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Missouri State Auditor

City of Ozark



May 2009

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Office of the
Missouri State Auditor
Susan Montee, JD, CPA

May 2009

YELLOW SHEET

The following findings were included in our audit report on the city of Ozark:

Since 2004, the city of Ozark and the Ozark Land Clearance for Redevelopment Authority (LCRA) have spent approximately \$4 million on the Finley River Neighborhood Development District redevelopment project. Our review of the project identified questionable bidding practices and agreements that did not adequately protect the financial interests of the city. Litigation between the city and the original developer resulted in the city paying a settlement and obtaining ownership to property within the development. In addition, the city's financial condition has been impacted by the delays experienced in completing the project. Our review of this project also identified approval dates on some resolutions, ordinances, and contracts conflicted with board meeting minutes, the city and LCRA incurred excess interest costs on the purchase of property, and the city did not adequately document why some properties were purchased for more than appraised value. Potential conflicts of interest and an ineligible LCRA board member have been identified related to the redevelopment project, and the LCRA has not filed an annual report of its activities as required by law.

Bids were not solicited for some purchases in accordance with the city's procurement policy. The city's procurement policy does not establish time frames for which threshold amounts will apply, and fails to distinguish the handling of professional services such as legal, accounting, and engineering from other city purchases.

The city's Parks and Recreation Board paid \$1.5 million for approximately 58 acres to build a sports complex without obtaining an appraisal on the property. Some disbursements of the city did not appear to be prudent and necessary uses of public funds. The city has not established a comprehensive food policy or regulations regarding city provided food. Prevailing wage rates are not adequately monitored by the city and the city had to pay an additional \$2,918 for wages in a settlement agreement with the Missouri Department of Labor and Industrial Relations. The city has not evaluated the cost and distribution of cellular telephones and has no formal written policy regarding use.

Better controls and procedures are needed in the handling of city receipts by the various city departments. Several city collection points do not always record and reconcile the method of payment received to the composition of the monies deposited or transmitted to the city treasurer. Utility payments are not posted to the computerized accounting system in a timely manner. Accounting duties are not adequately segregated in some city departments nor are there periodic supervisory reviews in these departments to compensate for the lack of segregation. Additionally, the city has not developed adequate procedures to ensure adjustments made to utility accounts are proper, and some petty cash disbursements are not adequately documented.

Monies collected by the city's parks and recreation department for the annual Rubber Duck and Kinetic Kontraption Race are not deposited in the city treasury and neither the Board of Aldermen nor the Parks and Recreation Board monitor these funds. At September 30, 2008, approximately \$20,000 in race proceeds were being held by a non-profit organization in Springfield. Additionally, adequate supporting documentation was not maintained for cash prizes distributed including a \$5,000 first place award given in cash, and prize amounts were not properly reported to the Internal Revenue Service for income tax purposes.

The city needs to implement better controls over credit cards by establishing a written credit card policy. Many credit card purchases we reviewed did not have adequate supporting documentation and were not adequately reviewed and approved.

Board meeting procedures and minutes of the Board of Aldermen, LCRA Board, and Parks and Recreation Board need improvement. Procedures for handling and documenting closed meetings are not always in compliance with state law. Additionally, the city clerk could not locate some closed session minutes of the Board of Aldermen and the LCRA Board. Some meeting minutes did not always include sufficient detail of matters discussed or votes taken and were not legible. Further, the LCRA Board has not followed its own by-laws regarding the election of officers.

Controls over the city's 72 vehicles are not adequate. The city does not have a comprehensive vehicle use policy. Vehicle mileage and fuel logs are not maintained for most city vehicles. The city allows 13 employees to take city vehicles home at night, but does not track or report the value of personal automobile (commuting) use as compensation. Of these 13 employees, 8 live between 6 and 40 miles (one way) from the city limits. The city has not documented the benefit of allowing these individuals to commute in city owned vehicles.

The city failed to retain adequate documentation for the calculation of a substantial increase in water rates. The city had not increased water rates for approximately 7 years prior to the increase. Additionally, the city's procedures for contracting with other political subdivisions could be improved, and the city's 2008 budget did not include all information required by law.

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CITY OF OZARK
TABLE OF CONTENTS

		<u>Page</u>
STATE AUDITOR'S REPORT		1-3
MANAGEMENT ADVISORY REPORT - STATE AUDITOR'S FINDINGS		4-35
<u>Number</u>	<u>Description</u>	
1.	Redevelopment Project	5
2.	Purchasing Policy	11
3.	Disbursements	13
4.	Accounting Controls in City Departments.....	18
5.	Rubber Duck and Kinetic Kontraption Race	23
6.	City Credit Cards	25
7.	Board Minutes and By-laws	27
8.	Vehicle Usage	30
9.	Water Rates	33
10.	Contract Procedures	34
11.	Budgets	35
HISTORY, ORGANIZATION, AND STATISTICAL INFORMATION		36-38

STATE AUDITOR'S REPORT



SUSAN MONTEE, JD, CPA
Missouri State Auditor

To the Honorable Mayor
and
Board of Aldermen
City of Ozark, Missouri

The State Auditor was petitioned under Section 29.230, RSMo, to audit the city of Ozark. The city engaged Mitchell, Roy & Wilson, Certified Public Accountants, to audit the city's financial statements for the year ended December 31, 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 December 31, 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 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 Ozark.

An additional report, No. 2008-74, *Thirty-Eighth Judicial Circuit, City of Ozark Municipal Division*, was issued in November 2008.



Susan Montee, JD, CPA
State Auditor

The following auditors participated in the preparation of this report:

Director of Audits: Alice M. Fast, CPA, CIA, CGFM
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MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

developer by allowing Hagerman New Urbanism, LLC to purchase land within the FRNDD, to have final review of all interested developers and recommend a developer to the LCRA, and to further negotiate a development agreement.

Although the development proposal submitted by Finley River Development, LLC was the only proposal received, it failed to meet some of the minimum proposal requirements. However, the city still executed a development agreement with Finley River Development, LLC in March 2007. For example, the city's request for proposals outlined 12 minimum proposal requirements which included, "a letter from a financial institution stating at the very least that the developer is of sufficient financial strength and reputation that the institution would consider extending financing to the project." The proposal failed to include such a letter from a financial institution. Ultimately, the development agreement was terminated for lack of financing in March 2008, resulting in litigation. (See part B below.)

Additionally, the city also signed several contracts with a consulting firm for various administrative and financial consulting services related to the redevelopment project without soliciting proposals. The city has expended \$34,000 on these contracts.

Properly soliciting proposals allows the city to make a better-informed decision to ensure necessary services are obtained from the best qualified provider at the lowest and best cost. Using minimum proposal requirements is a good way to ensure each proposal meets the expectations of the city in quality and content. Accepting proposals that do not meet these minimum requirements increases the risk the firm will be unable to follow through with the contract and meet the level of quality expected by taxpayers. The city should ensure requests are worded in a manner which does not unnecessarily limit proposals received and which ensures obtaining the required product or service.

- B. Terms in the city's two agreements (redevelopment plan agreement and the development agreement) with Hagerman New Urbanism, LLC and Finley River Development, LLC do not appear to have adequately protected the city's financial investment in the project.
- The redevelopment plan agreement negotiated with Hagerman New Urbanism, LLC provided as an inducement an exclusive option to purchase all land within the FRNDD owned by the LCRA. This incentive had not been included in the request for proposals for this plan. Properties were purchased with this exclusive option, and additional properties were also purchased by Hagerman New Urbanism, LLC and related parties directly from land owners within

the FRNDD. The redevelopment plan agreement did not provide an avenue for the city to reacquire the property if the property was not developed.

