

**OFFICES OF THE
STATE AUDITOR OF MISSOURI
JEFFERSON CITY**

CITY OF ROLLA, MISSOURI
YEAR ENDED SEPTEMBER 30, 1997

MARGARET KELLY, CPA



Report No. 98-19
March 23, 1998

CITY OF ROLLA, MISSOURI

TABLE OF CONTENTS

	<u>Page</u>
STATE AUDITOR'S REPORT	1-2
HISTORY AND ORGANIZATION	3-5
MANAGEMENT ADVISORY REPORT	6-25
SUMMARY OF FINDINGS	7-8

<u>Number</u>	<u>Description</u>	
1.	Purchase of Police Station Building	9
2.	Expenditures	10
3.	Former City Administrator's Expense Reimbursements	14
4.	Expenditures of the Rolla Municipal Utilities	16
5.	Expenditures Related to Ballot Issue	19
6.	Tourism Tax Monies	20
7.	Closed Meetings	21
8.	Financial Statements and Budgets	22
9.	City Contracts	23
10.	City Vehicles	24
11.	Controls Over Receipts	24



STATE AUDITOR OF MISSOURI
JEFFERSON CITY, MISSOURI 65102

MARGARET **KELLY, CPA**
STATE AUDITOR

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To the Honorable Mayor
and
Members of the City Council
City of Rolla
Rolla, Missouri 65402

The State Auditor was petitioned under Section 29.230, RSMo, to audit the city of Rolla, Missouri. The city had engaged Davis, Lynn & Moots, P.C., Certified Public Accountants, (CPA firm), to perform a financial audit of the city for the year ended September 30, 1997. To minimize any duplication of effort, we reviewed the report and substantiating workpapers of the CPA firm. Our audit of the city included, but was not limited to, the year ended September 30, 1997. The objectives of this audit were to:

1. Perform procedures we deemed necessary to evaluate the petitioners' concerns.
2. Review compliance with certain constitutional provisions, statutes, ordinances, and attorney general's opinions as we deemed necessary or appropriate in the circumstances.
3. Review certain management practices which we believe could be improved.

Our audit was made in accordance with generally accepted government auditing standards and included such procedures as we considered necessary in the circumstances. We also reviewed council minutes, city policies and ordinances, and various city financial records.

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

The accompanying History and Organization is presented for informational purposes. This information was obtained from the city and was not subjected to auditing procedures applied in the audit of the city.

The accompanying Management Advisory Report presents our findings and recommendations arising from our audit of the city of Rolla, Missouri.

A handwritten signature in black ink that reads "Margaret Kelly". The signature is written in a cursive style with a large initial "M" and a long, sweeping tail on the "y".

Margaret Kelly, CPA
State Auditor

December 11, 1997

HISTORY AND ORGANIZATION

CITY OF ROLLA, MISSOURI
HISTORY AND ORGANIZATION

The city of Rolla is located in Phelps County. The city was incorporated in 1861 as a third-class city. The population of the city in 1990 was 14,090.

The city government consists of a mayor and twelve-member council. The twelve council members are elected for two-year terms. The mayor is elected to a four year term and presides over the city council. The Mayor, City Council, and other principal officials at September 30, 1997, were:

<u>Elected Officials</u>	<u>Term Expires</u>	Actual Compensation for the Year Ended <u>September 30, 1997</u>
Elwyn E. Wax, Mayor	April 1998	\$ 22,500
Kenneth Smith, Council Member	Anril 1998	1,200
Monty Jordan, Council Member (1)	April 1999	549
Ed Owsley, Council Member	April 1998	1,200
Donald Z. Barklage, Council Member (2)	April 1999	549
Susan Eudaly, Council Member	April 1998	1,200
Carolyn Trundle, Council Member (3)	April 1999	549
Mark Rolufs, Council Member	April 1998	1,200
Louis Magdits, Council Member	April 1999	1,200
Jim Williams, Council Member	April 1998	1,200
Brian DeFriese, Council Member (4)	April 1999	549
Mary Daily, Council Member	April 1998	1,200
Robin Kordes, Council Member	April 1999	1,200
Patrick L. King, City Prosecutor	April 1999	16,000
William E. Hickle, Municipal Judge	April 1998	15,000
 <u>Other Principal Officials</u>		
John Butz, City Administrator (5)		28,846
John Beger, City Counselor		3 8,636
Carol Daniels, City Clerk		3 1,074
Daniel Murphy, Finance Director		52,501
Steve Hargis, Public Works Director		58,914
Keith Crowell, Fire Chief		36,301
Dave Pikka, Police Chief		41,612
Kenneth Kwantes, Parks and Recreation Director		48,814
Steve Femmer, Solid Waste Director		35,217
Thomas R. Hosmer, Planning Director		36,226

- (1) Replaced Edward D. Rothwell in April 1997.
- (2) Replaced Gladys Light in April 1997.
- (3) Replaced Wilton Painter in April 1997.
- (4) Replaced Ray Hoevelmann in April 1997.

- (5) Appointed City Administrator in April 1997 after the retirement of Merle Strouse. Mr. Butz's annual salary is \$62,000.

