Susan Montee, CPA

Missouri State Auditor

City of St. Peters

January 2008

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Office of
Missouri State Auditor
Susan Montee, CPA

January 2008

YELLOW SHEET

The following findings were included in our audit report on the City of St. Peters, Missouri.

The city of St. Peters is involved in a redevelopment project located in the Highway 370 corridor, called the Lakeside 370 project. The city estimates that the revenues from the sale of this land will exceed costs of obtaining and improving the land by $9.8 million. Our review of this project noted some concerns including: appraisals were not obtained for some land purchases, one bond series was not issued on a competitive basis, and the city did not formally request proposals for the redevelopment project. This project is ongoing and the city should continue to monitor its progress to ensure its successful completion.

The severance pay clauses in the city administrator and chief of police employment contracts are large. As of the end of October 2007, the city had a possible liability if the city administrator was terminated of approximately $801,000, and a possible liability if the chief of police was terminated of approximately $107,000.

The $900 monthly car allowance paid to the city administrator does not appear to be reasonable. Our analysis of the cost to the city of providing a city car indicated the monthly cost would be only $640. If the city elected to reimburse the city administrator at the city's current mileage reimbursement rate of 48.5 cents per mile, the monthly cost for 1,000 miles would be only $485.

The current city policy allows the city to solicit bids and enter into agreements that provide for the option to renew for various terms ranging from one to four years. However, the bids do not detail the specific prices or a maximum percent increase in the price for the option years. By not requiring bids with specific prices or percent increases in the option years, the city is unable to ensure they are receiving the lowest total bid price over the course of the entire contract period.

The city has not obtained proposals for general counsel legal services. The city paid an outside law firm approximately $278,000 during the year ending September 30, 2006, of which approximately $165,000 was for general counsel legal services.

Some receipts for local meals purchased by the current and former Mayor were not detailed enough for an adequate review. Receipts did not include any supporting documentation detailing the meeting and why it was necessary to provide a meal.

(over)

The city has not recently conducted a physical inventory of its capital assets and usage logs are not maintained for city vehicles. The Police Department is not making transmittals on a timely basis and the city is not formally documenting a review comparing water bills to the amount of water pumped and purchased.

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CITY OF ST. PETERS

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STATE AUDITOR'S REPORT

SUSAN MONTEE, CPA
Missouri State Auditor

To the Honorable Mayor
and
Members of the Board of Aldermen
City of St. Peters, Missouri

The State Auditor was petitioned under Section 29.230, RSMo, to audit the City of St. Peters. The city engaged Rubin Brown LLP, Certified Public Accountants (CPAs), to audit the city's financial statements for the year ended September 30, 2006. 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 September 30, 2006. The objectives of this audit were to:

1. Obtain an understanding of the petitioners' concerns and perform various procedures to determine their validity and significance.

2. Determine if the city has adequate internal controls over significant management and financial functions.

3. Determine if the city has complied with certain legal provisions.

Our methodology included reviewing minutes of meetings, written policies and procedures, financial records, and other pertinent documents; interviewing various personnel of the city, as well as certain external parties; and testing selected transactions.

We obtained an understanding of internal controls that are significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. However, providing an opinion on the effectiveness of internal controls was not an objective of our audit and accordingly, we do not express such an opinion.

We obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contract or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of

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noncompliance significant to those 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. Abuse, which refers to behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary given the facts and circumstances, does not necessarily involve noncompliance with legal provisions. Because the determination of abuse is subjective, our audit is not required to provide reasonable assurance of detecting abuse.

We conducted our audit in accordance with standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives.

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 St. Peters.

Susan Montee, CPA
State Auditor

The following auditors participated in the preparation of this report:

Director of Audits:	Thomas J. Kremer, CPA
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In-Charge Auditor:	Carl Zilch, Jr.
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MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

1. Lakeside 370 Project

The city did not obtain appraisals for some land acquisitions, did not go through a competitive bid process for a bond issue, and did not formally request proposals on a redevelopment project. The city may incur future costs on this project if the Letter of Map Revision (LOMR), which declares this area to be a 500 year flood plain, is not approved by the Federal Emergency Management Agency (FEMA).

The city is involved in a redevelopment project located in the Highway 370 corridor. This area of the city was mostly farmland located in a 100 year flood zone. The city's plan was to purchase the land, build a 500 year levee for the area, and then sell the land to a developer for a redevelopment project. In addition, the construction of the levee required significant amounts of dirt which the city planned to obtain from the redevelopment area and then turn this area into a lake with a surrounding city park.

In 1999, the city approved a Tax Increment Financing (TIF) district for this project of approximately 1,640 acres which included the levee. In April 2000, city voters approved obtaining general obligation bonds up to $35 million for land acquisition, engineering, and levee construction related to the project. The bonds were split into three issuances, $10 million approved by the Board of Aldermen in July 2000 for the land acquisition (which was refinanced in January 2004), $2.5 million in February 2002 for engineering services, and $22.5 million in September 2005 for the levee construction.