- The development agreement set deadlines for Finley River Development, LLC to purchase all land within the FRNDD acquired by the LCRA and obtain financing totaling at least \$5 million. These terms were not met and the development agreement was subsequently terminated. In the event of termination, the agreement provided for the city to reimburse the developer for all expenses incurred, but the agreement did not limit the amount of expenses that could be claimed. As a result, the city's financial interest was not adequately protected. Further, the development agreement provided an option for the city to reacquire the properties purchased by the developer if they were not developed by 2012; however, the agreement did not provide a means for the city to reacquire the properties sooner if other terms of the agreement were not met.

Following the termination of the development agreement, Finley River Development, LLC filed legal action against the city for costs incurred and the city began condemnation proceedings to acquire the properties purchased through these agreements. The city settled the litigation in January 2009 by paying \$855,000 and obtaining ownership to the property within the FRNDD.

These agreements did not clearly define the responsibility of each party if contract terms were not met, and as a result, the city's financial interests were not adequately protected. City management should review future development project contracts to ensure the city's financial exposure is limited.

- C. The city's financial condition has been impacted by the delays experienced in completing the FRNDD redevelopment project. As of December 31, 2008, the city of Ozark has expended \$986,151 for this project, and through the LCRA, has outstanding loans totaling approximately \$2.1 million for land purchases. Additionally, the LCRA borrowed an additional \$855,000 to pay the former developer as a part of the settlement agreement. The following table shows a breakdown of disbursements for the FRNDD redevelopment project.

Loan payments through December 31, 2008	\$ 420,027
Earnest payments	73,500
Closing costs	53,134
Appraisals	28,300
Real estate taxes	14,086
Relocation expenses	3,000
Third Street project	156,698 ¹
Development & planning	99,100
Consultant fees	49,900
Demolition	33,385
Environmental study	30,180 ²
Outside legal fees	12,495 ³
Clean up mobile home park	11,561
Publication expenses	785
Total	\$ 986,151

Source: City financial records

¹The city received \$125,358 in federal grant funds to reimburse the city 80 percent of this project.

²The city received \$30,180 in DNR grant funds to reimburse the cost of this study.

³The costs associated with the attorney employed by the city are not tracked.

The city does not have adequate unrestricted funds to incur significant costs related to this project. For the last several years, expenditures of the city's General Fund have approximated revenues of the fund. According to the city's audit report, as of December 31, 2007, the city's unrestricted General Fund balance was only \$103,818. In the 2008 budget, the city only anticipated making loan payments to the LCRA for half of the year, because the development contract required the former developer to purchase the LCRA properties. After termination of the development agreement in March 2008 and subsequent litigation, the city was faced with funding all of the land payments as well as the cost of litigation.

The city subsequently deemed itself master developer and advertised for proposals for sub-developers for the project. On August 12, 2008, the city and LCRA entered into a Redevelopment Advance for Project Costs Agreement with Ozark Acquisitions, LLC. This agreement provided the city with a \$100,000 "loan" from Ozark Acquisitions, LLC to help the city cover under-budgeted land payments in 2008. According to the original agreement, if the city and Ozark Acquisitions, LLC failed to execute a developer's agreement by December 31, 2008, the city had to repay this amount, plus interest at the annual rate of 6 percent. This agreement timeline was extended, and the city repaid the \$100,000 loan plus interest of \$2,581 and approved a development agreement on February 2, 2009, with Ozark Acquisitions, LLC to develop a portion of the FRNDD.

As the city proceeds with this redevelopment project with the various sub-developers, the board should ensure it adequately protects the financial

condition of the city while considering the impact on other goals of the city.

- D. Several resolutions, ordinances, and contracts related to the redevelopment project contained dates that conflicted with approval dates documented in the meeting minutes of the Board of Aldermen.

According to the June 8, 2006, board meeting minutes, the Board of Aldermen tabled a resolution allowing the mayor to enter into a contract with a consulting firm to provide a financial analysis of the redevelopment plan; however, the former mayor signed the contract on June 9, 2006, and the resolution indicates the board approved it on June 8, 2006. Subsequent board meeting minutes indicate the board considered and approved the resolution authorizing the contract in the June 22, 2006, board meeting. Several other instances were identified where resolutions and ordinances contained passage dates that did not agree with official approval dates documented in the meeting minutes of the Board of Aldermen.

No city official should sign a contract on behalf of the city without the documented authorization of the Board of Aldermen. Additionally, ordinances and resolutions passed by the Board of Aldermen and signed by the mayor act as the legal basis for the actions of the city. These documents should be carefully constructed and reviewed for inaccuracies by the preparer to ensure all information, including the date of passage, which most generally acts as an effective date, is accurate before the mayor signs such a document.

- E. The LCRA used owner-financing to purchase a parcel of land, resulting in higher interest costs, and did not adequately document reasons for paying more than the appraised value for some properties within the FRNDD.

On January 2, 2007, the LCRA purchased a parcel of land within the FRNDD for \$202,000 and chose to finance this purchase at 7.25 percent through the prior owner. While the LCRA had solicited proposals and secured financing through area financial institutions at an average interest rate of 4.5 percent for other land purchases, there is no documentation to indicate why this purchase was handled differently. The LCRA subsequently solicited proposals and refinanced this note one year later and secured an interest rate of 4.21 percent; however, the higher interest incurred by owner financing resulted in additional interest costs of approximately \$5,500.

In addition, the LCRA paid more than the appraised value for 7 of the 17 properties purchased within the FRNDD. The LCRA Board meeting minutes did not adequately document why more than appraised value was paid for five of these seven properties. Also, although all loans were

approved by the Board of Aldermen, board meeting minutes did not address paying more than appraised value for some properties.

Soliciting proposals for financing helps to provide a range of possible choices and allows for a better-informed decision to ensure financing costs are reasonable. Also, while it may be necessary to pay more than the appraised value for some property within the redevelopment area, the reasons should be adequately documented in the minutes along with the decision.

- F. Potential conflicts of interest and an ineligible LCRA board member have been identified related to the redevelopment project.

Former Alderman Archer voted on March 19, 2007, to accept the Central Business District TIF redevelopment plan designating the TIF district. Former Alderman Archer owns a business located within the TIF district which may present a conflict of interest.

Additionally, the city contacted the Missouri Ethics Commission (MEC) concerning a potential conflict of interest involving Alderman Sparrow who lives, but does not own property, within the FRNDD. The MEC response dated July 1, 2008, indicated that Alderman Sparrow should consider whether he controls an interest, direct or indirect, in any property included in the redevelopment area in determining whether or not he should refrain from any official involvement.

Further, the former Mayor appointed an ineligible LCRA commissioner to the LCRA Board in November 2005. Section 99.340, RSMo, requires all commissioners appointed to a LCRA to have resided within the municipality for a period of 5 years prior to appointment; however, this member had not met this requirement. The member served as an LCRA commissioner for 8 months before resigning.

The city should carefully consider all statutory requirements to ensure full compliance before appointing any commissioner to the LCRA. In addition, elected officials have an obligation to the public to avoid the appearance of impropriety. These officials should consider all variables and avoid potential conflicts of interest.

- G. The LCRA has not filed an annual report of its activities with the city clerk as required by Section 99.620, RSMo. An annual report was filed with the city clerk and presented to the Board of Aldermen on September 19, 2005, a year and a half after the authority was formed, and no subsequent reports have been filed.

WE RECOMMEND the Board of Aldermen closely monitor this and future redevelopment projects through properly soliciting proposals, limiting the city's financial exposure, monitoring the impact of the project on the city's financial condition, avoiding conflicts of interests, ensuring contracts are not signed before approval, avoiding excess interest costs, and adequately documenting reasons for paying more than appraised value for land. In addition, the Board of Aldermen should ensure the LCRA files an annual report as required by state law.

