	<u>Description</u>
1.	Financial Condition and Transfers5
2.	Budgetary Procedures9
3.	Ozark Building11
4.	Professional Services14
5.	Chamber of Commerce16
6.	Expenditures18
7.	Credit Cards23
8.	Cellular Phones25
9.	Travel27
10.	City Vehicles29
11.	Bonus and Incentive Payments31
12.	Closed Meetings and City Code32
HISTORY, ORGANIZATION, AND STATISTICAL INFORMATION.....	35-38

STATE AUDITOR'S REPORT



CLAIRE C. McCASKILL
Missouri State Auditor

To the Honorable Mayor
and
Members of City Council
Nevada, Missouri

The State Auditor was petitioned under Section 29.230, RSMo, to audit the City of Nevada, Missouri. The city engaged Daniel, Schell, Wolfe, and Associates, P.C., Certified Public Accountants (CPAs), to audit the city's financial statements for the year ended December 31, 2003. To minimize 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 necessarily limited to, the year ended December 31, 2003. The objectives of this audit were to:

1. Perform procedures to evaluate the petitioners' concerns.
2. Review internal controls over significant management and financial functions.
3. Review compliance with certain legal provisions.

To accomplish these objectives, we reviewed minutes of meetings, written policies, financial records, and other pertinent documents; interviewed various personnel of the city, as well as certain external parties; and tested selected transactions. Our methodology included, but was not necessarily limited to, the following:

1. We obtained an understanding of petitioner concerns and performed various procedures to determine their validity and significance.
2. We obtained an understanding of internal controls significant to the audit objectives and considered whether specific controls have been properly designed and placed in operation. However, providing an opinion on internal controls was not an objective of our audit and accordingly, we do not express such an opinion.
3. We obtained an understanding of legal provisions significant to the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contract, grant agreement, or other legal provisions could occur.

Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting significant instances of noncompliance with the provisions. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion.

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.

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 Nevada.

An additional report, No. 2004-67, *City of Nevada Management of Cash Receipts*, was issued on September 7, 2004.



Claire McCaskill
State Auditor

September 30, 2004 (fieldwork completion date)

The following auditors participated in the preparation of this report:

Director of Audits: Thomas J. Kremer, CPA
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MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

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

1. Financial Condition and Transfers

The city regularly uses water and sewer funds to compensate for negative balances in other city funds and makes numerous transfers from water and sewer funds to the general fund.

A. The city relies heavily upon water and sewer funds to help finance other city operations. According to the city's August 31, 2004 financial report several of the city's funds had a negative cash balance as follows:

<u>Fund</u>	<u>Balance at August 31, 2004</u>
Park Construction	\$ (669,078)
General	(461,646)
Street	(161,494)
Airport	(16,025)
Park	(7,049)
Total	\$ (1,315,292)

The city's water and sewer fund had a cash balance of approximately \$2 million and was used to cover the shortfall in the city's checking account. Approximately \$900,000 of the water and sewer fund balance was restricted by city ordinance for replacement reserves and customer deposits.

Factors contributing to the negative cash balances are as follows:

1. In September 2003 the City Council contracted to build a new swimming pool for \$1.5 million with park construction fund monies. Financial projections at that time indicated the park construction fund would not accumulate adequate sales tax revenues to fund the project until the end of 2005. While the City Council approved the contract for the new pool, council meeting minutes do not indicate how the project was to be funded until adequate sales tax revenues are received. As a result, water and sewer revenues have been used to build the city's new swimming pool.

2. The city regularly operates their general fund with a deficit cash balance throughout the year, and then makes interfund loans from water and sewer monies to bring the cash balance above zero. The loans are usually recorded after the city's independent audit is completed. According to the city's audit report for December 31, 2003 the city's general fund owed

\$390,000 to the water and sewer fund and \$60,000 to the park construction fund. These loans were repaid when the city received property tax revenue in February 2004.

3. The negative balance in the city's street fund has resulted from unfunded capital improvement projects. During 2004 the city began work on a capital improvement project totaling approximately \$130,000 funded through a Neighborhood Improvement District (NID). While the city has incurred expenses related to this project, NID bond revenues have not been received. There is no documentation in the City Council meeting minutes regarding funding for this project until the NID funds are received.

According to the City Finance Director, the airport and park funds should receive sufficient revenues by the end of 2004 to compensate for the negative balances noted above. However, he believes interfund loans will have to be recorded in the city's financial records after the city's independent audit for the park construction, general, and street funds.

In addition, the city's budget does not reflect the true financial position of these funds. For instance, while the city's audited financial statements show that interfund loans to the city's general fund are a trend that has increased from \$90,000 in 2001 to \$450,000 in 2003, the city's general fund budget during this same time period does not reflect the need for interfund loans to cover deficit balances. For the last several years the city has spent more than they have received in the general fund requiring more interfund loans. Additionally, the city has over estimated budgeted revenues for the general fund by approximately \$600,000 since 2002, causing projections of year end cash balances to be unrealistic. See MAR No. 2 for additional budgetary issues.

Several other factors have contributed to the negative balances in the various city funds including poor controls over the collection of various types of city revenues resulting in at least \$39,701 in misappropriated cash receipts. (See audit report No. 2004-67 issued September 7, 2004.) Additionally, inadequate procurement procedures and poor controls over expenditures as described throughout this report have led to the declining balances.

The City Council needs to closely monitor the ongoing financial condition of the various city funds, and develop a plan which will allow the city to operate without subsidies from the city's water and sewer funds. If the City Council desires to continue its current level of services, it must increase unrestricted revenues or reduce costs.

- B. In addition to using water and sewer funds to compensate for negative balances the city makes numerous transfers from the water and sewer fund to the general fund as follows:

1. Six percent of gross water and sewer revenues are transferred annually to the general fund as a franchise tax. The six percent represents the same rate as charged to the city's local natural gas supplier. While the franchise tax for the natural gas company is established by ordinance, the franchise tax charged to the city's water and sewer fund is not. Approximately \$135,000 is transferred annually.
2. An annual transfer representing a payment in lieu of taxes (PILOT) is computed by multiplying the value of the property of the water and sewer fund by the city's general fund tax rate. The city has also not established an ordinance approving a PILOT transfer. Approximately \$95,000 is transferred to the general fund annually based upon this computation.
3. Transfers to cover various administrative costs are made from the street and water and sewer funds to the general fund. During 2004 budgeted administrative costs totaling \$1,047,559, including salaries, supplies, and contractual services associated with the City Council, City Manager, City Clerk, and Finance Department, were allocated \$282,841 (27 percent) to the water and sewer fund and \$157,134 (15 percent) to the street fund. The city computed the transfer amounts by applying the percentage of total budgeted payroll for each fund to the total budgeted administrative costs. By determining the transfer amounts based upon budget estimates, no consideration has been given to actual costs or actual duties performed by these individuals.

In addition, the city transferred \$131,520 from the water and sewer fund to the street fund for sewer maintenance and landscaping. The amount of the transfer approximates the salary of four full time employees.

While these costs allocations may be appropriate, the city should base the allocation on actual time and expenses associated with these funds.

City officials indicate that it has been approximately 20 years since water and sewer rates have been reviewed. The water and sewer fund is a separate accounting entity designed to account for specific city activities. Water and sewer revenues should be used to fund the operations of water and sewer services only. Rates for water and sewer services should be set to cover the costs of producing and delivering services (including administrative costs), and repairing and replacing infrastructure. The water and sewer services should not generate profits to fund other services provided by the city. The existing water and sewer rate structures have allowed the city to, in effect, levy additional taxes without a vote of the citizens. Property taxes, sales taxes and other fees can be established or increased; but, these require a vote of the citizens.

The city needs to properly allocate expenses to the water and sewer funds to establish appropriate user fees. The city should ensure expenditures are allocated

to the various funds in proportion to the benefits received from the expenditures. Documentation should be retained to support the percentages used for allocating expenditures.

