



Office of Missouri State Auditor
Nicole Galloway, CPA

City of Northwoods



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Missouri State Auditor

CITIZENS SUMMARY

Findings in the audit of City of Northwoods

Revenue Procedures

The city's procedures for depositing receipts and collecting accounts receivable need improvement and the city's facility rental policy has not been updated to address rentals to city employees. City employees do not always deposit receipts timely. The city's Codes Inspector is not proactive in following up on accounts receivable. City employees use city facilities at no cost even though the facilities rental policy requires payments ranging from \$175 to \$300 (including a \$100 deposit).

Sunshine Law Compliance

The Board of Aldermen (Board) did not always comply with the Sunshine Law for closed meetings. The Board generally uses the same statement in each meeting notice/agenda to indicate the potential for a closed meeting, instead of citing the specific section of the law as the reason for a closed meeting. In addition, the vote of each member approving to enter into a closed meeting was not documented. Some issues discussed in closed meetings were not allowable under the Sunshine Law.

Purchasing

The city does not bid some purchases and we identified some questionable purchases. The city has not solicited bids for tree services since 2010. In addition, the city does not formally solicit proposals for bank services. Several purchases were not necessary and a prudent use of city resources.

City Procedures

City procedures related to payroll allocations, bank accounts and compensation ordinances need improvement. The city uses unsupported estimates to evenly allocate payroll costs between the restricted Street Improvement/Debt Service Fund and the restricted Parks/Stormwater Fund for public works employees. The city maintains 18 separate bank accounts, resulting in cumbersome record keeping. The city does not have ordinances related to establishing the compensation of city officials and employees.

In the areas audited, the overall performance of this entity was **Good**.*

*The rating(s) cover only audited areas and do not reflect an opinion on the overall operation of the entity. Within that context, the rating scale indicates the following:

- Excellent:** The audit results indicate this entity is very well managed. The report contains no findings. In addition, if applicable, prior recommendations have been implemented.
- Good:** The audit results indicate this entity is well managed. The report contains few findings, and the entity has indicated most or all recommendations have already been, or will be, implemented. In addition, if applicable, many of the prior recommendations have been implemented.
- Fair:** The audit results indicate this entity needs to improve operations in several areas. The report contains several findings, or one or more findings that require management's immediate attention, and/or the entity has indicated several recommendations will not be implemented. In addition, if applicable, several prior recommendations have not been implemented.
- Poor:** The audit results indicate this entity needs to significantly improve operations. The report contains numerous findings that require management's immediate attention, and/or the entity has indicated most recommendations will not be implemented. In addition, if applicable, most prior recommendations have not been implemented.

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

City of Northwoods

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NICOLE GALLOWAY, CPA

Missouri State Auditor

To the Honorable Mayor
and
Members of the Board of Aldermen
City of Northwoods, Missouri

The State Auditor was petitioned under Section 29.230, RSMo, to audit the City of Northwoods. We have audited certain operations of the city in fulfillment of our duties. The city engaged Hochschild, Bloom & Company LLP, Certified Public Accountants (CPAs), to audit the city's financial statements for the year ended December 31, 2015. To minimize duplication of effort, we reviewed the report of the CPA firm. The scope of our audit included, but was not necessarily limited to, the year ended December 31, 2015. The objectives of our audit were to:

1. Evaluate the city's internal controls over significant management and financial functions.
2. Evaluate the city's compliance with certain legal provisions.
3. Evaluate the economy and efficiency of certain management practices and procedures, including certain financial transactions.

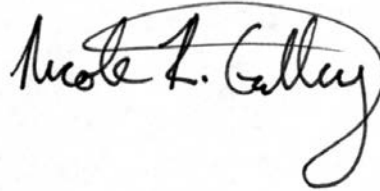
Our methodology included reviewing minutes of meetings, written policies and procedures, financial records, and other pertinent documents; interviewing various personnel of the city, as well as certain external parties; and testing selected transactions. We obtained an understanding of internal controls that are significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We also 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 applicable 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.

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 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.

For the areas audited, we identified (1) deficiencies in internal controls, (2) noncompliance with legal provisions, and (3) the need for improvement in management practices and procedures. The accompanying Management Advisory Report presents our findings arising from our audit of the City of Northwoods.