AUDITEE'S RESPONSE

The Ozark Board of Aldermen, Ozark Park and Recreation Board, Land Clearance For Redevelopment Authority, Mayor, City Administrator and staff provided the following written response:

The Board of Aldermen and the members of the Land Clearance For Redevelopment Authority (LCRA) are acutely aware of the frustrations and disappointments that have occurred within our first attempt at a redevelopment project in this city. In addition, both the Board and the Authority are fully aware of the impact of this project on the city's financial exposure and the current and future budgets. Accordingly, the Board of Aldermen will continue to closely monitor this renewal project and make every effort to reduce or eliminate the financial stress upon the city's operating budget while making every effort to assist the accomplishment of this project which has the potential to provide needed sales tax revenue for the city. In addition the Board of Aldermen has directed Staff and the LCRA to pay particular attention to the documentation of the proceedings of each of the Bodies, to include accurate minutes of proceedings, annual reports, documentation of negotiations for contracts (should there be any additional acquisition of properties) and any other details of the proceedings and transactions of the Board and LCRA. Finally, all members of the Board and the LCRA have been re-advised of the State and local laws relating to conflict of interests and every effort will be made to avoid even the appearance of a conflict in the future.

2.

Purchasing Policy

Bids were not solicited for some purchases in accordance with the city's procurement policy, and the city could benefit from a more comprehensive procurement policy which addresses timeframes for bid thresholds and the solicitation of proposals for professional services.

The city's procurement policy requires at least three competitive bids for purchases in excess of \$500 and requires public advertising and a formal contract for supplies and services exceeding \$5,000. While the city appeared to solicit bids for most purchases, bids were not solicited for the following purchases during the year ended December 31, 2007:

Trash service	\$ 565,872
Water engineering services	43,112
Uniform service for public works	20,438
Storm water master plan	13,642
Outside legal counsel	5,500

The trash service has not been bid since 1999 although prices have increased. In addition, according to city personnel, the uniform service is only bid every three years; however, a new contract was signed in April 2008 without the solicitation of bids.

The city's procurement policy does not establish time frames for which threshold amounts will apply, and fails to distinguish the handling of professional services such as legal, accounting, and engineering from other city purchases. For example, the city did not solicit proposals or enter into a written contract with the law firm paid \$5,500 because no individual payment to this firm exceeded the amount for which a formal written contract is required; however, this amount was paid within a 2 month period.

A more comprehensive procurement policy addressing the solicitation of proposals for professional services and providing timeframes for the various bidding thresholds would provide a more effective framework for economical management of city resources and help ensure the city receives fair value by contracting with the lowest and best bidders. Competitive bidding also helps ensure all parties are given equal opportunity to participate in the city's business. Documentation of bids should be maintained to provide evidence the city has complied with its purchasing policy. Bid documentation should include a list of vendors contacted, a copy of the bid specification, copies of all bids received, justification for awarding the bid, and documentation of discussions with vendors. Further, Sections 8.285 to 8.291, RSMo, require at least three highly qualified firms should be considered when obtaining engineering services. The firms should be evaluated based on specified criteria and qualifications for the type of service required. The best proposal should be selected based on experience, type of service to be provided, and any other relevant information.

WE RECOMMEND the Board of Aldermen ensure bids/proposals are solicited in compliance with the city's procurement policy and state law, and retain adequate documentation as evidence of compliance. Further, the Board of Aldermen should consider revising the procurement policy to include timeframes for which various thresholds will apply and clarify requirements for professional services.

AUDITEE'S RESPONSE

The Ozark Board of Aldermen, Ozark Park and Recreation Board, Land Clearance For Redevelopment Authority, Mayor, City Administrator and staff provided the following written response:

The Board of Aldermen has previously directed the City Administrator to review and revise the current Procurement policy. That revision had been in the works prior to the audit and continues at the present time. A full and complete revision (in compliance with all State statutes) is in the final draft stage and will be presented to the Board for approval within the next thirty (30) days. The Board has further directed review of the proposed revision in light of the comments made in this audit and directed that the policy contain tightened documentation, timeframes for which various thresholds will apply and longer term contracts for routine professional services.

3. Disbursements

The city's Parks and Recreation Board purchased approximately 58 acres for \$1.5 million without obtaining an appraisal. The city made multiple disbursements which do not appear to be prudent and necessary uses of tax payer money, lacks a comprehensive policy regarding local food purchases, failed to ensure prevailing wage laws were followed, did not issue Forms 1099 to all applicable vendors in 2007, and did not always properly authorize or mark disbursements paid. Additionally, the city needs to review the cost and distribution of cellular phones, the salary paid to the mayor, and the allocation of some salary expenses.

- A. On October 11, 2006, the city's Parks and Recreation Board paid \$1.5 million for approximately 58 acres to build a sports complex without obtaining an appraisal on the property. According to the Director of Parks and Recreation, the decision to purchase the property was based upon the recommendation of a committee appointed by the Parks and Recreation Board; however, no minutes were maintained of the committee's meetings to document how it determined the cost to be reasonable. The Director further indicated the committee relied on a 2-year old appraisal performed on the community center property which is located approximately four miles away. The director also believes the owner of the property originally paid \$1.5 million for the property just one year before the city purchased it, but could provide no documentation to substantiate this.

Good business practice requires major real estate purchases be formally and independently appraised to ensure a reasonable price is paid. In addition, Section 610.020, RSMo, requires minutes to be taken and retained for all meetings of public governmental bodies. Care should be taken to ensure minutes are complete and document discussions and specific intentions or reasons behind decisions.

B. Some disbursements did not appear to be prudent and necessary uses of public funds.

- Holiday hams and turkeys for employees in 2007 and 2006 totaling \$4,194 and \$4,123, respectively.
- A thank you dinner for the Board of Aldermen and volunteers serving on other official city boards, and spouses, \$1,617.
- Sponsorship and attendance fees for several employees and spouses to attend the Springfield Chamber of Commerce tribute to legislators event, \$990, and banquet tickets for employees and spouses for an Ozark Chamber of Commerce event, \$490.
- Advertising with the Ozark Booster Club and Ozark Tigers Boosters, \$600 and \$500, respectively.
- Fees and sponsorship for three employees and a non-employee to play in the Ozark Rotary Club golf tournament for \$420.
- Food and other items totaling \$315 for a going away party for the former city administrator.

City residents have placed a fiduciary trust in their public officials to spend city funds in a prudent and necessary manner.

C. The city has not established a comprehensive food policy or regulations regarding city provided food. Several meal expenses within the city limits were charged to city credit cards. According to notes documented on some credit card receipts, some of these local meals were for meetings among city employees or members of various boards. Our review of city credit cards for the period December 2006 through May 2007, identified the city charged \$1,108 in food purchases within the city limits. This includes \$413 in charges made by the former mayor to one local dining establishment without maintaining adequate supporting documentation. In addition, supporting documentation for several local meals charged to city credit cards did not include the business purpose or list the persons in attendance. Numerous other food purchases from local businesses were made by check without adequate supporting documentation such as items purchased, number of people served, and business purpose.

The city should develop a comprehensive policy regarding food purchases and review the need for local meal expenses. Guidelines should establish the situations in which local food purchases are acceptable and the required documentation. At a minimum, documentation should include the business purpose and a list of persons in attendance.

- D. Prevailing wage rates are not adequately monitored by the city. The city hired a local construction company to complete a re-modeling project of the police department foyer in 2007. The city did not require the contractor to provide supporting documentation of wages paid to ensure compliance with prevailing wage laws. As a result, the city had to pay an additional \$2,918 for wages in a settlement agreement with the Missouri Department of Labor and Industrial Relations.

Section 290.230, RSMo, requires prevailing wages to be paid to all workers employed by or on behalf of any public body, who perform construction work projects other than routine maintenance. Without supporting documentation of wages paid, the city cannot ensure compliance with state law.