The city currently estimates that revenues will exceed costs by approximately $9.8 million. The following table shows the actual/estimated revenues and expenditures of the Lakeside 370 project:

Revenues	
Sale of Land at Closing	$24,600,000
Sale of Land after LOMR Approval(pending)	25,000,000
Interest	1,296,359
Miscellaneous	129,510
Total Revenues	51,025,869
Expenditures	
Levee Construction	$21,554,908
Land Acquisition	9,119,828
Interest on Bonds	3,844,097
Professional Services	2,814,368

Legal Expenses	948,329
Utility Relocation	868,702
Bond Issuance Costs	330,409
Miscellaneous	129,656
Estimate of items to be completed as of July 31, 2007	1,581,896
Total Expenditures	41,192,193
Revenues over Expenditures	$ 9,833,676

The following concerns were noted regarding this project:

A. Appraisals were not obtained for some land purchases and one land purchase involved a related party. The city spent $9.1 million acquiring 1,552 acres of land from eleven land owners ($5,900 per acre) from June 2000 through March 2005. The city obtained appraisals on seven of the eleven land purchases. The following land purchases did not have appraisals.

	Amount Paid	Acres	Average per Acre	Purchase Date
#1	$ 5,137,139	1,182.9	$ 4,343	August 2000
#2	99,435	13.6	7,311	March 2005
#3	90,709	8.1	11,199	June 2000

The $5.1 million land purchase was the second of the eleven land purchases made by the city. In addition, one land purchase for $1.5 million and 98 acres in January of 2002 involved a related party to the mayor in office at that time. An appraisal was obtained of the property by the land owner showing the price paid materially agreed to the appraisal. The average price per acre of this property was $15,000.

Good business practice requires that major real estate purchases be formally and independently appraised to ensure a reasonable price is paid, and that discussions and reasons supporting the eventual purchase price are documented.

B. Although the first two bond issuances and the refinancing bonds were issued on a competitive basis, the final bonds for $22.5 million were not. The city initially entered into a competitively bid contract to issue long term twenty year bonds; however, the city was threatened with litigation and stopped the process. City officials indicated they requested an opinion on whether the bond issue was valid and the court ruled the city should not issue these bonds until the levee permit was acquired from the Corps of Engineers. The city decided to not issue these specific bonds and instead entered into a no bid contract to issue short term three year bonds with a local bank. The plaintiff did not file another lawsuit before they were issued. Due in part to issuing shorter term bonds and dealing directly with the bond purchaser, the city obtained an interest rate which was 0.41 percent lower than the original bid contract and incurred $14,571 lower issuance costs. The city was able to retire this bond issue with the $24.6 million obtained at closing from the sale of the redevelopment project land.

Although the city was able to obtain less expensive short term financing, it is unknown what the financing costs would have been if they had extended this to 20 years. In most situations a formal bidding procedure will help ensure the city receives fair value by contracting with the lowest and best bidders. In addition, soliciting proposals and entering into a truly competitive bidding process provides the city a means to select the contractor best suited to provide the service required. Competitive bidding also helps ensure all parties are given equal opportunity to participate in the city's business.

C. The city did not formally request proposals for the redevelopment project. The city believed they were under pressure from the public and wanted to start the project as soon as possible. By accepting a developer and selling the land, they were guaranteeing money immediately and reducing the risk of having future problems through litigation and permit approvals. The city indicated they informally negotiated with several interested developers; however, they could provide no documentation of the discussions. The city further indicated these developers planned to pay for the land as it was developed, rather than the city receiving all monies up front, therefore, no formal offers were extended. In addition, the city indicated two formal offers received from another individual were significantly lower than the accepted developer's offer. An appraisal was obtained in June 2005 and valued the combined land as agricultural bottomland without the levee, at $15.5 million. In June 2005, the city entered into a joint redevelopment agreement with the development company. In May 2006, after going through several negotiations and amendments to the original agreement, the city entered into a final agreement with the developer which allowed the company to assign rights to the agreement to a different developer. The final sale price was $49.6 million. The city was paid $24.6 million at the closing and given a letter of credit for the remaining $25 million. The second payment of $25 million is to be paid when the city receives its LOMR from FEMA. As of October 18, 2007, the city has not received its LOMR.

To ensure the best possible price is obtained for property sold and to ensure all interested parties are given equal opportunities to participate, the city should seek formal requests for proposals for development projects.