An additional report, No. 2016-134, *Twenty-First Judicial Circuit, City of Northwoods Municipal Division*, was issued in December 2016.

A handwritten signature in black ink that reads "Nicole R. Galloway". The signature is written in a cursive style with a large, looping flourish at the end of the name.

Nicole R. Galloway, CPA
State Auditor

The following auditors participated in the preparation of this report:

Director of Audits:	Randall Gordon, M.Acct., CPA, CGAP
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City of Northwoods

Management Advisory Report

State Auditor's Findings

1. Revenue Procedures

The city's procedures for depositing receipts and collecting accounts receivable need improvement and the city's facility rental policy has not been updated to address rentals to city employees.

1.1 Depositing and endorsing City employees do not always deposit receipts timely. Monies totaling approximately \$6,300 and received from December 1 through December 8, 2015, were not deposited until December 10, 2015. Also, one receipt for \$109,409 received on March 23, 2015, was not deposited until April 13, 2015. The city's written revenue management procedures indicate deposits should be made when there are a large number of checks or when the currency is over \$100, which is typically once a week.

Failure to implement adequate depositing procedures increases the risk of loss, theft, or misuse of monies and the likelihood that errors will go undetected.

1.2 Dangerous Tree Removal Program accounts receivable The city's Codes Inspector is not proactive in following up on accounts receivable. When citizens use the city's Dangerous Tree Removal Program, the city pays for the tree services and then bills the citizens for reimbursement. The August 2016 accounts receivable list for this program includes 27 accounts owing approximately \$23,500. Sixteen accounts totaling approximately \$15,800 were considered past due, with one account dating back to December 2010. The release form signed by program participants notifies them of the various options the city has to collect payment, including prosecuting the individual if payment is not made according to the agreed upon schedule. However, the city has not utilized these options.

Procedures need to be implemented to better monitor receivables, take appropriate steps to ensure collection of amounts owed, and determine if any amounts are uncollectible.

1.3 Facility rentals City employees use city facilities at no cost even though the facilities rental policy requires payments ranging from \$175 to \$300 (including a \$100 deposit). The city's written rental policy does not address renting the facilities to city employees. The city collected \$825 and \$2,950 in rental fees for the years ended December 31, 2015, and 2016, respectively.

The city should update the rental policy and maintain documentation of reasons and approvals when rental fees are reduced or waived.

Recommendations

The Board of Aldermen:

1.1 Ensure all monies received are deposited timely.



City of Northwoods
Management Advisory Report - State Auditor's Findings

- 1.2 Establish formal procedures to monitor and collect accounts receivable for the Dangerous Tree Removal Program.
- 1.3 Ensure the facilities rental policy addresses rentals by employees and establishes proper documentation and approval procedures for fee reductions and waivers.

Auditee's Response

- 1.1 *While the timing of 2 deposits was at issue, know that the city deposits receipts at least one time each week. Currently, no city ordinance contains a minimum/maximum amount to be deposited more than once a week. However, we will set \$1,000 as the base amount to initiate an immediate deposit in addition to our once per week deposits. Please note that we do have formal revenue management procedures.*
- 1.2 *The city initiated the Tree Removal Program to help the majority of our residents (mostly older adults) remove old trees that are a threat to their property or their neighbors. Some payments do come in slow as seniors experience health and financial challenges, but we are collecting payments and sending past due notices to remind people to pay. Please note that we do have formal procedures for monitoring and collecting on the tree accounts. In the future, we will be more aggressive with collections and add an aggressive message from our City Attorney to "payment overdue" notices we send to very slow and non-paying residents. However, you should know some seniors' lives and property have literally been saved because the tree program is in place. The best consumer benefit for having the Dangerous Tree Removal Program is that the city secured, by the bid process, a licensed, bonded, and insured tree contractor to abate dangerous tree issues. Otherwise, many seniors have been forced in the past to use tree contractors that were not licensed, or not experienced to safely remove the danger, or who took seniors' money but did not do the work.*
- 1.3 *City ordinances do not restrict employees from using city facilities. Given that our employees maintain the cleanliness, readiness, and scheduling for all city rentals, the Mayor has occasionally granted employees use of these facilities at no cost. Please note that no political events are allowed in city facilities by anyone. The Mayor's authority to grant facility use to employees, as noted above, is being added to city procedures.*

Auditor's Comment

- 1.2 The formal procedures the city refers to in its response do not provide detailed guidance related to monitoring and collecting accounts receivable. They simply state that past due notices should



City of Northwoods
Management Advisory Report - State Auditor's Findings

be issued if payments are not received by the 10th day of each month.