WE RECOMMEND the City Council:

- A. Closely monitor the financial condition of the various city funds and develop a plan to discontinue subsidizing general and other city operations with water and sewer funds.
- B. Develop a methodology for determining the amount of transfers, retain adequate documentation to support the transfers, and establish ordinances for the applicable transfers. In addition, the city needs to establish water and sewer rates to cover only those costs necessary to provide water and sewer services.

AUDITEE'S RESPONSE

The City Council provided the following response to A and B:

For the period of 2000 through 2003 the City of Nevada's General Fund had the following year end increase (or decrease) in cash balance as confirmed by an independent audit: 2000 @ \$9,433; 2001 @ \$83,417; 2002 @ \$(61,650); and 2003 @ \$21,496. For 2004, the General Fund's increase in year end cash balance has been estimated (prior to the December 31 close of the city's fiscal year) to be \$23,841.

In August of 2002, the City entered into a cooperative agreement with Vernon County to provide local property taxpayers the convenience of paying both their City and County taxes (due at year end) to the County Township Collector. Taxes due the City are then subsequently remitted by the County to the City shortly thereafter. While this "one stop" service enhancement has been a welcome convenience to the public, the minor delay in receipt of City property taxes moved these receipts to the following fiscal year where they have been recorded as received. In lieu of "accruing" these receipts, the City has elected to cover the temporary (approximately two week) imbalance in the General Fund from pooled funds.

The \$76,537 increase in the General Fund's cash balance from 2000 through 2004 has not been sufficient to avoid the annual temporary use of pooled funds associated with the property tax cooperative agreement with Vernon County.

Managing and increasing working cash balances in future years is a laudable and fiscally prudent objective. In pursuit of this goal, the Finance Director has published monthly financial reports detailing the working cash balances in all city funds since 2001.

Internal financing through the use of pooled funds is a customary and widely accepted economy measure used by municipalities across the country. Routine documentation within the Finance Director's cash management work papers and reports should be sufficient. The examples

referenced with the Street Fund's NID project, and the Parks Construction Fund's pool project, are both representative.

In 2003, the City approved a special assessment petition to re-construct a private street at property owner's expense. Upon the completion of construction, the street was dedicated to the city and it was accepted for future maintenance. The expenditures for this project were charged to the Street Fund. Bonds to finance this construction will be sold in early 2005 in accordance with state law. In lieu of incurring unnecessary transaction and interest expense associated with private construction financing, pooled city funds (\$120,000) have been used to cover this expense in the Street Fund, until the bonds are sold.

In 1999, Nevada voters approved a ½ cent Parks and Recreation sales tax for improved park facilities. The last major project from this sales tax, which expires at the end of 2005, was a 1.7 million dollar renovation of the Walton Park swimming pool. Construction was scheduled and completed over the winter of 2003/2004 to avoid closing the pool during the summer swimming season which would have been an unnecessary inconvenience to the patrons. In lieu of delaying construction or incurring unnecessary private financing costs, pooled city funds (\$500,000) were used to cover construction costs in the Parks Construction Fund until final sales tax receipts are collected during 2005.

The representation of routine and documented cost allocations between funds as "subsidies" can mischaracterize proper and widely accepted procedures followed by municipalities across the country. For example, a Street Fund employee and dump truck used on a Water & Sewer Fund project can and should require a fund transfer or cost allocation from the Water & Sewer fund as reimbursement. The documentation of these shared resources has become increasingly detailed and accurate over the years subject to the limitations of the City's data systems.

Over the past century, private investor owned utilities have consistently argued that publicly owned (municipal) utilities enjoy a taxpayer "subsidy" by virtue of the tax exempt status of their assets. To address this concern, Nevada and other municipalities subject their publicly owned utilities to a payment in lieu of tax. As detailed in the Finance Director's work papers, a transfer is recorded each year for property taxes and franchise taxes at the levies and rates imposed upon investor owned utilities. Incorporating this routine payment in lieu of tax in future water and sewer rate ordinances may have merit and will be considered.

2.

Budgetary Procedures

Deficit budgets were approved for the general, street, and park construction funds. Additionally, adequate detail was not included in some budgets.

- A. In May and July 2004 the city amended the 2004 budget for the general, street, and park construction funds to include additional expenditures; however, sufficient revenues were not budgeted to pay for the additional budgeted expenditures. As a result, deficit budgets were approved for these funds.

As noted in MAR No. 1 the City Council approved the construction of a new swimming pool for approximately \$1.5 million; however, adequate revenues would not be available to fund the construction until the end of 2005. The city's initial 2004 park construction fund budget only included \$900,000 for capital outlay expenditures, and projected an ending balance in the city's park construction fund of approximately \$81,000. In July 2004 the budget was amended to include an additional \$664,000 for the construction of the pool; however, the amendment did not include any additional revenues to fund the increase in expenditures. As a result, budgeted expenditures exceeded the beginning available resources plus budgeted revenues for the park construction fund resulting in a deficit budget.

The City Council approved similar amendments during 2004 for the general and street funds causing deficit budgets for these two funds. After the amendments, the general and street funds had deficit budgets of approximately \$10,000 and \$34,000, respectively.

Section 6.3 of the City Charter indicates that the total of proposed expenditures shall not exceed the total of estimated income. Section 6.8 of the City Charter allows the City Council to make supplemental appropriations during the year, but only up to the amount of available revenues. Additionally, deficit budgeting is prohibited by state law.

Considering the poor financial condition of several city funds as described in MAR No. 1, it is imperative that the City Council adequately monitor the city's financial condition. A complete and well-planned budget, in addition to meeting city and state requirements, can serve as a useful management tool for monitoring city funds. In addition, deficit budgeting must be avoided to ensure the city operates within its available means.

B. Significant revenue and expenditure amounts were not adequately detailed in the city's budgets and financial statements.

- The city's Special Projects Fund budget includes the Maxwell Trust funds, the Acorn funds, and the Ozark Building funds. The Maxwell Trust funds were bequeathed to the city and have been restricted for economic development projects related to city sidewalk projects. The Acorn funds are proceeds from the sale of land given to the city by the State of Missouri, and are restricted for economic development purposes. The Ozark Building funds are state grant monies to develop the Ozark Building.

All expenditures in the Special Projects Fund are budgeted in one broad category labeled, "other contractual services" with no additional detail provided. Expenditures classified in this category include legal fees, public relation services, and equipment for the city's wireless computer network

service. Additionally, while the Acorn funds are restricted for economic development, the city has not prepared a formal plan for these monies.

- For each fund the city has established a revenue account titled, "recovery of expenses" to be used for miscellaneous receipts and reimbursements. However, during 2003 and 2002 approximately \$89,500 and \$68,300, respectively, in grant revenues were posted to this account rather than including them in a more specific revenue category.

The failure to present detailed financial information decreases the effectiveness of the city's budget and financial statements as a management tool. In addition, to be of maximum benefit to the city and its taxpayers, the city's budget and financial statements should be adequately detailed.

WE RECOMMEND the City Council:

- A. Ensure budgeted expenditures for the various funds do not exceed estimated revenues and beginning available resources.
- B. Ensure the city's budgets and financial statements provide detailed revenue and expenditure information, and prepare a formal plan for restricted funds.

AUDITEE'S RESPONSE

The City Council provided the following responses:

- A. *In the future when budgets are amended utilizing pooled cash (inter-fund loans), the Finance Director will ensure that the amended budget explicitly articulates the anticipated temporary transfer of funds between funds.*
- B. *In the Special Projects Fund separate budgets and financial records are kept for each of the accounts (Maxwell Trust, Ozark Building and Acorn-State Hospital Land). On-going litigation, project delays and changes to the original financing agreements associated with the Ozark Building have made project budgeting a challenge.*

3.