- E. The city does not have adequate procedures in place to ensure a Form 1099 is filed with the Internal Revenue Service (IRS) when required. For example, the city failed to send Forms 1099 for 2007 to two construction companies for payments totaling approximately \$16,700.

Sections 6041 through 6051 of the Internal Revenue Code require payments of \$600 or more for professional services or for services performed as a trade or business by non employees (other than corporations) be reported to the federal government on Forms 1099.

- F. Disbursements do not always indicate approval by the appropriate individuals. For example, the city paid \$2,000 to a law firm in February 2007 for services related to land acquisition; however, no approval was documented on the invoice in accordance with city policy. Additionally, some invoices reviewed were not marked paid or otherwise cancelled.

Approval of all disbursements should be adequately documented. In addition, canceling invoices and all other supporting documentation reduces the possibility of duplicate payments.

- G. The city has not evaluated the cost and distribution of cellular telephones and has no formal written policy regarding use. The city paid approximately \$30,000 for cellular telephone service for 64 city employees during the year ended December 31, 2007.

We requested a list of employees with city provided cellular phones, but were told by city personnel no such list was maintained and would have to be compiled. Additionally, some city personnel indicated personal use of city cellular phones is permitted, while other city personnel indicated it is not. Further, the city was unable to provide any documentation indicating an analysis has been performed to ensure the best and most economical provider has been selected for its cellular telephone service.

To ensure the efficient and effective use of cellular phones, the city should develop a written policy regarding appropriate cellular phone use, routinely monitor cellular phone use, and ensure the most cost-effective plan is used.

- H. Beginning in 2007, the city paid the current mayor an additional \$20 per meeting based upon a city ordinance which previous boards did not apply to the mayor position. City Ordinance Number 881 sets the compensation of each member of the Board of Aldermen at \$20 per meeting and City Ordinance Number 06-015 sets the compensation of the mayor at \$900 per month. Beginning in 2007 with the current mayor, the city paid the mayor \$900 per month plus \$20 per meeting without documenting the board's consideration of this matter or obtaining a written legal opinion to document the change in interpretation of the ordinance.

The Board of Aldermen should ensure compensation of the mayor is in accordance with city ordinances and any changes in interpretation of such ordinances should be supported by a legal opinion and adequately documented.

- I. The salaries of some administrative employees, such as the city attorney and city treasurer, are allocated to departments and funds of the city based upon predetermined percentages; however, there is no supporting documentation, such as a time study or detailed time sheets to support how the percentages were determined. For example, the city attorney's salary was allocated 50 percent to the General Fund and 50 percent to the Waterworks and Sewerage Fund (25 percent each to the water and sewer departments).

The funds of the city are established as separate accounting entities to account for specific activities of the city. Reflecting expenses in the proper fund is necessary to accurately determine the results of operations and/or specific activities; thus, enabling the city to establish the level of taxation and/or user fees necessary to meet operating costs. Documentation should be maintained to support the percentages used for allocating the various expenses.

WE RECOMMEND the Board of Aldermen:

- A. Obtain independent appraisals for all major real estate purchases and ensure board appointed committees take and retain minutes of meetings.
- B. Ensure all disbursements are necessary and prudent uses of public funds.
- C. Develop a comprehensive policy regarding local food purchases.

- D. Ensure adequate supporting documentation is submitted to substantiate prevailing wages are paid on construction projects as required by law.
- E. Ensure payments totaling greater than \$600 to non employees and unincorporated businesses are properly reported to the IRS.
- F. Ensure approval of disbursements is adequately documented and invoices are properly canceled.
- G. Develop a policy regarding the use of cellular phones, which includes procedures to monitor use, periodically assess which employees need a cellular phone, and ensure the most cost-effective cellular phone plans are selected based on actual business use by city personnel.
- H. Consult legal counsel to ensure compensation paid to the mayor is in accordance with city ordinances.
- I. Ensure salary expenses allocated to the various funds are reasonable and supported by adequate documentation.

AUDITEE'S RESPONSE

The Ozark Board of Aldermen, Ozark Park and Recreation Board, Land Clearance For Redevelopment Authority, Mayor, City Administrator and staff provided the following written responses:

- A. *The Board of Aldermen has directed staff to obtain independent appraisals for all real estate purchases that may occur in the future. In addition, all Board appointed committees and boards have been directed to make and maintain full and complete minutes of their meetings and staff has been directed to provide adequate training for secretaries of these committees and boards in minute taking and the requirements of state statutes.*
- B. *Over a year ago, the Board of Aldermen, at the request of the Mayor, has directed that all of the activities that are noted in Sub-paragraph B of the comments in the audit report be stopped. At this point, any participation by a city employee in a civic event or project will be conducted on the employee's time and at the employee's personal expense.*
- C. *A comprehensive policy regarding the use of credit cards and local food purchases will be included in the procurement policy with reference to the newly revised employee manual to be distributed to all city employees. In addition, the Board of Aldermen has directed that these policies shall apply to any elected official who has been issued a city credit card.*

- D. *Supporting documentation will be maintained on any third party city contracts to ensure that prevailing wages are being paid.*
- E. *The Treasurer has been directed to provide the appropriate documentation of payments made to non-employees and unincorporated businesses so that proper reporting can be made to the Internal Revenue Service. In addition, all departments have been directed to maintain adequate records of the request for any payments and properly notify the Treasurer of any such payments made.*
- F. *Staff has been directed to pay closer attention to the documentation of disbursements and the cancellation of invoices.*
- G. *The study regarding cellular telephone use and the most economical plan had been completed in the later part of 2008. Cellular telephone use will be included in the new employee manual.*
- H. *The City Attorney has been directed to prepare the appropriate ordinance to establish salaries for the Mayor and Members of the Board of Aldermen that will exclude payment based upon attendance at meetings so that any confusion regarding compensation and a more streamlined method of compensation can be accomplished.*
- I. *The City Administrator and the Treasurer have been directed to analyze the allocated time for the salaried employees noted in the audit report to either support the current allocation of salaries between funds or to make changes in the allocations if necessary.*

4. Accounting Controls in City Departments

Improvements are needed in the handling of city receipts by the various city departments. In addition, the city has not developed adequate procedures to ensure adjustments made to utility accounts are proper, and petty cash disbursements are adequately documented.

- A. The city has several cash collection points throughout the various city departments which collect over \$5.5 million annually (excluding the municipal court). Some monies are deposited directly into the city's bank account by city personnel and others are transmitted to the city treasurer for deposit. The chart below summarizes the city departments and the various receipts collected.

<u>Department</u>	<u>Amount (in thousands)</u>	<u>Receipt Type</u>
Public Works	\$ 4,110	Water usage, sewer usage, reconnect fees, trash collection fees.
Parks	420	Donations, pool fees, program income, activity income, concession income, other income.
Planning and Building	1,020	Building inspection and permit fees, planning, zoning, and development fees, and impact fees.
Administration (city clerk's office)	70	Business licenses, community building fees, school resource officer reimbursement, and other income.

We reviewed procedures at various collection points throughout city departments and examples of weaknesses include:

- Adequate procedures are not in place in some departments to properly record all payments received. For example, receipt slips are not issued for some monies received, the numerical sequence of some receipt slips are not accounted for, some receipt slips are not issued in order, and copies of some voided receipt slips are not retained. Additionally, the parks and recreation department cash register is used by multiple employees and the register tape does not indicate the employee responsible for receiving and recording the monies.
- Several city collection points do not always record and reconcile the method of payment received to the composition of the monies deposited or transmitted to the city treasurer. For example, the computerized accounting system utilized to track water and sewer collections does not provide for the method of payment to be entered and reconciled to the total deposit. While the method of payment is generally indicated on the utility stubs, manual receipt slips are issued for cash received without a stub, and photocopies are made of checks received without a stub, there is no single record which records the method of payment for all utility receipts. In addition, payments made to the parks and recreation department in both cash and check are

recorded in the cash register entirely as cash preventing the proper reconciliation of the method of payment to the composition of deposits.

