



Susan Montee, CPA
Missouri State Auditor

City of St. Joseph



February 2009
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Office of the
Missouri State Auditor
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The following findings were included in our audit report on the city of St. Joseph.

Due to sewer overflow problems, the city will have to spend an estimated \$450 million over the next 120 years to be in compliance with federal and state standards, if the city's plan is approved by regulatory agencies. The cost of this project would mean at least a 200 percent increase in customer sewer bills. During measurable rainfall or significant snow melt, the city's sewer system cannot handle the additional flow and, as a result, runoff containing raw sewage flows into the Missouri River. According to the city's long term control plan, in a typical year, there are 78 overflows and approximately 2.9 billion gallons of untreated water overflowing into the Missouri River, in violation of the federal Clean Water Act. Environmental Protection Agency standards require that the city limit the overflows to no more than 4 times per year.

Over \$300,000 was transferred from the Sewer Fund to the Aviation Fund over the last 5 years as compensation for dumping sewer sludge on airport farmland. Justification for these transfers have not been maintained and whether this is the most cost efficient means of disposing of sludge is unclear.

The city of St. Joseph paid St. Joseph Museums, Inc. (SJMI) more than \$2 million during the 5 years ended June 30, 2007, to manage the municipal museum under a contract that was declared unlawful and void by the courts in April 2007. Although the contract was deemed void, the city allowed SJMI to continue to operate a museum in the city-owned mansion and collect admission fees, without a valid contract. The Museum Oversight Board (MOB) has not complied with all of the requirements stated in the charter nor has the MOB ensured SJMI complied with the requirements. The SJMI Board did not provide invoices to the MOB to support payment of tax monies to SJMI, nor did it provide an annual report to the MOB as required.

Of approximately 650 city employees, more than 230 have city-issued procurement cards (35 percent). During the year ended June 30, 2007, procurement card purchases totaled approximately \$2.4 million. The city has not adequately analyzed the need for the procurement cards based upon employee use, does not have adequate review procedures in place, and excessive spending limits have exposed the city to unnecessary liability. Procurement card and travel expenditures were not always necessary and prudent, some prohibited and unauthorized purchases were made, and adequate documentation was not always submitted.

Some disbursements or contributions of money and property to various entities do not appear to be prudent, reasonable, or necessary uses of city funds and may violate the Missouri Constitution. The city made contributions to various entities totaling at least \$100,000 during the year ended June 30, 2007, that were not supported by contracts. In addition, the city made several donations of city-owned property that had an original cost of over \$273,000.

YELLOW SHEET

At least \$900,000 in interfund transfers and various landfill discounts were made during the year ended June 30, 2007, that appear to be for the purpose of subsidizing other funds. Of this amount, over \$700,000 was from restricted funds. In addition, the indirect cost allocation plan (CAP) and the public works cost allocation plan (PWCP), which are used to determine administrative transfers, are largely based on estimates and no formal time studies have been performed to determine the amounts of some of these transfers. Many of the actual CAP and PWCP administrative transfers differed from the amounts calculated in those plans and some transfers were not approved by the City Council or were not supported by adequate documentation.

The City Council and the Museum Committee did not post agendas or maintain minutes of some meetings. In addition, various "confidential" memos that are not specifically closed according to the Sunshine Law have not been made available to the public.

The city has not sought legal opinions concerning longevity payments to employees. The city has a longevity program whereby any employee attaining 16 years of employment with the city is awarded a one-time net payment of \$1,500. During the 2 years ended June 30, 2008, payments totaling approximately \$54,000 were made to employees. It is unclear whether these payments violate the Missouri Constitution as they grant additional compensation for services already rendered. In addition, the city made vehicle allowance payments totaling \$36,840 to the City Manager, Mayor, and City Council in 2007; however, the payments are not based on actual expenses and the city does not have any documentation to support how these amounts were determined or to show they were reasonable.

The city owns over 520 vehicles with a total acquisition cost to the city of approximately \$14 million and spent over \$1.2 million on fuel during the year ended June 30, 2007. Usage logs for city-owned vehicles are not always maintained. At least 25 city-owned vehicles were assigned as employee take-home vehicles, not including police vehicles, but justification for allowing employees to take vehicles home is not documented and commuting mileage was not always properly reported and taxed. In addition, comparisons of fuel used to the fuel purchases are not performed by the Landfill, Parks and Recreation, and Street Departments and access to fuel tanks is not adequately controlled and limited at the Parks and Recreation Department.

The city provided cellular phones or PDAs to approximately 115 employees and did not adequately monitor personal use of cellular phones and PDAs or require employees to indicate personal use on the phone bills. The city exceeded plan minutes 6 out of 12 months during the year ended June 30, 2007, and no employees were required to reimburse the city for personal usage for the months in which plan minutes were exceeded. The city paid approximately \$75,000 during the year ended June 30, 2007, for cellular phone and PDA services. In addition, the city has not evaluated the cost and distribution of cellular phones and other mobile technology to determine if all devices assigned are necessary.

The audit also includes recommendations related to sewer billing, contracts, budgetary practices, cash controls, and land and capital assets.

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

CITY OF ST. JOSEPH

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STATE AUDITOR'S REPORT



SUSAN MONTEE, CPA
Missouri State Auditor

To the Honorable Mayor
and
Members of the City Council
St. Joseph, Missouri

The State Auditor was petitioned under Section 29.230, RSMo, to audit the city of St. Joseph. The city engaged Cochran Head Vick & Co., P.C., Certified Public Accountants (CPAs), to audit the city's financial statements for the year ended June 30, 2007. To minimize duplication of effort, we reviewed the report and substantiating working papers of the CPA firm. The scope of our audit included, but was not necessarily limited to, the year ended June 30, 2007. The objectives of our 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, grant agreement, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions. 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 the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis.

The accompanying History, Organization, and Statistical Information is presented for informational purposes. This information was obtained from the city's management and its audited financial reports and was not subjected to the procedures applied in our audit of the city.

The accompanying Management Advisory Report presents our findings arising from our audit of the city of St. Joseph.

An additional report, No. 2008-04, *Fifth Judicial Circuit, City of St. Joseph, Municipal Division*, was issued in January 2008.



Susan Montee, CPA
State Auditor

The following auditors participated in the preparation of this report:

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MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

CITY OF ST. JOSEPH
MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

1.	Sewer System Concerns
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Due to sewer overflow problems, the city's sewer system must be brought up to federal and state standards, which will cost an estimated \$450 million if the city's plan is approved by regulatory agencies. About the same time this plan was being developed, sewer rates outside the city limits were increased 113 percent in one year with little to support how that increase was determined. In addition, justification of how transfers from the Sewer Fund to the Aviation Fund are calculated is not maintained. Also, the city of St. Joseph does not have comprehensive policies and procedures for the recognition, collection, and accounting of overdue customer accounts, and adjustments to customer accounts are not reviewed and approved by supervisors.

Sewer system revenues totaled approximately \$10.2 million during the year ended June 30, 2007, and there were approximately 26,800 residential and commercial customers.

- A. In order to bring the city's sewer overflow problems into compliance with state and federal standards, the city will have to spend an estimated \$450 million over the next 120 years to correct the violations. The cost of this project would mean at least a 200 percent increase in customer sewer bills.

The sewer system in the city of St. Joseph is an aging system with the majority of the 318 miles of sewer lines being combined lines, which means the wastewater and storm runoff both empty into the same lines and are both treated by the wastewater plant. When rain occurs, the city's sewer system cannot handle the additional flow and, as a result, runoff containing raw sewage flows into the Missouri River, in violation of the federal Clean Water Act. Overflows occur whenever there is measurable rainfall or significant snow melt. According to the city's long term control plan, in a typical year there were 78 overflows and approximately 2.9 billion gallons of untreated water overflow into the Missouri River.

Environmental Protection Agency (EPA) standards require the city either 1) demonstrate these overflows have no detrimental effect on the waterways they flow into, or 2) limit the overflows to no more than four times per year. Until recently, the city had chosen option number one and was able to demonstrate no detrimental effects. However, due to recently implemented disinfection requirements, the city can no longer demonstrate no detrimental effect. Therefore, the city must now implement option number two and reduce its overflows to four times per year.

The city's independent engineers presented several alternatives to the city to correct these overflow problems, including a complete separation of the storm water and wastewater sewer pipes, which is estimated to cost approximately \$850 million. Therefore, the city chose a less costly option, alternative four, which includes building detention basins to hold untreated water during rains and then releasing the water back into the sewer system when the system is able to handle it. The EPA has apparently accepted this option, but the proposed plan for implementing this alternative is still pending approval.

This project would require three phases and would cost an estimated \$450 million in today's dollars. The first phase would cost \$150 million over 40 years and would reduce overflows to 12 times per year. The second phase would take place over the subsequent 53 years at a cost of \$200 million and would reduce overflows to 6 times per year. The final phase would bring overflows down to the maximum 4 times per year requirement and would take an additional 27 years to complete at a cost of \$100 million.

This project would require customers' monthly sewer bills to triple, from an average of \$20 a month to \$60. EPA residential sewer rate policy guidelines suggest limiting sewer rates to 2 percent of median household income; therefore, the city cannot increase sewer rates to much more than \$60 per month or the average bill will exceed this suggested limit. Due to these revenue constraints, the city cannot afford to pay for this project in the short-term, and is seeking approval to complete the project in three phases over 120 years, as described above.

The city submitted its plan to the Missouri Department of Natural Resources (DNR) in February 2008 and the proposed plan is still pending. In order to ensure compliance with federal and state guidelines, the city should continue to work with the regulatory agencies to obtain approval of its long-term plan to reduce overflows to an acceptable level.

- B. In 2005, the city increased the base rates charged to customers outside the city limits by 113 percent when its annual independent rate study suggested a 6 percent increase. At the same time, the city increased city resident base rates by the engineer's suggested 6 percent.

City officials stated the city had no cost study or rate formula to support the 113 percent increase in rates to customers outside the city. While Section 250.190, RSMo, allows cities to charge non-residents higher sewer fees than those paid by residents, the city had little support to indicate why the non-resident rate was substantially higher than the resident rate or how this increase was determined.

- C. Over \$300,000 was transferred from the Sewer Fund to the Aviation Fund over the last 5 years as compensation for dumping sewer sludge (bio-solids) at the airport. However, justification for the amount of the transfers is not maintained

and whether this is the most cost efficient means of disposing of sludge is unclear. In addition, the city did not have contracts with landowners for dumping of sewer sludge on private farmland.

- 1) The city could not provide justification to support over \$300,000 transferred from the Sewer Fund to the Aviation Fund over the last 5 years (approximately \$61,560 per year) for dumping sewer sludge (bio-solids) at the airport. According to the Public Works Director, these transfers were made to off-set lost rental revenues the Aviation Fund would have received by leasing the affected airport land to local farmers. However, the city dumped the majority (70 percent) of bio-solids free-of-charge on various private farm lands during the year ended June 30, 2007.

According to the city's bio-solids reports, bio-solids were applied to 179 acres at the airport in 2007. Other farmland at the airport is currently being leased for \$106 per acre per year. Had the Sewer Fund been charged the same as the lease rate, the cost for dumping in 2007 (770 tons) would have been only \$19,044.

- 2) The city could not produce any contracts with landowners for the time period 2002 through 2007 for dumping bio-solids on private farmland.

In addition to dumping bio-solids on airport land, in 2007 the city dumped 306 tons of bio-solids at the city landfill for fees totaling \$12,193 and 2,547 tons of bio-solids on various private farmland free-of-charge. When bio-solids are dumped on farmland, they act as fertilizer for the land; therefore, it is a benefit to the landowners. The Public Works Director stated the city does not attempt to sell its bio-solids due to liability concerns of dumping on private land.

In addition, according to a Public Works employee, the city has not advertised for the dumping on private farmland in recent years.

Section 432.070, RSMo, requires that all contracts entered into by the city be in writing. In addition, if the city advertised for dumping bio-solids, it could potentially sell, or at least dump, all bio-solids on private land free-of-charge without making any transfers from the Sewer Fund.

- D. While the city contracts with the local water company to bill and collect sewer fees for the city, this contract does not contain adequate provisions for the collection of delinquent sewer bills. The contract does not provide the city enforcement authority for collection of its delinquent sewer accounts, which totaled \$958,650 as of December 2007. In addition, the city does not have a written policy in place for sewer bill adjustments.

- 1) The contract with the water company does not contain adequate provisions to allow the city to have control over the collection of delinquent sewer accounts. The city pays the local water company approximately \$250,000 per year for billing services (68 cents per bill). The water company, by contract, agrees to observe the same policies and procedures and use the same diligence in the billing, collecting, and accounting of the city's sewer service accounts as it uses for its own water service accounts. The water company uses a collection agency to collect past due fees (including sewer fees). However, the city does not have a formal contract with the collection agency for collection of delinquent sewer fees.

The city paid collection agency fees of \$994 during the year ended June 30, 2007, for collection of \$5,244 in past due sewer fees. When an account is sent to the collection agency by the water company, it is written off and the city is notified. A total of \$182,968 was written off during the year ended June 30, 2007, and past due accounts totaling \$958,650 were submitted to the collection agency as of December 31, 2007.

In addition, the city's contract with the water company states that any payment on a delinquent account will first be applied to the water portion of the bill. It also states that if only the sewer portion is delinquent, the customer's water service will not be shut off.

To ensure the city has proper control over collections and write-offs of delinquent accounts, the city should consider its options and possibly contract directly with a collection agency or update the contract with the water company to adequately address collection of sewer fees.

- 2) There is no written policy in place for sewer bill adjustments and any adjustments made are not reviewed and approved by supervisors.

If residents believe their sewer bills are incorrect, they can request an adjustment be made by the city. However, there is no formal policy related to sewer bill adjustments. In addition, adjustments to residential customers' bills are performed by one person in the city, with no supervisory approval. During the year ended June 30, 2007, the city made adjustments totaling \$50,760. Formal policies are necessary to ensure fair and consistent treatment for all customers.

WE RECOMMEND the City Council:

- A. Continue to work with regulatory agencies to develop a long-term plan for the sewer system to ensure compliance with the federal and state standards.
- B. Develop support to justify substantial differences between non-resident and resident sewer rates.

- C. Ensure the city uses the most cost-effective means of disposing of bio-solids. Justification should be maintained to support any transfers made from the Sewer Fund related to these disposals. In addition, all city contracts should be in writing as required by state law and all contracts should be properly advertised.
- D. Review the contract with the water company and ensure adequate provisions are included to establish procedures for the collection of delinquent sewer bills. In addition, the city should develop formal policies and procedures related to sewer bill adjustments.

2.

Municipal Museum Tax

The city of St. Joseph paid St. Joseph Museums, Inc. (SJMI), a not-for-profit corporation, more than \$2 million during the 5 years ended June 30, 2007, to manage the municipal museum under a contract that was declared unlawful and void by the courts in April 2007. The city and SJMI signed a new contract in July 2008. However, between April 2007 and July 2008, the city allowed SJMI to manage the museum in a city-owned mansion without a contract. The city's Museum Oversight Board (MOB), which was established by a charter amendment in November 2006, has not complied with all of the requirements stated in the charter nor has the MOB ensured SJMI complied with the requirements stated in the charter.