Ozark Building

In 1997, the city received land and a building (The Ozark Building) from the State Department of Mental Health (DMH), and \$587,104 in state appropriations. According to a written agreement between the city, the State Office of Administration (SOA), the DMH, and the Department of Economic Development (DED), the \$587,104 represented an economic development grant for the Ozark Building. The agreement indicated the city's desire to make use of the Ozark Building and the land to establish a telecommunity project, and required the city to submit a development plan and quarterly reports to OA and DED.

The Ozark Building has remained unoccupied and no improvements have been made since it was transferred to the city in 1997. The city has not submitted a development plan or quarterly reports to the SOA, and the monies have remained in the city's bank account. The city has earned approximately \$153,000 in interest on the state funds and has spent approximately \$135,000 of the interest proceeds on legal fees and the city's wireless computer network service. According to the City Manager, the city has pursued various development projects related to the property over the last seven years, but no project has progressed far enough for the city to prepare a development plan.

Since December 2002, the city has been in negotiations with a company to develop the Ozark Building into senior citizen housing. In April 2004, the city paid \$36,000 of the grant monies for electrical work for the Ozark Building. According to the city, the electrical work was contracted by the developer after an agreement was reached, but a contract had not been signed, and because of legal issues the project was stopped and the city had to pay the electrical contractor.

In August 2004, City Council approved another agreement with the developer. This agreement transfers \$585,000 of the grant funds to the developer, and requires the developer to pay the city \$306,000 for title to the Ozark Building and reimbursement of costs incurred by the city. If the developer is unable to obtain tax credits for the project the agreement is terminated and the city is liable for various engineering and study costs that the developer has incurred. The agreement further specifies other costs associated with the development, and which party is responsible for those costs.

If the agreement is terminated the city will incur costs totaling approximately \$142,000. If the agreement is completed the city will gain approximately \$200,000 on the transaction which appears to be restricted by the state contract to only be used in relations to a telecommunity project. It is not clear from the contract with the developer how the development of senior citizen housing meets the requirements of the state contract to establish a telecommunity project.

Allowing funds to remain idle for more than 7 years is an unnecessary use of state funds. In addition, it is questionable whether interest earned on the funds can be spent on projects other than the telecommunity project outlined in the state contract. The city has failed to comply with the terms of the state contract and should contact the SOA regarding the proper disposition of the grant funds, interest funds, and property.

WE RECOMMEND the City Council contact the State Office of Administration regarding the proper disposition of the \$587,104 grant funds, the \$153,000 in interest revenues, and the Ozark Building property.

AUDITEE'S RESPONSE

The City Council provided the following response:

Officials from the City of Nevada and the State of Missouri's Office of Administration have met on numerous occasions regarding the Ozark building and other projects related to the north campus telecommunity project. The redevelopment of surplus historic state office and hospital facilities has not been quick or easy anywhere in rural America, and Nevada's joint efforts with the State of Missouri have received regional and national recognition. This past month the Missouri Housing Development Commission (MHDC) approved funding for the redevelopment of the Ozark building for senior housing, and the five million dollar construction project is scheduled to begin in 2005.

Efforts in 1998 to seek state and federal funds for a business incubator were not successful. In 2001 a federal grant was sought to develop a telehealth facility, and that project was also not funded.

In 2002 marketing materials for the building were prepared to seek proposals from prospective developers. A proposal for demolition was subsequently prepared and submitted by a local company. An alternate proposal was prepared and submitted by a Kansas City company for renovation of the building for senior housing in conjunction with MHDC.

The City Council unanimously endorsed renovation of the historic structure, a purchase and sale agreement for renovation was approved in January of 2003, and funding was approved by MHDC.

Before renovation could begin, litigation filed on behalf of the local company placed a cloud on the title, and the MHDC renovation project could not proceed. The lawsuit was dismissed by the Circuit Court in favor of the city, and a second purchase and sale agreement for renovation was approved by the City Council. A second lawsuit was then filed against the City Manager by a representative of the local company regarding the Ozark building's redevelopment, and MHDC funds were not available in 2004 (due in part to the second lawsuit).

A third purchase agreement was approved by the City Council in 2004. After reviewing the second lawsuit's lack of merit, the Ozark building redeveloper's title insurance company offered to provide title insurance, and MHDC has now approved funding for 2005.

The delays caused by the two lawsuits, the costs of litigation, the negotiation and drafting of three sale contracts, and a concomitant petition audit have all created expenses and development costs for the developer and the city that were not a part of the original financing plan. As partial reimbursement of the losses incurred by the City of Nevada, the purchase price has been raised to \$250,000.

The city needs to improve its process of procuring and monitoring most of its professional services. The city has not periodically solicited proposals for auditing, accounting, legal, and consulting services. The city's purchasing code indicates that professional services are not subject to competition with the exception of, engineering and architectural services which require the solicitation of proposals, and legal services which requires the consideration of more than one firm.

A. Our review of legal services provided to the city noted the following:

- The city paid outside law firms approximately \$116,000 during 2003 for legal services. We identified fees charged to the city ranging from \$190 to \$400 per hour; however, engagement letters with firms indicated that rates as high as \$650 per hour could be incurred. Proposals were not solicited for these services, and work was often performed before engagement letters were signed. In September 2003, the City Council amended Section 2-86 of the city code to require outside legal services to be approved by the City Council through an engagement letter prior to obtaining services. This section also requires the consideration of more than one firm, except in the case of an emergency. Even after the approval of this amendment, the city still utilized law firms without considering proposals or obtaining an engagement letter as city code requires. In March 2004, the city approved engagement letters; however, there is no documentation to indicate that proposals from more than one firm were considered.
- During 2003, the city paid approximately \$55,600 for services of the city attorney, the city prosecuting attorney, and the municipal judge. Chapter 25, Article 1, Section 25-1.108 of the city code classifies these employees as exempt positions salaried under special contracts; however, the city does not have contracts with these individuals. The city should review the situation to ensure compliance with city code.

B. The city paid approximately \$88,000 to a public relations firm from January to August 2004. Proposals were not solicited for these services, and the city did not have a written agreement in place until April 2004. Approximately \$65,000 of the above total was incurred prior to the city signing the agreement. As a result, it is not clear how the City Council could have approved the disbursement of these funds.

In addition, the written agreement does not provide adequate detail concerning the amount of costs to be charged to the city. Although the contract indicates that a detailed statement of services will be provided, the invoices submitted only indicate a brief description of the service performed, and did not indicate the

number of hours or hourly rate charged. Also, no detail was provided on travel expenses charged to the city.

- C. Without soliciting proposals, the city contracted with a company in August 2001 for economic development consulting services. The contract authorizes a retainer of \$850 per month for 17 hours of service, and specifies that any additional hours are to be approved in advance and paid at \$50 per hour. Our review of the invoices for March and April 2004 noted charges for services totaling \$3,206 and \$1,875, respectively. These services were billed at a rate of \$75 per hour. There was no documentation to indicate additional hours were approved or to justify the increase in the hourly rate.

In addition, the invoices submitted for payment were not adequately detailed, only indicating "business assistance services" on the invoice. The lack of adequate documentation prevents the city from evaluating the appropriateness of the professional services being billed. The city paid \$11,738 to this company during 2003.

- D. During 2003 and 2004, the city contracted with a Government Consultant for \$900 per month. There were no proposals solicited for these services, the invoices were not adequately detailed, and the city has not requested reports on activities as authorized by the contract. As a result, the city does not have adequate documentation to support the payments made for these services.
- E. The city has not solicited proposals since 1996, and has used the same CPA firm for their annual audit since 1990. The city paid \$10,750 to the firm during 2003 for the 2002 city audit.

In addition, the city contracted with another CPA firm during 2004 for consulting services. The city paid this firm \$3,456 for services related to missing cash receipts, and to reply to the State Auditor's report regarding these missing funds. The invoices for these services did not document the amount of hours spent or the rate charged per hour and did not provide documentation to support out of pocket expenses.