D. As mentioned above, the LOMR has not been approved and the project is at risk. If the LOMR is not approved, the city will not receive the additional payment of $25 million and the city will have a loss on the project of over $15 million. The city has two outstanding general obligation bond issues relating to the project totaling $12.5 million. To pay the principal and interest on these bonds to date, the city has been using the small amount of TIF money generated from the project along with monies from the city's debt service fund. The city has projected enough of the redevelopment project will be complete by 2008 to generate sufficient TIF revenue to make the bond payments. However, if the project does not go through, the city will be responsible for paying these debt obligations from the debt service fund.

If the project proceeds, as a part of the redevelopment agreement the developer has agreed to build various infrastructure items in the area which will be reimbursed by the city up to a maximum of $19 million. The city will reimburse the developer $1 million per year for five years out of transportation money and then use 50 percent of the increase in property tax revenues and 50 percent of the sales tax revenue from the redevelopment area to pay the remaining costs. If the project does not generate enough revenue to retire the note, it will terminate with no penalty to the city 20 years after issuance. In addition, the agreement states that none of the TIF money will be pledged to the developer to help pay for various parts of the redevelopers project.

WE RECOMMEND the Board of Alderman:

A. Ensure independent appraisals are obtained for all future real estate purchases.

B. Ensure formal bids are obtained on all bond issues.

C. Obtain requests for proposals on development projects.

D. Continue to monitor the approval process to ensure the successful completion of the project.

AUDITEE'S RESPONSE

The findings in this area reflect no violations of State, Federal, or Municipal laws and regulations. These findings constitute no more than the opinion of the State Auditor's Office.

The City's practice and policy is to appraise land prior to purchase, and to receive competitive proposals on the sale of assets. In addition, the City's policy and practice is to sell its bonds on a competitive proposal basis. We will continue with these policies, but reserve the right to make exceptions when conditions dictate a modified approach. All actions taken with the 370 Project were in compliance with all State and Municipal law. The financial benefits of the 370 Project are actually documented within this report. The City purchased approximately 1,550 acres of land for an average price of $5,878 and a total cost of $9.1 Million. The individual parcels in this area appraised from a low of $3,200 to a high of $17,000 per acre depending on the location within the development area. In June 2005 the City had the entire area appraised at a value of $15,500,000 or $9,928 per acre. This was done prior to the execution of the sale agreement for approximately 1,250 acres to Kaplan for $49.6 Million or approximately $40,000 per acre. Based on these facts, the City actually purchased the land in the 370-development area for less than 60 percent of its appraised value, and then sold this land for four times its appraised value. The City's foresight in acquiring this land prior to making it more valuable resulted in a profit to our taxpayers of approximately $42.2 Million. All of this is on top of the estimated thousands of *jobs to be created by this project and the estimated $200 Million in future increased tax revenue to the various taxing districts in St. Charles County.*

This audit report expressed a concern regarding getting appraisals for all land purchases. The first two parcels were acquired without a specific appraisal. These landowners held a large percentage of land in the redevelopment area. The challenge was to get these properties purchased at pre-development values. The City had purchased other land in this general area for its water and sewer operations, and for the old town levee project. As such, we were well aware of the value of this land as flood plain farmland; however, the sellers valued this land as future development property along a major highway corridor. The above financial analysis reflects the City's success in securing this land at a very low price. The other two parcels were among some of the last parcels purchased. The seven appraisals on properties in the development area provided all the data needed to determine a reasonable price to pay for this land. In both these instances the City was faced with either accepting a final offer from the landowners or condemning these properties. The price paid fell within the range of appraisals the City had obtained in the area.

This report recommends the competitive sale of bonds. The City has consistently sold its bonds competitively and will continue to do so in the future. This report documents the reasons that the competitive sale of the $22.5 Million in GO bonds was rendered impossible because of court action filed against the City from a special interest group trying to halt the project. The negotiated sale of these bonds that was approved by the State Auditor's Office allowed the City to proceed with a project approved by more than 67 percent of the voters without any additional costs to the taxpayers and at lower interest rates on the bonds.

This report recommends that the City should have sold the 370 properties through a formal competitive proposal process. As noted in the report, the City on a number of occasions advertised its willingness to entertain offers from developers willing to invest significant money up front in the project and assume the risks associated with final approval and construction of the levee. The City had serious confidential negotiations with several developers prior to reaching a sale agreement with the Kaplan group. The city had the land appraised prior to the sale and in fact sold the land at four times its appraised value. In addition, the City received public offers of $5 Million and $12 Million from the Great Rivers Habitat Alliance. Both of these offers were significantly less than the ultimate sales price. The sale to the Kaplan group resulted in a guaranteed return on investment to our residents, and locked in a committed developer for the project.

Finally, the Auditor has noted the importance of continuing our efforts to secure a LOMR for the project area. We believe our efforts to date reflect our commitment to this project. The City will work with FEMA to comply with all that is necessary to complete this final step.