SJMI was established in 1927 by pro forma decree of incorporation and was originally called the Children's Museum of St. Joseph, Missouri. In 1948, the citizens of the city voted for a museum tax levy of 5 cents on each \$100 assessed valuation. In 1949, SJMI gave a mansion to the city to be used as a municipal museum. According to the contract terms of that gift, if the mansion shall cease to be used for public museum purposes, ownership will revert back to SJMI. Since 1985, the municipal museum has been managed by SJMI. However, the other buildings in the city that house SJMI museums are not owned by the city.

The city made monthly disbursements of all museum tax monies collected (totaling approximately \$400,000 per year) to SJMI. While the city informally required SJMI to provide invoices detailing expenditures before a museum tax disbursement was authorized by the city, the formal contract between the city and SJMI did not require this supporting documentation. In January 2007, a lawsuit was filed by museum members and other plaintiffs that, among other things, sought injunctive relief to end the unlawful payments to SJMI by the city.

Our review of this situation revealed the following concerns:

- A. From July 2002 through April 2007, the city paid the museum over \$2 million on an illegal contract. In addition, once the contract was deemed void, the city allowed SJMI to continue to operate a museum in the city-owned mansion, and collect admission fees, without a valid contract.

The judgment from the 2007 lawsuit found the contract between SJMI and the city to be unlawful and void because it did not formally provide for adequate oversight of tax monies provided to a non-governmental entity.

The judgment also stated that no future payments from the museum tax levy should be disbursed by the city to SJMI under the voided contract. As of March 2008, the city had not paid the museum any tax levy proceeds since April 2007, based on the judge's ruling. However, despite the April 2007 judgment, SJMI has continued to manage the museum in the city-owned mansion without a valid contract and has retained all admission fees collected. Section 432.070, RSMo, requires local government contracts to be in writing.

An interim contract was proposed by the city in June 2007, but was not accepted by SJMI. After over a year of negotiations, a new contract was signed in July 2008.

- B. The city's MOB and the SJMI Board have not complied with various provisions of the charter amendment or the city's administrative procedures.

In November 2006, the citizens voted to amend the city's charter to establish a MOB. The amendment established the various duties and responsibilities of the MOB, as well as the SJMI Board's obligations. It also stated the city council would establish administrative procedures for the MOB. It appears the city, the MOB, and the SJMI Board have not complied with the majority of these provisions.

For example, the SJMI Board did not provide invoices to the MOB to support payment of museum tax monies to SJMI, nor did SJMI provide an annual report to the MOB by the last Monday in July, as required. In addition, the MOB has not been involved in decision making regarding the appropriate purchase, lease, and custody of museum exhibits and supplies specifically funded by the museum tax levy, as required by the charter.

The city, MOB, and SJMI Board should ensure compliance with these requirements. If these requirements are no longer applicable, the city's charter and/or administrative procedures should be amended accordingly.

WE RECOMMEND the City Council:

- A. Ensure any future disbursements of museum tax revenues are supported by a written contract that provides for the adequate oversight of museum expenditures and operations. No disbursements should be made without a contract in place. In addition, SJMI should not operate a museum in the city-owned mansion without a contract in place.

- B. Ensure the city, the MOB, and the SJMI Board are in compliance with the city's charter and the administrative procedures adopted by the city council. If these provisions are no longer applicable, the charter and/or administrative procedures should be amended accordingly.

3.

Procurement Card and Travel Expenditures

The city has inadequate controls over procurement card and travel expenditures. We identified excessive procurement card spending limits, inadequate oversight of both procurement card and travel expenditures, and numerous violations of procurement card and travel policies, including unauthorized and/or unnecessary purchases, and inadequate supporting documentation.

Costs associated with travel on city business can either be charged to a procurement card or paid by the employee and reimbursed. Two types of logs are required to be maintained by each applicable employee, one for posting all costs incurred for each trip taken and one for posting monthly procurement card transactions.

Of approximately 650 city employees, more than 230 have city-issued procurement cards (35 percent). The procurement card is an official VISA credit card which is designed to provide a more convenient procurement method than the purchase order system. Each procurement card has individual transaction limits of \$500 or \$1,000 and generally, a monthly spending limit of \$10,000. During the year ended June 30, 2007, procurement card purchases totaled approximately \$2.4 million.

- A. The city has not adequately analyzed the need for issuing 230 procurement cards based upon employee use, and excessive spending limits have exposed the city to unnecessary liability. The city has not established criteria related to the number or type of employees who should be issued procurement cards. The decision as to which employee should be issued procurement cards is left to the discretion of each department head. Further, transaction limits assigned to some city employees appear excessive. For example, 64 cardholders each charged less than \$1,000 in total during the year ended June 30, 2007, with 15 of these employees each charging less than \$100 in total. Many of these employees had individual transaction limits of \$1,000 and each of these employees had monthly transaction limits of \$10,000.

The city should develop criteria for determining which employees are eligible to receive a city-issued procurement card to ensure cards are only issued to employees that need them to perform assigned duties. In addition, the city should reevaluate the reasonableness of procurement card limits and provide cards with appropriate transaction and monthly limits.

- B. The city does not have adequate review procedures in place to ensure procurement card expenditures were purchased in accordance with established

policies and procedures. Inadequate internal controls and a lack of oversight over procurement card expenditures allowed the problems noted in parts C through E to occur.

According to the procurement card policy, the procurement cards are designed to make it easier to make small dollar purchases (less than \$1,000) because less time is spent obtaining approval and the cardholder is empowered to make purchasing decisions. Employees receive monthly procurement card logs which they are required to reconcile to their paid receipts. The reconciled logs and corresponding paid receipts must be submitted to the Financial Services Department within five days of the end of the month and the Financial Services Director and his/her staff (currently the Accounting Division) are responsible for reviewing and reconciling all applicable procurement card transactions. However, Accounting Division personnel stated they do not review all the logs as required by the procurement card policy because they do not have the time or the staffing to review 230 statements each month. In addition, no review documentation or listings of the logs reviewed each month is maintained.

Some logs appeared to have been reviewed by the Accounting Division and additional information requested from the card holder (based on notes made on these logs). According to Accounting Division personnel, they spot check all expenditures over \$500 and scan them for unusual items and to ensure that bidding procedures are not circumvented. We noted several instances in which the Accounting Division had to contact an employee or department director due to an error or missing information related to a procurement card log. Accounting Division personnel indicated it is up to the applicable department head to ensure the logs are complete prior to submitting them to the Accounting Division. In addition, the procurement card policy states the department manager or director is responsible for assigning the responsible parties for monthly statement reconciliations and approving the monthly statements for each cardholder.

However, based on the fact that the Accounting Division had to request additional information numerous times from a procurement cardholder, it appears the department managers/directors are not adequately reviewing the logs and supporting documentation.

Considering the large amount of procurement card purchases made by employees, the city should ensure established internal controls and review policies are followed.

- C. Procurement card and travel expenditures were not always necessary and prudent and some prohibited and unauthorized purchases were made. Since most travel expenditures and local purchases are charged to procurement cards, we reviewed a total of 24 monthly billing statements for cards issued to 10 city employees/officials (approximately 2 statements per person). We noted the following concerns:

1) Some procurement card and travel expenses reviewed appeared to be prohibited/unauthorized purchases or violated the procurement card and travel policies and procedures.

- We noted 3 instances in which the allowable daily per diem for meals and incidentals was exceeded. The Community Development Director exceeded the daily per diem over a three day period by \$132 and by \$72 during two separate business trips. The Customer Assistance Director exceeded the daily per diem for one day by \$41. The Community Development Director later refunded \$132.
- We noted 2 instances in which excessive gratuities were paid. The City Manager paid \$50 and \$17 in excessive gratuities; he later refunded \$50. According to the travel policy, the city will not pay for gratuities in excess of 15 percent.
- We noted \$257 in non-allowable expenditures which consisted of \$129 spent on a spouse, \$103 for alcohol, and \$25 for entertainment. According to the procurement card policy, personal or non-business, alcohol, and entertainment purchases are prohibited. All but \$9 of these charges were reimbursed.
- We noted 2 instances in which the City Manager approved his own travel request and expense estimate forms. Employees are required to submit travel request and expense estimate forms for pre-approval by the department head.
- We noted 5 instances in which an employee failed to submit an accurate and complete expense detail and travel reconciliation. Employees are required to submit an expense detail and travel reconciliation upon returning from each trip which lists in detail the expenses incurred and any reimbursement for cash expenditures being requested.
- The Technology Services Director paid \$64 for six meals when there were only five attendees. A refund was requested but not received.

According to the city's policies, certain purchases are prohibited or unauthorized uses of the procurement cards. This includes alcoholic beverages and entertainment expenses. Therefore, even though some of these purchases were reimbursed by employees, they were prohibited expenditures and should not have been charged to the employees' procurement cards.

2) Some procurement card and travel expenditures reviewed did not appear to be prudent and necessary uses of public funds.

- A total of \$11,240 was spent for airfare, meals, hotel charges, and incidentals for five employees, the Mayor, and five council members for a two-day trip to Washington, D.C. to meet with Missouri Congressional members and the city's federal lobbyist. This event was hosted by the local Chamber of Commerce. The number of city employees and officials attending this event (11 total) appears excessive. The City Manager believes the city receives more federal monies than if they would not have attended this event.
- The Community Development Director incurred hotel charges of \$685 and \$500 for conferences attended in Las Vegas, Nevada and Ft. Lauderdale, Florida, which averaged \$228 and \$250 per night, respectively. While the director indicated he searched the conferences' websites for the best rate available, he did not document his efforts. In addition, the city's travel policy does not include procedures for the solicitation of economical lodging.

Public funds should be spent only on items which are necessary and beneficial to the city. City residents have placed a fiduciary trust in their public officials to spend city monies in a prudent and necessary manner.

- D. The city does not have formal policies regarding using city funds for employee meals while not on travel status. Numerous instances were noted where meal expenses were incurred locally, including 12 instances of meals purchased for other than city employees or officials. Additionally, there were several instances where employees failed to provide a list of attendees and their respective meal amounts or a purpose, although this information is required by the travel policy.

The city has not established a separate account within its accounting system to track these types of expenses and was unable to provide us information regarding the extent of such expenses. Currently, the city codes all meal charges at local restaurants as "other services" in its accounting system, but since this account is used for numerous other charges, the city cannot easily determine the extent of local meal charges. For the 24 procurement card statements reviewed, \$1,078 of the total amount charged (\$41,560) was for meals purchased at local restaurants.

The city should establish a separate account to track meal expenses incurred locally to better monitor such expenses. In addition, the city should develop formal policies regarding local meals which should address when they are allowed and the documentation required to support the city-related business purpose of each meal.

- E. Adequate documentation was not always submitted to support procurement card purchases. In some instances, receipt slips were not submitted for items purchased. In other instances, only a credit card charge slip or a statement was submitted, rather than a detailed invoice or receipt slip.

According to the procurement card policy, a reconciliation must be completed to support all procurement card purchases and all expenses must be supported by a detailed receipt and an account code. If receipts are lost, a memo is required to explain the nature of the expenditures and the reasons for no receipts or invoices. While evidence existed to show the Accounting Division requested supporting documentation when lacking, in some instances the support was still not submitted and a memo was not submitted explaining the situation.

In addition to the requirement in the city's procurement card policy, detailed invoices or receipt slips improve the city's ability to review these charges and provide better documentation of the items being purchased.

Without adequate supporting documentation, the city cannot ensure the expenses charged are reasonable, necessary, and in accordance with established policies.

WE RECOMMEND the City Council:

- A. Develop criteria to evaluate the reasonableness of purchasing card limits and provide cards with appropriate transaction and monthly limits to employees. Further, the City Council should identify employees who do not use or infrequently use procurement cards assigned to them and terminate their procurement authority.
- B. Require the City Manager to ensure procurement card expenditures are reviewed in accordance with established policies and procedures.
- C.1. Ensure elected officials and employees follow the procurement card and travel polices and procedures and that procurement cards are not used for prohibited and unauthorized purchases.
 - 2. Ensure all expenditures are necessary and prudent uses of public funds.
- D. Develop a comprehensive policy regarding city-provided food purchases and properly account for this type of expense. This policy should establish specific guidelines regarding proper and allowable expenditures in this area, along with documentation requirements including the business purpose and individuals in attendance.
- E. Require adequate documentation be submitted and maintained for all procurement card transactions.

4. Contributions

Some disbursements or contributions of money and property to various entities do not appear to be prudent, reasonable, or necessary uses of city funds and some may violate the

Missouri Constitution. The specific services to be provided to the city for these contributions were generally not defined through a written agreement and it is unclear if some of the services represent a governmental purpose.

A. During the year ended June 30, 2007, the city made contributions and donations of property.

1) The city made contributions to various entities totaling at least \$100,000 during the year ended June 30, 2007, that were not supported by contracts. Each year the city budgets for various community and economic development contributions from the Riverboat Gaming Fund. Various additional unbudgeted contributions from this fund are approved by the council throughout the year. Examples of contributions noted are as follows:

- \$25,000 to the Institute for Industrial and Applied Life Sciences
- \$25,000 to the local chamber of commerce for the Near Perfect campaign
- \$15,000 to a local YMCA for an early learning program
- \$15,000 to the local riverfront corporation for Coleman Hawkins Park
- \$10,000 to a local children's advocacy center
- \$5,000 to the Federation of Fire Chaplains
- \$5,000 to a local community center

2) During the year ended June 30, 2007, the city made several donations of city-owned property that had an original cost of over \$273,000. Some examples are noted as follows:

- Surplused police vehicle to a local state university
- Parking attendant booth to the local Missouri Air National Guard
- Radio tower to a nearby county- and city-run law enforcement center
- Communication equipment to a local county

In addition to not having written contracts to support these payments and donations, no monitoring activities are performed by the city to ensure these contributions were used for the intended purposes by the receiving entities.

Section 25, Article VI, of the Missouri Constitution prohibits the use of public money or property to benefit any private individual, associations, or corporations except as provided in the constitution. Without a written agreement that clearly indicates the governmental purpose being provided to the city by these entities, these uses could be considered to be a violation of the constitution. Written agreements are necessary to quantify the services to be performed and the compensation to be paid for the services, provide a means for the city to monitor compliance with the contract terms, and protect the city in the event of a dispute over the terms of the agreement. In addition, Section 432.070, RSMo, requires all contracts to be in writing.

- B. The city-sponsored St. Joseph Idol fundraiser incurred a loss of over \$2,500 during the year ended June 30, 2008, which the city absorbed.

During the years ended June 30, 2007 and 2008, the city sponsored a St. Joseph Idol fundraiser. The city paid for the costs related to this event and received the related revenues. During the year ended June 30, 2007, this event was profitable and the net proceeds were paid to a charitable organization. However, during the year ended June 30, 2008, the expenses charged to the account for this event exceeded the revenues by \$2,113. In addition, a \$426 appreciation dinner was charged to the General Fund (not the fundraiser account). Therefore, the city absorbed costs for this event totaling over \$2,500.

It does not appear that sponsoring fundraising programs falls within the scope of authority of the city; therefore, the city should refrain from such activities. In addition, the city should ensure that city funds and resources are used prudently.