While professional services, such as attorneys, accountants, and consultants may not be subject to the standard bidding procedures, the city should solicit proposals for professional services to the extent practical. Soliciting proposals and subjecting such services to a competitive selection process does not preclude the city from selecting the vendor or individual best suited to provide the service required. Such practices help provide a range of possible choices and allow the city to make a better-informed decision to ensure necessary services are obtained from the best qualified vendor at the lowest and best cost. In addition, written agreements provide the framework necessary to detail the services to be provided and the compensation to be paid. Further, the city should ensure written contracts are prepared, adequate supporting documentation is provided, and charges agree to contract fee schedules for all professional services.

WE RECOMMEND the City Council solicit proposals for professional services to the extent practical. The proposals should be formally evaluated and retained. In addition, written contracts should be prepared and formalized prior to services rendered, and adequate supporting documentation should be received for all charges.

AUDITEE'S RESPONSE

The City Council provided the following response:

In the future the city will take the following actions:

- *Engagement letters will be obtained for all professional services prior to incurring the expenses.*
- *Statements from the provider should be reviewed for compliance with the terms of the original contract.*
- *Payments in excess of contracted amounts should be investigated prior to payment and documented on the bill as to whether the payment is proper.*

5.

Chamber of Commerce

The city does not adequately monitor the use of tourism fund monies paid to the Nevada/Vernon County Chamber of Commerce (Chamber). In 1999 city voters approved a hotel/motel occupancy tax with all proceeds from the tax to be used solely to promote tourism. The tourism fund cash balance at December 31, 2003 was \$79,169, and tax collections during 2003 were approximately \$59,000.

A. During 2003 the city contracted with the Chamber to provide tourism services for the city. In accordance with the contract, the city reimbursed the Chamber for various costs including personnel, telephone, utilities, supplies, and repairs not to exceed \$27,500. While some documentation to support the actual costs incurred was provided to the city by the Chamber, several expenses were not adequately documented. For example, the city paid the Chamber \$6,000 as a "tourism allocation." There is no documentation to support how these funds were used by the Chamber.

In 2004 the city entered into a new contract with the Chamber to fund the promotion of various events, tourism administrative costs and operating costs of the visitor's center for a total of \$67,610. We noted the following concerns with disbursements made to the Chamber during 2004:

- The city has disbursed funds to the Chamber without requiring any documentation to show how these monies were used. In addition, the contract with the Chamber does not provide an adequate means for the city to monitor

the use of these funds. While the contract indicates that, "periodic reports will be provided to the city staff and City Council as directed by the City Manager," no reports have been obtained from the Chamber.

- The city has no documentation to indicate that the Chamber has complied with all terms of the contract. For example, the contract requires the Chamber to supply worker's compensation insurance for tourism employees. The city does not have any documentation to verify the insurance policy is in force.
- The contract also specifies \$67,610 will be paid to the Chamber in 12 monthly equal installments by the 10th day of each month. The city paid \$22,537 in April and August, 2004 rather than paying monthly as specified by the contract terms.

To ensure the proper use of the city's hotel/motel tax monies, the city should establish formal procedures to monitor the use of these monies and require detailed information from the Chamber to document how these city funds were used. Additionally, if the city does not intend to make payment in accordance with the terms of the contract, the contract terms should be amended accordingly.

- B. In addition to the contractual payments paid to the Chamber described in part A, the city also paid outside vendors for costs initiated by the Chamber for brochures and a retail study.

During 2003, the city paid a printing company \$6,578 for brochures and a marketing company \$2,400 to display the brochures. The city also paid \$12,975 to a consulting firm for a retail study. The invoices supporting these expenses were addressed to the Chamber, and approved by the Director of the Chamber. There is no documentation to indicate that the City Council approved paying for the brochures and the display services. City Council meeting minutes for June 18, 2002, indicate the City Council's approval of paying \$12,500 toward the retail study. It is not clear why \$475 more was paid for the retail study than approved by the City Council. Additionally, bids were not solicited for these items, and the contract noted in part A above does not address these expenses.

The failure to properly approve expenses, and document agreements between the city and the Chamber may result in misunderstandings between the parties involved and unnecessary expenditures for the city.

WE RECOMMEND the City Council adequately monitor the use of the hotel/motel tax monies by establishing formal procedures in the terms of the contract with the Chamber to monitor the use of these monies and obtain detailed information to document how these funds were used. Additionally, all expenditures should be properly authorized, and all agreements between the city and the Chamber should be in writing.

AUDITEE'S RESPONSE

The City Council provided the following response:

Whenever the City utilizes the Chamber of Commerce to provide tourism services a contract will be prepared, as was done for 2004. The contract will require periodic reporting to the City Council to insure that City funds are properly spent.

6. Expenditures

Bids were not always solicited as required, some expenses appeared questionable, and IRS Form 1099 Miscellaneous was not always issued. Additionally, check signing procedures need improved.

- A. The city does not always follow its bidding policy. The city purchasing code requires bids to be solicited for all purchases over \$250. In March 2004, this amount was increased to \$500. All purchases over \$2,000 require City Council approval. This was increased to \$5,000 in March 2004. Contracts for supplies requires at least three competitive written bids, and contracts for services requires at least two bids or proposals. Although the city did solicit bids for some purchases, bids were either not solicited or bid documentation was not retained for the following:

<u>Item</u>	<u>Amount</u>
Printing services	\$ 2,300
Golf balls	1,800
Public Works supplies	1,584
Employee Uniforms	758
Equipment repair	662

Although these purchases represent one payment to the vendor, the city spent more than these amounts for the above items on an annual basis. For example, the city made purchases totaling approximately \$18,260 and \$13,850 during 2003 from the vendor providing golf balls and public works supplies, respectively. While city employees indicated that in some instances bids were solicited through telephone quotes or other direct contacts with vendors, documentation showing vendors contacted, prices quoted, and reasons for selecting the successful vendor was not always retained.

In addition, the city has spent more than \$57,000 for a wireless computer network service for the city. City officials indicate that most of the equipment associated with this service was specialized, and could only be provided by one vendor; however, the city did not maintain documentation of sole source procurement.

Further, the city solicited bids and contracted with a company to stripe city streets and parking lots for \$10,339; however, the city paid this company \$15,272 without soliciting additional bids, or obtaining approval from City Council for the amount paid over the bid. City officials indicated that additional work was performed but documentation of authorization or a contract change order was not obtained.

Formal bidding procedures for major purchases provide a framework for economical management of city resources and help ensure the city receives fair value by contracting with the lowest and best bidders. Competitive bidding also helps ensure all parties are given an equal opportunity to participate in the city's business. Complete documentation should be maintained of all bids received and reasons noted why the bid was selected. In addition, sole source procurement should be adequately documented, and if the scope of a project changes substantially, consideration should be given to rebidding the project. Further, all expenditures should be approved in accordance with city policy.

- B. In 1999, the city entered into an exclusive ten-year contract with a local vendor to provide non-alcoholic beverages at city facilities. According to the contract the city will purchase all beverages to be sold at city facilities from the vendor and the vendor will provide vending machines at various locations on city property. Additionally, the vendor will provide to the city various park related items (scoreboard and sponsorships) totaling \$14,500 during the life of the contract.

The city did not retain a copy of the contract, and had to request a copy from the vendor for our review. There is no documentation to indicate whether bids or proposals were solicited for these services or that this agreement was approved by the City Council. The agreement was signed by the Director of Parks and Recreation. The city paid approximately \$9,700 annually during 2003 and 2002 to this vendor.