The city's Board of Public Works oversees the operations of the Rolla Municipal Utilities (RMU) and is appointed by the Mayor with the approval of the City Council. This board is responsible for providing electric and water services to the businesses and citizens of the city. The members and principal officials of the board at September 30, 1997 were:

	Actual Compensation for the Year Ended <u>September 30, 1997</u>
Dr. James Stoffer, Board President	\$ 900
Maurice Alfermann, Board Vice President	900
H. Dain Ward, Board Secretary	900
Wm. (Bill) Jenks, Board Member	900
Dan Watkins, General Manager	52,200
Dave Stogsdill, Operations Manager	44,095
Tom Wassilak, Office Manager	29,674

Assessed valuation and tax rate information for tax years 1997 and 1996 are as follows:

ASSESSED VALUATION

	<u>1997</u>	<u>1996</u>
Real estate	\$ 82,277,078	67,616,165
Personal *	<u>24.13 1.046</u>	<u>21,703,100</u>
Total	<u>\$106,408.124</u>	<u>89,319,265</u>

* The city does not levy taxes on personal property.

TAX RATES PER \$100 ASSESSED VALUATION

General	\$.67	.76
Library	.28	.31
Park	.17	.19
Total	<u>\$ 1.12</u>	<u>1.26</u>

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

	<u>R a t e</u>	<u>Expiration Date</u>
General	0.010	None
Transportation	0.005	None
Capital improvement	0.005	None

The city also had the following tourism tax; rate is per \$1 of related sales:

Rooms/accommodations	0.03	None
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MANAGEMENT ADVISORY REPORT

CITY OF ROLLA, MISSOURI
SUMMARY OF FINDINGS

1. Purchase of Police Station Building (page 9)

The city expended over \$950,000 on a renovated building for the police station without soliciting competitive bids on the renovation work.

2. Expenditures (pages 10- 14)

The city made several expenditures which do not appear to be a prudent use of public funds. Fuel purchases are not bid and bid documentation is not always retained. Change orders on contracts are not approved by the city council. The city made payments to two not-for-profit organizations without monitoring how the funds were spent or the extent of services actually received. Supporting documentation was not retained for some credit card purchases. The city does not have a formal policy regarding cellular phone usage. Some additional compensation payments were not properly reported to the IRS. A detailed list of expenditures is not provided to the City Council for its review.

3. Former City Administrator's Expense Reimbursements (pages 14- 16)

Several reimbursements to the former City Administrator for travel, meals, and other miscellaneous expenses disclosed expenses which appear questionable and/or were not supported by adequate documentation.

4. Expenditures of the Rolla Municipal Utilities (pages 16- 19)

The Board of Rolla Municipal Utilities (RMU) made various expenditures totaling over \$1.3 million to promote economic or industrial development and city related expenditures even though it does not appear the RMU has the authority to participate in such activities. Bonuses totaling approximately \$25,000 were paid to RMU employees in 1995.

5. Expenditures Related to Ballot Issue (pages 19-20)

The RMU expended over \$1,200 related to a ballot issue on costs which are questionable.

6. Tourism Tax Monies (pages 20-21)

The city has contracted with the Rolla Area Chamber of Commerce (RACC) to provide the marketing services for the city. The city disburses tourism tax monies monthly based on the amount of tourism tax collections without requiring documentation to support how the monies are being used and the city has not established formal procedures to monitor the use of the monies. An annual audit of the tourism tax monies has not been provided to the city as required by the contract.

7. Closed Meetings (pages 21-22)

Decisions made in closed meetings were not always subsequently disclosed to the public in open meetings as required.

8. Financial Statements and Budgets (pages 22-23)

The city did not publish semi-annual financial statements until such statements were published for the six months ended March 31, 1997. In addition, that published financial statement as well as prior annual published financial statements did not include detailed information. The city budgeted deficit fund balances for some funds.

9. City Contracts (pages 23-24)

The city does not solicit bids for their depository banking services. In addition, the city's written agreement with the City Counselor expired in April 1996.

10. City Vehicles (page 24)

The city does not have a formal policy governing the use of city vehicles. In addition, mileage logs are not maintained to help ensure vehicles are used for official city business only.

11. Controls Over Receipts (pages 24-25)

Some receipts are not recorded and deposited on a timely basis.

CITY OF ROLLA, MISSOURI
MANAGEMENT ADVISORY REPORT

1.

Purchase of Police Station Building

In May 1993, the City Council entered into an agreement with a local contractor for the future purchase of a building to be used as the new police station. The purchase was handled as a “turn-key” project in which the city agreed to subsequently purchase a building that was to be renovated by the contractor to meet city specifications. The project involved the acquisition of an existing building by the contractor from a local bank. The completed building was subsequently purchased by the city from the contractor on December 30, 1993, for approximately \$950,000.

The manner in which this procurement was handled prevented the solicitation of competitive bids on the building’s purchase or renovation. It appears the city discussed the possibility of purchasing the building outright and bidding out the renovation work; however, it ultimately decided to purchase the renovated building from the contractor without the solicitation of bids. Although the city’s purchasing policy requires competitive bidding related to contracts of \$5,000 or more, it appears the city justified this transaction by considering it a sole source procurement and an appropriate exception to the purchasing requirements. Based on our review of this situation, it does not appear this transaction represented a sole source procurement as contended by the city.

