



Office of Missouri State Auditor
Nicole Galloway, CPA

City of Bethany



Nicole Galloway, CPA
Missouri State Auditor

CITIZENS SUMMARY

Findings in the Audit of the City of Bethany

Tax Increment Financing	<p>The audit identified concerns with the city's handling of Tax Increment Financing (TIF) project planning, funding, and reporting for the West Interstate Addition - South District (South TIF) and Northwest Interstate redevelopment areas (North TIF). The city did not take steps to ensure all available financing sources required by state law were utilized to finance construction of the South TIF redevelopment project. The lack of this significant source of revenue likely impacted the decisions made by the TIF Commission related to the planned project. The redevelopment projects for both the North and South TIF were poorly planned. For the South TIF, it is unclear what impact the planned project had on development of the economic area since the majority of the development occurred before discussions were held regarding the proposed project. The audit identified problems with reports prepared by the city regarding the progress of each TIF. For both TIFs, new businesses relocating to the areas were not always correctly reported and no estimates or actual amounts of jobs added or retained in the TIF were reported. The city has not held public hearings every 5 years for each TIF project as required by state law.</p>
Water and Sewer Systems Contract	<p>The decision to contract with a private company to operate and maintain the water and sewer systems was not made transparently. All meetings where this topic was discussed from February to April 2015 were closed to the public in violation of state law. Proposals seeking a company to operate and maintain water and sewer systems were not solicited competitively or in compliance with the city code. Board members did not review the formal cost-benefit analysis prepared to evaluate the decision to contract out services to operate and maintain the water and sewer systems before they voted on this change. The analysis prepared contained several flaws that bring into question the reliability of the information presented.</p>
Accounting Controls and Procedures	<p>The Board has not adequately segregated accounting duties or ensured documented supervisory or independent reviews of work performed by city office personnel are performed. The city absorbs credit card user fees when customers pay utility bills by credit card, rather than charging users a convenience fee. City personnel do not account for the numerical sequence of receipt slips issued from the financial accounting system.</p>
Restricted Assets	<p>The city has not established adequate procedures to ensure restricted monies are expended only for intended purposes. The city imposes assessments against utility funds (gas, electric, water, and sewer) to offset costs incurred by the General Fund for employees/officials doing work related to multiple city funds, along with administrative and overhead costs that pertain to multiple city funds. The allocations of salaries and other expenses to the utility funds are largely based on estimates, rather than actual time spent performing functions or actual usage of materials, supplies, or services by the various utility funds. In August 2015, the Board approved resolutions authorizing the Gas, Sewer, and Solid Waste Funds to loan the Parks Department more than \$1 million as part of a plan to refinance a previous pool bank loan. Utility Funds are restricted for their intended purpose and cannot be used in this manner. The city also expended a significant amount</p>

of Electric Department revenue in support of the Parks Department in recent years.

Utility Controls and Procedures	Rates charged for sewer services have not been established at levels consistent with the costs of providing those services. In June 2015, a \$25 fee was improperly added to sewer billings, in addition to the base rate, to help fund the construction of a new wastewater treatment plant. This fee was established without a public vote, may be in violation of the Hancock Amendment, and has allowed the city to build an excessive Sewer Fund balance. The city code regarding shut off procedures for nonpayment of services gives the City Clerk some discretion when shut offs should occur but does not provide for any oversight of this process. While not specifically authorized by city code, pay agreements are utilized, but are not enforced consistently or reviewed and approved by an independent person. Non-monetary adjustments made to the utility system are not reviewed by an independent person.
Expenditures	City personnel do not always solicit competitive bids or proposals for goods and services as required by the city code. The city did not obtain appraisals prior to selling property or leasing property with the intent to purchase.
Sunshine Law	The city did not ensure compliance with the Sunshine Law for closed meetings.
Budgets and Ordinances	City budgets did not include all statutorily required elements and budget estimates for some funds were unreasonable compared to actual results. The city does not have ordinances related to establishing compensation for city officials and employees.
Electronic Data Security	The city has not established adequate password controls to reduce the risk of unauthorized access to computers and data. The city does not store backup files at an off-site location or periodically test the backup data.

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

*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.

City of Bethany

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NICOLE GALLOWAY, CPA

Missouri State Auditor

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

The State Auditor was petitioned under Section 29.230, RSMo, to audit the City of Bethany. We have audited certain operations of the city in fulfillment of our duties. The city engaged Conrad & Higgins, LLC, Certified Public Accountants (CPAs), to audit the city's financial statements for the year ended March 31, 2017. To minimize duplication of effort, we reviewed the CPA firm's audit report. The scope of our audit included, but was not necessarily limited to, the year ended March 31, 2017. 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.