Contract terms specify that the city is to receive monthly commissions of 35 percent of actual cash collected through the vending machines. The city does not track commission revenues received. According to information provided from the vendor, the city should have received \$8,464 in commissions between January 2002 and October 2004. According to city records \$5,236 was deposited in the Park Fund, and \$1,744 was deposited in the Friends of the Park Trust Fund. Of the remaining \$1,484 not specifically accounted for, the city located \$830 in the park fund classified as soccer fees, \$384 represents two checks from the vendor that have apparently not been negotiated, and \$270 remains unaccounted for in the city's records. Additionally, of the \$5,236 deposited into the Park Fund, 9 monthly commission checks totaling \$2,610 were deposited at one time. The city could not provide an explanation as to why these checks were held, and not deposited monthly when received.

The contract contains a buyout option if the city decides to terminate the agreement before the end of the ten years. If the city exercises the buyout option, the city must pay the vendor a percentage (equivalent to the number of years remaining in the contract) of the approximately \$14,500 the vendor provided to the city.

Because the contract was not bid, city officials have no assurance that the current agreement offers the most benefits to the city. Soliciting proposals and entering into a truly competitive bidding process provides the city with a range of possible choices, and a means to select the vendor best suited to provide the service required. Considering the addition of the city's new swimming pool and senior center, it is questionable whether or not the current agreement still fits the needs of the city. City officials should avoid long-term agreements that obligate the city to a single vendor, and retain copies of all executing contracts.

In addition, the city should monitor the collection of commission revenue to ensure all city funds are deposited timely and properly accounted for.

- C. The city has an agreement with the Vernon County Ambulance District to provide transportation for disabled citizens. According to the agreement the city pays the district \$2.25 per trip plus \$1,000 per month for insurance and labor costs. The city does not obtain any documentation from the district regarding actual insurance and labor costs, and does not have any documentation on how this amount was determined.

To ensure amounts paid were reasonable, the city should require detailed information of labor and insurance costs from the district.

- D. During our review, we noted several city transactions which do not appear to be a necessary cost of operating the city. Examples include:

- The city paid \$1,666 for the annual service awards banquet for employees, spouses, and children around the holidays during 2003. In addition, the city paid various amounts to local restaurants for food for staff meetings.
- The city contributed \$1,999 annually for numerous years toward the firefighter's union annual fireworks display during 2002 and 2003. The amount contributed is \$1 less than the \$2,000 ceiling amount required by the city's purchasing code to be approved by the City Council. If the annual expenditure for fireworks is determined to be a desirable, city-provided service, the city should obtain a written contractual agreement which specifies services to be provided and provides the city with a mechanism to evaluate and monitor such services.
- The city paid \$2,908 during 2003 for the payment of Lions Club and Rotary Club dues for various city employees.

The city's residents place a fiduciary trust in their public officials to expend public funds in a necessary and prudent manner. The above expenses do not represent a necessary and prudent use of public funds.

- E. Several invoices did not contain an indication of approval or receipt of goods or services, and invoices were not always paid timely resulting in late fees and interest charges. Numerous invoices only indicated an account code by the Finance Director but did not include an approval signature or other notation from the City Manager or the director of the department where the charge was initiated. Additionally, the city regularly incurred late fees and interest charges on some bills because payment was not made timely. (See MARs No. 7 and No. 8)

To ensure the obligation was actually incurred and properly approved, all expenditures should be supported by properly approved invoices containing indication that goods or services have been received. In addition, procedures should be in place to ensure bills are paid timely to avoid late charges and interest.

- F. Form 1099 Miscellaneous was not prepared by the city for 10 of the 25 vendors we reviewed, who were paid approximately \$605,000. The finance department did not have adequate controls to ensure all vendors requiring Form 1099 Miscellaneous were sent one. Sections 6041 and 6051 of the Internal Revenue Code require payments of at least \$600 or more in one year to an individual for professional services or for services performed as a trade or business by nonemployees (other than corporations) be reported to the federal government on Form 1099.
- G. The city's checking accounts require two signatures; however, six individuals (City Manager, City Clerk, Finance Director, Parks Director, Economic Development Director, and the City Manager's Officer Director) are authorized to sign checks. Any two of these signatures can cause the checks to be negotiated, and the City Clerk has custody of the facsimile stamps of the Finance Director and Parks Director, and occasionally uses these stamps to sign checks. Checks are typically signed by the Economic Development Director and the Parks Director. Strong internal controls require limiting the number of authorized signatures, and allowing the use of the facsimile stamp diminishes the control intended by multiple signatures.

WE RECOMMEND the City Council:

- A. Follow established bidding and purchasing policies and procedures, and ensure documentation of the bidding process is maintained.
- B. Reevaluate its practice of entering into long-term contracts, solicit bids for city vending services, and retain copies of all executed contracts. In addition, procedures should be established to monitor the collection of commission revenue.

- C. Require detailed information of labor and insurance costs from the district.
- D. Ensure expenditures from city monies are a prudent use of public funds and are limited to those necessary to properly operate the city. In addition, if the annual fireworks display is determined to be a necessary city expense, the city should obtain a written agreement.
- E. Ensure all invoices are properly approved, contain indication that goods or services have been received, and paid timely.
- F. Issue IRS Forms 1099 Miscellaneous as required by the Internal Revenue Code.
- G. Discontinue the practice of allowing the use of the facsimile signature stamp and consider limiting the number of authorized signatures.

AUDITEE'S RESPONSE

The City Council provided the following responses:

- A. *All aspects of the City's revised procurement procedures will be monitored for compliance with the policy.*
- B. *The City will continue to review its contract with Coca-Cola to see if it might be in the interest of either party to utilize the early buyout provision of the contract. This agreement was approved by the former City Manager who personally negotiated the agreement. It was always his practice to keep the City Council fully informed, and the agreement has been beneficial to both parties.*
- C. *The City has obtained documentation to support the amounts paid to the Vernon County Ambulance District under the contract to provide transportation services. Both parties understood that the service was a significant staffing burden and expense for the District.*
- D. *We believe that the long standing and proper municipal practice of payments made for City employee awards banquets, an annual fireworks display, and civic club dues are allowable discretionary expenses of the City.*
- E. *As part of the Accounts Payable process the individual departments will verify receipt of the goods or services before approving and coding the invoice for payment.*
- F. *At the time a new vendor, who would be eligible for an IRS Form 1099, is added to the accounts payable records a tax ID number will be obtained. A review of all vendors will be made annually to insure that an IRS Form 1099 is prepared and sent to all required vendors.*
- G. *Facsimile signature stamps for any check signer will be destroyed. We believe the current list of check signers adequately addresses the City's internal controls.*

Procedures for monitoring credit card purchases are inadequate, and the city does not have a formal credit card policy. The city utilizes numerous credit cards for fuel purchases, internet purchases, and travel and training expenses, and various supplies.

- A. The city purchased more than \$69,000 in fuel during 2003 through the use of 71 fuel credit cards. These cards are typically issued to the employee, but some cards are assigned to a specific vehicle.

Employees are not required to enter odometer readings, and do not receive a charge slip when purchasing fuel. In addition, as noted in MAR 9, mileage logs are not maintained for most city vehicles making it difficult to determine if the amount of fuel purchased is reasonable. Further, there is no log or other record maintained by administration of the custody or assignment of the fuel credit cards. While each city department head provided a list of employees with fuel cards, a master record to track all cards is not maintained.

The city should adopt formal policies and procedures for the assignment and use of fuel cards. A log should be maintained indicating the assignment of all fuel credit cards, and employees should be required to enter the odometer reading when purchasing fuel. This would allow the city to better track fuel usage for each vehicle and provide additional information to help ensure the reasonableness of fuel purchases.