As a result of this situation, the city did not assure itself that it received the lowest and best price on the completed project since the renovation work was not competitively bid. Competitive bidding procedures for major construction projects provide a framework for the economical management of resources and help ensure the city receives fair value by contracting with the lowest and best bidders. Competitive bidding also helps ensure all parties are given an equal opportunity to participate in the city’s business.

WE RECOMMEND the City Council ensure transactions involving the purchase/renovation of city buildings are structured to allow for competitive bidding procedures, if possible. In addition, exceptions to the city’s purchasing policy should be allowed only in necessary and appropriate situations.

AUDITEE’S RESPONSE

The City Council provided the following response:

The city did not pursue competitive bids on the renovation of the new police station due to the unique characteristics of the project. The city will follow the competitive bid process as prescribed in the city’s “Purchasing Manual” on all future public improvement projects.

A. We noted the following expenditures which do not appear to be a prudent use of public funds:

1. The city holds an annual employee awards banquet which all city officials and employees, their spouses, and children are invited to attend. The city pays all the costs of this function and expenditures related to the banquet for the year ended September 30, 1997 totaled approximately \$2,546. Although most of the costs related to the banquet were for the meal and facility, other items included gifts for the children totaling approximately \$300 and entertainment totaling \$150.
2. During the year ended September 30, 1997, the city spent approximately \$571 for flowers for employees, members of the council, or their families for sickness or other reasons and for retirement gifts. The city has a policy allowing city funds to be spent on flowers or plants in such instances. Flowers and gifts for employees or family members or retirement gifts could be funded through employee contributions or an employee association.
3. It appears the city has historically given year end bonuses to all employees who have been employed with the city for at least a year. The bonuses are in the amount of \$5 for each year of service. These bonuses totaled approximately \$5,200 in December 1997. In addition, the city pays cash awards or bonuses during the year of \$100 for the employee of the quarter and \$500 for the employee of the year.

Bonuses given to employees appear to represent additional compensation for services previously rendered and, as such, are in violation of Article III, Section 39 of the Missouri Constitution and are contrary to Attorney General's Opinion No. 72, 1955 to Pray, which states, "...a government agency deriving its power and authority from the Constitution and laws of the state would be prohibited from granting extra compensation in the form of bonuses to public officers after the service has been rendered."

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

B. Although the city has an established procurement policy, bids were not solicited or bid documentation was not retained in the following instances:

1. The city made fuel purchases totaling approximately \$89,620 from four different companies during the year ended September 30, 1997. Bids were not solicited for these fuel purchases.

2. Although employees indicated bids were solicited through telephone quotes for the purchase of a \$3,005 computer, no documentation was maintained indicating the bids received or the reasons for selecting the successful vendor.

Bidding procedures for significant purchases help to ensure the city receives fair value by contracting with the lowest and best bidder. The city should ensure purchases are bid in accordance with its established policy.

C. Change orders/modifications to construction contracts are not approved by the City Council. Examples noted of significant change orders included:

1. In 1997, four change orders totaling \$128,543 were made to the contract for reconstruction of Vichy and Vienna roads. These change orders represented approximately 24 percent of the original contract amount.
2. In 1997, three change orders totaling \$138,613 were made to the contract for street improvements on Gale Drive, Soest Road, and Second Street. These change orders represented approximately 23 percent of the original contract amount.

The City Council should authorize all significant changes to city construction contracts to ensure any additional expenditures represent valid and appropriate costs to the city.

D. The city made payments to two not-for-profit (NFP) organizations without entering into contracts. While city officials indicated the city received services in exchange for these monies, the city did not attempt to monitor the extent of services actually received. These expenditures include the following:

1. In 1996, the city disbursed \$2,500 to "A Community Organized to Restore Nature" (ACORN) for city-wide landscaping and beautification services.
2. The city disbursed \$3,382 to the "Achievement of Better Lifestyles for the Elderly" (ABLE) Commission for reimbursement of expenses incurred in providing services to the elderly.

If the services provided by these entities are determined to be desirable, city-funded services, the city should enter into formal written agreements defining the services to be provided and providing the city with a mechanism to evaluate and monitor such services.

E. The city has eight credit cards that are used primarily for city-related travel expenses. It appears adequate supporting documentation is not submitted or retained for some charges. During our review, we noted several items for which no supporting documentation was retained. In other instances, the only documentation available for the purchase was a signed charge slip. Copies of the original receipts were not retained.

Adequate supporting documentation should be retained for all credit card purchases and reconciled to credit card statements to ensure the propriety of the charges.

Without adequate supporting documentation, the city **cannot** evaluate the necessity and reasonableness of credit card purchases..

- F. The city does not have a formal policy regarding cellular phone usage. Monthly cellular phone expense ranged from \$680 to \$1,100 for the city's 17 cellular phones.

In addition, it appears the cellular phone bills are not reviewed for propriety. We reviewed the bills for the cellular phones for one month and noted a few calls which may have been personal in nature. On six of the bills, these calls resulted in some additional charge to the city. While we noted one employee identified and reimbursed the city for personal calls, it appears the city was not reimbursed for the cost of any other questionable calls noted. While the additional charges noted were not significant, it does not appear the city funds should be used to pay for personal telephone usage.