WE RECOMMEND the City Council:

- A. Enter into written contracts detailing the city purpose for all contributions made and monitor these contracts to ensure the recipient entities are using the funds for the intended purpose.
- B. Refrain from sponsoring fundraising programs which do not appear to fall into the scope of the authority of a city.

5. Subsidizing Funds

At least \$900,000 in interfund transfers and various landfill discounts were made during the year ended June 30, 2007, that appear to be for the purpose of subsidizing other funds. Of this amount, over \$700,000 was from restricted funds.

A. The Landfill Fund has subsidized the General Fund and various non-enterprise city departments. The most recent landfill tipping study performed included some expenditures not actually incurred by the Landfill Fund and this study has not been updated since 2005.

- 1) A \$250,000 transfer was made from the Landfill (enterprise) Fund to the General Fund to support the operations of the Property Maintenance Department. While this appears to be a reasonable function of the landfill, it is unclear how the amount of this transfer was determined. In addition, non-enterprise city funds are allowed to dump at the landfill for the DNR fee of only \$2.11 per ton, instead of \$30 per ton, which is the normal tipping fee. According to the Director of Public Works, the lower fee is charged to help support general government departments. These discounts totaled approximately \$38,400 during the year ended June 30, 2007.

The Property Maintenance Department, funded through the General Fund, collects trash and debris throughout the city and dumps it at the city's landfill at no cost. According to the City Manager, the landfill goes beyond just a landfill and is for community betterment. If the city determines the landfill should cover some or all of the costs of the Property Maintenance Department, justification for the amount of the transfer should be maintained.

- 2) Landfill fees have not been adjusted since 2005 and the calculation included costs not actually incurred by the Landfill. A landfill tipping study was completed in 2005 at a cost of \$19,820. That study calculated the tipping (dumping) fees that should be charged in order for the Landfill Fund to continue to cover its costs. However, the calculation included costs for Public Works Cost Allocation Plan transfers in excess of the planned amounts (see MAR 6), and interfund discounts which are not actually costs to the landfill. These types of non-landfill expenditures should not be included in tipping studies.

In addition, the tipping fee study recommended increasing landfill rates by \$1 per ton in 2007, based on data available at the time. However, this increase was not implemented and the city still appears to have monies available in this fund to subsidize other funds. Even though the 2005 tipping study stated that updating the financial model every two years was necessary to provide on-going evaluation of the tipping fee adjustments, this has not been done. According to the Public Works Director, the city has done some in-house construction to cut costs. In addition, the tonnage dumped at the landfill has increased. However, an updated tipping study is necessary to ensure landfill fees are set appropriately.

The Landfill Fund is a separate accounting entity designed to account for specific city activities. Landfill revenues should be used to fund only the operations of the

landfill services. Landfill tipping fees should be set to cover the costs of landfill services (including administrative costs), repairing and replacing machinery and infrastructure, and costs for closure and post closure services. The landfill services should not generate profits to fund other services provided by the city. The existing landfill 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 to help fund other services; however, these require a vote of the citizens. In addition, an updated tipping study should be performed to ensure rates are accurately set.

- B. Restricted monies are transferred inappropriately to various funds. Over \$455,000 was transferred from various restricted funds to other financially unstable funds to cover fund deficits or to pay off loans of those funds.

We noted \$130,000 and \$185,000 was transferred from the Street Improvement Maintenance and Repair (SIMR) Fund to the Aviation and Public Parking Funds, respectively, to cover budget deficits. A \$125,480 transfer was also made from the SIMR Fund to the Aviation Fund to pay off an Aviation Fund loan. In addition, \$15,000 was transferred from the Parks and Recreation Fund to the Municipal Golf Fund to cover budget deficits.

The SIMR Fund is funded by state motor vehicle-related receipts and by a council-designated portion of the city's general sales tax. The Parks and Recreation Fund is primarily funded by a parks and recreation property tax and a hotel tax. The uses of certain revenues, such as state motor vehicle-related revenues and specific sales or property taxes are limited by law for specified purposes.

The Aviation, Public Parking, and Municipal Golf Funds are enterprise funds and should be self-supporting. Fees for services provided by these funds should be set to fund all expenditures of these funds.

- C. Over \$173,000 was transferred from the Riverboat Gaming Fund to various other funds for specific projects costing a total of approximately \$51,000. The remaining \$122,000 appears to be subsidies to these funds as follows:

- \$87,000 from the Riverboat Gaming Fund to the Parks and Recreation Fund for the urban trail project with an actual cost of \$8,755
- \$11,670 from the Riverboat Gaming Fund to the Parks and Recreation Fund to provide matching funds of \$395 for the federal grant for the urban trail project
- \$74,525 from the Riverboat Gaming Fund to the Construction in Progress (CIP) Sales Tax Fund for the living history preserve project with an actual cost of \$41,710

In addition, \$100,000 was transferred from the Riverboat Gaming Fund to the General Fund for legal services. However, the total actual cost of these services was \$135,045.

While the use of riverboat gaming revenues is not restricted, it appears these transfers were to subsidize other funds rather than for the specific projects they were intended to fund.

Any transfers between funds should be supported by documentation to adequately reflect the need for and amount of the transfers made. This is especially important for enterprise funds and other restricted funds to demonstrate monies are expended in compliance with applicable laws.

WE RECOMMEND the City Council limit expenditures and transfers from restricted funds to only those which are necessary to finance functions of those specific funds. Supporting documentation should be maintained to reflect the need for and amount of each transfer made. In addition, the City Council should consider alternative funding sources for the various funds that cannot support themselves. The City Council should also obtain a new landfill tipping study to ensure its rates are set appropriately.

6. Interfund Transfers and Cost Allocation Plan

The indirect cost allocation plan (CAP) and the public works cost allocation plan (PWCP), which are used to determine administrative transfers, are largely based on estimates and no formal time studies have been performed to determine the amounts of some of these transfers. In addition, many of the actual CAP and PWCP administrative transfers differed from the amounts calculated in those plans and some transfers were not approved by the City Council or were not supported by adequate documentation.

During the year ended June 30, 2007, approximately \$6.3 million was transferred between the city's various funds. Most of the city's interfund transfers are determined and budgeted prior to the beginning of the fiscal year and approximately \$2.1 million of these transfers (33 percent) relate to the city's CAP or PWCP. The city's Financial Services Department prepares the CAP and PWCP by determining total services provided by central service departments (such as accounting, payroll, legal, etc.), which are initially charged to the General or the SIMR Funds when incurred. The amount each department benefited from these services is determined after year-end and that year's expenditures are allocated to the benefiting departments. These allocations require transfers from other funds into the General or SIMR Fund. The plans are prepared by the Financial Services Department after the end of each fiscal year and are used in the preparation of the budget for the next year. For example, the plans prepared in fiscal year 2007 were based on expenditures from fiscal year 2006 and were used to establish the administrative transfers for the fiscal year 2008 budget.

- A. The city's Financial Services Department has not conducted a formal analysis of overhead and services to determine the percentage of costs that should be allocated to each fund in the CAP and PWCP. In addition, it has not conducted time studies of payroll costs to show the actual hours worked by function or activity to ensure costs are charged to the appropriate funds. After the close of each fiscal year, the Financial Services Department interviews the head of each central service department to determine how expenses are to be allocated to each function. For example, the City Manager's office consists of the functions of general administration, City Manager, departmental support, council support, marketing/public relations, and special projects.

Some expenses are allocated to the user departments based on the selected allocation basis for each function. The Financial Services Department selects an allocation basis that is cost effective and one it believes best allocates the expense. For example, some payroll administrative costs are allocated based on full time equivalent (FTE) positions in each department, while automobile insurance is allocated by the number of vehicles assigned to each department.

However, certain expenses, including salary and benefits, are allocated to each function based on the time each employee estimates he or she spends working on duties related to each function. Timesheets do not indicate the hours worked by activity for each employee nor has the city performed a time study to serve as a basis for allocating salary and fringe benefits to the appropriate funds. Other expenses are allocated to each function based on estimates. For example, 10 percent of the City Manager's advertising expenses were allocated to general administration and 90 percent were allocated to Departmental Support.

To ensure restricted funds are spent appropriately and expenditures are allocated to the various funds in proportion to the benefits received from the expenditures, the city should conduct a formal analysis of overhead and services.

- B. Some of the city's actual administrative transfers did not agree to the amounts calculated in the CAP or PWCP. According to the CAP and PWCP, \$2.75 million should have been transferred to the General and SMIR Funds from other city funds in 2007. However, actual transfers were only \$2.12 million, a difference of \$630,000.

For example, \$110,250 was transferred from the Parks and Recreation Fund to the General Fund; however, the CAP-calculated transfer should have been \$370,375, a difference of \$260,125. The Financial Services Director explained the amount of the actual transfers was reduced for certain funds because it was decided during the budget hearings these funds could not afford the full CAP or PWCP transfers. The city was unable to provide any documentation to support how actual transfer amounts were determined.

Most of the \$630,000 difference relates to the CAP, which allocates funds to the General Fund, an unrestricted fund. However, \$67,000 of the difference relates to the PWCP, which allocates funds to the SIMR Fund, a restricted fund. As a result, the SIMR Fund was underpaid for administrative costs incurred.

In addition, a total of \$113,000 was transferred from the Landfill Fund to the SIMR Fund in 2007; however, the amount in the PCWP was only calculated to be \$69,000, a difference of \$44,000. The Financial Services Director stated the Landfill Fund is not required by federal law to follow the CAP, and as a result, the amount of this transfer was estimated (see part A).

The city should base administrative transfers on amounts calculated in the CAP and the PWCP to ensure each fund's expenses are accurately reflected in the budgets and financial statements, and to ensure restricted funds are used for allowable purposes.

- C. Some of the city's transfers were not approved by the City Council and there was no support for how another transfer was determined related to the city's compensation plan.
- 1) During fiscal year 2007, interfund transfers totaling \$87,025 were not formally approved by the City Council either by ordinance or as part of the budget. According to City Charter, Section 6.8(c), ". . . upon written request by the Manager, the Council may by ordinance transfer part or all of any unencumbered appropriation balance from one department, office, or agency to another."
 - Transfers totaling \$62,500 were made from the Community Development Block Grant (CDBG) Fund to the Riverboat Gaming Fund in fiscal year 2006 to assist in paying for a study. In fiscal year 2007, it was determined these monies were not needed and they were transferred back to the Riverboat Gaming Fund without council approval.
 - Transfers totaling \$74,525 were made from the Riverboat Gaming Fund to the Capital Improvement Sales Tax Fund to help pay for the living history preserve project (see MAR 5C). Of this amount, only \$50,000 was approved by the City Council through the budget process. The remaining \$24,525 was approved by the Financial Services Director.
 - 2) There is little support for how the compensation plan transfers made during the last several fiscal years from the General Fund to the SIMR Fund were determined. A general sales tax was passed in 2002 to help fund the city's compensation plan. In addition to increasing salaries paid from the General Fund, a portion of this additional tax revenue is

disbursed to other funds to support pay rate increases in those funds. Calculations were prepared in fiscal year 2002 to determine the amounts of the transfers to be made from the General Fund to the various other city funds, but the transfers actually made to the SIMR over the last several years have been reduced from the amount originally calculated.

The full amount of the transfer to be made annually from the General Fund to the SIMR Fund was originally determined to be \$488,577. The actual transfer made in fiscal year 2003 was \$439,070 and the city provided support for how this reduction was determined. From fiscal year 2004 to 2006, the amount of this transfer was reduced to \$404,020 and in fiscal year 2007 it was further reduced to \$295,093. The city was unable to provide justification or support for why these transfers continue to be decreased from the original calculation.

Any transfers between funds should be supported by documentation to adequately reflect the need for and the calculation of the transfers made. This is especially important for enterprise funds and other restricted funds to demonstrate compliance with applicable laws.

WE RECOMMEND the City Council ensure all expenditures are properly allocated to the various funds and that all transfers between funds are adequately documented and properly approved. For the CAP and PWCP, this should include conducting a formal analysis of overhead and services to determine the percentage of costs related to each fund and a formal time study to ensure that payroll costs are charged to the appropriate funds.

7.

Minutes, Agendas, and Public Records

The City Council and the Museum Committee did not post agendas or maintain minutes of some meetings. In addition, various "confidential" memos that are not specifically closed according to the Sunshine Law have not been made available to the public.

- A. Agendas were not posted and minutes were not always prepared for the Museum Committee.

In April 2007, the contract the city had with a local private museum to receive the city's museum tax was declared void by the local court (see MAR 2). During the spring of 2007, a Museum Committee, comprised of the mayor and three council members was created to negotiate a new contract with the local museum. From the time the committee was formed until March 2008, the committee requested the City Clerk post six notices of official meetings; however, no agendas were posted and minutes were only prepared for one meeting.

Section 610.020, RSMo, requires that a tentative agenda be posted at least 24 hours prior to all meetings of a public governmental body. This section further requires minutes of meetings to be taken and retained by all governmental bodies and to include the date, time, place, members present, members absent, and a record of votes taken. Complete and accurate meeting minutes are necessary to retain a record of business conducted and to provide an official record of actions and decisions.

- B. During the past few years, various memos between city employees and/or the council and mayor were marked "confidential" and were not made available to the public. Some of these memos clearly qualify as closed records per the Sunshine Law (such as discussions with the city's legal counsel); however, the city could not demonstrate compliance with the Sunshine Law related to all of these records.

We noted memos to SJMI concerning the city-owned mansion, a memo from the city planner to the city manager regarding a proposed tax increment financing plan, minutes for the local Chamber of Commerce meetings, and an invitation to city council members to an awards ceremony hosted by a local not-for-profit entity, all marked as confidential. In addition, we noted a memo from the mayor to the city council and other city officials asking to postpone the proposed sewer rate increase until after the capital improvement sales tax initiative was voted on by citizens.

Without demonstrating how these records are considered closed, it appears the city may have violated Section 610.023, RSMo, which prescribes that each public governmental body shall make that body's public records available for inspection and copying by the public.

- C. No agendas were posted and no minutes were taken for the City Council's annual trip to Washington, D.C. During the trip, which is sponsored by the local Chamber of Commerce, various city council members (six during the year ended June 30, 2007) and city officials, as well as other chamber members, fly to Washington, D.C. to meet with Missouri Congressional members and the city's federal lobbyist. However, agendas are not posted and minutes are not prepared for this annual trip.

The Sunshine Law, Section 610.010, RSMo, indicates that any meeting of a public governmental body at which any public business is discussed, decided, or public policy formulated is subject to the provisions of the open meetings law, which includes the requirement to post the meetings and the preparation of minutes documenting any actions taken or decisions made.

- D. The council minutes are prepared and signed by the City Clerk; however, they are not signed by the Mayor. The minutes should be signed by the Mayor upon approval to provide an independent attestation that the minutes are a correct record of the matters discussed and actions taken during the council meetings.

WE RECOMMEND the City Council:

- A. Ensure tentative agendas of all committee meetings are posted and retained and detailed minutes of all meetings are prepared and retained.
- B. Ensure all city records are available to the public unless they are specifically closed as allowed by the Sunshine Law.
- C. Ensure meetings are publicly posted and minutes are maintained for all meetings in accordance with the provisions of Chapter 610, RSMo.
- D. Ensure council minutes are properly signed by the preparer and the Mayor or some other official to attest to their accuracy.

8.