2. Sunshine Law Compliance

The Board of Aldermen (Board) did not always comply with the Sunshine Law for closed meetings.

2.1 Closed meeting minutes and notices

The Board generally uses the same statement in each meeting notice/agenda to indicate the potential for a closed meeting, instead of citing the specific section of the law as the reason for a closed meeting. In addition, the vote of each member approving to enter into a closed meeting was not documented.

Section 610.022, RSMo, requires the specific reasons for closing a meeting be announced publicly at an open meeting. A standard blanket statement of potential issues that may be discussed in a closed session circumvents the intent of the law and does not provide accurate information to the public. In addition, public governmental entities are required by Section 610.022, RSMo, to document the roll call votes to enter closed meetings in public minutes.

2.2 Closed meeting topics

Some issues discussed in closed meetings were not allowable under the Sunshine Law. For 12 of 21 closed meetings held between January 2015 and October 2016, the topics discussed were not allowable. For example, closed meeting minutes indicated the Board discussed budget reductions, pay increases for police officers, and potential policy and ordinance changes. The Board also voted on a new trash removal contract in closed session.

The Sunshine Law, Chapter 610.022, RSMo, limits discussion topics and actions in closed meetings to only those specifically allowed by state law.

Recommendations

The Board of Aldermen:

- 2.1 Ensure the specific statutorily allowed reason for closing a meeting is documented and also document the roll call votes to enter into closed meetings.
- 2.2 Ensure all topics discussed in closed meetings are allowable and limited to only those specific reasons cited to justify the closed meeting.

Auditee's Response

- 2.1 *City records indicate our Board does vote to close meetings, but we will implement your recommendation to document, by name, the roll call vote in public meetings that initiate all closed meetings. We will specify state statute numbers and topics in the posted or voted on closed session agendas.*



City of Northwoods
Management Advisory Report - State Auditor's Findings

2.2 *Topics will be limited only to those legally allowed, but know the new trash contract was also voted on in a public Board meeting.*

3. Purchasing

The city does not bid some purchases and we identified some questionable purchases.

3.1 Bidding

The city has not solicited bids for tree services since 2010. The city spent \$30,675 and \$53,830 with its tree services vendor during the years ended December 31, 2015, and 2016, respectively. In addition, the city does not formally solicit proposals for banking services. According to city policy, formal bids are required for purchases greater than \$1,000.

Routine use of a competitive procurement process for major purchases and services ensures the city has made every effort to receive the best and lowest price and all interested parties are given an equal opportunity to participate in city business. Documentation of the various proposals received, the selection process, and criteria should be retained to demonstrate compliance with applicable laws or regulations and support decisions made.

3.2 Questionable purchases

Several purchases were not necessary and a prudent use of city resources. The city paid \$500 for a table at a scholarship fundraising gala to benefit local students and \$738 for an October 2015 retirement party, including \$450 to a city employee to cater the party. The city also paid \$1,633 for a December 2015 retirement party. These costs included \$954 spent from the asset forfeiture account for 3 retirement plaques, and that is not an allowable use of those monies.

Taxpayers have placed a fiduciary trust in the Board to spend public funds in a necessary and prudent manner. Section 513.651, RSMo, states monies acquired through the federal forfeiture system shall only be used for the investigation or prosecution of criminal activity, the execution of court orders arising from such activity, the enforcement of drug-related crimes, training, drug education, and the safety of both the citizens and law enforcement officers.

Recommendations

The Board of Aldermen:

- 3.1 Solicit bids and proposals for all applicable purchases and services in accordance with city policy.
- 3.2 Ensure all purchases are necessary and comply with statutory provisions.