AUDITOR COMMENT

The estimated revenues from this project will exceed costs by approximately $9.8 million. The city's response indicates a profit of $42.2 million. This is the revenues of $49.6 million less only the cost of the land sold of $7.4 million.

2. Expenditures

The City Administrator and Chief of Police have large severance packages and the City Administrator receives a $900 a month car allowance. In addition, the city did not solicit bids or perform other price comparison procedures for some major purchases. The city has not properly documented the purpose of meetings for which local meals were purchased and has purchased food and catered meals for board meetings.

A. The city entered into employment contracts with the city administrator and chief of police. The following concerns were noted:

1. The severance pay clauses in the city administrator and chief of police employment contracts are large. In June 2007, the city entered into new employment contracts with the city administrator and the chief of police, effective June 14, 2007 through May 31, 2012. The new contract for the city administrator provides that if he is terminated by the city before expiration of the term of the contract, the city is to pay a lump sum cash payment equal to the remaining term of the contract and payment of six months of health and dental insurance premiums. In addition, upon expiration or termination of the contract, the city administrator shall also receive a lump sum cash payment equal to twelve months' salary. As of the end of October 2007, the city had a possible liability if the city administrator was terminated of approximately $801,000. If the chief of police's contract was terminated by the city before expiration of the term of employment, the city would have to pay a lump sum cash payment equal to twelve months salary. The city had a possible liability if the chief of police was terminated of approximately $107,000.

   The city should ensure the employment contract for its city administrator and chief of police is in the best interest of the city, and limit the city's potential liability for termination pay.

2. The $900 monthly car allowance paid to the city administrator does not appear to be reasonable. The employment contract for the city administrator allows for the city to either provide a full-size American made sedan not more than three years old or pay a $900 monthly car allowance. From April 2005 through October 2007, the city has been paying the monthly allowance. To justify this amount, city personnel prepared an analysis estimating the monthly costs of owning and maintaining a vehicle to be $1,198 which they reduced to the $900 amount. Our analysis of the cost to the city of providing a city car indicated the monthly cost would be only $640.

   The city based their analysis on a vehicle cost of $28,500. This was determined by the average price of a 2006 Ford Crown Victoria according to a pricing chart from Ford's website. The American Automobile Association (AAA) gives an average cost of a full size sedan at $24,620. The city calculated that a monthly auto payment would be $828 including interest and principal payments over a three-year financing agreement. However, if the city purchased the vehicle, there would be no financing costs. We instead included depreciation of $392 per month with a remaining value after three years of $10,495 based on the Kelly Blue Book. The city also included in their analysis sales tax, property tax, and interest costs of $116 per month which would not be applicable if the city purchased a vehicle. The cost of insurance and gas and maintenance in both analyses were approximately $250 per month. Both analyses assume the city administrator is driving 1,000 miles per month.

In addition, if the city elected to reimburse the city administrator at the city's current mileage reimbursement rate of 48.5 cents per mile, the monthly cost for 1,000 miles would be only $485. The $900 monthly allowance represents approximately 1,856 miles per month at the city’s reimbursement rate.

It appears that it would be less expensive for the city to provide the city administrator with a city vehicle or reimburse him for his city mileage.

B. The city did not solicit bids, request competitive proposals, or perform other price comparison procedures for some major transactions. The city has a purchasing policy detailing bidding and competitive pricing procedures to be followed. We had concerns related to the following purchases:

1. The current city policy allows the city to solicit bids and enter into agreements which provide the city the option to renew for various terms ranging from one to four years. However, the bids do not detail the specific prices or a maximum percent increase in the price for the option years. Currently, the city has entered into 45 of these agreements with various vendors. While the price did not increase in the option years for some contracts, in others there were price increases. For example, the city bid recycling bags in August of 2003 for $1.248 per roll. The contract was renewed with the same price in 2004, but in October of 2005, the contract was renewed with a price increase to $1.4857. The city documented the reason for the increase was due to an increase in cost of resin used to produce the recycling bags. By not requiring bids with specific prices or percent increases in the option years, the city is unable to ensure they are receiving the lowest total bid price over the course of the entire contract period.

2. In October 2006, the city entered into an agreement with a business to lease a portion of the newly expanded recreation facility and provide exercise and training services without soliciting proposals. The term of

the contract is from September 1, 2007 through August 31, 2012. The contract authorizes a lease payment of $144,000 annually for the first three years and $156,000 annually for the last two years of the agreement. Without soliciting proposals, the city cannot ensure it is receiving the best price on the agreement.

3. The city has not obtained proposals for general counsel legal services. The city paid an outside law firm approximately $278,000 during the year ending September 30, 2006, of which approximately $165,000 was for general counsel legal services. The city has been using this law firm since August 1999. The city's purchasing code outlines procedures for obtaining proposals for professional services, but the code does not mandate the city periodically obtain proposals for professional services. While professional services, such as attorneys, may not be subject to 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.