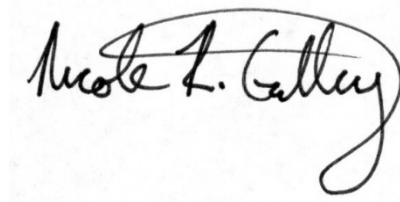
Our methodology included reviewing minutes of meetings, written policies and procedures, financial records, and other pertinent documents; interviewing various personnel of the city, as well as certain external parties; and testing selected transactions. We obtained an understanding of internal controls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

An additional report, No. 2017-112, *Third Judicial Circuit, City of Bethany Municipal Division*, was issued in October 2017.

A handwritten signature in black ink, reading "Nicole R. Galloway". The signature is fluid and cursive, with the first name "Nicole" and last name "Galloway" clearly legible. The initials "R." are written between the first and last names.

Nicole R. Galloway, CPA
State Auditor

The following auditors participated in the preparation of this report:

Director of Audits:	Regina Pruitt, CPA
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City of Bethany

Management Advisory Report

State Auditor's Findings

1. Tax Increment Financing

We identified concerns with the city's handling of Tax Increment Financing (TIF) project planning, funding, and reporting for the West Interstate Addition - South District (South TIF) and Northwest Interstate (North TIF) redevelopment areas.

TIF is an economic development tool that redirects local tax revenues to the redevelopment of eligible properties that are otherwise economically unfeasible. Sections 99.800 to 99.865, RSMo, the Real Property Tax Increment Allocation Redevelopment Act, enables cities to finance certain redevelopment costs with the incremental tax revenue generated by the net increase in assessed valuation, along with a portion (50 percent in this case) of the incremental increases to sales taxes, resulting from the redevelopment. When a TIF plan is adopted, real estate taxes and economic activity taxes in the redevelopment area are frozen at the current level, or base valuation. By applying the real estate tax rate of all taxing districts having taxing power within the redevelopment area to any increased assessed valuation above the base value and by applying 50 percent of any increases to sales taxes over the base year, a tax "increment" is created. The real estate tax increments are referred to as payments in lieu of taxes (PILOTS) and the sales taxes increases are referred to as economic activity taxes (EATS). The PILOTS and EATS collected from the redevelopment areas are deposited by the city into a special allocation fund for each project, although EATS were not collected for the South TIF.

The city approved the South TIF plan in November 1994 by ordinance 916 with the intent to secure financing to construct multiple roads linking Highway 136 on the north with Highway 136 & 69 on the west (37th Street) and to construct and improve utilities within the TIF area using the increased revenue from economic activity generated as provided by the TIF Act. After many changes to the original plans, such as reducing the scope of the project to constructing a single road and determining where the road would be placed and the route it would take, the South TIF project was completed and the project was closed out in November 2017. At that time the PILOTS were no longer collected, and the remaining monies in the special allocation fund were paid to the County Collector-Treasurer for distribution to the various political subdivisions assessing property taxes in the district.

The city approved the North TIF plan in December 2001 by ordinance 1037, and amended the plan in December 2002 with ordinance 1050. The North TIF encompasses an area north of Highway 136, south of Highway 69 Spur, and west of Interstate 35. The city established the project with the intent to secure financing to construct a new road linking Highway 136 on the south with Highway 69 Spur on the north and to construct and improve utilities within the TIF area using the increased revenue from economic activity generated as provided by the TIF Act. The North TIF project has also been completed and the collection of the PILOTS and EATS will stop when the TIF expires on



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December 19, 2024. The city loaned \$543,365 from April through July 2017 to the TIF Commission to finish paying for the project.

The city was designated as the developer for both the North and South TIF. Typically, a private developer would submit an application for TIF funding for a specified development project to the TIF Commission and once approved, the TIF plan would be developed, along with a plan for the financing of the project. For both projects, the financing plan selected was pay-as-you-go, with some portions of the projects being completed as funds became available; however, both projects were delayed for years as funding accumulated. The city's loan to complete the North TIF project will be reimbursed as monies are available. The majority of the work associated with the South TIF project was not completed until sufficient funds had been accumulated.

Our review of the TIF Commission minutes, Board of Aldermen meeting minutes, plans, and related documents identified the following concerns.

1.1 Economic Activity Taxes - South TIF

The city did not take steps to ensure all available financing sources required by state law were utilized to finance construction of the South TIF. EATS were not collected throughout the life of that project as required by state law. Failure to collect this significant source of revenue contributed to construction not starting until August 2017. The city was completely reliant on PILOTS contributed by the various political subdivisions that receive property taxes from land in the redevelopment area. City personnel indicated \$662,035 in city sales taxes were collected from businesses in the South TIF during 2016 and 2017, based on Department of Revenue sales tax records.