Compensation

The city has not sought legal opinions regarding the longevity program or a retroactive salary payment to the city manager. In addition, there is no documentation to support how city vehicle allowances were determined.

- A. The city has not sought legal opinions concerning longevity payments to employees or a retroactive pay increase to the City Manager.
 - 1) The city has a longevity program whereby any employee attaining 16 years of employment with the city is awarded a one-time net payment of \$1,500. During the 2 years ended June 30, 2008, payments totaling approximately \$54,000 were made to employees. It is unclear whether these payments violate the Missouri Constitution as they grant additional compensation for services already rendered. This program will operate through 2017 and future payments are estimated to be \$278,000.
 - 2) In October 2007, a retroactive pay increase totaling \$963 was paid to the City Manager. Due to the City Council's decision to postpone the City Manager's annual performance review, the City Manager's current contract was not renegotiated until the summer of 2007 and was signed in October 2007 after contract negotiations were completed. At that time, his new compensation plan was made retroactive to July 1, 2007, and he received a one-time payment of \$963 (\$802 in salary and \$161 in vehicle allowance) for the retroactive compensation. It is unclear whether this payment violates the Missouri Constitution as it grants additional compensation for services already rendered.

Article III, Section 39, of the Missouri Constitution, prohibits granting any extra compensation, fee, or allowance to employees for services already rendered.

- B. The city made vehicle allowance payments totaling \$36,840 to the City Manager, Mayor, and City Council in 2007; however, the payments are not based on actual expenses and the city does not have any documentation to support how these amounts were determined or to show they were reasonable.

The city paid monthly vehicle allowances of \$400 to the City Manager, \$390 to the Mayor, and \$285 to each council member, which are reported as taxable income on the applicable W-2 forms. Using the city's current mileage reimbursement rate of 48.5 cents the monthly allowance paid to these officials represents approximately 825 miles, 805 miles, and 590 miles per month, respectively. The city should review the reasonableness of the mileage allowances paid and set the allowances to reasonably reflect the actual expenses incurred by the officials.

WE RECOMMEND the City Council:

- A. Seek an opinion from legal counsel regarding additional compensation to employees.
- B. Review vehicle allowances and set the allowances to reasonably reflect the actual expenses incurred by the applicable officials.

9.

Contracts

A private not-for-profit (NFP) entity was allowed to use a city-owned building for 21 months without a contract and owes back rent of over \$20,000. In addition, the contract with a city employee for golf course caretaker services has not been updated since 1997.

- A. The city allowed a NFP to remain in a city-owned building after the related lease expired without paying rent or utilities for a 21-month period. During that time, the unpaid rent and utilities totaled over \$20,000.

In 2000, the city signed a five-year lease with a NFP to run a community center in a city-owned building. The lease terms stated that monthly rent would start at \$700 and would be increased progressively each year until it was \$795 per month in the final year. In addition, the NFP would be responsible for a portion of the utility costs that would also increase progressively each year, from 10 percent in year one to 100 percent in the final year.

When the lease expired in February 2006, a new lease was not signed. In addition, the NFP stopped making monthly rental and utility payments shortly thereafter. According to the City Manager, the NFP lost some of its funding and could no longer afford the rent. He stated that if the city forced the NFP to vacate the building, the large city-owned building would remain unoccupied and

possibly be a target for vandalism. Therefore, the city chose to try to negotiate with the NFP.

A new contract for this lease was subsequently signed in December 2007 with monthly rent payments to start at \$1,667 per month and progressively increase to \$2,417 per month by 2013. However, the \$20,000 receivable for back rent and utilities from the 21-month time period when no contract was in place remained unpaid. In May 2008, the council voted to forgive the outstanding balance.

Written contracts are necessary to ensure all parties are aware of their duties, rights, and responsibilities and to provide protection to all parties. Section 432.070, RSMo, requires all contracts to be in writing.

- B. The city's contract with the golf course caretaker has not been updated since 1997.

The city has a contract with a city maintenance technician to provide caretaker services at the golf course. The employee is provided a rent-free residence (including utilities) at the golf course, which is reflected as a \$6,000 non-cash benefit to the employee on his W-2 form. He also receives an additional \$1,200 each year in addition to his normal salary. This contract, which states it is for an indefinite term, was signed in 1997 and has not been reviewed or updated since that time.

City contracts should be periodically reviewed and updated as necessary to ensure the contract terms are reasonable and adequate.

WE RECOMMEND the City Council:

- A. Enter into formal written contracts, in accordance with state law, which specify the goods or services to be provided and the amount of compensation. These contracts should adequately detail the rights and duties of all parties to the respective contracts and should be properly updated and/or extended when necessary. In addition, the city should monitor contracts to ensure compliance with contract terms.
- B. Periodically update city contracts for reasonableness.

10. City Vehicles and Fuel

Usage logs are not maintained for most city-owned vehicles and verification of commuting mileage was not performed by the Human Resources Department. In addition, some departments do not reconcile fuel usage to fuel purchases.

The city owns over 520 vehicles with a total acquisition cost to the city of approximately \$14 million and spent over \$1.2 million on fuel during the year ended June 30, 2007.

These vehicles are assigned to the various city departments to be used for city business. Each department director or manager is independently authorized to assign city-owned vehicles to employees to commute to and from work daily. The majority of the city's vehicles are operated by the Police, Streets, Parks and Recreation, and Fire Departments. Our review of vehicle and fuel procedures for these four departments noted the following concerns:

- A. Usage logs to account for the use of city-owned vehicles are not always maintained. Mileage logs that include the purpose and destination of each trip and beginning and ending odometer readings are not maintained by the Street Department to document the use of city-owned vehicles. While the Parks and Recreation and Fire Departments maintain logs in each vehicle that include the purpose and destination of each trip, the logs do not include odometer readings. In addition, the Streets, Police, and Fire Departments maintain a record of the vehicle mileage each time a vehicle is fueled or has maintenance performed; however, the Parks and Recreation Department does not maintain fuel records.

Complete and detailed mileage and fuel logs for all city owned vehicles should be maintained, and a review of these records should be periodically performed to ensure all city owned vehicles are used efficiently and appropriately.

- B. Justification for allowing employees to take vehicles home is not documented. In addition, commuting mileage is not always properly reported and taxed.
 - 1) City departments are not required to submit listings of employees authorized to use city-owned vehicles for commuting purposes to the Human Resources Department or to submit documentation to justify or evaluate the need for the city vehicle to be used for commuting purposes. Human Resources Department personnel indicated they rely on each city department to submit commuting mileage reports.

During the year ended June 30, 2007, at least 25 city-owned vehicles were assigned as employee take-home vehicles, not including police vehicles. It is the city's policy to authorize each department director or manager to determine which employees need a city-owned vehicle to commute to and from work daily and to assign the related vehicles to those employees.

- 2) Commuting mileage is not always properly reported and taxed.

Internal Revenue Service (IRS) Code reporting guidelines indicate personal commuting mileage is a fringe benefit that should be reported on W-2 forms. Clearly marked police and fire vehicles are exempt from these guidelines, as well as unmarked law enforcement vehicles if their use is officially authorized. However, we noted at least one instance in which an employee was assigned a non-exempt vehicle which he used for

commuting purposes, but the value of the vehicle was not added as compensation to his W-2 form.

The Human Resources Department cannot ensure all commuting mileage reports are received and taxable benefits are reported on applicable employee W-2 forms without an adequate system of notification when commuting approval is granted.

C. Controls over fuel usage are not adequate. The city has 13 fuel tanks located at 7 different city departments. The Landfill, Parks and Recreation, Mass Transit, and Street Departments purchased the majority of the fuel during the year ended June 30, 2007. During our review of fuel procedures of these four departments, we noted the following problems:

- Comparisons of fuel used to fuel purchased are not performed by the Landfill, Parks and Recreation, or Street Departments. The Landfill and Street Departments have the data to allow for such a comparison (i.e., each department tracks the gallons pumped into each vehicle and piece of equipment), and while the Parks and Recreation Department records the gallons pumped in a log, these figures are estimates due to the flow meter on its tank being broken. Without a comparison of fuel purchased to fuel used, the city cannot effectively monitor that vehicles are used for official business only and that fuel costs for vehicles are reasonable.
- Access to fuel tanks is not adequately controlled and limited at the Parks and Recreation Department. The tank is not located in a fenced in area and a key or card is not needed to activate the pump. At night the power to the pump is turned off to prohibit access; however, during the day the power to the pump is on at all times and access is open to anyone.

To ensure the reasonableness of fuel expenditures, the city should maintain records of fuel usage and reconcile fuel usage to fuel purchased and on-hand. In addition, access to fuel tanks should be limited to authorized personnel only. Failure to account for fuel purchases and control access to the city's fuel tanks could result in the loss, theft, or misuse of city assets going undetected.

WE RECOMMEND the City Council:

- A. Require complete and detailed usage logs be maintained for all city owned vehicles and periodically analyze vehicle usage to ensure city owned vehicles are used efficiently and appropriately.
- B. Ensure city management periodically evaluates and documents the necessity of providing vehicles for commuting purposes. Additionally, an adequate reporting system should be established to ensure personal commuting mileage is reported to the city Human Resources Department for inclusion in employee compensation.

- C. Ensure periodic comparisons of fuel used to fuel purchased are performed and access to fuel tanks is restricted to authorized personnel.

11. Cellular Phones and Personal Digital Assistants

The city does not properly monitor the use of cellular phones and personal digital assistants (PDAs) to ensure compliance with the city's cellular phone policy. During the year ended June 30, 2007, the city provided cellular phones or PDAs to approximately 115 employees. The city was charged a monthly fee of approximately \$22 per phone and \$66 per PDA and all employees shared a pool of 23,300 minutes each month. The city paid approximately \$75,000 during the year ended June 30, 2007, for cellular phone and PDA services.

- A. The city does not adequately monitor personal use of cellular phones and PDAs and does not retain documentation of its review of cellular phone bills.

- 1) The city does not adequately monitor personal use of cellular phones and PDAs. The city's personnel manual states that employees are allowed to use electronic devices, including cellular phones, for personal use, but must keep personal use to a minimum (less than 25 percent of total use) and may be required to reimburse the city for all personal calls in any month in which the city exceeds the plan minutes. The city failed to monitor the personal use of cellular phones and PDAs and did not require employees to indicate personal use on the phone bills. Further, the city exceeded the plan minutes 6 out of 12 months during the year ended June 30, 2007. No employees were required to reimburse the city for personal usage for the months in which plan minutes were exceeded.

In addition, the city's cellular phone policy does not provide guidelines related to extra charges, including text messaging. The city paid approximately \$9,700 in extra charges during the year ended June 30, 2007. A Purchasing Division employee indicated that if there are any extra charges, she will look to see if the employee was on an out-of-town business trip. If the employee was not on a business trip, then that employee will be required to reimburse the city for any roaming or text messaging charges.

As of December 2007, the city changed its cellular phone plan to a nationwide plan of 26,000 anytime minutes and 5,000 night and weekend minutes. However, as of March 2008, the city has only utilized 48 to 55 percent of the pooled minutes each month. It appears from analysis of previous years' usage data that phone usage is lower in winter months, which could be the reason for the lower usage on the new plan. However, the city should monitor its usage closely and consider if personal use should be allowed and determine if a change in the number of plan

minutes is necessary. In addition, the new plan allows for restricting text messaging and internet usage by phone. However, the city did not exercise this option until April 2008 when the State Auditor's office brought it to the city's attention.

- 2) Reviews of cellular phone bills (including PDAs) for reasonableness are not documented. The city's personnel manual states that individual cellular phone bills will be reviewed on a random basis and by request of the Purchasing Division. A Purchasing Division employee stated she analyzes the bills for unusual or excessive usage and will require the employee to reimburse the city for any excessive usage. However, she only reviews approximately 10 individual bills per month and no documentation is retained of these reviews or of any employee reimbursement required as a result of these reviews.

Without procedures to review and document detailed phone billings, the city has less assurance expenditures for phone calls and PDAs are reasonable and necessary, and the possibility of improper personal use is increased.

- B. The city has not evaluated the cost and distribution of cellular phones and other mobile technology. The city provides about 60 cellular phones, 55 PDAs, and 3 edge cards (internet access for laptops) to various city employees.

The city's personnel manual indicates that service is provided to employees who can demonstrate a need for such service, provided funds are available. The responsibility for determining the need and ensuring available funding rests with each department director. We noted 22 PDAs and 22 cellular phones were used an average of less than 100 minutes each month during 2007. Of those, 5 cellular phones were not utilized at all.

While cellular phones and other mobile technology can help increase employee productivity, they are also costly. Effective procedures should be implemented by the Purchasing Division to properly monitor cellular phone usage. Additionally, the city should periodically evaluate the cost and distribution of cellular phones and PDAs to employees to ensure all equipment is needed or of benefit to the city.

WE RECOMMEND the City Council:

- A.1. Determine if personal use of cellular phones and PDAs should be reduced or eliminated. If it is not eliminated, the city should ensure employees comply with the city's policies and procedures regarding personal use and reimbursement of city provided cellular phones by requiring that employees identify personal calls and charges on each monthly bill. In addition, the city should update the Personnel Manual to include guidelines regarding text messaging, roaming charges, internet usage, and directory assistance charges for employees who have a city issued cellular phone or PDA and consider only allowing these features for

employees who need them. The city should also review its monthly minute allotment for adequacy.

2. Ensure the Purchasing Division performs and documents routine and periodic reviews to ensure compliance with the city's cellular phone policy.
- B. Ensure the Purchasing Division performs an assessment of cellular phone and PDA distribution on a periodic basis.

12.

Budgetary Practices

Budget amendments are not always prepared prior to incurring related expenditures and budgets are not prepared for all funds, as required by state law.

- A. Some budget amendments were not approved before the fiscal year ended. The City Council waited until the end of the fiscal year to approve some budget amendments, resulting in various funds being over spent in total without proper authorization. In addition, during the year ended June 30, 2007, the Special Allocation Fund budget was increased by \$1.2 million without Council approval.

While many budget amendments are approved by the Council throughout the fiscal year, any unexpected budget overages are determined after year-end and an ordinance increasing the budgets of the affected funds is subsequently passed to ensure actual expenditures do not exceed the budgets. During the year ended June 30, 2007, the Parks and Recreation Fund and the Mass Transit Fund expenditures each exceeded the respective budget by approximately \$30,000.

In addition, according to the city's Financial Services Director, the Special Allocation Fund, which handles the tax increment financing accounts, is very unpredictable and hard to budget. She stated revenues were higher than expected in the year ended June 30, 2007, which in turn caused expenditures to exceed the budget. When the overspending was discovered, it was four months after the end of the fiscal year. Therefore, rather than taking additional time to notify the council of the overspending, she increased the fund budget by \$1.2 million without a council-approved ordinance.

Section 67.080, RSMo, provides that no expenditure of public monies shall be made unless it is authorized in the budget. The city council should formally amend the budget before the related expenditures are incurred. In addition, all budget amendments should be approved by ordinance.

- B. Budgets were not prepared during fiscal year 2007 for the Special Business District Fund, Museum Fund, Community Development Rehabilitation Loan Fund, and Home Revolving Loan Fund. The Financial Services Director indicated the city does not budget some of these funds because they are

considered to be pass-through funds to other entities rather than city controlled funds. However, since the city has discretion over how these funds are spent, they should be budgeted. The city did amend its fiscal year 2008 budget to adopt a Museum Fund budget once a new contract was negotiated with SJMI (see MAR 2).