Routine use of a competitive procurement process (advertisement for bids, phone solicitations, written requests for proposals, etc.) for major purchases ensures the city has made every effort to receive the best and lowest price and all interested parties are given an equal opportunity to participate in city business. Documentation of the various proposals received, and the city's selection process and criteria should be retained to support decisions made.

C. Although the city requires the purpose of the meeting and the individuals present to be noted on the receipt or invoice for local meals, this information was not always provided by the current and former Mayor. Some receipts for local meals purchased by the current and former Mayor were not detailed enough for an adequate review. Receipts from local restaurants from February 2006 through June of 2007 for $71, $59, $40, and several smaller amounts did not include any supporting documentation detailing the meeting and why it was necessary to provide a meal. In some instances, there was no detail of the items purchased.

In addition, the city purchased food and catered meals costing approximately $6,500 for the year ended September 30, 2006 for Board of Aldermen meetings and work sessions. The city indicated they provided these meals because the meetings start around 5:00 in the evening and last several hours. Approximately 20 to 25 meals were provided to board members and staff for 40 meetings for an average price of approximately $6 to $8 per meal which appeared to be a reasonable price.

Without detailed supporting documentation including the purpose and detail of the items purchased, the city cannot determine if the expenditures were reasonable and necessary uses of public funds. The city's residents place a fiduciary trust in their public officials to expend public funds in a necessary and prudent manner. The city should ensure funds are spent only on items which are necessary and beneficial to city residents.

WE RECOMMEND the Board of Alderman:

A.1. Ensure employment contracts contain severance pay clauses which are reasonable given the length of the contract.

A.2. Review the reasonableness of the $900 monthly vehicle allowance and consider either providing the City Administrator with a city vehicle or reimbursing the vehicle mileage incurred rather than paying the current allowance.

B. Improve the current purchasing policy by requiring price quotes or limits for renewal options. In addition, the Board should ensure proposals are obtained for any future lease agreements. Finally, the purchasing policy should mandate periodic requests for proposals for the city's general legal counsel services.

C. Ensure all meal receipts are detailed and include the purpose of the meeting or the reason why a meal was necessary and the individuals present for the meal. The Board should ensure all expenditures are a necessary and prudent use of public funds.

AUDITEE'S RESPONSE

The findings in this area reflect no violations of State, Federal, or Municipal laws and regulations. These findings constitute no more than the opinion of the State Auditor's Office.

The Auditor has expressed concerns over the contracts of the City Administrator and Chief of Police. Under normal circumstances the City would agree with the State Auditor. Prior to these contracts, the City had never offered contracts with the guarantee provisions noted in this report. However, these particular contracts are in direct response to efforts by non-resident individuals to discredit and undermine the leadership of our City Administrator and Police Chief. This unusual special interest pressure against the City Administrator and Police Chief required extraordinary measures on behalf of the Mayor and Board of Aldermen to ensure stable day-to-day leadership of City staff. Both of these gentlemen are respected leaders in the community and have earned the confidence of the City staff that they supervise. These contracts were an intentional message both internally and externally as to the Mayor and Board of Aldermen's confidence in their continued leadership of the organization.

The Auditor expressed concerns regarding the car allowance paid to the City Administrator. The City respectfully disagrees. In 1997, our current City Administrator was hired pursuant to a nation-wide search. As part of the original recruitment package the City offered the City

Administrator the additional benefit of a vehicle to be used for both business and personal use. Providing this benefit as a monthly allowance that is included in the City Administrator's annual income reported to the IRS would appear to be consistent with the State Auditor's recent findings on this subject. State Audit Report No. 2007-64 issued by the State Auditor in October 2007, recommended that state officials pursue legislation regarding the proper use of state resources by elected and other state officials. This report criticized non-official use of state vehicles. Providing a City car for personal use would be contrary to the Auditor's previous stance on this subject. As such, providing a car allowance, which is included in the employee's W-2 earnings, is the appropriate means of providing this element of compensation to a political subdivision's top executive. In addition, the auditor is critical of the amount paid as the allowance. The Auditor has determined a monthly cost of $640. The after tax value of the City Administrator's monthly allowance is $540. Therefore, the City Administrator is actually $100 per month below the Auditors calculated amount. Again the full value of this allowance is reported as earnings to the IRS.