PILOTS collected by the County Collector-Treasurer from 1994 to 2017 totaled approximately \$2 million, with approximately \$135,000 being refunded after the \$1.85 million project was complete. The taxing entities contributing property taxes to the project were the city, Harrison County, South Harrison R-2 School District, Harrison County Health Department, Harrison County Community Hospital, Noel T. Adams Ambulance District, and Bethany Township.

While we could not determine the total amount of EATS that should have been collected, based on the figures provided to us by the city for sales taxes collected during 2016 and 2017, we believe the amount not collected was substantial. Several businesses existed in the TIF area prior to its formation, but the base sales tax collections (collections within the TIF area during the year before establishment) were not determined. Several businesses, among them Sonic, Super 8 Hotel, and an Amoco gas station, have moved into the South TIF since its formation and Walmart relocated to a new building while converting to a supercenter. This business development is unlikely a direct result of the planned TIF project because the project was not started and



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completed until 2017. Since the base sales tax collections were not established, we cannot determine the amount of EATS that would have been generated, but with the development that occurred within the TIF, we can reasonably conclude the amount would have been significant and would likely have impacted the decisions made by the TIF Commission related to the planned project.

The original estimates for the project included in the plan adopted in November 1994 called for the building of roads and public utility improvements, with costs estimated at \$670,000. This plan called for multiple roads to be built that would connect new roads to existing roads. The project ended up being one three-quarter mile road built off of Highway 136 that connects to no other road. Had EATS been collected, the necessary funds to complete the project would have been accumulated much faster, potentially allowing the project to be undertaken sooner and at a lower overall cost, and requiring significantly less PILOTS be contributed by the various taxing entities had the same project been completed. Also, the TIF Commission may have chosen to do a more comprehensive project, similar to what was initially planned, since more project funds would have been available.

To ensure adequate funding is available for future projects the Board should ensure all required revenues are collected on TIF projects. Section 99.845.3, RSMo, requires 50 percent of the total additional revenue from taxes, penalties, and interest, which are imposed by the municipality or other taxing districts, and which are generated by economic activities within the area of the redevelopment project shall be allocated to, and paid by the political subdivision to the Treasurer, who shall deposit such funds in the special allocation fund.

1.2 Planning

The redevelopment projects for both the North and South TIF were poorly planned. For the South TIF, it is unclear what impact the planned project had on the development of the economic area since the majority of the development occurred before discussions were held regarding the proposed project. Project construction of the road did not start until August 2017. Because there is no documentation of any discussions regarding the South TIF during the first 15 years of its life, it is unlikely this project was instrumental in the development of this area. At a minimum, we would have expected to see documentation the TIF Commission was aware of the amount of money that had accumulated and some discussion as to why the project was not moving forward.

Based on our review of TIF Commission minutes, TIF redevelopment plans and related documents, ordinances, and Board of Aldermen meeting minutes, it is apparent that specific financing plans were not in place for either the North or South TIF projects at the time of their formation, although TIF reports indicate pay-as-you-go as the chosen financing plans. While the



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redevelopment plans refer to the projects and include cost estimates, it is clear the city did not intend to immediately proceed with construction of the projects once the TIFs were approved. Although pay-as-you-go is an allowable method of financing a TIF project, considering the purpose of both TIFs is to stimulate development in the area, finding a way to complete the projects early in the life of the TIF would have been beneficial to the redevelopment of these areas.

It is unclear when the TIF Commission was formed because the first set of meeting minutes we received started in 2001. We received no minutes for meetings prior to 2002, other than one meeting in 2001 and none for meetings in 2008, 2009, or 2010. The minutes of a March 2011 meeting include the first documented discussions of any issues related to the South TIF, which by then had existed for 17 years. No official minutes were available for several meetings held in 2012 and 2013, although agendas were available for some or handwritten notes of discussions for others. We noted development in the North TIF was frequently discussed in the TIF Commission minutes; however, engineering proposals to construct the new road in the North TIF were not received until early 2015, 14 years after the 2001 formation of the district.

Section 99.820.2, RSMo, requires a TIF Commission to be established prior to the adoption of an ordinance approving a redevelopment plan. When undertaking such significant projects it is imperative that the Board of Aldermen and TIF Commission ensure such projects are properly planned and steps are taken to further the progress of the project.