Section 67.010, RSMo, requires the preparation of an annual budget which shall present a complete financial plan for the ensuing budget year. A complete and well-planned budget, in addition to meeting statutory requirements, can serve as a useful management tool by establishing specific cost expectations for each area. A budget can also provide a means to effectively monitor actual costs by periodically comparing budgeted amounts to actual expenditures for each fund. A complete budget should include separate revenue and expenditure estimations, beginning available resources and a reasonable estimate of ending available resources for each fund.

WE RECOMMEND the City Council:

- A. Prepare and approve budget amendments prior to incurring the related expenditures.
- B. Adopt budgets for all funds as required by state law.

13.

Cash Controls

There are weaknesses in the city's cash accounting controls, records, and procedures. Duties are not properly segregated in the Customer Assistance Department. Some cash collection clerks share the same cash drawers and some Landfill Division receipt slips did not indicate the method of payment. Various issues were noted in the Animal Control Department, including lack of segregation related to handling non-monetary transactions, reuse of voided receipt slip numbers, failure to reconcile open transactions to the daily deposit, and failure to restrictively endorse all checks immediately upon receipt.

The majority of cash receipts are received at the Customer Assistance Department in city hall, which collects approximately \$15.4 million annually. However, there are 22 other cash collection sites throughout the city that collect almost \$5 million in total each year. Our review of the Customer Assistance Department, the Animal Control Department, and the Landfill Division cash collection procedures noted the following concerns:

- A. Cash collection duties are not properly segregated in the Customer Assistance Department. Customer Assistance cashiers collect monies, issue receipt slips or licenses, reconcile their cash drawers, and prepare daily deposits. While some of the receipts in the Customer Assistance Department are reconciled between the permit and main computer systems in total by an independent person, a significant amount is not reconciled.

To safeguard against possible loss or misuse of funds, internal controls should provide reasonable assurance that all transactions are accounted for properly and assets are adequately safeguarded. Internal controls could be improved by reconciling the permit system to the city's main computer system and segregating the duties of receiving and depositing city monies from recording receipts. If proper segregation of duties cannot be achieved, at a minimum, there should be supervisory review of the reconciliations between detail receipts and deposits by an independent person.

- B. Cash collection clerks share cash drawers throughout the day. During busy periods, the Customer Assistance Department will have additional personnel assist with cash collection, who will share cash drawers with other Customer Assistance employees. The Landfill Division cash collection system allows for the clerks to log in and out; however, all clerks work out of the same drawer. In addition, Animal Control Department clerks share cash drawers due to each drawer being set up to handle different services.

Not limiting access to the cash drawers increases the possibility of loss or misuse of funds and makes it difficult to determine the responsibility for any losses or unreconciled differences.

- C. The Landfill Division receipt slips do not correctly identify the method of payment. All payments received are recorded as "cash", except for prepayments, which are recorded as a "credit". As a result, the landfill employees are unable to agree the composition of receipts to the composition of deposits. In addition, the deposit slips do not indicate the individual receipts composing the deposit.

To adequately safeguard receipts and reduce the risk of loss, theft, or misuse of funds, individual receipts composing the deposits should be identified. In addition, the method of payment should be properly indicated on receipt slips and the composition of receipts should be reconciled to the composition of deposits to ensure all monies received are properly recorded and deposited.

- D. Duties related to non-monetary transactions are not segregated in the Animal Control Department. The cashiers are authorized to post non-monetary transactions to the receipt database as well as receive payments. Non-monetary transactions are basically any transactions where monies are not received; however, credit is applied or the receipt amount is changed in the system. There is no oversight of these non-monetary transactions or other changes to the database to ensure these transactions are properly authorized.

Internal controls should provide a reasonable assurance that all transactions are accounted for properly and assets are adequately safeguarded. Internal controls would be improved by segregating the duties of posting non-monetary transactions and receipting and recording monetary transactions. If proper

segregation of duties cannot be achieved, at a minimum, there should be a documented supervisory review of non-monetary transactions.

After we brought this to the city's attention, we were told the IT staff is currently implementing measures to track all voids and non-monetary transactions.

- E. Voided receipt slip numbers are reused by the Animal Control Department. We noted an instance where a computerized receipt slip was issued for \$20, but it was later voided. However, that receipt slip number was later reused for a \$36 receipt. In order to provide controls over all monies collected, voided receipt slip numbers should not be reused and all voided receipt slips should be accounted for.
- F. The Animal Control Department has no procedures in place to reconcile open transactions to the daily receipt log to ensure all monies are properly deposited and transactions are finalized. Animal Control Department personnel allow customer transactions to remain open after the close of business and procedures are not in place to reconcile open transactions to the receipt log. An open transaction occurs when an individual discovers after a transaction was started that he or she does not have the correct amount of monies to complete a transaction. The transaction will not be canceled, but will remain open until the individual pays the amount due (often the next day). Not closing out transactions each day or reconciling open transactions to the daily receipt logs increases the likelihood of errors or irregularities occurring without being detected.
- G. Checks and money orders at the Animal Control Department were not restrictively endorsed. During our cash count on December 5, 2007, four checks in the department's cash drawers, totaling \$473, were not restrictively endorsed. To reduce the risk of loss, theft, or misuse of funds, checks and money orders should be restrictively endorsed immediately upon receipt.

WE RECOMMEND the City Council:

- A. Adequately segregate the duties in Customer Assistance of receiving monies, issuing deposit slips or licenses, reconciling cash drawers and preparing deposit slips. If proper segregation of duties cannot be achieved, at a minimum, there should be a documented independent comparison of monies received to the amount and composition of bank deposits.
- B. Restrict access to cash drawers to only one person per drawer.
- C. Require reconciliations of the composition of receipts to the composition of deposits and ensure receipt slips properly indicate the method of payment. Additionally, the City Council should ensure deposit slips include complete and accurate information.

- D. Adequately segregate the duties of posting non-monetary transactions and receiving and posting monetary payments in the Animal Control Department. If segregating duties is not possible, at a minimum, there should be a documented supervisory review of all non-monetary transactions posted.
- E. Ensure voided receipt slips are properly accounted for and receipt slip numbers are not reused.
- F. Ensure open transactions that cannot be completed in one day are reconciled to the daily receipt log to ensure all monies are properly deposited and all transactions are finalized.
- G. Ensure checks and money orders are restrictively endorsed immediately upon receipt.

14.

Land and Capital Asset Controls

The city's controls and procedures relating to capital assets are not adequate. The city lost over \$125,000 on the sale of the Recycling Center land without obtaining a formal appraisal or giving notice of the sale. While the city has established written procedures for the handling of capital assets, adequate steps have not been taken to ensure dispositions are adequately authorized and additions and dispositions are documented in a timely manner. Property controls tags are not affixed to city property. As of June 30, 2007, the city had over \$186 million in capital assets.

- A. The city lost at least \$125,000 on the purchase and sale of the city's Recycling Center land. The city did not obtain a formal appraisal on the property prior to selling it, nor did the city give public notice of the sale as required by city ordinance.

According to City Ordinance 27-78, "should the city manager determine it is in the city's interest to dispose of a parcel of real property which is not dedicated to any public purpose or use, the city purchasing agent shall be authorized to entertain offers to purchase said property." The ordinance goes on to state the sale is to be through 1) notice to the general public, 2) notice to neighboring property owners, 3) receipt of offers to purchase, and 4) council acceptance by ordinance approval of the best offer to purchase the property.

The city did not follow these procedures in regards to the sale of the Recycling Center land. Notice of the sale was not given to the public or neighboring property owners and offers (other than the purchaser's) were not solicited or received. In addition, the city did not have the land independently appraised.

A business located adjacent to the Recycling Center tendered an offer to the city to purchase the Recycling Center land in 2004 in order to expand its business.

The city had obtained this property in November 2003, after years of negotiations with a railroad company for \$127,200 and invested \$55,200 for equipment and materials to upgrade the site. Prior to purchasing the land, the city had leased this property for the Recycling Center for several years from the railroad.

In August 2005, due to the economic development potential of this sale, the Mayor and City Council accepted the purchaser's proposal and entered into an agreement to sell the Recycling Center land in two phases at \$28,594 for each phase (total of \$57,188). While the second phase was sold in November 2007 and required the Recycling Center to move during February 2008, the second installment payment was not received until September 2008. The Director of Public Works indicated it cost the city \$2,560 to temporarily relocate the Recycling Center's operations and estimates the cost of permanent relocation will range from \$215,240 to \$654,000 (which includes the purchase price of land). As of August 2008, the city has not chosen a permanent location for the Recycling Center, but did receive \$30,000 from the purchaser as agreed, as reimbursement for the city's costs to move the recycling center to a new location.

Since the city had \$182,400 invested in the land (purchase price plus land improvements), the city lost at least \$125,213 on the sale. To ensure the best possible price is obtained for property sold and all interested parties are given equal opportunities to participate, city ordinances regarding sale of real estate should be followed and formal appraisals should be obtained.

- B. Written procedures of the process to be followed when an asset is purchased or disposed of have not been formally established. While the city has established basic written procedures for the handling of capital assets, adequate steps have not been taken to ensure dispositions are properly authorized and additions and disposals are reported to the Accounting Division in a timely manner.

While not established by written policy, department heads are supposed to submit an addition or disposal form, which documents department head approval as well as the disposal method used, to the Accounting Division. However, some disposal forms were not approved by the department director and the Financial Services Department was not notified of some additions and disposals in a timely manner. There were numerous instances in which the Accounting Division became aware of additions and disposals upon physical inventory count at year end. In addition, a street sweeper was listed as being disposed in 2001, but remained in the city's possession and was subsequently sold in 2007.

Currently, department directors may select any method they see fit to dispose of an asset and are not required to document the reason for their selection as no written procedures exist regarding the disposal of assets.

The city's capital asset policy should be revised to include procedures for the Accounting Division to be notified of additions and disposals as they occur and of

the selection and documentation of disposal methods utilized. In addition, the policy should address proper authorization of asset disposals. Property records for capital assets are necessary to ensure accountability for all items purchased and owned and for determining the proper amounts of insurance coverage.

- C. Although the city's capital asset policy states that capital assets will be tagged for identification and control, the city does not tag capital assets.

Property control tags should be affixed to all property, including capital assets, to help improve accountability and ensure assets are properly identified as belonging to the city. This is especially important considering the lack of addition and disposal controls noted in part B and the fact that the city only capitalizes and maintains a listing of assets with an acquisition cost of \$5,000 or more.

WE RECOMMEND the City Council:

- A. Obtain a formal appraisal of any property sold in the future. In addition, the City Council should follow city ordinances by ensuring a notice of the sale is given to the public and to neighboring property owners, offers are solicited and received, and the best offer is accepted.
- B. Revise the city's capital asset policy to include procedures for the Accounting Division to be notified of additions and disposals as they occur and for the selection and documentation of disposal methods utilized. In addition, the City Council should ensure asset disposals are properly authorized.
- C. Ensure city property is properly tagged or otherwise identified.

HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

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

The city of St. Joseph is located in Buchanan County. The city was incorporated in 1851 and is currently a constitutional charter city. The population of the city in 2000 was 73,990.

The city government consists of a mayor and an eight-member city council. The members are elected for 4-year terms. The mayor is elected for a 4-year term, presides over the city council, and votes on all issues. The Mayor, City Council, and other officials during the year ended June 30, 2007, are identified below. The Mayor is paid \$590 per month (including \$390 in monthly vehicle allowance) and City Council members are paid \$435 per month (including \$285 in monthly vehicle allowances). The compensation of these officials is established by ordinance.

Elected Officials	Dates of Service During the Year Ended 2007
Ken Shearin, Mayor	July 2006 – June 2007
Donna Jean Boyer, Councilmember At Large	July 2006 – June 2007
Mike Hirter, Councilmember At Large	July 2006 – June 2007
Bill Falkner, Councilmember At Large	July 2006 – June 2007
Roger E. Baker, Councilmember District I	July 2006 – June 2007
Joyce Starr, Councilmember District II	July 2006 – June 2007
Mike A. Bozarth, Councilmember District III	July 2006 – June 2007
Gary Roach, Councilmember District IV	July 2006 – June 2007
Barbara LaBass, Councilmember District V	July 2006 – June 2007

Other Principal Officials	Dates of Service During the Year Ended June 30, 2007	Compensation Paid for the Year Ended June 30, 2007
Vince Capell, City Manager (1)	July 2006 – June 2007	\$ 123,726
Paula Heyde, City Clerk	July 2006 – June 2007	51,364
Lisa Robertson, City Attorney	July 2006 – June 2007	86,276
John Boeh, Municipal Judge*	July 2006 – June 2007	72,259
<u>Department Directors</u>		
Carolyn Harrison, Financial Services Department Director	July 2006 – June 2007	84,463
J. Bruce Woody, Public Works & Transportation Director	July 2006 – June 2007	91,259
Clint Thompson, Planning & Community Development Director	July 2006 – June 2007	80,792

<u>Department Directors (cont'd)</u>	Dates of Service During the Year Ended June 30, 2007	Compensation Paid for the Year Ended June 30, 2007
Samuel T. Barber, Customer Assistance Director	July 2006 – June 2007	80,195
Glenda Klein, Human Resources Director (2) (3)	July 2006 – Feb. 2007	52,306
Chuck Kempf, Interim Human Resources Director/Project Manager (2)	July 2006 – June 2007	64,256
Steve Hofferber, Technology Services Director	July 2006 – June 2007	78,088
Bill McKinney, Parks Recreation, & Civic Center Director	July 2006 – June 2007	86,523
Debra Bradley, Health Department Director	July 2006 – June 2007	78,524
Jack Brown, Fire Chief	July 2006 – June 2007	82,453
Christopher Connally, Police Chief	July 2006 – June 2007	88,082

In addition to base salary, compensation amounts above include: sick pay buy back, longevity pay, uniform allowance, vehicle allowance, and taxable life insurance, as applicable

* Elected position

- (1) In addition to the compensation shown above, the city pays \$8,000 into the city manager retirement fund pursuant to his employment contract.
- (2) Glenda Klein resigned in February 2007 and Chuck Kempf was named Interim Human Resources Director. Diana Slater was subsequently appointed Human Resources Director in August 2007.
- (3) Compensation includes \$5,714 for unused vacation leave upon leaving employment with the city.

In addition to the officials identified above, the city employed 638 full-time employees and 183 part-time employees on June 30, 2007.

Assessed valuations and tax rates for 2007 were as follows:

ASSESSED VALUATIONS

Real estate	\$ 603,594,656
Personal property	245,062,513
Railroad and utility	16,182,516
Total	<u>\$ 864,839,685</u>

TAX RATES PER \$100 ASSESSED VALUATION

	<u>Rate</u>
General	\$ 0.7009
St. Joseph Special Business District	0.7796
Public health	0.2092
Library	0.4033
Parks and recreation	0.1946
Museum	0.0487

TAX RATES PER \$1 OF RETAIL SALES

	<u>Rate</u>	<u>Expiration Date</u>
General	\$ 0.0150	
Capital improvement (1)	0.0050	June 30, 2008
Mass transit (2)	0.0015	

- (1) Effective November 2007, this tax was extended through June 2013.
 (2) Effective July 2008, this tax will increase to \$0.00375.