- B. The city has ten discount store credit cards, four bank credit cards, two home improvement store credit cards, and two office supply credit cards. Credit card purchases on these cards totaled approximately \$126,400 during 2003. During our review of purchases charged on these credit cards we noted the following:
1. Credit card purchases are not always reviewed and approved by someone other than the credit card holder. For example, several credit card holders such as various department directors and the City Manager approve their own billings. Internal controls should be established to ensure billings are approved or authorized by someone independent of the credit card holder.
 2. Adequate supporting documentation was not maintained for many credit card purchases. In several instances, no supporting documentation or only the signed credit card charge slip was submitted to the city by the employee. For example, we noted several charges for hotels, meals, and computer supplies for which documentation was not adequate. All expenditures should be supported by paid receipts or vendor invoices to ensure the obligations were actually incurred and the expenditures represent appropriate uses of city funds.

3. Some credit cards are not adequately safeguarded. Credit cards that are not specifically assigned to an employee are kept in the city's vault; however numerous city employees have access to the vault. Credit cards should be kept in a location that is adequately safeguarded. Consideration should be given to assigning the responsibility for securing credit cards to a specific employee.
4. Late fees and finance charges were sometimes assessed and paid by the city on some credit card bills. We noted one monthly credit card bill with late fees and finance charges totaling \$65 paid by the city. Credit card bills should be paid timely to avoid these additional charges.

The city has not adopted formal policies and procedures for the use of these city credit cards. Complete and detailed written credit card policies and procedures are necessary to provide guidance to employees, and help ensure city credit cards are used only for city business. The city should develop policies which require purchases to be approved by someone other than the cardholder and require all credit slips be submitted prior to payment of credit card invoices. In addition, the city should carefully evaluate the need for each credit card, and remit payments timely.

WE RECOMMEND the City Council:

- A. Adopt formal written procedures regarding the use and assignment of fuel cards, maintain a log of the assignment of all cards, and require odometer readings to be entered for each fuel purchase.
- B. Evaluate the need for each city credit card and cancel any cards which are determined unnecessary. Formal policies and procedures should be adopted for credit card use, including policies which require purchases to be approved by someone other than the cardholder and require all credit slips be submitted prior to payment of credit card invoices. In addition, credit cards should be stored in a secure location, and payment should be made in a timely manner.

AUDITEE'S RESPONSE

The City Council provided the following responses:

- A. *Fuel cards are a necessary item for the fueling of City Vehicles. Although no problems have been identified, the City will nevertheless put in place the following:*
 - *A policy will be established for use of the City fuel cards limiting the use to City vehicles.*

- *A log should be maintained of who has each fuel card on any given date. Unused fuel cards should be kept in a secure location.*
 - *An odometer reading should be recorded the first of each month on all City vehicles.*
 - *A monthly comparison should be made comparing miles driven and fuel used for each City vehicle. Unusual fuel usage in a vehicle should be investigated.*
- B. The City will reduce the number of credit cards issued to the City with the implementation of the reimbursement of travel expenses based on per diem instead of actual expenditures. For any cards remaining the City will put in place the following:*
- *A credit card policy will be established covering the use of City credit cards for only properly preapproved City purposes. The policy will require the employee to turn in all receipts for all credit card purchases.*
 - *A log will be maintained so that it can be determined who has every card on any particular day. Unused cards will be held in a secure location.*
 - *The monthly statements will be compared to the credit card receipts turned in. Charges without a signed receipt should be investigated and compared to the log of who had the credit card on the day of the charges.*
 - *Since all City credit cards will be in the custody of the Finance Department, they will be able to ensure that credit card statements are paid in a timely manner to avoid late fees and finance charges.*

8.	Cellular Phones
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The city does not have a formal policy regarding cellular phone usage, or guidelines to determine whether a cellular phone is needed or of benefit to the city. In addition, the city did not adequately monitor the phones in operation. During 2003, the city paid approximately \$9,000 in cellular phone charges for 12 cellular phones assigned to various city employees.

Some employee cellular phone plans did not appear to match their usage patterns. With the city manager's verbal approval, the department director initiates the addition of a cellular phone. City employees are allowed to pick their own service plan under the city's name. We identified the following problems:

- For some billing statements reviewed, the usage exceeded the number of plan minutes resulting in additional costs to the city, while other statements showed a significant accumulation of roll over minutes. For example, the Park Maintenance Supervisor's June 2004 phone bill included additional charges of

\$283 for exceeding the plan minutes by 809 minutes. The City Manager's phone bill for this same month reflected a balance of 3,685 minutes to be rolled over to the following month.

- Most billing statements did not contain details of the calls making it difficult to review for personal usage. One of these statements reflected 585 total minutes used with 234 minutes (40 percent) for night and weekend usage. Without detailed billings the city cannot ensure all calls are business related.
- Cellular phone bills were not always paid from the correct city fund. After the City Clerk resigned in May 2004, this cellular phone was given to a parks department employee; however, charges totaling approximately \$575 continued to be paid from the city's general fund rather than the park fund. In August 2004, the city began paying this phone bill from the park fund, but corrections were not made for amounts previously paid by the general fund.
- Late charges were often assessed and paid by the city on some cellular phone bills. While monthly late charges were only about \$5 per phone, bills should be paid timely to avoid these additional charges.

While cellular phones can help increase employee productivity, they are also costly. Cellular phone usage patterns should be routinely monitored to ensure each user is enrolled in the most cost-effective plan. The city should review its current and historical levels of cellular phone use for business-related purposes along with the types of employee positions that require cellular phones and develop a standard for matching employees and their positions to cellular phone plans. Implementing such procedures should result in cost saving to the city.

Additionally, a policy is needed to ensure that cellular phones are used only for business purposes. Such a policy should address which employees need a cellular phone, proper use of the phone, and a reimbursement policy if the city council authorizes the phone to be used for personal purposes. Effective procedures should be implemented to properly monitor cellular phone usage, and ensure billings are paid timely from the appropriate city fund.

WE RECOMMEND the City Council expand current policies and procedures to ensure the most cost-effective cellular phone plans for business-related purposes are selected based on actual business usage by city personnel. In addition, a policy should be developed regarding the use of cellular phones including an assessment of which employees need a cellular phone and procedures to monitor their use. Further, cellular phone bills should be paid timely from the appropriate city fund.

AUDITEE'S RESPONSE

The City Council provided the following responses:

Since most individuals have personal cellular phones the City is implementing a plan to phase out City owned cellular phones in all but a handful of emergency and specialized areas. Approved employees will be reimbursed for using their privately owned phones for City calls. For the phones that remain City owned the following will be implemented:

- The City cellular phone policy should be administered centrally. A plan should be obtained which ties usage patterns to the actual plan.*
- Personal use of City cellular phones will be discouraged except for unusual circumstances.*
- Phone usage will be monitored to insure that only City business is conducted on the phone. Monthly detailed bills will be reviewed to determine if there was any apparent personal cellular phone usage.*
- Personal use of the phone which caused additional charges to the City should be reimbursed by the user or included as a taxable benefit to the employee.*
- Steps will be taken to insure that bills are paid in a timely manner to avoid late charges.*

9.

Travel

The city incurred travel related expenditures in excess of \$34,000 during 2003. These expenditures include lodging, meals, rental cars, airfare, registration, and mileage charged to the city's credit cards, reimbursed to the employees, or paid directly to the vendor. Our review identified questionable and unauthorized expenses.

- A. Travel expenditures were not always supported by adequate documentation, and some appeared unreasonable and excessive.
- There were numerous meal expenses charged to the city's credit cards, some appeared to be for more than one person, but there was no explanation of the business purpose and documentation was not sufficient to adequately review these expenses. The city does not have an established daily meal limit for employees. In one instance, a restaurant credit card receipt totaled \$403, but there was no detail on the meals served, or documentation of the number of individuals eating. While city officials indicated that numerous individuals attended the meal, it appears only six city employees were present on the trip. In another instance, one employee's hotel bill included individual meal charges ranging from \$40 to \$60. There were no detailed invoices to support

these charges and it is unclear if these charges included meals for more than one individual.