The Auditor expressed concerns that certain contracts that had been previously bid and awarded to a low bidder were extended at the same price for an additional year without bidding. First, it is important to reemphasize that the items noted are not a violation of any State or Municipal law and reflects merely the opinion of the Auditor. The Auditor recommends that we actually get the renewal pricing at the time of the original bid. The City believes that this practice would actually result in higher prices for the contracts in question. Multiple-year pricing would cause bidders to build in increases at each renewal to hedge against uncertain future market conditions. The City merely gives a vendor the option to hold its price for a second or third year. The vendor has to weigh this opportunity against the possibility of losing the business when re-bid. This generally results in the City holding the low bid price for multiple years. The items noted by the Auditor represent a very low percentage of the contracts and purchases made in any given year. The 45 items noted were out of a total of 1,777 purchase orders and contracts issued during the period or 2.5%. Of those 45, three were renewed with a slight price increase (less than 2/10th of a percent of the contracts and purchase orders issued), one of which is the blue bag purchase noted in this report. In all cases the renewal is documented and justified as to why the City's best interest is served in the renewal. In the case of the blue bags, when the resin market stabilized, formal bids were obtained and the price came down under more stable market conditions. This approach resulted in the City paying less than the now going rate for these items. The Auditor's suggestion of a mandated re-bid process is not a good substitute for sound management judgment that takes into account the market conditions in which a City operates. We believe our purchasing system combines the best aspects of competitive bidding and sound management decision-making.

The Auditor expressed concerns regarding the lease at the new REC-PLEX building. As a general rule we agree that such transactions should go through a competitive process. The City negotiated with this business, which offered a unique fitness service compatible with the overall REC-PLEX operation. There was desire to get this business to locate within the City. The rental amount provides an annual profit, after debt service, of approximately $50,000 to the REC-PLEX operations.

The Auditor suggests that the City periodically seek proposals for general counsel legal services. The City of St. Peters respectfully disagrees with this recommendation. Special counsel was appointed pursuant to the procedures called out for fourth class cities in Missouri Revised Statute 79.230 - Appointive Officers, which includes the method of selection for City Attorney and Special Counsel. The statute does not suggest nor require that this selection be done pursuant to a bidding process. Selection of a city attorney and special counsel is primarily dictated by their experience and expertise in municipal law. The hourly rates range from $70 to $195 per hour, which is at the low end of the market rates for experienced legal services.

The auditor expressed concerns over documentation related to lunch meeting expenses. Existing City policies actually require the documentation noted in this report. The items noted were petty cash transactions for which the custodian failed to obtain complete documentation. The City will make a more concentrated effort to ensure the proper documentation is maintained. The dollar amounts of the transactions were very low and the frequency of these meals is very low. Other than the need to maintain this documentation, the Auditor noted no improprieties. In addition, the auditor expressed concern over meals being provided to elected officials and staff prior to Board of Aldermen meetings. These meals are not extravagant and are purchased from City businesses on a rotational basis. On Board meeting nights, work sessions begin at 5 pm followed immediately by the Board of Aldermen meetings at 7 pm. These meetings rarely end before 9 pm. This requires that the Board of Aldermen come to the meeting directly from work and that City staff work through the normal dinner hour. Starting one hour later to allow for a dinner break has the negative impact of moving these meetings later into the evening and potentially creating a hardship for residents that desire to attend the meeting in person. The City will take this recommendation under advisement and will defer any action pending feedback from our citizens on this matter.

AUDITOR COMMENT

Neither this report nor the one referenced by the city indicated that providing either a vehicle allowance or a city vehicle for personal use, other than what is allowed by the IRS for commuting purposes, is appropriate.

3. Accounting Controls and Procedures

The city has not recently conducted a physical inventory of its capital assets and usage logs are not maintained for city vehicles. The Police Department is not making transmittals on a timely basis and, in addition, the city is not formally documenting a review of water bills to the amount of water pumped and purchased.

A. The city has not established procedures for an annual physical inventory of its capital assets. The city maintains a list of property by various departments and the assets are tagged as property of the city, but a physical inventory has not been conducted in at least eight years.

To ensure records are accurate and complete, an annual inventory of capital assets is necessary. Formal procedures for the annual physical inventory are necessary to ensure all personnel understand the duties assigned to them.

B. Monies received by the Police Department are not transmitted in a timely manner. The Police Department records section collects money for copies of various reports, photos, arrest record checks, etc. For the year ending September 30, 2006, the records section collected approximately $54,000. Transmittals are typically made weekly to the city's Citizens Action Center for deposit. A cash count conducted on August 8, 2007, showed the records section had over seven working days of collections, totaling approximately $926 and including approximately $280 in cash.

To adequately account for collections and reduce the risk of loss or misuse of funds, transmittals should be made on a timely basis. Transmittals should be more frequent if significant amounts of cash are collected.

C. The city does not formally document a reconciliation of the total gallons of water billed to customers to the gallons of water pumped and purchased by the city. The utility department has various reports showing the total amount of gallons of water billed to city customers. The Public Works department records the total number of gallons pumped for the month and the city also tracks the amount of water purchased from the city of St. Louis. Upon our request, the city calculated the gallons of water billed in the year ended September 30, 2006 was 1,956,000, which was 6 percent or 118,000 gallons less than the gallons of water pumped and purchased. The 6 percent difference appeared to be within a normal range as established by the Missouri Department of Natural Resources.