A policy is needed to ensure that cellular phones are used only for business purposes. Such a policy should address which employees need a cellular phone, proper use of the phone, and a reimbursement policy if the council authorizes the phone to be used for personal purposes. Procedures should be implemented to monitor cellular phone usage and review invoices for propriety.

- G. Federal payroll reporting requirements were not met for some payments to employees. Bonuses paid to city employees for employee of the quarter and employee of the year were not included on the applicable employees' Forms W-2. In addition, in accordance with established policy the city pays employees leaving city employment through retirement or resignation an amount equal to \$20 for each year of service. These amounts were also not reported on the Forms W-2.

The Internal Revenue Code generally indicates individuals treated as employees should have all compensation reported on Forms W-2. These payments represent taxable income and should be reported on the employees' Forms W-2.

- H. A detailed list of expenditures is not routinely provided to the City Council. The city code requires a monthly statement of all expenditures be furnished to the City Council. Failure to provide the City Council with a detailed list of expenditures increases the possibility of inappropriate expenditures of city funds.

WE RECOMMEND the City Council:

- A. Ensure all expenditures from city monies are a prudent use of public funds.
- B. Ensure bids are solicited in accordance with the city's established purchasing policy and all bid documentation is properly retained.
- C. Establish a policy requiring council approval for all significant change orders related to construction projects and ensure that approval is documented. If the council wishes to allow appointed city officials to authorize less significant change orders without council approval, that should be addressed in the policy.

- D. Ensure any payments made to NFP organizations be made pursuant to written contracts which specifically state what services are to be provided to the city and provide a means of evaluating and monitoring the services.
- E. Ensure adequate supporting documentation is submitted for all credit card purchases and reconciled to credit card statements to ensure the propriety of the charges.
- F. Develop a policy regarding the use of cellular phones including an assessment of which employees need a cellular phone and procedures to monitor their use.
- G. Ensure all compensation paid to employees is included on Forms W-2.
- H. Require a detailed list of expenditures be submitted to the City Council monthly as provided by the city code.

AUDITEE'S RESPONSE

The City Council provided the following response:

- A. *The city in an attempt to reward and motivate, **has** provided flowers for sick employees and related funerals, a \$20 per year of service retirement “gift” for departing employees, a “holiday gift” of \$5 per year of service, and the “Employee of the Quarter/Year Award”. While insignificant in cost, the city will eliminate such expenses in their current form and refer the matter to the Employee Advisory Committee for consideration. It is anticipated that the City Council will consider a performance-based recognition program as it relates to safety and cost-saving efforts.*
- B. *The city will bid out all services and purchases deemed reasonable in accordance with the city’s “Purchasing Manual ” to include retainage of all required bids. Due to the complexity of bidding fuel purchases, the city will maintain the practice of allowing each department to purchase fuel from a variety of vendors providing the most flexibility, best price, and best service.*
- c. *Public improvement change orders **are** poorly detailed in the city’s “Purchasing Manual ”. The City Council will adopt a formal policy establishing guidelines for routine change orders and Council approval on substantial change orders to maintain the integrity of the bid process.*
- D. *The city will formalize “contracts for services “for the provision of **shared public/private** partnerships deemed appropriate and reasonable. The city has entered into a formal agreement with ACORN **and** is in the **process** of reviewing same with the ABLE Commission.*
- E. *The city will continue the practice of requiring receipts for all expenses, including credit card expenses. Employees will be responsible for personal payment of charges if the receipts are not submitted and cannot be substantiated.*
- F. *The city will develop a formal policy on **cellular** phone usage and long distance telephone calls to be adopted by the City Council.*
- G. *All payments to employees other than reimbursable expenses will be reported as W-2 wages.*

- H. *The City Council will review the requirements of city code with respect to a Monthly Detail of Expenses for reasonableness and comply with such requirements.*

3. Former City Administrator's Expense Reimbursements
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During our review, we noted that reimbursements to former City Administrator Strouse for travel, meals, and other miscellaneous expenses totaled \$25,743 for the period from October 1, 1995 through April 24, 1997. Prior to December 1996, the City Administrator was allowed to authorize and approve his own reimbursement requests without any type of independent review. A review of several reimbursement requests of this former city official disclosed expenses which appeared questionable and/or were not supported by adequate documentation as follows:

- A.1. In September 1995, the former City Administrator attended a conference in Denver, Colorado. He and his wife flew out three days before the conference and charged meals and the cost of a rental car during that time. The former City Administrator indicated it was necessary to arrive early because they were meeting the two individuals from Australia who were participants with the city in the Manager Exchange Program. The former City Administrator said he was responsible for showing them around Denver prior to the conference. However, there was no documentation indicating the City Council had authorized the former City Administrator to incur these expenses.

While the former City Administrator did not charge the cost of his wife's plane ticket for the trip, it appears he did charge some of her meals and for her shuttle ride from the hotel to the airport.

In addition, the former City Administrator claimed a dinner charge at a Rolla restaurant the evening of the day he returned from the conference. There was no explanation as to why the local dinner charge was necessary.