- We noted an instance where the cost of alcoholic beverages totaling \$18 was charged to a hotel bill and paid for by the city. The city's current policy has no provisions 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.
- Some hotel costs charged on city credit cards appeared to be excessive. We noted nightly charges as high as \$200 per night. The city does not have a policy addressing limits for hotel costs.
- Long distance telephone charges for two phone calls totaled \$70 on one hotel bill we reviewed. There was no explanation why a city cellular phone was not used instead of incurring these excessive amounts charged on the hotel bill.

Without detailed documentation to support travel expenses the city cannot ensure expenses are reasonable and proper. In addition, the city should establish guidelines for travel related costs to ensure all costs are reasonable.

- B. Travel and training costs are not always properly approved. Approximately \$5,000 of the \$34,000 in travel costs during 2003 was incurred by members of the City Council, and there is no documentation to ensure these travel expenses were properly approved by the City Council. Additionally, the city requires training for employees to be approved by the department head and the city manager; however, the employee training request form is not routinely prepared and submitted for approval.

Article III, Section 3.3 of the City Charter states city council members shall be reimbursed for expenses incurred in the performance of their duties as are authorized and itemized. City code, Chapter 26, Section 26-16, indicates that travel expenses must have prior approval by the city manager.

In September 2003, the city's travel policy was amended to require prior approval of all travel expenses for members of the City Council and the City Manager. Council minutes after this date include documentation of the council's approval of these expenses. The City Council should review travel expenses incurred by members of the council prior to September 2003 to ensure compliance with the City's Charter, and employee training request forms should be prepared and approved as required.

All travel related expenditures should be supported by adequate documentation to ensure only necessary and reasonable charges are paid by the city. To help ensure travel costs are adequately controlled, the city should consider establishing limits for daily meals and hotels. In addition, all travel expenses should be properly approved and authorized as required by the city code and city charter.

WE RECOMMEND the City Council ensure all travel expenses are necessary and reasonable, and are supported by adequate documentation. In addition, consideration should be given to establishing guidelines for travel related expenditures. Further, all travel expenses should be properly approved and authorized as required.

AUDITEE'S RESPONSE

The City Council provided the following responses:

Travel and training requirements for municipal employees and elected officials have expanded significantly in recent decades due to advances in technology, as well as liability, regulatory and legislative mandates. The City of Nevada's past approval and expense reimbursement procedures did not keep pace with these expanded training requirements and were inefficient to administer. The cost of documentation frequently exceeded the amounts being reimbursed.

The State Auditor's staff has provided useful suggestions. Standard operating guidelines have subsequently been updated and promulgated to provide adequate human resource and supervisory control while keeping the Finance Department's documentation expenses to a minimum.

During the past four years, paid holidays provided to state and federal employees (Columbus day and Martin Luther King Jr. day) have been set aside to provide in-service training in lieu of a holiday for city employees to minimize both training and attendant labor costs.

10.	City Vehicles
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Vehicle allowances paid to city employees are not based upon actual expenses, and mileage logs are not maintained on most of the city's 70 vehicles.

- A. Vehicle allowance payments totaling \$11,760 made to four employees during 2003 were not based on actual expenses incurred and some amounts paid do not appear reasonable.

The City Manager, the Director of Parks and Recreation, the Director of Economic Development, and the Golf Course Maintenance Supervisor receive a vehicle allowance for using a personal vehicle to conduct city business. These allowances range from \$150 per month paid to the Golf Course Maintenance Supervisor to \$350 per month paid to the Director of Economic Development. In addition, these same employees are also allowed additional reimbursement for actual mileage incurred outside of Vernon County. The city has no documentation to show the allowance amounts are reasonable compared to actual expenses incurred, and considering additional mileage is paid for travel outside of Vernon County, some monthly allowance amounts appear unreasonable. Using the city's current mileage reimbursement rate of 31 cents per mile, the \$350

monthly allowance paid to the Director of Economic Development represents approximately 1,129 miles per month.

To ensure proper reimbursement of travel expense, formal guidelines should be established to define those expenses to be covered, and the city should require these employees to document the mileage and vehicle expense incurred while conducting city business to ensure the reasonableness of the monthly allowance.

- B. Through its various departments, the city owns and operates approximately 70 vehicles. With the exception of the vehicles utilized by the police department, complete and detailed mileage logs are not maintained for most city owned vehicles.

Mileage logs are necessary to document appropriate use of the vehicles and to support fuel charges. The mileage and maintenance logs should include the purpose and destination of each trip, the daily beginning and ending odometer readings, and the operation and maintenance costs. These logs should be reviewed by a supervisor to ensure vehicles and equipment are used only for city business, and help identify vehicles and equipment which should be replaced. Information on the logs should be reconciled to fuel purchases and other maintenance charges.

WE RECOMMEND the City Council:

- A. Establish guidelines defining those expenses to be covered by employee vehicle allowances, and require documentation of actual mileage and vehicle expenses incurred while conducting city business to ensure amounts paid are reasonable.
- B. Require mileage and maintenance logs be maintained for all city vehicles.

AUDITEE'S RESPONSE

The City Council provided the following responses:

- A. *We believe that the comments regarding the City's payments to four employees for the auto allowances should not be an issue or concern. The car allowances are considered a part of the employees' compensation package and are included as taxable compensation to these employees. The City has not required these employees to turn in detailed logs of miles traveled in order to lessen the paperwork and monitoring for this travel. The assessment of whether the auto reimbursement is reasonable should be considered with the employee's annual evaluation. Any reimbursement for travel outside of Vernon County should be adequately supported by documentation, which is currently required.*
- B. *The Nevada Police Department maintains daily individual officer vehicle mileage logs for its road patrol, and has found the data sufficiently useful to warrant the cost of collecting and storing the attendant records for the preparation of activity reports and*

occasional supervisory reference. Road patrol mileage is believed to enhance visibility and can be one measure of an individual officer's productive activity. In contrast to the operations of many state agencies (where individuals travel significant distances alone and supervision can be a challenge), municipal public works crews, facility maintenance operations, code enforcement and building inspections, as well as fire and rescue operations all utilize other activity and daily personnel, material and equipment scheduling records (including but not limited to service and dispatch logs) which are more useful and cost effective for supervisory control and data acquisition.

11.

Bonus and Incentive Payments

Bonus/incentive payments were made to some employees as a supplement to their normal payroll. The city needs to review these payments to ensure compliance with the Missouri Constitution.

- A. Supplemental payroll payments were made to some employees when they started employment with the city. At the discretion of the department head, payments totaling \$550 were paid to 5 of the city's 35 new employees during 2003. These payments were made in addition to the regular salary, and there is no documentation of hours worked to support this supplemental payroll.
- B. Educational achievement bonuses were awarded to 7 police officers totaling \$7,000 during 2003. According to Chapter 25, Article VI, Section 25-6.110(f) of the city code, an educational achievement bonus is available for law enforcement personnel whose service record is exemplary, and whose bonuses are recommended by their immediate supervisor, the Chief of Police and the City Manager.
- C. Longevity bonuses totaling \$24,380 were awarded to employees during 2003. According to the city's personnel code, a longevity bonus of \$80 for the first year of service and \$20 for every year after is given to all employees on December 1 of each year. Our review of these bonuses noted that the City Manager received \$200 more than allowed by the personnel code based upon the date he began employment; however, the City Manager indicated that he was awarded an additional 10 years of service when he was hired. There is no documentation of this additional benefit awarded to the City Manager.
- D. The city offers an incentive program to employees who use 5 days or less of sick leave in one year. City employee receives \$25 in "Chamber Bucks" for each day not used for a maximum of \$125 in Chamber Bucks. The Chamber Bucks are purchased from the Chamber of Commerce and can be used as money at any business in the city that is a member of the Chamber of Commerce.
- E. Each full time employee receives a bonus check of \$175 at the end of each year. This bonus was initiated in 1999 when employees chose to implement a

retirement plan over a 2.5 percent cost of living raise. Since the total annual cost of the retirement plan was less than the raise, the city decided to pay the difference to employees in the form of a bonus. The city has continued paying the bonus to employees annually.