Auditee's Response

- 3.1 *We accept and will implement your suggestion to follow the city bid policy and add an ending date to future contracts and, as in the past, we will periodically rebid for services. And although our Board has considered several bank presentations and proposals, we*



City of Northwoods
Management Advisory Report - State Auditor's Findings

will implement your recommendation to get formal bids for bank services.

3.2 *The city supports our youth residents and our local school district. We live in a predominantly urban area where the median incomes of families with children seldom allow/enable them to send accomplished students to college. Thus, once per year, the Normandy School District that serves our residents requests the city's support for youth college scholarships. Our residents are proud of our children and feel \$500 each year is not too much to help generate thousands of education scholarship dollars that have specifically benefited Northwoods' graduating high school seniors.*

Retiring police personnel who gave more than 20 years of their lives protecting and serving city residents were recognized by residents and city staff for their dedication to providing a safe community. They did it without aggressive traffic stops, excessive use of force or misuse of city funds, etc. They did it within the state limits for funds a city can generate from court fees/fines. They did it in the most professional way. Our city was not aware of any statutes that restricted the use of these funds until the State Auditor's Office brought it to our attention. From now on, we will only use the asset forfeiture funds for purchases allowable under state law.

4. City Procedures

City procedures related to payroll allocations, bank accounts and compensation ordinances need improvement.

4.1 Payroll allocation

The city uses unsupported estimates to evenly allocate payroll costs between the restricted Street Improvement/Debt Service Fund and the restricted Parks/Stormwater Fund for public works employees. Public works employees perform various tasks such as street repairs, buildings and parks maintenance, and snow removal. The allocation is not based upon a study of personnel time or actual time spent on specific tasks. For the year ended December 31, 2016, payroll costs for these employees totaled approximately \$140,000.

It is essential the city properly allocate payroll costs among funds to accurately determine the results of operations of specific activities, thus enabling the city to establish the level of taxation necessary to meet operational costs.

4.2 Bank accounts

The city maintains 18 separate bank accounts, resulting in cumbersome record keeping. We noted 6 of these accounts only had a few transactions other than bank charges and interest earned. During the year ended December 31, 2015, the city paid \$271 in bank charges for the 18 accounts.



City of Northwoods
Management Advisory Report - State Auditor's Findings

To help simplify city records and minimize the risk of errors, the Board should consider reducing the number of bank accounts.

4.3 Compensation ordinances The city does not have ordinances related to establishing the compensation of city officials and employees.

Ordinances documenting approved salary amounts help ensure equitable treatment and prevent misunderstanding. Section 79.270, RSMo, authorizes the Board to fix the compensation of all city officials and employees by ordinance.

Recommendations

The Board of Aldermen:

- 4.1 Ensure payroll costs are properly allocated to the applicable city funds and allocations are supported by adequate documentation.
- 4.2 Consider reducing the number of bank accounts.
- 4.3 Establish the compensation of all city officials and employees by ordinance.

Auditee's Response

- 4.1 *With regard to the division of public works payroll being split 50/50 between our Streets and Parks/Stormwater Funds, we will review the hours again to determine if another percentage is appropriate. However, consider that we only have 4 public works staff maintaining our streets, park grounds and Baden Creek that meanders throughout our municipality. Public works staff time is consistently evenly split for the maintenance of all these. We strongly feel we have calculated the right expense split.*
- 4.2 *We have already begun to reduce the number of bank accounts to less than 18. But, in this era of government transparency, having specific accounts that indicate certain restrictions of funds has served us well when explaining expenditures to residents and auditors. Also, we have experienced that at least one of our banks will not waive fees. So we are now moving our funds to a bank that can facilitate fee removals.*
- 4.3 *As state statutes authorize local boards to fix the compensation of all city officials and employees, the Board is establishing a committee to decide how and how much to set such compensation.*

City of Northwoods

Organization and Statistical Information

The City of Northwoods is located in St Louis County. The city was incorporated in 1940 and is currently a fourth-class city. The city employed 37 full-time employees and 12 part-time employees on December 31, 2015.

City operations include a police department, code enforcement, street maintenance, park services, and trash services.

Mayor and Board of Aldermen

The city government consists of a mayor and 8-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 votes only in the case of a tie. The Mayor and Board of Aldermen, at December 31, 2015, are identified below. The Mayor is paid \$750 per month and Board of Aldermen members are paid \$600 per month. There is no ordinance establishing the compensation of elected officials.