- The city hall vault, which contains monies collected by most city departments until deposit, remains open during the day and is accessible to unauthorized employees. Additionally, checks and money orders received are not always restrictively endorsed immediately upon receipt.
- The city's planning and zoning department does not adequately account for monies received as deposits for street cuts. The planning and zoning department receives checks from contractors as deposits for street cuts and holds these checks, without depositing them, until the related project is complete. The checks are returned to the contractor if the project is successfully completed or deposited by the city if the project was not properly completed. The department attempts to account for these checks through the use of a log which documents the permit number, date received, payer's name, and date the check is returned. During a cash count on July 16, 2008, we counted six checks totaling \$3,250 held as deposits for street cuts. Three of these checks, totaling \$1,900, were not recorded on the log.
- During our cash counts in July 2008, at the various city collection points, we found an envelope containing \$123 in cash, and two checks dated March 1996 totaling \$722 without documentation indicating what these monies represented. After some inquiries, the city identified the cash as donations collected from employees over four years ago to be sent to military troops. One of the checks was a \$100 deposit for use of a community building, and the purpose of the other check for \$622 could not be identified by the city.
- Utility payments (water, sewer and trash) are not posted to the computerized accounting system timely. For example, during our cash count on July 22, 2008, we counted approximately \$5,000 collected the previous day that had not yet been entered into the accounting system.
- Accounting duties are not adequately segregated in some city departments nor are there periodic supervisory reviews in these departments to compensate for the lack of segregation of duties.

The city should review controls of the multiple collection points throughout the various departments and implement procedures to ensure all monies collected are properly accounted for and adequate segregation of duties or supervisory review exists. The city should ensure proper and

timely recording of all receipts and ensure the composition of receipts is reconciled to the composition of deposits and transmittals. Additionally, checks and money orders should be restrictively endorsed immediately upon receipt, street cut deposits should be recorded and deposited, and access to monies collected should be limited to only authorized employees.

B. The city has not established adequate procedures related to utility account adjustments. According to city personnel, approximately 1,200 adjustments were made during the year ended December 31, 2007.

- 1) Controls over adjustments made to customer utility accounts need improvement. The utility supervisor has the ability to record all adjustments without any independent review or approval. The utility supervisor also has access to monies collected and prepares deposit slips. While the city's computer system generates a monthly report of all adjustments made to utility accounts, neither this report nor the reasons for the adjustments are reviewed by any independent party to ensure all adjustments are proper.

Review and approval for adjustments is necessary to ensure accounts and amounts are adjusted properly and to reduce the risk of misstatement or misappropriation.

- 2) The city has not established adequate procedures to track restricted utility revenues related to utility account adjustments. When a customer moves from one address to another within the city's service area, an adjustment is made to transfer the customer's accounts receivable balance from their former address to their new address. However, the adjustment posted does not maintain each utility revenue type (water, sewer and trash) intact.

For example, a transfer adjustment made to a customer's account on December 31, 2007, reflected a balance due at the former address of \$207 (\$55 for water, \$111 for sewer, \$7 for trash cart rental, and \$34 for recycling), but after the adjustment was posted, the entire \$207 was shown as due for water. As a result, water revenues are inflated and other revenues are reduced. The city's independent auditor requested the city post a correction to its accounting records totaling \$63,909 for the year ended December 31, 2007.

The city should consult with its software program provider to address this issue and determine if corrections can be made to ensure revenues are properly recorded and prevent the need to make a large adjustment after an audit has been performed. The

city has established accounts for specific activities of the city. Properly accounting for revenues is necessary to ensure user charges are set at appropriate levels, and city produced financial information, such as budgets and published financial statements, accurately report financial activity.

- C. Improvement is needed in accounting for petty cash funds, which range from \$50 to \$1,000, and their disbursements by several departments. For example, during our cash count at the parks and recreation department, we noted 4 out of 11 petty cash disbursements reviewed did not have actual supporting receipts. The parks and recreation department also requires a log of disbursements to be completed by the employees using the petty cash fund; however, it is not always filled out adequately. Also, no log of disbursements and reimbursements has been established for the planning and zoning department's petty cash fund.

Logs of petty cash fund transactions should be adequately maintained to properly document the financial activity of the funds and original receipts for all expenses should be retained.

WE RECOMMEND the Board of Aldermen:

- A. Ensure adequate controls and procedures are in place in all city departments to properly account for all monies received.
- B.1. Develop procedures to adequately monitor adjustments made to customer accounts.
 - 2. Consult with the software program provider to determine if changes can be made to adequately track revenues associated with utility adjustments.
- C. Maintain logs of petty cash transactions and original receipts for all expenses.

AUDITEE'S RESPONSE

The Ozark Board of Aldermen, Ozark Park and Recreation Board, Land Clearance For Redevelopment Authority, Mayor, City Administrator and staff provided the following written responses:

- A. *The Board of Aldermen has directed all departments, through the City Administrator, to put in place procedures and controls for accounting for all monies received on behalf of the city.*

- B. *Procedures have already been put into place and the appropriate software updates have been obtained to monitor adjustments made to customer accounts and to track revenues associated with utility adjustments.*
- C. *All departments have been directed to maintain appropriate logs of petty cash transactions and receipts for expenditures.*

5. Rubber Duck and Kinetic Kontraption Race
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Monies collected for the annual Rubber Duck and Kinetic Kontraption Race (the race) are not deposited in the city treasury and neither the Board of Aldermen nor the Parks and Recreation Board monitor these funds. Adequate supporting documentation was not maintained for cash prizes distributed, and prize amounts were not properly reported to the IRS for income tax purposes.

Annually, the parks and recreation department hosts a Rubber Duck and Kinetic Kontraption Race at the Finley River Park. Participants build a kontraption to race on land and water and adopt a duck for the Rubber Duck Race. Proceeds are used to benefit youth programs and the Ozark Greenways Trail. According to the Director of Parks and Recreation, the city collected approximately \$20,000 for the 2008 race and netted approximately \$9,000 after expenses.

- A. Monies collected and disbursed for the race are not adequately monitored. The department collects monies for the race and deposits the monies in a bank account outside the city treasury. The Director of Parks and Recreation and a local citizen are the signers on the checking account. After expenses are paid, remaining monies earned from the race are transferred by check to a non-profit organization in Springfield where they are held until the parks and recreation department formally requests the funds be sent to the city treasury for specified projects. At September 30, 2008, the non-profit organization was holding approximately \$20,000 (includes earnings from prior year). Several problems were identified with this arrangement:

- There is no oversight by the Board of Aldermen or the Parks and Recreation Board to ensure monies collected for the race are accounted for properly. Receipt records are not compared to amounts deposited into the bank account held outside the city treasury, and expenses paid from this account are not properly reviewed and approved. Additionally, the activity in this account is not audited by the city's independent auditor.
- According to the Director of Parks and Recreation the monies from the race are transferred to the non-profit organization to achieve tax deductibility for the contributors; however, the department has never

discussed the issue with a tax professional to determine if the inclusion of a non-profit organization is necessary. Further, the non-profit organization deducts a quarterly administrative fee of 0.2 percent of the balance and no contract has been established between the city and the non-profit organization.

Section 90.550, RSMo, requires all monies received for parks to be deposited in the city treasury to the credit of the Park Fund, and Section 432.070, RSMo, requires contracts for political subdivisions to be in writing. In addition, IRS publication number 526 indicates political subdivisions and public parks and recreation facilities qualify as organizations that may receive deductible contributions if the contributions will be used for public purposes. As a result, the need for the non-profit organization to achieve tax deductibility for the contributors may be unnecessary. The city should contact a tax professional regarding this issue. Further, to ensure proper accountability over public funds, all disbursements related to the race should be reviewed and approved by the Board of Aldermen or the Parks and Recreation Board.