1.3 Reporting

We identified problems with the reports prepared by the city regarding the progress of each TIF. While city officials annually filed these reports with the Department of Revenue when required, the reports did not always include all information requested. For example, new businesses relocating to the area were not always correctly reported and the reports for both TIFs consistently included no estimates or actual amounts of jobs added or retained.

Complete and accurate annual reports, in addition to meeting statutory requirements, can serve as a useful management tool for both city leaders and the TIF Commission by reporting progress of the developments. It also assists in informing the public about the status of TIF developments.

1.4 Public hearings

The city has not held public hearings every 5 years for each TIF project as required by state law. We saw no evidence of any public hearings occurring during the life of either of these projects. The City Administrator located an agenda for a public hearing of the TIF Commission scheduled for October 12, 2004, but could not locate minutes of the public hearing.



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Section 99.865.3, RSMo, states "Five years after the establishment of a redevelopment plan and every five years thereafter the governing body shall hold a public hearing regarding those redevelopment plans and projects created pursuant to Sections 99.800 to 99.865. The purpose of the hearing shall be to determine if the redevelopment project is making satisfactory progress under the proposed time schedule contained within the approved plans for completion of such projects. Notice of such public hearing shall be given in a newspaper of general circulation in the area served by the commission once each week for four weeks immediately prior to the hearing."

Recommendations

The Board of Aldermen:

- 1.1 Ensure revenues are properly collected for any future TIF projects.
- 1.2 Plan for the financing and construction of future TIF projects early in the redevelopment process to ensure the maximum benefit for the community. In addition, ensure there is an active TIF Commission to oversee and manage TIF projects to help ensure the projects are completed timely.
- 1.3 Ensure accurate annual reports are filed with the state for each TIF.
- 1.4 Ensure public hearings are held on TIF redevelopment plans as required by state law.

Auditee's Response

- 1.1 *Revenues are and have been properly collected for the North TIF, an active TIF project, and will be as well for any future TIF projects.*
- 1.2 *The Board concurs that early planning is always a good business practice. One currently vacant TIF Commission seat will be filled at the next Commission public hearing to be held in 2018.*
- 1.3 *The Board agrees that submittal of accurate annual reports is essential and will ensure accurate reports are submitted in the future.*
- 1.4 *The Board has found and provided documentation of 2 public hearings held prior to the TIF formation, and one by the TIF Commission on October 12, 2004. It is believed that the "regular" meetings of the TIF Commission, being open to the public and public noticed, may have been thought to have met this requirement.*

A public hearing on the North TIF will be held in 2018, and again no later than 2023.



2. Water and Sewer Systems Contract

The decision to contract with a private company to operate and maintain the water and sewer systems was not made transparently. In addition, competitive proposals were not solicited and a cost-benefit analysis was not performed in advance to determine if any cost savings would result. During the year ended March 31, 2017 (fiscal year 2017), the city paid a private company approximately \$618,000 for management of the water and sewer systems.

In early 2015, city officials held discussions on possibly contracting out management services of production and distribution of the water and sewer systems. Making this change would eliminate city paid utility employees for these systems and shift the responsibility for operating and maintaining them to a private company. Per the contract, the private company would be responsible for the expense of maintenance and repair of all equipment, physical facilities, and vehicles assigned for its use (up to the base amount specified in the contract), except capital replacement costs, which is defined as all capital replacement and major maintenance/repair expenditures that exceed \$1,000. Capital improvements and major repairs to the systems continue to be the responsibility of the city. Our review of the process followed in making this decision identified various concerns.

2.1 Transparency

The decision to contract with a private company was not made transparently. Based on our review of Board meeting minutes for the time period from February to April 2015, the Board considered and made a decision to shift from operating and maintaining the city's water and sewer systems to contracting these services out to a private company. All the meetings where this topic was discussed during that time period were closed to the public, with the minutes citing personnel issues, Section 610.021 (3), RSMo, as the reason for closing the meetings. That section of law specifically defines personal information as "information relating to the performance or merit of individual employees." We identified no discussions documented in the closed minutes that met this definition, and thus, discussion of this topic in closed session was not allowable by law. These closed meetings were used to discuss the merits of entering into a contract for these services with a private company, discuss the proposals submitted, and approve the selected vendor.