AUDITEE RESPONSE

Response From City Council And Mayor

STATE OF MISSOURI)
County of Buchanan) ss.
City of St. Joseph)

I, Paula Heyde, City Clerk of the City of St. Joseph, County and State aforesaid, do hereby certify that the foregoing and annexed instrument of writing is a true and correct copy of the original on file in the office of City Clerk of the City of St. Joseph, Missouri Official Council Response to State Auditor's Report dated December 18, 2008.

IN WITNESS WHEREOF I have hereunto set my hand and affixed the official seal of the City of St. Joseph, aforesaid. Done at the City Clerk's office in the City of St. Joseph, this

18th day of December, 2008

/s/ Paula Heyde (Original signed by city clerk)

City Clerk

By _____

Deputy

Ms. Susan Montee, CPA, Missouri State Auditor
301 West High Street.
Office 880
P.O. Box 869
Jefferson City, Missouri 65102

Dear Ms. Montee:

We, representing a majority of the City of St. Joseph City Council, hereby signify by our respective signatures affixed to this page, our collective agreement with the enclosed audit response to the State Auditor's final audit report. Accordingly, given that the number of signatures equals or exceeds a majority of our members, we respectfully request that this audit response be considered the official and final response to be communicated publicly according to your methods.

(Original signed by Mayor)
Ken Shearin, Mayor

(Original signed by Deputy Mayor)
Mike Hirter, Deputy Mayor

(Original signed by At Large)
Donna Jean Boyer, At Large

(Original signed by At Large)
Bill Falkner, At Large

(Original signed by District I)
Roger E. Baker, District I

(Original signed by District II)
Joyce Starr, District II

(Original signed by District III)
Mike A. Bozarth, District III

(Original signed by District IV)
Gary Roach, District IV

(Original signed by District V)
Barbara LaBass, District V

CITY OF ST. JOSEPH, MISSOURI



OFFICIAL COUNCIL RESPONSE

to

STATE AUDITOR'S REPORT

December 18, 2008

Introduction

Representatives of the State Auditors Office met with all members of the City Council, collectively, to discuss the manner in which the City Council was to provide its responses to the recommendations made in the State Audit Report. The City Council was specifically instructed by these representatives to:

- Respond only to the language contained in each of the specific recommendations made; the scope of the responses was not to be broadened beyond the specific text of the particular recommendation being considered.
- Address each recommendation, one-by-one.
- Ensure that the responses provided represent the thoughts and opinions of the majority of City Council members.

The City Council believes that the Official Response which follows fully complies with the instructions provided by the State Auditor's Office. Attached to this Official Response are the signatures of each member of the City Council, indicating his/her agreement with the responses provided herein. The City looks forward to concluding the State Audit process when the public delivery of the results is given by the State Auditor, or her designee.

1. SEWER SYSTEM CONCERNS

Auditor Recommendation:

A. “Continue to work with regulatory agencies to develop a long-term plan for the sewer system to ensure compliance with the federal and state standards.”

City Council Response:

The City agrees and further notes that it has been aware of the EPA guidelines since they were first published in 1994. The City has maintained, and continues to maintain, full compliance with EPA guidelines, NPDES discharge permit requirements and Long Term Control Plan (LTCP) submission requirements. The most recent draft of the City’s LTCP was completed in February 2008, several months before the state auditors completed their petition audit fieldwork. On August 25, 2008, the EPA and MDNR accepted, in writing, alternate four of the City’s LTCP as providing “adequate infrastructure improvements to comply with the presumptive approach of the EPA 1994 Combined Sewer Overflow (CSO) Control Policy.” City Staff, Council members, elected officials and others are working through appropriate channels in an attempt to minimize, to the extent possible, the future sewer rate increases that will occur as a result of complying with these EPA requirements.

Auditor Recommendation:

B. “Develop support to justify substantial differences between non-resident and resident sewer rates.”

City Council Response:

Missouri courts have specifically held that “Missouri is a jurisdiction that does not require a rational basis to exist between service costs and nonresident sewer rates.” Establishing sewer rates for non residents is a matter of City Council policy. (The cities of Independence and Jefferson City both have higher rates for outside city users; one and one-half times higher and three times higher, respectively.) When making future policy decisions regarding non-resident sewer rates, the Council will take the auditor’s recommendation into consideration and discuss any issues that non-resident customers may have with the City’s non-resident sewer rates.

Auditor Recommendation:

C. “Ensure the city uses the most cost-effective means of disposing of bio-solids. Justification should be maintained to support any transfers made from the Sewer Fund related to these disposals. In addition, all city contracts should be in writing as required by state law and all contracts should be properly advertised.”

City Council Response:

To minimize cost and liabilities, the Water Pollution Control (WPC) division prioritizes the options for the disposal of bio solids. The City’s first choice is land application at the airport where the City owns the land and, therefore, has the maximum control over the application

rates, storm drainage control and access. The second choice is to store bio solids at the treatment plant. The third choice is private property where there is no cost to dispose of the material, but the City has less control over drainage issues and, therefore, has some limited exposure to liability due to working on private property. (This option is only used during the growing season when land at the airport is unavailable.) The fourth choice is disposal at the landfill, which is not advisable because there are tipping fees to be paid and the high moisture content of the bio solids causes handling problems for Landfill Staff.

It is important to understand that the City does not regularly apply large amounts of bio solids on private property. The amount of private farmland used each year varies, depending on whether or not digesters are being cleaned out that year – an activity that *vastly* increases the City’s bio solids production. Due to the construction of a new thermophilic digester last year (2007), the focus year of the audit, there was a significant amount of cleaning that occurred in relation to the digesters and this created a need to dispose of unusually large amounts of bio solids. The following is a listing, by year, of the bio solids produced in the last three years and where they were placed:

Year	Airport (tons)	Landfill (tons)	Private Farms (tons)	Total (tons)	% on Private Farms
2008	2125	796	1020	3941	25.9%
2007	789	306	2507	3602	69.6%
2006	918	12	190	1120	17.0%

As part of this audit, it came to City’s attention that the WPC Division had allowed several agreements with private property owners for the application of bio solids to lapse. New agreements have been obtained and are now in place with the owners of several private farms in regard to the application of bio solids on their properties.

Auditor Recommendation:

D. “Review the contract with the water company and ensure adequate provisions are included to establish procedures for the collection of the delinquent sewer bills. In addition, the city should develop formal policies and procedures related to sewer bill adjustments.”

City Council Response:

The auditor recommendation is a good one and Staff will develop a more formal procedure for review of adjustments to sewer billings. However, pursuant to the City’s contract with the water company, sewer billings/collections are in a subordinate relationship to water billings/collections. The City has, on previous occasions, attempted to negotiate this point with the water company without success and has not been willing to pursue it more aggressively given that the current arrangement is working so favorably for the City and its sewer customers. Sewer collections have improved substantially (more than 5%) since the City privatized its sewer billings pursuant to a contract with the water company. In addition, the City was able to downsize its Financial Services Department by approximately three employees upon implementation of the new billing and collecting procedures. The benefits of having the water company bill and collect the City’s sewer charges are enormous to sewer

customers; and the City saves tens-of-thousands of dollars annually. Nonetheless, the City Council will certainly explore any viable option available that would provide for a higher collection rate with regard to *sewer* billings and work to develop a formal policy with regard to sewer billing adjustments.

2. MUNICIPAL MUSEUM TAX

Auditor Recommendation:

A. “Ensure any future disbursements of museum tax revenues are supported by a written contract that provides for the adequate oversight of museum expenditures and operations. No disbursements should be made without a contract in place. In addition, SJMI should not operate a museum in the city-owned mansion without a contract in place.”

City Council Response:

Once the April 16, 2007 judicial verdict rendered the previous Agreement with SJMI null and void, disbursements of museum tax monies ceased – SJMI received no tax funds from April 16, 2007 until July 14, 2008, when a new contract was signed by the parties; even though SJMI continued to operate the mansion without reimbursement from tax revenues for over a year. Given the reverter language contained in the mansion’s Warranty Deed, the City had little choice but to allow SJMI to continue to operate a municipal museum at the mansion – even absent a written contract. (The reverter language requires that a municipal museum be operated at the mansion, or else the property will revert from the City to SJMI.)

Auditor Recommendation:

B. “Ensure the city, the Museum Oversight Board, and the SJMI Board are in compliance with the city’s charter and the administrative procedures adopted by the city council. If these provisions are no longer applicable, the charter and/or administrative procedures should be amended accordingly.”

City Council Response:

City staff recommended *against* a Charter amendment until after the litigation had concluded, because circumstances might change – which they ultimately did. Even though Staff recommended that a Charter Amendment not be presented to the voters until after the litigation had been resolved, the City Council was of the opinion that this was an important enough issue to warrant immediate action. A Charter Review Task Force was recently appointed and has been meeting regularly for the purpose of reviewing the entire Charter and making recommendations to the City Council regarding which sections of the Charter should be revised by a vote of the people. Hopefully, the *few* inconsistencies that exist between Charter Section 18.1 and the April 16, 2007 ruling will be corrected at that time.

3. PROCUREMENT CARD AND TRAVEL EXPENDITURES

Auditor Recommendation:

A. “Develop criteria to evaluate the reasonableness of purchasing card limits and provide cards with appropriate transaction and monthly limit to employees to include identifying employees who do not use or infrequently use procurement cards assigned to them and terminating their procurement authority.”

City Council Response:

The City believes that the limits agreed upon by the department director and the Financial Services Department are generally appropriate, although some amount of periodic review and adjustment will always be necessary. Staff agrees that an annual review should be performed of the activity by all card holders and infrequently used cards should be terminated or transferred to someone having a more legitimate need for a procurement card.

Auditor Recommendation:

B. “The City Manager should ensure procurement card expenditures are reviewed in accordance with established policies and procedures.”

City Council Response:

The City Manager has reinforced with staff the importance of reviewing procurement card expenditures per City policies and procedures at the departmental level before expenditures are approved; and again before card reconciliations are forwarded to the Accounting Division. While “best practices” would provide for a separate, thorough investigation of every purchase by the Financial Services Department, the cost of providing the manpower to provide this level of scrutiny is prohibitive.

All travel expenditures are thoroughly reviewed when they reach the Accounting Division of the Financial Services Department. It is also much more expensive for employees to utilize the purchase order system than it is to use the procurement card system. When the City discontinued the small purchase order system in favor of the procurement card system, the City was able to reduce its Purchasing Division staff by one full position saving upwards of \$40,000 per year – more than \$320,000 since the use of procurement cards was approved by the City Council.

Auditor Recommendations:

C.1. “Ensure elected officials and employees follow the procurement card and travel policies and procedures and that procurement cards are not used for prohibited and unauthorized purchases.”

C.2. “Ensure all expenditures are necessary and prudent uses of public funds.”

City Council Response:

The City believes that the Audit recommendations in C.1. and C.2. are being achieved with existing policies and staff/supervisory review procedures.

Auditor Recommendation:

D. “Develop a comprehensive policy regarding city-provided food purchases and properly account for this type of expense. This policy should establish specific guidelines regarding proper and allowable expenditures in this area, along with documentation requirements including the business purpose and individuals in attendance.”

City Council Response:

The City agrees with this recommendation and believes that the policy adopted by the City Council should take into consideration present day business practices. It is sometimes appropriate for an employee to pay for business meals even though not out of town on overnight business travel. The City Council should consider including in the policy, if one is adopted, an allowance for appropriate in-town meals for the Mayor and City Council members as well as certain City employees – depending on the particular employee’s position and job responsibilities. A quick review of IRS guidelines should be of assistance in preparing this policy.

Auditor Recommendation:

E. “Require adequate documentation be submitted and maintained for all procurement card transactions.”

City Council Response:

Adequate documentation *is* required for all procurement card transactions. When required documentation is not available or, for example, in situations where an employee has lost his/her receipt, he/she would be required to prepare a memo explaining what happened and the nature and amount of the expenditure. Based on the facts as presented by the employee, the employee’s supervisor/director could choose to disallow, partially allow or fully allow the reimbursement. If this were to occur frequently, the specific employee’s procurement card and/or travel privileges would be suspended and/or disciplinary action would be initiated.

4. CONTRIBUTIONS

Auditor Recommendation:

A. “Enter into written contracts detailing the city purpose for all contributions made and monitor these contracts to ensure the recipient entities are using the funds for the intended purpose.”

City Council Response:

In response to Auditor suggestions, the City has started requiring a written agreement detailing the public purpose for which funds are being donated. However, the decision as to what organizations may receive a contribution is strictly a Council policy matter. As such, the Council will work toward establishing guidelines related to these types of contributions (public tax money) to private entities; discussing them during the budget process; and, if agreed upon, budgeting the funds.

Auditor Recommendation:

B. “Refrain from sponsoring fundraising programs which do not appear to fall into the scope of the authority of a city.”

City Council Response:

The City will take the Auditor’s suggestion under advisement by conducting additional discussions on this subject; as such decisions are strictly a Council policy matter.

5. SUBSIDIZING FUNDS

Auditor Recommendation:

“The City Council limit expenditures and transfers from restricted funds to only those which are necessary to finance functions of those specific funds. Supporting documentation should be maintained to reflect the need for and amount of each transfer made. In addition, the City Council should consider alternative funding sources for the various funds that cannot support themselves. The City Council should also obtain a new landfill tipping fee study to ensure its rates are set appropriately.”

City Council Response:

Transfers are budgeted and transacted for various legitimate municipal purposes. All proposed transfers are detailed and described in the proposed City budget and made available to the City Council.

There are two basic types of fund subsidies: (1) one-time subsidies and transfers to specific funds for specifically identified projects or activities and (2) recurring annual subsidies required to sustain another fund’s ongoing operations. Subsidies, whatever the type, are generally utilized only as a last resort when there are few other good choices or options. Having said that, the City believes that one fund helping another is one of those things that sustains St. Joseph’s municipal government and allows it to maximize needed services to residents while keeping taxes and fees at the lowest possible level. The practice of one fund helping another is sometimes the most cost effective and efficient means of providing municipal services to residents; and might even avoid, were funds to stand strictly on their own, tax increases and/or a diminution of City services were it to happen any other way.

Transfers from the Landfill Fund to the General Fund - The City believes that a modern Landfill is more than just a place one takes his/her garbage for disposal. That's the old view of landfills. Today's more progressive view of landfills would expand its responsibilities beyond its immediate dump site borders out into the community where people live and work. The City operates and subsidizes a separate and remote recycling center operation and it pays for and sponsors free (to local residents) annual hazardous waste disposal in the McArthur Drive Parking lot. The Landfill pays an outside firm to perform these services. The Landfill also supports free dumpster rentals and free dumping to promote neighborhood clean up programs. Clearly, today's Landfill plays an important role beyond the Landfill's immediate borders. This is the justification used for subsidizing property maintenance operations using Landfill funds. In this instance, the Landfill Fund is contracting out the trash and debris gathering to the City's Property Maintenance Department, which isn't much different from paying an outside firm for hazardous waste retrieval.