The expenses which appeared questionable related to this trip totaled approximately \$390.

2. In February 1997, the former City Administrator attended a two-day conference in St. Louis. Although the conference included scheduled luncheon speakers both days, the former City Administrator charged \$9 and \$19 for lunches those days. In addition, the conference was scheduled to end at 2 p.m. on the last day. However, the former City Administrator charged a \$78 dinner for six in St. Louis that evening. No other city personnel attended this conference.

When we asked the former City Administrator about these charges he indicated he apparently did not attend the luncheon sessions on those days and he must have paid for the meals of a group of city managers for the dinner charge in question; however, this information was not documented on the reimbursement request.

B. We noted numerous instances where the former City Administrator charged meals that ranged from \$46 to \$120 for between four and eight people. Often, it appears the former City Administrator was the only city employee at the dinner.

1. Adequate documentation was not submitted to support many of these meal expenses. Receipts submitted with the reimbursement requests often consisted of only a calculator tape or a guest check receipt stub, which included only the total amount of **the meal**. The copies of some receipts were such that the date and name of the restaurant could not be determined. No documentation was provided to indicate those individuals present at these meals or the purpose to show justification for the city incurring the expense.

The city's personnel manual requires sufficient details be submitted for all expenses including a list of the individuals on whose behalf expenses are incurred and justification for the expenses. By not requiring sufficient supporting documentation for all expenses incurred, the city does not have adequate assurance that expenses claimed for reimbursement were proper.

2. Many of the meal expenses noted above were incurred within the city of **Rolla**. The purpose and need to incur meal expenses within the city limits was not generally documented. In addition, the city's policy regarding employee expense reimbursements does not address expenses incurred locally, but only addresses expenses incurred outside of **Rolla**.

The city should review the need for reimbursing expenses incurred within the city limits. If the city determines the need for reimbursing local meal expenses is a necessary cost of the city, guidelines should be established defining those expenses eligible for reimbursement.

C. Some meal expenses claimed by the former City Administrator exceeded the maximum meal reimbursement rates established by the city. The personnel manual indicates meals are to be reimbursed subject to limits established by the City Administrator. In November 1992, the former City Administrator issued a memo establishing maximum meal reimbursements of \$7 for breakfast, \$7 for lunch, and \$20 for dinner. However, city personnel indicated these maximums were never enforced. Instead, employees are reimbursed for actual expenses incurred regardless of the amount.

To prevent excessive meal charges, meal reimbursements should be based on actual costs within the established maximums approved by the city council (unless the circumstances and location require a deviation from the established policy).

D. The former City Administrator's employment contract provided for him to receive a car allowance of \$300 per month; however, during the period from October 1, 1995 through April 1997, he also claimed mileage reimbursements totaling \$1,563. The former City Administrator indicated the car allowance was to cover mileage when traveling less than 125 miles from the city, and trips in excess of 125 miles were eligible for reimbursement. However, neither the personnel manual nor the employment contract defined the mileage expenses that were to be covered by the car allowance.

To ensure proper reimbursement of travel expense, formal guidelines should be established to define those expenses to be covered by employee car/expense allowances.

At the recommendation of the city's independent auditors, the Mayor began reviewing the former City Administrator's reimbursement requests in December 1996, -and the current City Administrator's reimbursement requests are now reviewed by the Mayor or Finance Director. However, city policy has not been updated to formalize the procedure requiring an independent review and approval of the City Administrator's reimbursement requests.

WE RECOMMEND the City Council ensure city policy is revised to formally require an independent and thorough review and approval of the City Administrator's reimbursement requests. In addition, the council should:

- A. Ensure any expenses claimed for reimbursement are necessary and reasonable. Any unusual circumstances related to expenses being claimed should be documented.
- B.1. Ensure sufficient supporting documentation is submitted for all meal expenses incurred, including a list of individuals on whose behalf expenses are incurred, if applicable, and the justification for the expenses.
- 2. Review the need for reimbursing local meal expenses. If this is determined to be a necessary operating cost of the city, a formal policy should be established defining those circumstances where such expenses would be eligible for reimbursement.
- C. Ensure meal reimbursements are kept within established maximums.
- D. Establish guidelines defining those expenses to be covered by employee car/expense allowances.

AUDITEE'S RESPONSE

The City Council provided the following response:

The city has internally remedied this matter by requiring a full-accounting of all travel and business-related expenses. The City Council will formalize appropriate procedures by amending city code.

4.

Expenditures of the Rolla Municipal Utilities

- A. Historically, the RMU has transferred 5% of its utility revenues to the city's General Revenue Fund quarterly. This specific amount was authorized by ordinance until 1987, when the ordinance was revised; however, the RMU has continued to make transfers which approximate this amount to the General Fund. These transfers represent the equivalent of a gross receipts tax on utility operations (whether privately or publicly owned), which appears to be a common practice in municipal governments. For the year ended September 30, 1997, these transfers from the RMU to the city totaled \$560,000.