To help detect significant water loss on a timely basis and to help ensure all water usage is properly billed, the city should reconcile the total gallons of water pumped to the gallons of water billed on a monthly basis and investigate significant differences.

D. The city does not maintain usage logs for city vehicles. According to the city's capital asset records, the city owns approximately 268 vehicles. While the city has a fleet maintenance system which documents maintenance of each vehicle and fuel pumped out of the city's bulk fuel tanks for each of the city vehicles, individual records are not kept for each vehicle documenting dates, beginning and ending odometer readings, destination and purpose of trips, and the employee utilizing the vehicle. In addition, the city keeps records for their pool cars which show dates used and employee name, however, the records do not show destinations or mileage. Without adequate vehicle usage logs, the city cannot effectively ensure that vehicles are used for official business only.

In addition, the city allows four non-law enforcement employees to use their vehicles for commuting. This benefit is reported as taxable compensation to the employee at a rate of $1.50 for each one-way commute in compliance with IRS publication 15-B. Since usage logs are not maintained the city is not aware of the amount of commuting mileage on these vehicles and if it is reasonable.

WE RECOMMEND the Board of Alderman:

A. Ensure annual physical inventories are performed.

B. Transmit all monies on a timely basis.

C. Reconcile gallons of water pumped and purchased to the gallons billed on a monthly basis and investigate significant differences. In addition, the reconciliations should be documented.

D. Require usage logs be maintained on all city vehicles which identify the vehicle operator, dates of use, miles driven, and destination and purpose of trips. Limit commuting distances allowed for take home vehicles when reporting the fringe benefit under the commuting rule.

AUDITEE'S RESPONSE

The findings in this area reflect no violations of State, Federal, or Municipal laws and regulations. These findings constitute no more than the opinion of the State Auditor's Office.

The auditor recommends that annual fixed asset inventories be performed. The City believes this should be done on a 3 or 4-year cycle. The City endeavors to complete a physical inventory every 3 to 4 years. An inventory was planned for fiscal year 2005, but was delayed due to the implementation of GASB 34. GASB 34 requires cities to measure and record the value of its infrastructure in its financial statements. This monumental effort was completed one year earlier than the fiscal year 2007 GASB deadline. However, it did require that we postpone the planned physical inventory. Valuable assets of the City are specifically assigned to individuals and work teams. These items include cars, computers, heavy equipment, all of which are part of a detailed replacement program. This practice provides safeguards over these assets and reduces the need to do an actual complete physical inventory more often than 3 to 4 years. The Auditor found no irregularities in this area.

The Auditor recommends that miscellaneous cash receipts at the police department be deposited more frequently. Presently, this money is deposited weekly. There is less than $1,000 on hand at any point in time. These monies are in a secure location at the police department. There have been no problems with balancing and accounting for these deposits. As such, no change seems justified at this point. In the future, when Courts and Police are co-located at the new justice center, we can look at daily deposits being made along with the Court daily deposits.

The Auditor recommends a formal documented reconciliation of water pumped versus water billed be prepared monthly. As noted in the report the City prepared this reconciliation, which noted no problems. The City has no problem implementing this recommendation; however, due *to the time lag between the production of water and the billing to our customers, reconciliation on an annual basis is more meaningful.*

The auditor recommends usage logs for all vehicles. The City does not believe that this will result in stronger controls over vehicle usage. Only 4 of the City's 268 vehicles are assigned as take home vehicles. As stated previously, all vehicles are assigned to individuals that use these vehicles for 100 percent City business (typically within the boundaries of the City) and are parked in City facilities after hours. The City has policies in place that prohibit personal use of any City asset. We believe that a log system would not detect any misuse because an employee would not be motivated to document any misuse of the vehicle in a log. Instead, we oversee this area with daily supervision of staff and with information provided through the City's preventive maintenance programs and automated fueling system. Each employee is given a code to use when fueling and must enter their code and the vehicle's mileage in order to receive fuel. Staff in the Fleet Maintenance Department reviews the data extracted from the fueling system and any unusual activity is questioned and investigated at that time.

HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

CITY OF ST. PETERS
HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

The city of St. Peters is located in St. Charles County. The city was incorporated in 1910 and is currently a fourth-class city. The population of the city in 2000 was 51,381.