Landfill Tipping Fee Study – The City agrees that it is time for a new Tipping Fee Study and one has been budgeted in the current fiscal year. However, the recommendation that the Landfill Fund discontinue subsidizing the operations of the Parks, Recreation & Civic Facilities Department, Street Division and other City operations that regularly use the services of the Landfill, but that cannot afford to pay the full tipping fee rate, would present a huge problem for the City Council and the City Manager. More specifically, where will the Parks Department, Streets Division and other City operations that already struggle to stay afloat, come up with the money to pay the Landfill? If the subsidy were eliminated, the implication is that the tipping fee could be lowered. However, the St. Joseph Landfill tipping fee is already the lowest in the state of Missouri. Further lowering of the fee would benefit customers who do not live in St. Joseph; some of whom do not even live in the State of Missouri. An even lower fee would draw solid waste from far outside this region and in such large quantities as to seriously accelerate the depletion of the landfill's capacity.

Transfers from Riverboat Gaming Fund – The Auditors cite five transfers exceeding \$173,000 from the Riverboat Gaming Fund for purposes of subsidizing fund operations. Since the Riverboat Gaming Fund is not a restricted fund, the City is not aware of any problem with budgeting these types of transfers; particularly since the transfers were for one-time expenditures, capital in nature, (i.e., grant matches for the City's hike-and-bike trails). The transfers were not for operating expenses.

6. INTERFUND TRANSFERS AND COST ALLOCATION PLAN

Auditor Recommendation:

“The City Council should ensure that all expenditures are properly allocated to the various funds and that all transfers between funds are adequately documented and properly approved. For the Cost Allocation Plan (CAP) and Public Works Cost Allocation Plan (PWCP), this should include conducting a formal analysis of overhead and services to determine the percentage of costs related to each fund and a formal time study to ensure that payroll costs are charged to the appropriate funds.”

City Council Responses:

A. The City thoroughly documents the amount and nature of interfund transfers or transfers between funds. The City's Cognizant Federal Agency, the U.S. Department of Housing and Urban Development (HUD), as well as other federal and state agencies, has relied for years upon the City's CAP computations; as have the City's outside financial auditors who have rendered unqualified (clean) audit opinions for twenty consecutive years.

The recommendation from the Auditor that the CAP and PWCP should "include conducting a formal analysis of overhead and services to determine the percentage of costs related to each fund..." is based on their statement that "The city's Finance Department has not conducted a formal analysis of overhead and services to determine the percentage of costs that should be allocated to the CAP and PWCP for each fund." For the past decade the City has relied on an analysis conducted by the Financial Services Director, who spent 11 years as a lead consultant for the development of Cost Allocation Plans for over 30 state and local governments throughout the United States. The Cost Allocation Plan is based on a methodology approved by federal and state governments, follows the guidelines set forth in the Federal OMB Circular A-87 and is generated using the same software the Financial Services Director used while in the private sector.

The Auditor's statement, "...it (the Finance Department) has not conducted time studies...to show the actual hours worked by function or activity..." is correct. There would be a negative cost-benefit ratio were the City to institute a computerized labor reporting system by which every City employee records, and the City tracks, the precise nature of work performed for every hour of every work day for the sole purpose of determining exactly how much of an employees' costs should be allocated for budgeting purposes. Although performing a more limited labor time study in each "overhead" department could be accomplished, it would require staff resources now devoted to other tasks. Because of the small size of the City's administrative departments, each employee performs a multitude of tasks, undertakes a number of projects, and services several divisions. A limited study would only capture a snapshot of the individual's time allocation and may not accurately represent how that employee's time is allocated over the course of an entire year. In summary, the more "formal" plan proposed by the Auditors could easily result in a less accurate allocation of employee time than would the "informal" allocation based on the seasoned and informed judgment of individual employees and supervisors who know better than anyone how they and their subordinates spend their time.

B. The Auditor is correct in claiming that "some of the city's actual administrative transfers did not agree to the amounts calculated in the CAP or PWCP." However, every example presented, except for one, were instances in which the City transferred less from one fund to another than was indicated in the cost plan. Other than the transfer from CDBG funds, there is no requirement that transfers match exactly with amounts calculated through the CAP or PWCP.

C. The Auditor detected *two* fund transfers that were not formally approved by the City Council. Even though there are hundreds of annual fund transfers (357 in FY2007) that are properly budgeted and documented, the City agrees that these two transfers were not properly

approved; and even though the transfers were for appropriate municipal purposes, Council approval should have been sought for the transfers before the fact.

D. The Compensation Plan Transfer from the General Fund to the Streets Fund is adjusted downward in response to the additional revenues that this fund receives for its own administrative support of the Airport, Parking, Sewer, Landfill and Transit funds.

To address concerns, the City will add a section to its annual budget, which outlines general budget transfer policies/goals and highlights significant changes from the previous year.

7. MINUTES, AGENDAS, AND PUBLIC RECORDS

Auditor Recommendation:

A. “Ensure tentative agendas of all committee meetings are posted and retained and detailed minutes of all meetings are prepared and retained.”

City Council Response:

The instance cited by the Auditors involved meetings of an ad-hoc “Museum Committee” formed by the Mayor, which consisted of the Mayor and three other Council members. Meetings were attended solely by these four individuals. Although meeting notices were posted, no agendas were compiled and no minutes were taken. The City agrees that this should have occurred and will take better care to ensure that it does in the future, in the event any similar ad hoc committees are formed to address other topical issues, through prior consultation with the City Clerk and Legal Department.

Auditor Recommendation:

B. “Ensure all city records are available to the public unless they are specifically closed as allowed by the Sunshine Law.”

City Council Response:

The City agrees with this recommendation and makes every good faith effort to comply; and, further, believes that both City Staff and City Council members *have* complied in the majority of situations (both Staff members, as well as the Mayor and City Council members prepare and distribute confidential memos). The City will continue to focus on this recommendation.

Auditor Recommendation:

C. “Ensure meetings are publicly posted and minutes are maintained for all meetings, in accordance with provisions of Chapter 610, RSMo.”

City Council Response:

The City agrees with this recommendation. The City Clerk is charged with this responsibility, which requires support and assistance from City Staff and City Council members to make her aware of any meetings that have been scheduled at which a quorum of a “public governmental body” will be present to discuss “public business.”

Auditor Recommendation:

D. “Ensure council minutes are properly signed by the preparer and the Mayor or some other official to attest to their accuracy.”

City Council Response:

Staff will follow directives provided by the City Council in this regard.

8. COMPENSATION

Auditor Recommendation:

A. “Seek an opinion from legal counsel regarding additional compensation to employees.”

City Council Response:

Although legal opinions were not sought on the two issues specifically mentioned in the Auditor’s Report (longevity payments to employees and retroactive pay increases to the City Manager), a legal opinion *was* sought/obtained in December 2000 on a *very similar* issue – one-time compensatory payments (bonuses). This legal opinion, issued via memo dated December 11, 2000, was inconclusive due to a lack of case law on the issue; but the same legal theory set forth in the opinion would apply to the longevity payment issue that the Council considered only nine months later, in September 2001. The State Auditor, Susan Montee, who is an attorney and certified public accountant, served as a member of the St. Joseph City Council from April 1998 through April 2002 and voted in support of the ordinance approving longevity payments (as noted in minutes of the September 17, 2001 City Council meeting). More specifically, to provide a \$1,500.00 longevity payment to any employee who was employed as of December 2000 and had 16 years of service with the City.

Auditor Recommendation:

B. “Review vehicle allowances and set the allowances to reasonably reflect the actual expenses incurred by the applicable officials.”

City Council Response:

City Councils have made the policy decision to set their car allowances at a level which reflects not only the actual miles driven, but provides some accounting for the amount of time involved in official City business. Comparative data was publicly presented to the City Council for the City Manager’s car allowance during his recent contract negotiations, which is

part of his overall compensation package. The idea of converting the City Manager's car allowance to a mileage reporting basis or providing him with a City-owned vehicle were all discussed and considered; but not approved during the contract negotiations. The purpose of a car allowance is to avoid the time-consuming tasks involved with a mileage reporting requirement. This is, however, a Council policy decision.

9. CONTRACTS

Auditor Recommendation:

A. "Enter into formal written contracts, in accordance with state law, which specify the goods or services to be provided and the amount of compensation. These contracts should adequately detail the rights and duties of all parties to the respective contracts and should be properly updated and or extended when necessary. In addition, the city should monitor contracts to ensure compliance with contract terms."

City Council Response:

The City agrees with the findings contained in the Audit report regarding the lease for the City's Bartlett Center Building. However, this was a *unique exception* to the City's normal contract practices. As the Auditor's Report indicates, the delay in negotiating a new lease for the Bartlett Center was caused not because Staff was unaware of the situation, but because the City Manager was attempting to negotiate new and higher base rents while allowing the organization 1) to reorganize financially after losing more than \$100,000 in annual Community Development Block Grant funding and 2) to remain in the building. The City Council was kept fully informed of the status of these negotiations throughout the process, including several media reports, until a new lease with higher base rents was finalized and approved by the City Council nearly one year ago.

Auditor Recommendation:

B. "Periodically update city contracts for reasonableness."

City Council Response:

The Legal Department maintains a "tickler system" that monitors recurring City contracts for the specific reasons set forth in the Auditor's recommendation. As the Legal Department becomes aware of recurring contracts, they are added to its tickler list. This system has proven to be successful in almost all cases in prompting a review of the contract; which leads to the drafting of a new, updated contract, request for proposal or bid. The City agrees with the Auditor's Report regarding the house provided to the Golf Course Caretaker. The Auditor's finding is mitigated in this instance by the fact that this is a lease agreement for an indefinite term. Nevertheless, the City agrees that contracts, even those with indefinite terms, should be periodically reviewed.

10. CITY VEHICLES AND FUEL

Auditor Recommendation:

A. “Require complete and detailed mileage records be maintained for all city owned vehicles and periodically analyze vehicle usage to ensure city owned vehicles are used efficiently and appropriately.”

City Council Response:

The Auditors detected no abuse of vehicle and fuel usage and did not mention the physical controls that exist at the computer controlled fuel dispensing system located at the Streets Division of the Public Works & Transportation Department, (which is also used by the Customer Assistance, Fire, Police, Property Maintenance and Health Departments). A special key communicates to the computer which vehicle the fuel is being dispensed to. The vehicle operator must enter his/her employee number and input the vehicle’s odometer reading. The computer checks to make sure that the fuel previously dispensed/consumed is consistent with the odometer reading. If the numbers are at variance, the pump will lock up preventing fuel from being dispensed at which point the vehicle operator must request that a supervisor unlock the system. Given that the Streets Division fuel dispensing system is used by the City’s largest users of fuel, (the largest fuel user, the Mass Transit system, has an equivalent or even more restricted computer controlled fuel dispensing system), it is reasonable to suggest that the City’s largest quantities of fuel are adequately controlled and that it is only the infrequent or sporadic use in other departments that may warrant the use of additional procedures. It is important to mention that these computer controlled devices also report, among other things, the next scheduled vehicle maintenance as a means of properly maintaining vehicles and ensuring that taxpayer dollars and City equipment are best protected in this manner. It is important to note that much of the information the Auditor references as being advisable to have on hand is already available.

Auditor Recommendation:

B. “Ensure city management periodically evaluates and documents the necessity of providing vehicles for commuting purposes. Additionally, an adequate reporting system should be established to insure personal commuting mileage is reported to the city Human Resources Department for inclusion in employee compensation.”

City Council Response:

Individual department directors determine which City employees are assigned take home vehicles. Employees who are on-call, or who have significant public safety/life safety duties are permitted to take home City vehicles with the personal use of said vehicles being limited. City staff provides the City Council with a list of take home vehicles on an annual basis, as well as a list of proposed new vehicle purchases during the budget work sessions (to include identifying those that would be used as take home vehicles). Vehicle use and purchases are a significant topic of discussion every budget year.

The City agrees with the Auditor's recommendation that better documentation be maintained. A form has been developed that will document which employee is assigned to what vehicle. It will include the justification for providing the take-home vehicle, require the approval of the department director and then be forwarded to the Human Resources Department. This form will also provide a list of individuals who should be turning in personal commuting information for tax purposes.

Auditor Recommendation:

C. "Ensure periodic comparisons of fuel used to fuel purchased are performed and access to fuel tanks is restricted to authorized personnel."

City Council Response:

Fuel reconciliations will be implemented where they are not presently performed or where fuel usage is not presently part of a computer controlled dispensing system. The Auditor's Report failed to mention that the fuel dispensed at the Streets Division (City Yards) occurs under camera surveillance, in addition to being monitored 20 hours per day, seven days per week by a dispatcher. Non-City vehicles are not even allowed beyond the entrance gates into the City Yards area, where the fuel dispenser is located.

Fuel logs are maintained at the Landfill and remain with the vehicle/equipment rather than at the fuel tank location. The Auditor is correct, however, in stating that the Landfill fuel logs are not reconciled. The Public Works director has already directed that Landfill employees reconcile the diesel fuel quantities for review by the Landfill Superintendent. The City agrees that each vehicle should have a fuel log sheet that is routinely reconciled in order to track fuel usage. Supervisors will be directed to review this data on a regular basis to determine whether or not these fuel log sheets are adequately accomplishing their purpose and if any inappropriate use is occurring.

11. CELLULAR PHONES AND PERSONAL DIGITAL ASSISTANTS

Auditor Recommendation:

A.1. "Determine if personal use of cellular phones and PDA's should be reduced or eliminated. If it is not eliminated, the city should ensure employees comply with the city's policies and procedures regarding personal use and reimbursement of city provided cellular phones by requiring that employees identify personal calls and charges on each monthly bill. In addition, the city should update the Personnel Manual to include guidelines regarding text messaging, roaming charges, internet usage, and directory assistance charges for employees who have a city issued cellular phone or PDA and consider only allowing these features for employees who need them. The city should also review its monthly minute allotment for adequacy."

City Council Response:

The City believes that the personal use of cellular phones and PDA's is within the 25% allowed, representing a de-minimus (minimal or too small to worry about) personal use of City equipment similar to that of computers, telephones, faxes, photocopy machines, calculators or any other electronic or mechanical device. As with the recommendation on reviewing all procurement card transactions, a complete audit of each month's phone bill is not possible without additional staff. Staff will work with the cell phone and PDA service provider to obtain reports that might be helpful in identifying the few instances of inappropriate personal use.

Auditor Recommendation:

A.2. "Ensure the Purchasing Division performs and documents routine and periodic reviews to ensure compliance with the City's cellular phone policy."

City Council Response:

The former fixed minutes plan provided paper reports averaging more than 650 pages of detailed billing per month. With the City's conversion to a new fixed minutes plan in December 2007, paper billing is contained on a CD and can be exported to other City database and spreadsheet programs making it easier to review the numbers and usage for compliance with City cell phone policy. Another feature of the new plan allows City staff to make changes, block features or suspend service for individual users in a manner that will make these changes effective immediately.

Auditor Recommendation:

B. "Ensure the Purchasing Division performs an assessment of cellular phone and PDA distribution on a periodic basis."

City Council Response:

Approximately seven years ago, the City reimbursed employees for business use of their personal cell phones or paid City cell phone charges under dozens of different cell phone plans with different cell phone providers. This was burdensome, time consuming and expensive for employees and City government. The City terminated all of those plans converting to a "fixed minutes" program, thereby saving more than \$9,000 per year. In December 2007, the City converted to a *new* "fixed minutes" program saving an additional \$7,200 per year. The new plan includes free mobile-to-mobile, roaming and nationwide long distance – services that previously came at an extra charge.