- B. Our review of records of the 2008 race identified a \$5,000 check made payable to cash dated July 25, 2008. According to the Director of Parks and Recreation, the first place prize of \$5,000 was presented in cash; however, no receipt was obtained from the winner to document receipt of the cash.

To ensure all monies disbursed are properly accounted for, the parks and recreation department should discontinue the practice of issuing prizes in cash and should make all disbursements by check.

- C. Prizes awarded at the event have not been properly reported to the IRS. As previously noted, during 2008 the first place prize for the race was \$5,000, and the second place prize was a four-wheeler valued at approximately \$1,500. The winners of these prizes and other prizes valued at \$600 or more did not receive Forms 1099-MISC.

According to IRS regulations, miscellaneous income valued at \$600 or more, such as prizes or awards that are not for services, are required to be reported to the IRS on Form 1099-MISC.

WE RECOMMEND the Board of Aldermen:

- A. Work with the Parks and Recreation Board to ensure all funds are deposited in the city treasury as required, a tax professional is consulted to determine the deductibility of contributions made directly to the parks and recreation department, and if the continued involvement of the non-profit organization is deemed necessary, a formal written agreement for services

rendered is established. Further, all expenses of the race should be reviewed and approved by the Parks and Recreation Board or the Board of Aldermen.

- B. Work with the Parks and Recreation Board to discontinue the practice of giving cash for prizes and to ensure all disbursements are made by check.
- C. Work with the Parks and Recreation Board to ensure prizes valued at greater than \$600 are properly reported to the IRS.

AUDITEE'S RESPONSE

The Ozark Board of Aldermen, Ozark Park and Recreation Board, Land Clearance For Redevelopment Authority, Mayor, City Administrator and staff provided the following written responses:

The Board of Aldermen has directed that the Director of Parks and Recreation Department take one of the following actions:

- A. *Solicit an appropriate charitable organization to conduct this event (as had originally occurred at its inception) and end the city's partnership other than providing the location at the appropriate fee; or*
- B. *Conduct the event as a city sponsored event, appropriately account for all funds and expenditures, cease cash prizes and ensure that all revenues and expenses are deposited and accounted for as other city revenues and expenses; or*
- C. *Cancel the event entirely.*

6. City Credit Cards

The city needs to implement better controls over credit cards by establishing a written credit card policy. We identified inadequate supporting documentation and inadequate approval of items charged.

The city's six VISA credit cards have been assigned to specific departments or employees for purchasing small items as needed. The credit limits assigned to these credit cards range from \$1,000 to \$5,000. During the year ended December 31, 2007, VISA purchases totaled approximately \$23,000.

The city does not have a formal policy regarding the use of credit cards. Purchases charged to credit cards were primarily for fuel, travel expenses, meals, and supplies. Complete and detailed written credit card policies and procedures are necessary to provide guidance to employees, and help ensure city credit cards are used only for city business. A policy which establishes levels of purchase

authorization, the types and maximum amounts of allowable purchases which may be charged, approval requirements for various purchases, and documentation requirements decreases the possibility of unauthorized purchases.

- Adequate supporting documentation was not maintained for some credit card transactions. Our review of credit card purchases for the 6 months ended May 31, 2007, found 49 transactions totaling approximately \$4,300 did not have adequate supporting documentation. These transactions included the purchase of a camera for the police department totaling \$2,006 and a charge in excess of \$400 by the former Mayor to a restaurant in Jefferson City, Missouri.

To ensure all charges to the city credit cards are proper, detailed supporting documentation, such as itemized receipts and vendor invoices, should be maintained for all transactions and reconciled to billing statements.

- Credit card transactions are not adequately reviewed. Although a sub-committee of the Board of Aldermen reviews and approves credit card expenses, neither the credit card user, nor their immediate supervisor, if applicable, reviews the credit card billing for accuracy. To ensure all charges are legitimate and products or services have been received, credit card bills should be reviewed and approved by the card user and immediate supervisor. Additionally, because of the lack of supporting documentation maintained by the city noted above, the city has little assurance credit card billings are correct.

Proper approval should be obtained and documented for credit card transactions to effectively monitor and control expenses.

WE RECOMMEND the Board of Aldermen adopt a formal policy for credit card usage which includes requiring adequate documentation be maintained and reconciled to billing statements for all credit card transactions. Further, the Board of Aldermen should ensure the policy establishes procedures for the documented review of disbursements by both the credit card user and their immediate supervisor.

AUDITEE'S RESPONSE

The Ozark Board of Aldermen, Ozark Park and Recreation Board, Land Clearance For Redevelopment Authority, Mayor, City Administrator and staff provided the following written response:

The Board of Aldermen has directed that the City Administrator include in the employee manual a comprehensive policy for the use of city credit cards to include adequate documentation of the use of the card as well as a review of expenditures by the user and their immediate supervisor.

7. Board Minutes and By-laws

Board meeting procedures and minutes of the Board of Aldermen, LCRA Board, and Parks and Recreation Board need improvement. Procedures for handling and documenting closed meetings are not always in compliance with state law. Additionally, some meeting minutes did not always include sufficient detail of matters discussed or votes taken and were not signed by the preparer or another member of the board. Further, the LCRA Board has not followed its own by-laws regarding the election of officers, and the city should consider adopting a formal email retention policy.

- A. Numerous closed sessions were held by the boards, but the various requirements in Chapter 610, RSMo (the Sunshine Law), regarding closed meetings were not always followed.
- The Board of Aldermen and LCRA Board minutes for open meetings do not always document the specific reasons for closing the meeting or the section of law which allows the meeting to be closed. For example, minutes for one open session meeting stated the Board of Aldermen would enter closed session to discuss personnel; however, while in closed session, the board also discussed litigation. Similar situations were identified during our review of LCRA Board meeting minutes. In addition, open meeting minutes of the Board of Aldermen for two dates do not reference a closed session; however, closed session minutes were documented.
 - The city did not document how some issues discussed and votes taken in closed meetings of the Board of Aldermen complied with the Sunshine Law. For example, while in closed session, the Board of Aldermen voted to give the former city administrator a raise. Also, the board discussed the restructuring of one department within the city twice, and the restructuring of the merit/pay scale for city employees.

- The meeting minutes of the Board of Aldermen and Parks and Recreation Board did not always include documentation of roll call voting during closed sessions as required. For example, some closed session minutes of the Board of Aldermen document only how many "aye" and "nay" votes were received, and some Parks and Recreation Board minutes state a roll call vote was taken, but do not document each member's vote. In addition, decisions made by the Board of Aldermen in closed session to select a new city administrator and set the salary for the position, and to settle litigation, were all documented to have been approved by "consensus".
- The City Clerk could not locate some closed session minutes for the Board of Aldermen and LCRA Board.

The Sunshine Law, Chapter 610, RSMo, states the specific reasons for the closed meeting shall be voted on at an open meeting and provides public governmental bodies shall not discuss any other business during the closed meeting which differs from the specific reason used to justify such meeting, record, or vote. Issues not specifically allowed by the Sunshine Law should not be discussed in closed session and all actions taken during closed session are required to be made by roll call voting. In addition, minutes are required to be kept for all closed meetings.