The first mention of this issue was in the minutes of a closed Board meeting held on February 17, 2015, which indicate two vendors submitted initial informal proposals. There is no evidence these initial proposals were sealed as required by the city code and they were not provided for our review. The minutes of a March 2, 2015, closed Board meeting indicate that references were checked and the initial proposals were reviewed by the former Utility Superintendent (he now works for the private company in this same capacity). He informed the Board he had identified no cost savings in either proposal, but suggested clarifying the scope of the services to allow a better comparison of the proposals. Subsequent closed meetings held in March and early April 2015 mention defining the scope of the work, having the companies tour the



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facilities, and meeting with the Utility Superintendent. Formal proposals were submitted by both companies on April 17, 2015. Both companies were invited to attend the April 20, 2015, closed Board meeting and each gave a presentation and answered questions from the Board. A vote was held in that meeting to select a vendor for the contract.

The first public mention of this decision occurred when the selected vendor was present at the May 4, 2015, Board meeting. Those meeting minutes indicate a member of the audience stated that this was a major change in operations and asked if this issue had been discussed previously in any open session. The former Mayor indicated the change involved city employees and the Board wanted to look into the companies before notifying the public. A formal contract was approved in a public meeting held May 18, 2015.

Under Section 610.022.1, RSMo, before going into a closed meeting a public governmental body must vote to close by a specific reference to the section permitting the disclosure. The Sunshine Law, Chapter 610, RSMo, limits discussions and votes in closed meetings to only those specifically allowed by law and referenced in the vote to close. Votes should only be taken in closed meetings related to allowable topics and would need to be publicly disclosed as soon as possible.

2.2 Competitive bids

Proposals seeking a company to operate and maintain water and sewer systems were not solicited competitively. In addition, the city code specifies sealed bids will be submitted to the City Clerk for any item or service in excess of \$15,000, but does not indicate how the bids will be solicited. It is unclear when the decision to seek proposals occurred because Board meeting minutes do not indicate this information, but city personnel indicated they identified 2 companies that offer those services and contacted them about submitting a proposal. No public advertisement occurred to expand the potential number of proposals that could be obtained. As indicated in section 2.1, the 2 proposals submitted were not sealed and were not opened in a public meeting of the Board, as required by the city code.

Article III, Section 135.070(A).5 of the city code states any bid over \$15,000 shall be sealed and submitted to the City Clerk. All bids will be opened at a scheduled public meeting. All bids will be submitted to the Board at the next regular Board meeting with recommendations from the facilitator. In addition, competitive bidding also helps ensure all parties are given an equal opportunity to participate in city business. Soliciting proposals for professional services is a good business practice, helps provide a range of possible choices, and allows the city to make better-informed decisions to ensure necessary services are obtained from the best qualified provider after taking expertise, experience, and cost into consideration.



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2.3 Cost-benefit analysis

Board members did not review the formal cost-benefit analysis prepared to evaluate the decision to contract out services to operate and maintain the water and sewer systems before they voted on this change. The former Utility Superintendent reported to the Board in the closed meeting held March 2, 2015, that he believed neither proposal being considered would result in any cost savings to the city. The cost-benefit analysis provided to us does not indicate when it was prepared or who prepared it, but the electronic file we received showed a save date of May 1, 2015. City personnel indicated they thought the former City Administrator prepared the analysis. There is no evidence the Board received this information for review and the decision to contract with a specific vendor had already been made by the save date shown for this file.

In addition, our review of the cost-benefit analysis identified several concerns that bring into question the reliability of the analysis. The city compared the total costs of operating the water and sewer systems during fiscal year 2015 to the proposed cost of operating the systems during fiscal year 2016 using the contractor. That comparison showed a cost savings of approximately \$160,000, but did not exclude capital improvements or debt service payments, which were proposed to be significantly less in fiscal year 2016, and are the responsibility of the city. The budget for fiscal year 2016 with the city continuing to operate the systems was only approximately \$20,000 more than the cost of making the change. Excluding debt service costs and capital improvement costs from the analysis indicates it would have actually cost approximately \$20,000 less for the city to continue operating the systems itself.

Closed meetings minutes show factors other than costs, such as personnel matters, were considered before making this change. However, because the value of the contract exceeds \$600,000 per year, making a decision before reviewing a formal cost-benefit analysis is not prudent.

Regular review of utility management services and costs is necessary to ensure the city is receiving these services at a reasonable cost and whether continuing with this arrangement is beneficial to the city.

Recommendations

The Board of Aldermen:

- 2.1 Ensure future contract discussions and the process to select vendors is performed in an open and transparent manner in accordance with state law.
- 2.2 Solicit competitive bids and proposals for all applicable purchases and clarify in the city code how the bids and proposals will be solicited. In addition, follow the city code regarding how bids and proposals will be submitted and presented to the Board.



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Auditee's Response

2.3 Ensure a cost-benefit analysis, which includes only relevant factors, is prepared timely when making significant management decisions in the future. In addition, a cost-benefit analysis should be performed prior to renewing this contract.