However, in addition to these transfers, the RMU has expended approximately \$1.3 million during the past five fiscal years to promote economic or industrial development within the city of Rolla or pay general city expenses. Expenditures of this nature do not appear to be appropriate uses of municipal utility monies. While Section 349.012, RSMo 1994, provides a city with authority to expend city funds to promote economic or industrial development and for general city operations, RMU monies are earned from the municipal utility and should be used only for that purpose.

In June 1993, the RMU contributed \$200,000 to the city toward the construction of the city's recycling center. In February 1994, the RMU contributed \$100,000 to the city toward the purchase of the city's new police station. It appears the city should have been responsible for these costs rather than RMU.

In June 1995, the RMU participated with the city in purchasing a building in which a private corporation subsequently located a new factory. This building was provided as an incentive to the private corporation to locate in the Rolla area. The RMU contributed \$775,000 toward the purchase of this building.

In addition, the RMU has participated with the city in an economic development incentive program based on utility consumption. This program offers utility rebates to new industries within the city's enterprise zone. During the three years ended September 30, 1997, the RMU reimbursed the city over \$250,000 related to utility rebates the city paid to businesses that qualified under this program.

While the \$1.3 million of expenditures noted above may be proper for certain city monies, they do not appear appropriate for municipal utility monies. As a result of this situation, utility rates and charges may be set higher than required to recover actual costs. Also, city utility customers are subsidizing the promotion of economic or industrial development and general city expenses through the payment of their utility bills.

- B. In October 1995, the board of the RMU approved 50th anniversary bonuses to be given to all RMU employees. Bonuses of \$50 per year of service up to a maximum of 25 years were given to all employees. These expenditures totaled approximately \$25,000.

Bonuses represent additional compensation for services previously rendered and, as such, are in violation of Article III, Section 39 of the Missouri Constitution and are contrary to Attorney General's Opinion No. '72, 1955 to Pray, which states, "...a governmental agency deriving its power and authority from the Constitution and laws of the state would be prohibited from granting extra compensation in the form of bonuses to public officers after the service has been rendered."

WE RECOMMEND the City Council:

- A. Ensure the RMU limits expenditures to only those which are necessary to properly operate the city's utility operations.
- B. Ensure the RMU refrains from paying bonuses in the future.

AUDITEE'S RESPONSE

The City Council provided the following response:

- A. *The city recognizes the **financial** integrity of the **Rolla Municipal Utilities** as an “Enterprise Fund”. However, the city and **RMU** will continue to cooperate in economic development opportunities that will ensure the financial integrity of both while maintaining the competitive pricing of our utilities. In addition, the City Council and **RMU** Board of Directors will consider establishing a percentage of gross receipts for internal fund transfers.*
- B. *The city and **RMU** will ensure that compensation earned during service but taken after the period of service will be based on performance and in compliance with the State Constitution.*

The Rolla Board of Public Works provided the following response:

- A. *Missouri Revised Statutes, Section 349.012, authorizes the city’s governing body the power to spend its funds to promote commercial and industrial development, to engage in any activities either on its own or in conjunction and by contract with any **not-for-profit** organization which it deems necessary to carry on such promotional work. In addition, Chapter 91, Section 91.590, suggests that a municipally owned utility is granted all of the same rights and powers as the city and additional rights in Sections 91.560-91.590. Given the foregoing, it seems reasonable to assume that the Board of **Rolla Municipal Utilities** and the city of **Rolla** does have the authority by state statutes to actively pursue economic development and industrial growth.*

*With regard to the **specific** information submitted in your report, the board would like to state these additional facts. (See supporting table presented below) The total operating revenues for the **Rolla Municipal Utilities** from **fiscal** year 1992 - **fiscal** year 1997 totals \$77,007,000. Five percent of this total equals \$3,850,350. The actual contributions to the city of **Rolla** for the same period which includes the **specific** items noted in your report, equals \$4,494,112, which is approximately 5.8 percent of gross revenue. We would also note the quotation presented after the table presented below from the recent **Missouri Municipal Review** magazine which would suggest that this percent (5.8 percent) would not be deemed excessive in most municipalities in the state of Missouri.*

<i>Year</i>	<i>Operating Revenues</i>	<i>Operating Transfers to City of Rolla</i>
1992	\$ 10,522,000	508,000
1993	12,570,000	713,000
1994	12,595,000	607,000
1995	12,806,000	1,304,000
1996	14,121,000	561,600
1997	<u>14,393,000</u>	800,512
<i>T o t a l</i>	\$ 77,007,000	4,494,112
	<u>x 5%</u>	
	\$ <u>3,850,350</u>	

*Actual % of RMU's revenues
transferred to the city of Rolla. 5.8%*

1". .. on the level of municipal gross receipts taxes and franchise fees. These taxes and fees are computed as a percentage of the local utility's gross receipts. The rates applicable to Union Electric currently range from zero to 11 percent, with an average rate of five percent. ... The total for all utilities in the state obviously was much higher."

1 Pad A. Agathen, "Options for Restructuring the Electric Utility Industry," Missouri Municipal Review, January 1998, p. 14.