- B. Some meeting minutes do not include sufficient detail or adequate documentation of votes cast, and some minutes were not legible.
- Some Board of Aldermen open session minutes omit critical information. For example, the May 21, 2007, Board of Aldermen open session minutes state the board approved the mayor entering into a contract with "____", leaving a blank space where the contractor's name should appear. While this information can be determined through other sources, minutes should be complete.
 - According to the city attorney, the LCRA Board voted to accept its by-laws within the first three months of its establishment; however, this vote was not documented in the meeting minutes.
 - Parks and Recreation Board meeting minutes for March 12, 2007, indicate one member abstained from voting on an appointment, but failed to document who abstained. Also, on October 8, 2007, a motion to accept a \$77,303 change order for the Community Center project was made and seconded; however, the meeting minutes fail to document an actual vote.
 - Meeting minutes of the Board of Aldermen and LCRA Board closed meetings are handwritten and sometimes illegible.

The minutes are the only official record of actions taken by the boards. Care should be taken to ensure minutes are complete and document discussions or reasons behind board decisions. Inadequate or unclear minutes can lead to subsequent confusion as to board intentions, possible incorrect interpretation of board actions by the general public or other outside entities, and the inability to demonstrate compliance with legal provisions.

- C. Board of Aldermen and LCRA Board meeting minutes are prepared by the City Clerk or her assistant, and Parks and Recreation Board meeting minutes are prepared by the board secretary. These boards' minutes are not signed by the preparer or any other board member. Board meeting minutes should be signed by both the preparer and at least one other member of the board to provide an independent attestation that the minutes are a correct record of the matters discussed and actions taken during the boards' meetings.
- D. The LCRA by-laws require the chairperson and vice-chairperson board positions be elected annually; however, the LCRA Board has not elected these positions annually.

During the first LCRA Board meeting on April 22, 2004, the mayor selected the initial chairperson as required by state law and the LCRA Board elected a vice-chairperson. These two individuals held the positions until elections were held on September 21, 2006, when a new chairperson and vice-chairperson were elected. No elections have occurred since.

- E. The city does not have an email retention policy to ensure compliance with the Sunshine Law. Section 610.025, RSMo, requires certain emails relating to public business sent by a member of a public body to be retained as a public record.

WE RECOMMEND the Board of Aldermen:

- A. Ensure meeting minutes are maintained for closed sessions which adequately document the reasons for going into closed session. In addition, the Board of Aldermen should ensure only allowable topics are discussed in closed meetings and all decisions made are documented by roll call votes.
- B. Ensure meeting minutes are legible and include the information necessary to provide a complete and accurate record of all significant matters discussed and actions taken.

- C. Ensure meeting minutes are signed by the preparer and at least one other member of the board.
- D. Ensure the LCRA Board elects officers on an annual basis as required.
- E. Consider adopting an email retention policy to ensure compliance with state law.

AUDITEE'S RESPONSE

The Ozark Board of Aldermen, Ozark Park and Recreation Board, Land Clearance For Redevelopment Authority, Mayor, City Administrator and staff provided the following written responses:

- A-C. The City Clerk, as well as all secretaries of boards and commissions, have been directed that all minutes of either open or closed sessions are adequately maintained to include the reasons for closed sessions, be legible, contain necessary information to provide a complete and accurate record of all significant matters, and are signed by the preparer and at least one other member of the board.*
- D. The LCRA has amended its by-laws and will follow their procedures as set forth in that document.*
- E. The City of Ozark will consider adopting an e-mail retention policy and will do so when the State of Missouri enunciates their policy as to retention in order that the appropriate ordinance does not conflict with state statute or regulation.*

8. Vehicle Usage

The city does not have a comprehensive vehicle use policy. Vehicle mileage and fuel logs are not maintained for most city vehicles. The city allows several employees to take city owned vehicles home daily, but does not report the value of personal automobile (commuting) use as compensation. In addition, some of these individuals live outside the city limits. Further, the city has no documentation to show the vehicle allowance paid to the city administrator is reasonable compared to actual expenses incurred.

- A. Controls over city owned vehicles are not adequate. The city does not have a comprehensive written vehicle use policy. The city owns 72 vehicles (22 police, 19 water and sewer, 12 parks and recreation, 12 public works, 5 planning and zoning, and 2 administration). A vehicle use policy should address allowable and unallowable use of city vehicles and the records required to account for such use, justification for assigning

vehicles to individuals or vehicle allowance amounts, and justification for commuting.

- Vehicle mileage and fuel logs are not maintained for most city owned vehicles. For example, the public works department generally records mileage on fuel receipts; however, trip information is not documented on a log. Additionally, the parks and recreation department does not record mileage for its three buses and nine vehicles, although the buses are sometimes rented out for private use. Other city departments also do not adequately track vehicle mileage for some assigned vehicles.

Fuel is charged at a local station or on a city credit card; however, adequate documentation is not maintained by each city department to compare fuel charged to fuel billed. Further, since vehicle mileage and fuel logs are not maintained to document miles driven, the city cannot review vehicle miles per gallon or determine if the amount of fuel purchased is reasonable. The city spent approximately \$156,000 for fuel for all departments during 2007.

Vehicle mileage and fuel logs should include the date, driver, purpose, destination of each trip, and the daily beginning and ending odometer readings for vehicles. Mileage logs are necessary to ensure vehicles are only used for city business. Fuel logs are necessary to properly support fuel charges.

- The city allows 13 employees to take city vehicles home at night. Of these 13 employees, 8 live outside the city limits. These 8 employees are the Director of Parks and Recreation, the Director of Public Works, 2 meter readers, a public works employee, and 3 police officers. These employees live between 6 and 40 miles (one way) from city limits. The city is not tracking or reporting the value of personal use (commuting) in city vehicles as compensation to the employees and has not documented the benefit to the city of allowing employees who live outside the city limits to commute in city owned vehicles.

The Director of Parks and Recreation indicated that several years ago the Parks and Recreation Board did not have the money to give raises to her and the Park Foreman, so the board decided to allow them to drive the park vehicles home each night and pay for one tank of gas per week in lieu of additional compensation. Due to the lack of vehicle mileage and fuel logs, as previously noted, this additional compensation has not been tracked or reported for taxing purposes.

Federal regulations require all employers to withhold payroll taxes and include the value of personal automobile (commuting) use in taxable income. While certain vehicles, such as police cars and other

emergency vehicles are exempted from this requirement, it appears there may be tax consequences for other individuals. Additionally, allowing city officials and employees living outside the city to take their vehicles home may result in additional and unnecessary costs to the city.

- B. The city has no documentation to show the vehicle allowance paid to the City Administrator is reasonable compared to actual expenses incurred. The city pays a vehicle allowance of \$5,400 annually to the City Administrator, who uses a personal vehicle to conduct city business. The city reports this allowance as compensation. Using the federal mileage reimbursement rate at October 2008 of \$0.585, the annual allowance paid to this employee represents approximately 9,230 miles per year. The city should review the reasonableness of the mileage allowance paid and set the allowance to reasonably reflect actual expenses incurred by the employee.

WE RECOMMEND the Board of Aldermen:

- A. Adopt a comprehensive written vehicle use policy. In conjunction with this policy, the Board of Aldermen should ensure all departments maintain vehicle mileage and fuel logs for all vehicles and ensure the logs are periodically compared to fuel purchases and reviewed to ensure the vehicles are used only for city business. In addition, the Board of Aldermen should review the practice of allowing city officials and employees to take city owned vehicles home and ensure commuting use in city vehicles is properly reported as taxable income.
- B. Review the vehicle allowance paid to the city administrator and document the basis for the amount paid.