12. BUDGETARY PRACTICES

Auditor Recommendation:

A. “Prepare and approve budget amendments prior to incurring the related expenditures.”

City Council Response:

The City agrees in theory, but real workplace conditions and events, as well as the nature of accounting systems to report budgetary deficits “after-the-fact,” make it impractical to fully comply with this particular recommendation. There are literally dozens of situations and events that might cause a budgetary deficit to arise before its existence is known and its amount determined. For example, a special police investigation, major fire event or spring flood near the end of the City’s fiscal year (when budget balances are running short) can cause police, fire and other City crews to exceed overtime and other line item budgets. Even though department directors and managers are generally aware of their budgetary position, the precise amount of overtime and other budget line-item deficits is not known until payroll and other transactions are processed and posted to the general ledger several weeks later. A budget amendment ordinance takes two readings, which could add as much as four weeks to the approval process for events that occurred six or more weeks previous. Much of the City’s work is performed on an emergency response basis forcing, on occasion, the City to deal with line-item budget deficits after-the-fact. This was true in FY2007 with the May 2007 flood scare and in FY2008 with the December 2007 ice storm.

The examples cited by the Auditor referenced the year-end “clean up” ordinances wherein it was not known ahead of time that expenditures had been made, which would cause certain line-item budgets to be exceeded. In all cases, there was sufficient fund balance or sufficient balances in other budgetary line items to cover the deficits. Staff agrees, however, that the example cited by the Auditors with respect to the Special Allocation Fund budget increase not approved by the City Council should not have occurred.

Auditor Recommendation:

B. “Adopt budgets for all funds as required by law.”

City Council Response:

It should be noted that even though the City does not budget for certain funds for valid reasons, all expenditures from these unbudgeted funds are submitted in advance of the expenditure for approval by the City Council. Staff believes this is an effective control process for agency and other fund activities not under the direct discretionary control of the City Council.

Regarding the City's Community Development Rehabilitation Loan Fund, any interest received on these funds is returned to the U.S. Department of Housing and Urban Development (HUD) each year. Given the fact that the City does not foresee how many activities it will fund or applications it will receive, the total amount of revolving loan funds available is excluded from the City’s adopted budget, but included in the City’s Annual Plan

that is approved by the City Council, adopted by ordinance and submitted to HUD for approval. This year's Community Development Block Grant (CDBG) Annual Plan submitted to HUD includes \$400,000 of program income-rehab loan repayments.

13. CASH CONTROLS

Auditor Recommendation:

A. "Adequately segregate duties in Customer Assistance of receiving monies, issuing deposit slips or licenses, reconciling cash drawers and preparing deposit slips. If proper segregation of duties cannot be achieved, at a minimum, there should be a documented independent comparison of monies received to the amount and composition of bank deposits."

City Council Response:

The need for segregation of duties is a standard for internal controls. The "gold standard" is to have separate individuals receiving money, issuing deposit slips, reconciling cash drawers and preparing deposit slips. However, small organizations like the City are constrained fiscally from providing the large number of staff needed to implement this type of "gold standard." The City combines the preventative measures it is able to realistically implement with measures of independent review of receipts and deposits after the fact.

The Financial Services Department provides Cash Handling Training courses for all City employees who handle cash. Training is provided for both cashiers and supervisors, is done annually, is tailored to each group of cashiers and is done at the employees' work site. The department will continue to emphasize the importance of segregation of duties. Financial accounting software (IFAS) logs any deletions from the data entry of cashiers on the batch proof and batch posting. Questions that arise during the review of the batches are immediately addressed with cashiers and/or supervisors.

Any cash control issues or questions that arise are documented by the Revenue Manager and Accounting Manager. When problems arise, Financial Services staff members work together to compile all information and ask for an immediate response and corrective action from supervisors (and Directors, if necessary) to avoid any future mishandling of deposits or transactions.

Auditor Recommendation:

B. "Restrict access to cash drawers to only one person per drawer."

City Council Response:

The City agrees with the internal control standard of separate cash drawers. However, the Auditor's statement that "cash collection clerks [in Customer Assistance] share cash drawers throughout the day" is overly-broad and generalized. The cash controls in the Customer Assistance Center are set up to make this the exception rather than the norm. Each cashier has his/her own drawer and stamps (paid and restricted endorsement). The Auditor's statement actually refers to only two individuals who do not routinely handle cash, but must sometimes

assist at the counter in order to provide good customer service when staff is short-handed. After receiving the Auditor's comments, one of these individuals has been provided with a locked and secured change box to be used when she is needed at the counter. An additional change box will be available in the area's safe for use by the second staff member, if needed. The Financial Services Department will continue to emphasize this practice in Cash Handling Training for cashiers and supervisors.

The Landfill Division faces greater challenges with regard to one person per drawer. The City is working with Landfill staff to consider various options: from switching to a ten-hour workday, hiring additional staff, etc., in order to adhere to this policy. The Landfill Division is also looking for a software program tailored to Landfill operations (weigh scale inputs), which will have the additional cash controls features suggested by the Auditors.

Auditor Recommendations:

C. "Require reconciliations of the composition of receipts to the composition of deposits and ensure receipt slips properly indicate the method of payment. Additionally, the City Council should ensure deposit slips include complete and accurate information."

D. "Adequately segregate the duties of posting non-monetary transactions and receiving and posting monetary payments in the Animal Control Department. If segregating duties is not possible, at a minimum, there should be a documented supervisory review of all non-monetary transactions posted."

E. "Ensure voided receipt slips are properly accounted for and receipt slip numbers are not reused."

F. "Ensure open transactions that cannot be completed in one day are reconciled to the daily receipt log to ensure all monies are properly deposited and all transactions are finalized."

G. "Ensure checks and money orders are restrictively endorsed immediately upon receipt."

City Council Responses:

C – G. The City respectfully points out that Auditor recommendations C. through G. (pertaining to the Animal Control Division) were identified by *City staff* and communicated to the Auditors. Furthermore, the resulting conditions at the Animal Control Division were already being addressed and remedied when the State audit commenced. Accordingly, a new database reporting program developed by the Technology Services Department is now fully functional and cash control procedures have been formally adopted and implemented by Animal Control personnel. Open transactions have been eliminated. Transactions for customers without enough money to complete the transaction are voided. A new transaction is created when a customer returns. Restrictive endorsement of checks is emphasized in the Cash Handling Training for cashiers and supervisors.

14. LAND AND CAPITAL ASSET CONTROLS

Auditor Recommendation:

A. “Obtain a formal appraisal of any property sold in the future. In addition, the City Council should follow city ordinances by ensuring a notice of the sale is given to the public and to neighboring property owners, offers are solicited and received, and the best offer is accepted by city ordinance, as required.”

City Council Response:

The City strives to follow its adopted purchasing policy and the case cited in the Auditor’s Report was an isolated one. In this instance, the City was not disposing of the property out of lack of interest or need for the property. Instead, the City Council was approached by the adjacent property owner requesting that the City sell its land so that he could expand his business. The request was initially made to administrative staff, but was repeatedly denied. The City Council inquired about the nature of the expansion, the new jobs it would create and the way it allowed for the business to remain in St. Joseph to grow our economy. As a result of that discussion, the City entered into an economic development agreement, wherein the business agreed to a building expansion and the creation of a minimal number of additional jobs at a specified starting wage or higher, as well as the purchase of the Recycling Center site and payment of certain relocation expenses. The sale price was based upon an appraisal performed by the buyer and provided to the City. To the extent that receipts from the sale of the property and relocation expenses are less than actual property value and relocation expenses, the City Council viewed it as an economic development incentive. This topic was discussed in a letter to the business, as well as in the various ordinances documenting the agreement and the transfer of property.

Auditor Recommendation:

B. “Revise the city’s capital asset policy to include procedures for the Accounting Division to be notified of additions and disposals as they occur and for the selection and documentation of disposal methods utilized. In addition, the City Council should ensure asset disposals are properly authorized.”

City Council Response:

The City maintains and thoroughly documents procedures for capital asset additions and even more detailed procedures for disposing of capital assets. However, the City does agree with the Auditor’s recommendation that the current procedures be formally established within a revised version of the City of St. Joseph Capital Asset Policy and this will be presented to the City Council for its approval.

Auditor Recommendation:

C. “Ensure city property is properly tagged or otherwise identified.”

City Council Response:

The current version of the City’s Capital Asset Policy does require tagging of capital assets. However, the revised version will not; in order to reflect actual practice since FY2000. At that time, the City of St. Joseph attempted to tag machinery and equipment with a bar-coded identification tag, but the tags would not remain adhered to the equipment. To ensure that the asset was properly identified, the department assigned a decal number to be affixed to the asset, which was recorded in the Accounting Division’s individual asset permanent file. If an asset has no external decal, the department’s vehicle number, a vehicle identification number or a serial number is also included in its permanent file.

--END--

Response From Mayor And Certain Board Members

**RESPONSE TO THE MISSOURI STATE
AUDITOR'S REPORT ST. JOSEPH, MO
December 18, 2008**

INTRODUCTION

Although there is a little dissatisfaction among the petitioners and some councilmembers over the audit only covering one calendar year, thankfully there were no blatant, unscrupulous, dark or devious findings in our historic City's 2008 State Audit Report.

However, there were several areas that, when corrected, should help replant the seed of confidence in the council's responsibility to safeguard the public's trust with more astute budget monitoring and control.

Response #1: Sewer

- a. The sewer rates outside the city limits (Country Club Village) were increased one hundred thirteen (113) percent in one (1) year, without a cost study or a corresponding statement of cost showing the need for the large increase, when a rate study suggested a six (6) percent increase to be added to the increased amount assessed for not being located within the city limits and paying city taxes. The City should develop a policy dealing with non-resident sewer customers. If the outside sewer district needs to meet specific federal guidelines, then the cost should reflect that until the guidelines are met.
- b. Transferring over three hundred thousand dollars (\$300,000) out of the sewer fund, which is a voter approved, single purpose fund, over the last five (5) years without proper documentation to support these transfers should not happen again.
- c. The city should have enforcement authority for collection of delinquent sewer accounts, which totaled nine hundred eighty five thousand six hundred fifty dollars (\$985,650) as of December, 2007.

Response #2: Municipal Museum Tax

- a. The lack of developing a business plan for the City-owned museum, before issuing a contract for specific services is a legal challenge waiting to happen.

b. Administrative procedures for the Museum Oversight Board (MOB) have not been established by the City Council.

Response #3: Government Relations

a. Spending eleven thousand two hundred forty dollars (\$11,240) of taxpayer funds for eleven (11) members of the Council and City Staff for a two (2) day Washington trip should be monitored and results evaluated.

Response #4: Subsidizing Funds

a. Two hundred fifty thousand dollars (\$250,000) was transferred from the Landfill (Enterprise) Fund to the General Fund. Over four hundred fifty five thousand dollars (\$455,000) was transferred to various funds. One hundred thirty thousand dollars (\$130,000) and one hundred eighty five thousand dollars (\$185,000) were transferred from the Street Maintenance and Repair (SIMR) Fund to the Aviation and Public Parking Funds. Fifteen thousand dollars (\$15,000.00) was transferred from the Parks and Recreation Fund to the Municipal Golf Fund.

b. Only two funds in the City Budget allow for transfers: The General Fund and the Gaming Fund. While the Riverboat Gaming Fund is not restricted, common sense dictates the allocation of these funds should be for one (1) time uses approved by the Council and due to the unpredictability of the amount, should never be used for line item operational expenses. All transfers need to be up front and clearly defined.

c. All transfers should be supported by adequate documentation or approved by the City Council. Some transfers were not approved by the City Council and many were not supported by adequate documentation. Approximately \$6.3 million was transferred between the City's various funds in 2007.

d. The City Council should ensure all expenditures are properly allocated to the various funds and that all transfers between funds are adequately documented and properly approved.

Response #4: Contracts

a. A private, not-for-profit entity was allowed to use a city-owned building without a contract. Unpaid rent and utilities totaled over twenty thousand dollars (\$20,000). The City Council and the City should enter into a formal written contract, in accordance with state law, which specify the goods or services to be provided and the amount of compensation.

Response #5: Budget Adjustments

- a. Budget adjustments were presented to the Council at the end of the fiscal year. This resulted in various funds being overspent without proper authorization. The special allocation fund that ended in June, 2007 increased by \$1.2 million ...**without council approval.**
- b. Budget overages are often determined **after year end** and an ordinance increasing the affected funds' budget is subsequently passed to insure ending expenditures do not exceed the budgets. When an overspending area is discovered, rather than notifying the Council of the over expenditure, the Finance Director increased the fund by \$1.2 million, **without a council-approved ordinance. In violation of Section 67.080, RSMO**
- c. **All budget amendments should be approved by ordinance.**
- d. The purpose of the budgeting process, for Council approval, is to determine, by department the operation cost. The understanding is that each department is expected to live within those established financial boundaries.

What good is a budget, if at the end of the year transfers from one fund to support another's actual spends? Instead of adhering to the funding guidelines established by the laboring process of budget preparation and approval, funds are shuffled...after the spending has taken place. That is not budgeting. That is spending backside covering.

Conclusion

This council is poised for positive change. The first budget we approved contained over thirty (30) percent of the expenditures listed as services, miscellaneous and other. Repeated challenges to that much money being non-directed to expenses resulted in a drastic cut in those allocated categories in following years.

Our non-accounting minds are number aware, not number insensitive to representing the City and the City's taxpayers. This audit is a support tool for digging and learning.

Like the City, this Council is prepared to take the recommendations of the State Auditor's report seriously and become more attuned to the responsibilities as watchdogs of the taxpayer's monies.

With that respect in mind and based on the Lead State Field Auditor's statement that this audit would cost the City of St. Joseph between sixty thousand dollars (\$60,000) to eighty thousand dollars (\$80,000), we have no question that the cost for these appreciated services will not exceed the officially, publicly declared amount.

Especially, since the audit covered only one (1) year and not the five (5) years the petitioners and we had anticipated.

QUESTIONS/OBSERVATION

Sewer overflow handling and code enforcement issues motivated citizens to demand an audit. It was not addressed in the report. Why?

Other than the need for thoroughness, why did the audit take over a year instead of the several months originally predicted?

For the record, although we recognize our shortcomings in the accounting knowledge arena, we, as a Council rely on the City staff's response. However, there was never a five (5) out of nine (9) vote of the Council that allowed the City Manager's response to be **the only response**.

The individual Mayor and Council's response, as expected and requested, is attached and should be given the proper weight in your final analysis.

Respectfully acknowledged and signed December 18, 2008



Ken Shearin
Mayor

(Original signed by Councilmember at Large)
/s/ Bill Falkner
Bill Falkner
Councilmember at Large

(Original signed by Councilmember, 5th District)
/s/ Barbara LaBass
Barbara LaBass
Councilmember, 5th District

(Original signed by Councilmember, 3rd District)
/s/ Mike A. Bozarth
Mike A. Bozarth
Councilmember, 3rd District