- B. *The board acknowledges payment of the 50th year anniversary bonuses as reward for years of dedicated service from the RMU employees. The board will ensure that in the future, compensation earned during service but taken after the period of service will be in compliance with the law.*

AUDITOR'S COMMENT

- A. The statutes in Chapter 91, RSMo, cited in the Board of Public Works' response do not support the board's assertions. In addition, these statutes do not apply to the city of Rolla. The Board of Public Works' authority and power is limited to managing municipal utilities. Any expenditures of utility monies for non-utility purposes translates into higher utility rates than necessary to operate and maintain the municipal utilities.

5. Expenditures Related to Ballot Issue
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In March 1996, an election was held involving the establishment of a rural water district in an area outside the Rolla city limits. A portion of this area has been under consideration for annexation by the city. Prior to the election, the RMU expended over \$1,200 related to this ballot issue on paid advertisements and informational packets that were mailed to voters in the proposed water district. Section 115.646, RSMo 1994 prohibits the expenditure of public

funds to advocate, support or oppose a ballot measure. The materials we reviewed appeared to promote arguments exclusively against the establishment of the water district.

The only safe harbor that Section 115.646, RSMo provides is the authority for public officials' to make public appearances and issue press releases to the media. Therefore, the expenditures noted are questionable, although we have not concluded these expenditures were clearly a violation of state law.

WE RECOMMEND the City Council and the Board of RMU ensure public funds are not expended to advocate, support, or oppose ballot issues.

A UDITEE'S RESPONSE

The City Council provided the following response:

The city and RMU recognize it is inappropriate to expend city funds to promote a vote for or against any ballot issue. Funds will be expended only to educate and inform citizens on such election issues.

The Rolla Board of Public Works provided the following response:

As stated in the response to 4.A., the board believes that RMU has the same powers generally as the city, and is permitted to expend funds in an effort to educate the general public on issues that may be voted. The paid advertisements and informational packets were deemed by a cross section of the public to be a statement of facts without bias to the voter. The RMU Board recognizes it is inappropriate to expend city funds to promote a vote for, or against a ballot issue.

6.

Tourism Tax Monies

In April 1993, the city's voters approved a tourism tax proposal pursuant to Section 94.830, RSMo. This proposal provided for the collection of a 3 percent tax on hotel and motel charges. The city began collecting these taxes in July 1993. Section 94.830, RSMo requires the tourism tax monies to be used solely for funding a convention and visitors bureau for the promotion of the city as a convention, visitor and tourist center.

Since the establishment of the tourism tax, the city has contracted with the Rolla Area Chamber of Commerce (RACC) to provide the marketing services for the city. The contract provides that 90% of the tourism tax revenue will be paid to the RACC. The remaining 10% of the revenues have been retained by the city to offset expenses incurred in collecting the tourism tax monies. The city has distributed over \$600,000 in tourism tax monies to RACC through September 30, 1997. A review of this situation disclosed the following concerns:

- A. The city disburses tourism tax monies to the RACC monthly based on the amount of tourism tax collections. This is done without requiring the RACC to provide any detailed documentation to show how these monies were used. In addition, it does not appear the city has established any formal procedures to monitor the use of the tourism tax monies.

To ensure the proper use of the city's tourism tax monies, the city should establish formal procedures to monitor the use of tourism tax monies and require detailed information from the RACC to document how these city funds are used.

- B. The contract with the RACC requires that entity to provide the city with audited financial statements related to the tourism tax monies on an annual basis. While audited financial statements were provided to the city for 1994, the RACC only provided a compilation of the tourism tax monies to the city for the two years ended December 31, 1996. A compilation does not constitute an audit; therefore, the RACC does not appear to be in compliance with this contract provision.

The city should ensure the RACC complies with all provisions of the contract agreement and ensure audited financial statements are submitted to the city as required. If the city does not believe the audit requirement is necessary, the contract terms should be amended accordingly.

WE RECOMMEND the City Council:

- A. Adequately monitor the use of the tourism tax monies.
- B. Ensure the RACC complies with all terms of the contract, including the provision to provide the city with an annual audit of the tourism tax monies.

A UDITEE'S RESPONSE

The City Council provided the following response:

The Chamber is now providing a more detailed quarterly report to monitor the use of funds and an independent annual audit will be submitted to the City Council in compliance with the terms of the agreement.

7.

Closed Meetings

Some decisions made in closed meetings were not subsequently disclosed to the public in open meetings as required. For example, we noted the terms of an employment contract with a city official and the purchase of a parcel of real estate were not publicly disclosed.

Section 6 10.02 1, RSMo 1994, allows the council to close meetings to the extent the meetings relate to certain specified subjects, including litigation, real estate transactions, and personnel issues; however, that statute requires certain matters discussed in closed meeting to be made public upon final disposition

WE RECOMMEND the City Council ensure decisions reached in closed meetings are subsequently disclosed to the public as provided by state law.

A UDITEE'S RESPONSE

The City Council provided the following response:

The City Council will ensure the public release of all "final action" taken in executive session in accordance with the Missouri Sunshine Law.

8. Financial Statements and Budgets
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- A. During our review of the city's published financial statements, the following concerns were noted:
 - 1. Until recently, the city did not publish semi-annual financial statements as required by law. The city published a semi-annual financial statement for the six month period ending March 31, 1997; however, prior to that, financial statements were only published annually.
 - 2. The published financial statements did not include detailed information but only presented total revenues, expenses, and beginning and ending balances for each fund. In addition, the published financial statements did not include the city's indebtedness. We noted that the published financial statements for the six months ended March 31, 1997, did not include a note payable or capital lease obligations of the city at that date.