Awarding additional pay to employees on a discretionary basis in the form of bonuses appears to represent additional compensation and violates Article III, Section 39 of the Missouri Constitution. Attorney General's Opinion No. 72, 1955 to Pray, states, "...a government agency deriving its power and authority from the Constitution and laws of the state would be prohibited from granting extra compensation in the form of bonuses to public officers after the service has been rendered." The City Council should review the various bonus/incentive payments to ensure compliance with the Missouri Constitution and consider simply increasing the salary of these personnel to avoid the appearance of granting a bonus.

WE RECOMMEND the City Council review the bonus/incentive payments and clearly document how each payment is determined and in compliance with state law.

AUDITEE'S RESPONSE

The City Council provided the following responses:

The discretionary supplemental pay for new employees has been discontinued.

We believe the police educational achievement payments (established in 1997), the annual longevity pay and the \$175 annual payment (established in 1999 as part of that year's cost of living increase) are proper and allowable and will be continued.

The awarding of "chamber bucks" as a reward for unused sick pay is proper and allowable, but should be included as a taxable benefit to the employees.

12. Closed Meetings and City Code
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Minutes of closed meetings were not maintained, and some inconsistencies were noted with the city's code.

- A. The City Council held a closed meeting at a majority of the council meetings during 2003; however, minutes of these meetings were not prepared.

Minutes constitute the record of proceedings of the board. Failure to maintain minutes results in an inadequate record of city transactions, proceedings, and decisions. In addition, minutes help show that the closed discussions or business related to the specific reason announced for closing the meeting pursuant to the Sunshine Law, Chapter 610, RSMo 2000.

Effective August 28, 2004, Section 610.020, RSMo, provides that minutes of closed meetings should be prepared and retained.

- B. The city code and city charter appear to be in conflict regarding the position and duties of the City Finance Director. Article III, Section 3.8, of the city charter indicates that the City Treasurer is to serve at the pleasure of the City Council. Chapter 2, Article XXI, Section 2-77 of the city code specifies that the position of City Treasurer is synonymous with the City Finance Director.

In contrast to the city charter, Chapter 2, Article XXI, Section 2-78 of the city code, indicates that the City Manager will act as the chief administrative officer of the finance department and may delegate duties to the City Treasurer. In addition, the city's organizational chart places the position of Finance Director under the direction of the City Manager rather than under the direction of the City Council as appears to be required by the city charter. Similar conflicts were noted with the position of City Clerk.

As a home-rule charter city, the City of Nevada must adhere to the city charter as the governing authority for the city. The City Council should review the city code to ensure it is in conformity with the city charter.

- C. Chapters within the city code are not consistent regarding the municipal judges salary.
- Chapter 2 of the city code indicates the municipal judge's salary is outlined in Chapter 20 of the city code; however, the compensation of the municipal judge is not addressed in the city code. City officials indicated that the City Manager appoints the municipal judge and determines the compensation.
 - Chapter 25, Article I, Section 25-1.108 of the city code classifies the positions of City Manager, City Attorney, Municipal Judge and members of the board as exempt positions which are not salaried, or salaried under special contracts. This section also indicates that Articles II, III, IV, V, VI, and VIII are not applicable to these positions. These articles address various employee benefits such as vacation and sick leave, holidays, and employee bonuses. The city does not have a written contract with the City Manager, and provides benefits which the code indicates are not applicable.

The City Council should review the city code for consistency.

WE RECOMMEND the City Council:

- A. Ensure minutes are taken of all closed meetings.
- B. Review the city code to ensure it is in conformity with the city charter.

- C. Review the city code for consistency.

AUDITEE'S RESPONSE

The City Council provided the following responses:

- A. *Minutes are prepared for all closed meetings in accordance with the Missouri Sunshine Law and in a form approved by the City Attorney.*

B&C. The City of Nevada Code and the City Charter will be reviewed for inconsistencies.

HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

CITY OF NEVADA, MISSOURI
HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

The city of Nevada is located in Vernon County. The city was incorporated in 1869 and was voted as a home rule class-city in 1979. The population of the city in 2000 was 8,607.

The city government consists of a five-member council. The members are elected for three-year terms. The mayor is elected by the council for one year and presides over the city council. City Council members do not receive compensation. The Mayor, City Council, and other principal officials during the year ended December 31, 2003, are identified below.

Elected Officials	Dates of Service During the Year Ended 2003
Bill Edmonds, Mayor	April - December 2003
Bill Edmonds, Mayor Pro-Tem	January - March 2003
Richard Meyers, Mayor	January - March 2003
Tim Moore, Mayor Pro-Tem	April - December 2003
Tim Moore, Councilman	January - March 2003
Brian Leonard, Councilman	April - December 2003
Ben Mendenhall, Councilman	January - March 2003
Mike Straight, Councilman	April - December 2003
Marie Wessley, Councilwoman (1)	January - December 2003

Other Principal Officials	Dates of Service During the Year Ended 2003	Compensation Paid for the Year Ended December 31, 2003
Craig H. Hubler, City Manager	January - December 2003	\$ 80,959
Robin Fisher, City Clerk (2)	January - December 2003	28,764
Ronald Chandler, Finance Director	January - December 2003	48,982
Carol Branham, Parks and Recreation Director	January - December 2003	49,384
Sam Foursha, Director of Economic Development	January - December 2003	49,967
Larry Moore, Chief of Police (3)	January - October 2003	48,617
William Gillette, Fire Chief	January - December 2003	47,109
Whitney Davis, Director of Human Resources	January - December 2003	21,357
Ron Clow, Planning Director	January - December 2003	46,270
Wm. McCaffree, City Attorney	January - December 2003	20,504
Bryan Breckenridge, Municipal Judge	January - December 2003	15,759
Lee Guthrie, Prosecuting Attorney	January - December 2003	19,298
Cynthia Dye, Court Clerk	January - December 2003	21,768
Sherry Steward, Project Manager	January - December 2003	32,950
Johnny Preston, Street Supervisor	January - December 2003	46,943
Ed Louvier, Waste Water Treatment Plant Supervisor	January - December 2003	42,665
Joe Charles, Water Maintenance Director	January - December 2003	46,686
Carl Hoffman, Water Treatment Plant Superintendent	January - December 2003	43,826

- (1) Replaced by Jim Rayburn in April 2004.
- (2) Robin Fisher resigned as City Clerk in May 2004. Annette Crews, city manager's office director, was appointed Interim City Clerk. Julie Stumpff was hired as City Clerk in August 2004.
- (3) Chief of Police Larry Moore retired October 2003 and Gary Herstein was appointed the acting Chief of Police, November 2003. Christine Keim was hired in March 2004 as the Chief of Police.

The elected, appointed officials, and employees are covered by a \$150,000 blanket bond with a \$25,000 deductible. In addition, the City Manager is bonded for \$100,000 and the Finance Director is bonded for \$22,500.

In addition to the officials identified above, the city employed 110 full-time employees and 24 part-time employees on December 31, 2003.

Assessed valuations and tax rates for 2003 were as follows:

ASSESSED VALUATIONS

Real estate	\$	52,708,199
Personal property		33,387,071
Railroad and utility		2,078,285
Total	\$	<u>88,173,555</u>

TAX RATE(S) PER \$100 ASSESSED VALUATION

		<u>Rate</u>
General Fund	\$	0.5433
Library		0.1921

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

		<u>Rate</u>
General	\$.0100
Capital improvement		.0050
Transportation		.0050
Parks		.0050

The city also has a motel/hotel occupancy tax charged at the rate of 3 percent per gross receipts derived from transient guests for sleeping accommodations within the city.