2.1 *The decision to contract with a private company to provide management services of production and distribution of the water and sewer systems was made as a result of numerous personnel issues within the department, and was made after discussions were held with all affected employees. It should be noted that all employees in the department were either retained by the city or hired by the selected contractor. In hindsight, the Board concedes that the decision making process could have been more transparent to the public, but the intent was to protect the employees from undue stress related to a public debate and the Board stands by its decision to contract these services. In the future, the Board will ensure the process of selecting vendors for city services will be performed in an open and transparent manner and in accordance with the law.*

2.2 *The Board will review its purchasing policy and will clarify the Bethany City Code as to how bids and proposals will be solicited. The Board will follow the city code on how bids and proposals will be submitted and presented to the Board.*

2.3 *Though it is not documented, one Alderman believes that he received information containing a cost-benefit analysis at the time the decision was made to contract with a private company. The Board agrees that development of a cost-benefit analysis is a good business practice when making major management decisions and that any such analysis should be documented in the Board minutes. The current contract expires March 31, 2021. The Board will endeavor to ensure that a complete cost-benefit analysis is completed prior to entering into any extension of this contract and future contracts of a similar nature.*

3. Accounting Controls and Procedures

Accounting controls and procedures need improvement.

3.1 Lack of oversight

The Board has not adequately segregated accounting duties or ensured documented supervisory or independent reviews of work performed by city personnel are performed. The Utility Billing Supervisor and Deputy City Clerk both receipt monies and post transactions to the accounting system, and the Utility Billing Supervisor is also responsible for preparing utility bills,



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posting adjustments to accounts, and preparing and making deposits. No reviews of the detailed accounting and deposit records are performed by other city personnel or Board members.

Proper segregation of duties helps ensure all transactions are accounted for properly and assets are adequately safeguarded. If proper segregation of duties cannot be achieved, documented independent or supervisory reviews of accounting and deposit records should be performed.

3.2 Credit card convenience fees

The city allows utility bills to be paid with personal credit cards; however, credit card users are not charged a convenience fee to offset the related costs to the city. Credit card fees, which totaled approximately \$9,800 during fiscal year 2017, are absorbed by the city. In addition, because the fees vary by credit card issuer, the City Treasurer indicated she cannot reconcile the amounts received from credit card companies with the credit card payments made by individuals.

Considering the costs of credit card fees, the city should reconsider if absorbing these costs outweighs the benefits of not charging credit card convenience fees. Absorbing the credit card fee is a possible violation of Article VI, Section 23, Missouri Constitution, which prohibits the granting of public funds to individuals.

3.3 Receipt slips

City personnel do not account for the numerical sequence of receipt slips issued from the financial accounting system. The city's financial accounting system assigns one numerical receipt slip sequence, even though receipt slips are issued by various personnel for different functions, such as court payments, utility payments, and franchise fees. In addition, the accounting system will occasionally skip batches of receipts, which are listed in the daily register as voided. Because voided transactions do not require supervisory approval, are not periodically reviewed by an independent person or supervisor, and are not adequately documented, it is difficult to determine why these transactions occurred.

To ensure all monies received are accounted for properly, personnel should account for the numerical sequence of receipt slips issued through the accounting system. To ensure all voided transactions are valid and to reduce the risk of loss, theft, or misuse of funds, proper documentation should be maintained and someone independent of the receipting and recording function should review and approve these transactions.

Recommendations

The Board of Aldermen:

- 3.1 Segregate the accounting duties of city personnel. If proper segregation cannot be achieved, ensure a documented independent or supervisory review of detailed accounting and deposit records is performed.



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- 3.2 Consider charging a convenience fee when customers pay by credit card and establish a process for reconciling credit card payments made by customers with amounts received.
- 3.3 Require personnel to account for the numerical sequence of receipt slips issued. In addition, ensure adequate documentation is maintained to support voided transactions and ensure an independent review and approval of these transactions is performed and documented.

Auditee's Response

- 3.1 *The Board agrees that separation of accounting duties is the ideal situation, but realize that with limited staff, the Board may not be able to completely segregate all accounting functions. The Board is developing workable options for spot-check reviews by non-accounting individuals to oversee that proper procedures are being implemented and will have that procedure in place by the next fiscal year.*
- 3.2 *The Board is researching third party providers who will be invited to bid on providing this service, with the goal to have a contract in place by January 1, 2019, if the Board can negotiate a contract that will be advantageous to the city and the citizens of the City of Bethany.*
- 3.3 *The Board is in the process of developing a policy that will address the issues set forth above.*

4. Restricted Assets

The city has not established adequate procedures to ensure restricted monies are expended only for intended purposes.