Section 77.110, RSMo 1994, requires the city council to publish, semi-annually, a full and detailed account of the receipts, expenditures, and indebtedness of the city. The publication of such financial statements are intended to provide information to citizens regarding the financial activity and condition of the city.

- B. During our review of the city's approved budget for the year ending September 30, 1998, we noted budgeted expenditures exceeded budgeted revenues plus beginning available resources for the Park, Airport, and Street/Capital Improvement Funds resulting in budgeted deficit fund balances.

While it appears these budgeted deficits were not significant and occurred due to oversight, care should be taken to ensure deficit budgeting does not occur. Section 67.010, RSMo 1994, provides that in no event shall proposed expenditures from any fund exceed estimated revenues plus unencumbered balances.

WE RECOMMEND the City Council:

- A. Ensure financial statements are published semi-annually and include adequate detail as required by state law.
- B. Ensure budgeted expenditures for the various funds do not exceed estimated revenues and beginning available resources. In addition, the city should consider revising the budgets for the applicable funds.

AUDITEE'S RESPONSE

The City Council provided the following response:

- A. *The city will publish detailed, **semi-annual financial** statements in a manner prescribed by the City Council. It is anticipated that the detail will provide a general accounting of the major revenue categories by fund type and expenditures by division, department, and fund. Semi-annual financial statements will also contain a reference that “additional **financial** detail is available at City Hall”.*
- B. *The city will ensure future budgeted expenditures do not exceed budgeted revenues and unencumbered fund balances.*

9.

City Contracts

- A. While it appears bids are solicited for the investment of some of the city's excess funds, the city does not periodically solicit proposals or bids for its depository banking services. To ensure the city is receiving competitive banking services, the city should consider periodically seeking depository banking proposals or bids from area banks.
- B. The city annually appoints a local attorney to serve as City Counselor. The same attorney has served in this position since January 1995. At that time, the city entered into a written agreement with the attorney, defining the services to be rendered and compensation to be paid for the legal services. However, the written agreement expired April 30, 1996, and had not been renewed at the time of our review.

Section 432.070, RSMo 1994, requires contracts for political subdivisions be in writing. Any contracts which are extended beyond the original term should be formally extended.

WE RECOMMEND the City Council:

- A. Consider seeking proposals or competitively bidding the city's depository banking contract on a periodic basis.
- B. Enter into a current contract with the City Counselor and ensure future contracts are formally extended, if applicable.

AUDITEE'S RESPONSE

The City Council provided the following response:

- A. *Due to the complexity of bidding and changing depository banking services, the city will opt out of the bidding requirements in accordance with RSMo 95.280 as long as the banking services negotiated are reasonable and competitive. The city will continue to bid out the investments accordingly.*

B. *The city will ensure **future** contracts for all professional and business services (including the contract for City Counselor services) are current and in effect.*

10.	City Vehicles
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The city, through its various departments, owns and operates over 90 vehicles. The city has not adopted a formal policy regarding the use of city-owned vehicles, including any personal usage. In addition, mileage logs are not maintained for the vehicles documenting their use. A formal policy would help ensure that vehicles are used in a manner approved by the City Council. Logs are necessary to document appropriate use of the vehicles and to support gasoline charges.

The logs should include the purpose and destination of each trip, the daily beginning and ending odometer readings, and the operation and maintenance costs. These logs should be reviewed by the city management to help ensure vehicles are used for city business only, are being properly utilized, and help identify vehicles which should be replaced. Information on the logs should be reconciled to gasoline and other maintenance charges.

WE RECOMMEND the City Council establish a formal policy governing the use of city vehicles and require complete and accurate mileage logs be maintained for each vehicle. The logs should be reviewed by city management periodically for completeness and reasonableness.

AUDITEE'S RESPONSE

The City Council provided the following response:

A standardized policy for all city vehicles and related car allowances will be formulated and presented to the City Council for consideration.

11.	Controls Over Receipts
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During our review of the handling and accounting for receipts, we noted some receipts are not recorded and deposited on a timely basis. Business license fees are not recorded and deposited until the license has been approved and all necessary paperwork has been obtained. In December 1997, we noted eleven unrecorded and undeposited business license payments totaling \$307 were on hand, some dating back to June 1997. In addition, the city had accepted a check for \$162 as a partial payment on a real estate tax statement. The payment had not been recorded or deposited and was being held in the vault pending receipt of the final payment.

In addition, traffic ticket payments are not recorded and deposited until the corresponding ticket information has been entered into the court's computer system. Tickets are entered into the computer approximately once a week.

To adequately safeguard receipts and reduce the risk of loss, theft, or misuse of funds, receipts should be recorded when received and all monies should be deposited on a timely basis.

WE RECOMMEND the City Council ensure all receipts are recorded when received and deposited on a timely basis.

AUDITEE'S RESPONSE

The City Council provided the following response:

Staff will ensure the timely deposit of all receipts entrusted to its care. It is anticipated that the business license fee will be altered to a business license "processing" fee.