AUDITEE'S RESPONSE

The Ozark Board of Aldermen, Ozark Park and Recreation Board, Land Clearance For Redevelopment Authority, Mayor, City Administrator and staff provided the following written responses:

- A. *The Board of Aldermen has directed that a comprehensive vehicle usage policy be included in the employee manual and include a policy regarding taking a vehicle home, vehicle logs and their review as suggested in the audit report. In addition, the Board has directed that no city employee, living outside the city limits, take a vehicle home unless that employee is on emergency call and the distance to be traveled will allow for emergency response within a reasonable time.*
- B. *The Board of Aldermen has reviewed the vehicle allowance for the City Administrator and documented the basis for the amount paid.*

9.**Water Rates**

The city did not retain adequate supporting documentation for the calculation of a substantial increase in water rates. On December 27, 2007, the Board of Aldermen approved and passed a resolution increasing water and sewer rates. While the city's engineering firm performed the calculations for the increase in sewer rates, the calculation of the water rate increase was determined by the city and adequate documentation of the rate calculation was not retained. The table below shows the prior and current water rates:

	<u>Prior Rate</u>	<u>Current Rate</u>
Base rate (first 1,000 gallons)	\$ 5.13	\$ 7.98
Rate per 1,000 gallons additional usage	1.58	2.36

According to city officials, the city had not increased water rates for approximately 7 years. The Director of Public Works provided us documentation he said he had provided to the former city administrator as justification for a water rate increase, which included a rate comparison showing the city's prior rate in comparison to six area public utility water rates, a utility rate analysis showing the average impact of the increased rate per user, and budget documents listing various projects to be completed and their estimated costs. However, the city has no documentation of how this information, or other pertinent information, was used to calculate the new water rate.

The city should periodically review utility rates and maintain documentation of rate calculations to provide assurance charges for providing services are reasonable.

WE RECOMMEND the Board of Aldermen periodically review utility rates and ensure adequate documentation of utility rate calculations is maintained to provide assurance charges for providing services are reasonable.

AUDITEE'S RESPONSE

The Ozark Board of Aldermen, Ozark Park and Recreation Board, Land Clearance For Redevelopment Authority, Mayor, City Administrator and staff provided the following written response:

The Board of Aldermen has previously determined that water rates will be reviewed on an annual basis. Any recommendations for a change in water rates will be adequately documented to substantiate the change.

The city does not always take steps to ensure contractual obligations are fulfilled and has not entered into a written agreement with a local political subdivision for which it collects sewer fees.

- The city entered into a contract with a local university to perform architectural work for the Ozark Third Street Visioning Process. The contract states the city will provide the university \$3,050 for expenses related to this project, and upon the project's completion, the university will submit documentation of expenses to the city and return any excess monies. The city did not receive or request any documentation of expenses from the university upon completion of the project. At our request, the city requested the documentation from the university and determined the city was due a refund of \$231.
- The city has not entered into a written agreement with the city of Fremont Hills, for which it collects sewer fees, defining services to be provided and remuneration to be received. During the year ended December 31, 2007, the city received a total of \$15,066 based on a \$2.95 per customer per month sewer processing fee for providing these services.

The city should ensure all contractual obligations are fulfilled and written agreements are maintained to ensure all parties are aware of their duties and responsibilities and to prevent misunderstandings. Section 432.070, RSMo, also requires contracts for political subdivisions to be in writing. In addition, the city should take steps to obtain a refund of \$231 from the university.

WE RECOMMEND the Board of Aldermen ensure contractual obligations are fulfilled, enter into written agreements with political subdivisions, and take steps to obtain a refund from the university.

AUDITEE'S RESPONSE

The Ozark Board of Aldermen, Ozark Park and Recreation Board, Land Clearance For Redevelopment Authority, Mayor, City Administrator and staff provided the following written response:

The Board of Aldermen has previously taken steps to ensure that all contractual obligations are fulfilled and that inter-governmental agreements are reduced to writing. The refund from the University has been received.

The city's 2008 budget did not include all information required by law. A budget message, the beginning and ending fund balance information, and the city's indebtedness were not included in the city's budget document. Additionally, the city did not include actual or estimated receipts and disbursements for 2007.

Sections 67.010 to 67.080, RSMo, set specific guidelines as to the format, approval, and amendments of the annual operating budget. A complete budget should include the beginning available resources and a reasonable estimate of the ending available resources. The budget should also include a budget message, the city's indebtedness, and comparisons of actual receipts and disbursements for the two preceding years. A complete and well-planned budget, in addition to meeting statutory requirements, can serve as a useful management tool by establishing specific financial expectations for each area of the city operations and provide a means to effectively monitor financial activity.

WE RECOMMEND the Board of Aldermen prepare budgets which contain all information as required by state law.

AUDITEE'S RESPONSE

The Ozark Board of Aldermen, Ozark Park and Recreation Board, Land Clearance For Redevelopment Authority, Mayor, City Administrator and staff provided the following written response:

All recommendations concerning the budget have been corrected in the 2009 budget.

HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

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

The city of Ozark is located in Christian County. The city was incorporated in 1888 and is currently a fourth class city. The population of the city in 2000 was 9,665.

The city government consists of a mayor and a six-member Board of Aldermen. The members are elected for 2-year terms. The Mayor is elected for a 2-year term, presides over the Board of Aldermen and only votes in the case of a tie. The Mayor, Board of Aldermen, and other officials during the year ended December 31, 2007, are identified below. Ward One covers south Ozark, Ward Two covers center Ozark, and Ward Three covers north Ozark. The Mayor is paid \$900 per month and the members of the Board of Aldermen are paid \$20 per meeting attended. The compensation of these officials is established by ordinance.

<u>Elected Officials</u>	<u>Dates of Services During the Year Ended December 31, 2007</u>
Donna McQuay, Mayor	January 2007 – March 2007
Don Watts, Mayor	April 2007 – December 2007
Eric Greissel, Ward One Alderman	January 2007 – March 2007
Mike Benna, Ward One Alderman	April 2007 – December 2007
Mark Spinabella, Ward One Alderman (1)	January 2007 – December 2007
Kate Smith, Ward Two Alderman	January 2007 – March 2007
Rick Amos, Ward Two Alderman	April 2007 – December 2007
Jake Archer, Ward Two Alderman (2)	January 2007 – December 2007
Richard Germeroth, Ward Three Alderman (3)	January 2007 – December 2007
Don Watts, Ward Three Alderman	January 2007 – March 2007
Cindy Treece, Ward Three Alderman	April 2007 – December 2007

- (1) Re-elected in April 2008.
- (2) Dennis Sparrow was elected in April 2008 to replace Jake Archer.
- (3) Mike Esterl was elected in April 2008 to replace Richard Germeroth.

<u>Other Officials</u>	<u>Dates of Service During the Year Ended December 31, 2007</u>	<u>Compensation Paid For the Year Ended December 31, 2007</u>
Colin Quigley, City Administrator (4)	January 2007 – July 2007	\$ 61,136
Steve Childers, City Administrator (4)	August 2007 – December 2007	54,228
Lana Wilson, City Clerk	January 2007 – December 2007	51,717
Alice Edwards, City Treasurer	January 2007 – December 2007	53,690
David Collignon, City Attorney	January 2007 – December 2007	74,841
Lyle Hodges, Police Chief	January 2007 – December 2007	66,591
Larry Martin, Public Works Director	January 2007 – December 2007	62,790
Dodee Matthews, Parks & Recreation Director	January 2007 – December 2007	50,038

(4) Colin Quigley resigned as City Administrator in July 2007. Steve Childers served as City Planner until August 1, 2007, when he was appointed Interim City Administrator, and on November 19, 2007, he was appointed City Administrator.

In addition to the officials identified above, the city employed 97 full-time and part-time employees on December 31, 2007.

Assessed valuations and tax rates for 2007 were as follows:

ASSESSED VALUATIONS

Real estate	\$ 164,602,698
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The city does not tax personal property or railroad & utility property.

TAX RATES PER \$100 ASSESSED VALUATION

	Rate
General	\$ 0.2353
Parks and recreation	0.0588

TAX RATES PER \$1 OF RETAIL SALES

	Rate
General	.0100
Capital improvement	.0025
Parks/storm water	.0050
Waste water treatment	.0025