4.1 Utility Assessments

The city imposes assessments against utility funds (gas, electric, water, and sewer) to offset costs incurred by the General Fund for employees/officials doing work related to multiple city funds, along with administrative and overhead costs that pertain to multiple city funds. The Gas, Electric, Water, and Sewer Funds were assessed \$112,500, \$112,500, \$93,750, and \$56,250, respectively, during fiscal year 2017. We identified concerns with the city's allocation methods.

City personnel provided documentation of how they determine the amounts to charge to each utility for payroll and fringe benefits, and administrative and overhead costs incurred by the General Fund. Timesheets are not prepared by administrative staff to document time spent on particular activities and thus, estimates are used for applicable employees/officials to determine the percentage to allocate. These employees/officials and the estimated percentage of their salary and fringe benefits allocated include the Code Enforcement Officer (50 percent), City Administrator (80 percent), City Clerk (80 percent), Utility Billing Clerk (100 percent), Finance Director (80



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percent), Inventory Clerk (80 percent), and the Board of Aldermen (50 percent). None of these costs are allocated to non-utility funds operated by the city.

The administrative and overhead costs allocated include maintenance and repairs for equipment and buildings, supplies, utilities, and professional fees and services. These costs are paid by the General Fund and then allocated by charging 20 percent to each utility, rather than the amount of time spent performing each function or the actual usage of materials, supplies, or services by the various utility funds. None of these costs were allocated to other non-utility funds of the city. In addition, the documentation prepared to support the assessment charged in fiscal year 2017 determined the total of the assessments was \$364,228, but the actual amount allocated was \$375,000.

Generally accepted accounting principles and various legal restrictions require receipts and disbursements associated with specific activities be reflected in the fund established to account for those activities. The proper allocation of expenses is necessary for the city to accurately determine the results of operations of specific activities, thus enabling the city to establish the level of taxation and/or user charges necessary to meet all operating costs. To ensure restricted funds are used for intended purposes, the allocation of expenditures to city funds should be based on specific criteria, such as the number of hours worked by each employee, and documentation of allocations should be retained.

4.2 Pool Loan

In August 2015, the Board approved resolutions authorizing the Gas, Sewer, and Solid Waste Funds to loan the Parks Department more than \$1 million as part of a plan to refinance a previous pool bank loan. The amount loaned totaled \$1,414,898.

Fund	Amount
Gas	\$ 714,898
Sales Tax (General)	400,000
Sewer	200,000
Solid Waste	100,000
Total	\$ 1,414,898

Board meetings minutes discussing this loan indicate it was made to reduce the Parks Department's interest costs. The interest rate on the bank loan was at 5 percent and the rate on the loan from the utility funds is set at 1.8 percent. Significant reductions to the cash balances of the Gas and Sewer Funds could be detrimental to the ability of these funds to meet current obligations. For the Sewer Fund, the loan also is likely to have contributed to the need to increase rates. In addition, the city did not obtain a written legal opinion regarding using restricted utility monies to make the loan.



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Monies in the Gas, Sewer, and Solid Waste Funds are restricted for their intended purpose and cannot be used for the general operation of the city. These proprietary funds are established to account for the user fees collected and costs associated with each utility separately. This separate accounting is intended to assist the city in monitoring each utility to ensure user fees are set at the level necessary to provide the service and for reasonable reserves. Although there is no defined level for reasonable reserves, it is not reasonable or prudent to set user fees at a level where excessive reserves are accumulated and then used to fund other activities unrelated to the specific utility.

4.3 Ballfield lights

The city has expended a significant amount from the Electric Fund in support of the Parks Department in recent years. The budget for the year ended March 31, 2018, includes a budget message stating "The Electric Department will support the Parks Department as it continues its focus on ballfield improvements." According to city personnel, as of January 12, 2018, the city had spent approximately \$350,000 from the Electric Fund for ballfield lighting projects. Providing subsidies to other city funds from the Electric Fund is not appropriate and should be discontinued.

Revenues of the Electric Fund represent user charges intended to cover the cost of providing the related services. It is not appropriate to subsidize the Parks Department operations with funding from the Electric Fund. As a result of this situation, electric rates may be set higher than necessary to recover actual costs and city electric customers are being required to subsidize Parks Department services.