Everett Thomas, Mayor
Marvalda Jones, Alderwoman
Maggie Strong, Alderwoman
Errol Bush, Alderman
Jack Chase, Alderman
Shirley Johnson, Alderwoman
David I. Tolliver, Alderman
Dorothy North, Alderwoman
Floridus Bane, Alderman

Other Elected Official

The City Collector at December 31, 2015, was Leno Holmes and his annual compensation was \$7,200. The City Collector's compensation is established by the Board of Aldermen.

Financial Activity

A summary of the city's financial activity for the year ended December 31, 2015, (obtained from the City of Northwoods Independent Auditor's Report) follows:



City of Northwoods
Organization and Statistical Information

CITY OF NORTHWOODS, MISSOURI
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - MODIFIED CASH BASIS - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

	General Fund	Capital Projects Fund	Street Improvement/ Debt Service Fund	Parks/ Stormwater Fund	Other Governmental Funds	Total Governmental Funds
REVENUES						
Taxes	\$ 783,823	283,441	347,243	113,372	44,614	1,572,493
Gross receipts taxes	696,015	-	-	-	-	696,015
Licenses and permits	140,839	-	-	-	-	140,839
Intergovernmental	315,613	-	362,504	140,043	10,418	828,578
Court receipts	294,976	-	-	-	-	294,976
Investment income	507	9	362	1,048	67	1,993
Other	44,168	6,046	-	-	-	50,214
Total Revenues	<u>2,275,941</u>	<u>289,496</u>	<u>710,109</u>	<u>254,463</u>	<u>55,099</u>	<u>3,585,108</u>
EXPENDITURES						
Current:						
Administration	826,152	-	-	-	-	826,152
Legislative	72,631	-	-	-	-	72,631
Judicial	208,043	-	-	-	-	208,043
Public works	215,083	-	-	-	-	215,083
Health services	379,356	-	-	-	-	379,356
Parks	-	-	-	114,789	-	114,789
Photo enforcement	4,400	-	-	-	-	4,400
Police	823,630	-	-	-	10,914	834,544
Housing and building	58,245	-	-	-	-	58,245
Debt service:						
Principal	-	36,950	210,000	-	-	246,950
Interest	-	1,710	100,445	-	-	102,155
Bond issuance costs	-	-	75,315	-	-	75,315
Capital outlay	-	193,439	506,890	34,549	56,775	791,653
Total Expenditures	<u>2,587,540</u>	<u>232,099</u>	<u>892,650</u>	<u>149,338</u>	<u>67,689</u>	<u>3,929,316</u>
REVENUES OVER (UNDER)						
EXPENDITURES	<u>(311,599)</u>	<u>57,397</u>	<u>(182,541)</u>	<u>105,125</u>	<u>(12,590)</u>	<u>(344,208)</u>
OTHER FINANCING SOURCES (USES)						
Refunding bonds issued	-	-	2,839,995	-	-	2,839,995
Premium on refunding bonds issued	-	-	268,512	-	-	268,512
Payment to refunded bond escrow agent	-	-	(3,032,777)	-	-	(3,032,777)
Sale of capital assets	3,570	-	-	-	-	3,570
Transfer in	137,000	7,418	-	-	-	144,418
Transfer out	(7,418)	-	(137,000)	-	-	(144,418)
Total Other Financing Sources (Uses)	<u>133,152</u>	<u>7,418</u>	<u>(61,270)</u>	<u>-</u>	<u>-</u>	<u>79,300</u>
NET CHANGE IN						
FUND BALANCES	<u>(178,447)</u>	<u>64,815</u>	<u>(243,811)</u>	<u>105,125</u>	<u>(12,590)</u>	<u>(264,908)</u>
FUND BALANCES,						
JANUARY 1	<u>278,215</u>	<u>48,258</u>	<u>1,046,809</u>	<u>150,663</u>	<u>193,055</u>	<u>1,717,000</u>
FUND BALANCES,						
DECEMBER 31	<u>\$ 99,768</u>	<u>113,073</u>	<u>802,998</u>	<u>255,788</u>	<u>180,465</u>	<u>1,452,092</u>