The city government consists of a mayor and eight-member board of aldermen. The members are elected for 4-year terms. The mayor is elected for a four-year term, presides over the board of aldermen, and votes only in the case of a tie. The Mayor, Board of Aldermen, and other officials during the year ended September 30, 2006, are identified below. The Mayor is paid $44,250 and Board of Aldermen members are paid $13,180 annually. The compensation of these officials is established by ordinance**.**

Mayor and Board of Aldermen	Dates of Service During the Year Ended September 30, 2006
Shawn Brown, Mayor (1)	October 2005 – September 2006
John Reitmeyer, Alderman	October 2005 – September 2006
Terry Hawkins, Alderman (2)	October 2005 – September 2006
Jerry B. Hollingsworth, Alderman	October 2005 – September 2006
David Hayes, Alderman (3)	October 2005 – September 2006
Bruce W. Holt, Alderman	October 2005 – September 2006
Leonard B. Pagano, Alderman (4)	October 2005 – September 2006
Patrick Barclay, Alderman	October 2005 – September 2006
Robert Morrison, Alderman (5)	October 2005 – September 2006

Other Officials	Dates of Service During the Year Ended September 30, 2006	Compensation Paid for the Year Ended September 30, 2006
William Charnisky, City Administrator (6)	October 2005 - September 2006	$ 179,411
Timothy Wilkinson, Assistant City Administrator (7)	October 2005 - September 2006	122,190
Russell Batzel, Manager of Public Works Services (8)	October 2005 - September 2006	114,765
Thomas Bishop, Chief of Police (9)	October 2005 - September 2006	111,311
William J. Hutsler, Manager of Parks and Recreation Services (10)	October 2005 - September 2006	108,016
Cathy Pratt, Manager Engineering and Development Services (9)	October 2005 - September 2006	103,053

Ronald Darling, Manager of Health and Environmental Services (11)	October 2005 - September 2006	98,695
Donald L Kohl, Municipal Judge *	October 2005 - September 2006	30,000
Hazelwood and Weber LLC, Special Counsel (12)	October 2005 - September 2006	
Rita Westerson, City Collector (13)	October 2005 - September 2006	0
Morrison Law LLC (14)	October 2005 - November 2005	
McDonough and Cashion, LLC (15)	December 2005 - January 2006	
McDonough Law Firm, LLC (16)	February 2006 - September 2006	
Rhonda Shaw, City Clerk	October 2005 - September 2006	72,696
Dale Brown, City Treasurer	October 2005 - September 2006	900

* Elected position

(1) Shawn Brown resigned in October 2006 and Bruce Holt, Board President, assumed the duties of mayor. Leonard B. Pagano was elected Mayor in April 2007.
(2) Dave Thomas was elected Alderman in April of 2007.
(3) Judy Bateman was elected Alderman in April of 2007.
(4) Gus Elliot was elected Alderman in April 2007.
(5) Don Aytes was elected Alderman in April 2007.
(6) The compensation includes $20,000 for deferred compensation benefit, $10,800 for car allowance, and $6,131 for LAGERS contribution.
(7) The compensation includes $6,500 for deferred compensation.
(8) The compensation includes $3,900 in deferred compensation benefit and $687 for commuting vehicle allowance.
(9) The compensation includes $3,900 in deferred compensation benefit.
(10) The compensation includes $3,900 in deferred compensation benefit and $678 for commuting vehicle allowance.
(11) The compensation includes $3,900 in deferred compensation benefit and $675 for commuting vehicle allowance.
(12) The city was billed on a hourly basis by the law firm of Hazelwood and Weber, LLC for Special Counsel. The city paid $277,869 for legal services for the year ended September 30, 2006.
(13) This position does not receive compensation and is filled by the city accounting manager.
(14) The city was billed on a hourly basis by the law firm of Morrison Law, LLC for Prosecuting Attorney. The city paid $17,116 for the year ended September 30, 2006. The law firm resigned in November of 2005 and was replaced by McDonough and Cashion, LLC.
(15) The city was billed on a hourly basis by the law firm of McDonough and Cashion, LLC for Prosecuting Attorney. The city paid $13,883 for the year ended September 30, 2006. The law firm resigned in January of 2006 and was replaced by McDonough Law Firm, LLC.
(16) The city was billed on a hourly basis by the law firm of McDonough Law Firm, LLC for Prosecuting Attorney. The city paid $45,562 for the year ended September 30, 2006. The law firm resigned in May of 2007 and was replaced by Frahm Law Firm, LLC.

In addition to the officials identified above, the city employed 499 full-time employees on September 30, 2006.

Assessed valuations and tax rates for 2007 and 2006 were as follows:

ASSESSED VALUATIONS		2007	2006
Real estate	$	924,201,236	842,747,200
Personal property		156,601,934	155,794,342
Total	$	1,080,803,170	998,541,542

TAX RATE(S) PER $100 ASSESSED VALUATION

		2007 Rate	2006 Rate
General Fund	$	.5300	.5500
Debt Service		.2400	.2500

TAX RATE(S) PER $1 OF RETAIL SALES

		2007 Rate	2006 Rate
General	$	0.0100	0.0100
Transportation		0.0050	0.0050
Local Park and Storm Water		0.0010	0.0010