Recommendations

The Board of Aldermen:

- 4.1 Ensure all expenditures are properly allocated to the various funds and allocations are supported by adequate documentation. For the Electric, Gas, Water, and Sewer Funds, this documentation should include conducting a formal analysis of overhead and services to determine the percentage of costs related to each fund and a formal time study to ensure payroll costs are charged to the appropriate funds.
- 4.2 Repay the Gas, Sewer, and Solid Waste Funds any monies related to the park loan and ensure restricted utility funds are only used for their intended purpose.
- 4.3 Limit expenditures from the Electric Fund to only those necessary to operate the city's electric system and provide services to customers.

Auditee's Response

- 4.1 *An overhead assessment will be performed and utility assessment levels will be carefully reviewed in preparation for development of the 2019 budget.*



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- 4.2 *The Board will endeavor, as always, to follow generally accepted accounting principles in all financial activities. The Board has been advised that no illegal actions were taken, but understands the Auditor's concerns regarding the use of restricted monies for this purpose. The Board's intent in doing this transaction in this manner was to both save the Park Department money in reduced interest expense on the loan and to maximize revenues for the Utility Funds by getting a better rate of return on the reserve funds. The Board understands that restricted funds should only be spent for their intended purpose, but considering the benefits to both the Utility Funds and the Park Fund, the Board will continue our current arrangement with the Parks Board until all fund monies have been fully repaid, with interest, as agreed.*
- 4.3 *The Board willingly complies with all legal restrictions on the use of these funds.*

5. Utility Controls and Procedures

Utility controls and procedures need improvement.

5.1 Utility rates

Rates charged for sewer services have not been established at levels consistent with the costs of providing those services. In addition, the wastewater fee added to residents sewer bills in April 2015 may violate the Hancock Amendment based on the way it is being charged.

Cash balances of the various utility funds, particularly the Sewer Fund, have been very high in the past few years allowing the city to use these funds to provide subsidies to other city funds (see MAR finding number 4). Prior to the pool loan made in August 2015, the cash balance of the Sewer Fund was approximately \$620,000. After the loan occurred the balance initially declined, but due to rate increases and the added fee, the balance has steadily grown. By December 31, 2017, the Sewer Fund cash balance had grown to more than \$1.8 million, which is approximately 3 times the amount expended annually on operating the sewer system.

The Board approved a sewer rate increase in April 2015. Also, in June 2015 a \$25 monthly fee was added to sewer billings, in addition to the base rate, to help fund the construction of a new wastewater treatment plant. This fee was added based on a study done by the United States Department of Agriculture (USDA) that recommended the city increase the base sewer rate to \$25, in order to allow the city to build up the reserve balance of the Sewer Fund to the level necessary for a loan being sought related to building a new wastewater treatment plant. Rather than increase the base sewer rate, which is based on a percentage of the water rate, the Board elected to add a \$25 wastewater fee to each sewer billing. City officials have publicly stated the



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fee is required by the USDA, but it was not. The wastewater fee is charged on all sewer bills regardless of sewer usage. This fee was added to sewer customer bills and was established without a public vote, and thus may be a violation of the Hancock Amendment.

After this fee was assessed for 2 years, city officials acknowledged it was generating excessive revenues and obtained USDA approval to reduce it to \$20 monthly starting with June 2017 billings. During fiscal year 2017, Sewer Fund revenues exceeded \$1.1 million, while expenditures were approximately \$580,000, allowing the fund balance to increase by approximately \$500,000, growing to approximately \$1.33 million by March 31, 2017. By April 25, 2018, even with the \$5 decrease in the fee, city records indicate the Sewer Fund cash balance was approximately \$2.1 million. Some of this cash balance is reserved for the new wastewater treatment plant under construction, but the balance available for general sewer expenditures was still considerably higher than the amount spent annually on operating costs. In addition to improperly adding a fee to citizens sewer bills, the city has failed to set the sewer rate at a reasonable level, which would be the amount necessary to provide sewer service and reasonable reserves. A review of the rate should be conducted by preparing a statement of costs to determine the level the rate should be established.

The Missouri Supreme Court in its decision in *Beatty v. Metropolitan St. Louis Sewer District*, 867 S.W.2d 217 (Mo. banc 1993) applied a five-pronged analysis to determine whether a governmental charge was a tax, thus requiring a public vote, or user fee which could be revised without a vote. This court case also indicated that if the analysis did not clearly indicate the charge is a user fee, the issue should be put to a vote. One of the major criteria considered in that case was whether the added fee was based on usage, which it was not, which contributed to the court determining the added fee was in fact a tax. Other criteria typically looked at by the courts include when is the fee paid, who pays the fee, is the government providing a good or service and has that good or service historically and exclusively been provided by the government. Based on the way these criteria were assessed in other cases with similar circumstances, the \$25 wastewater fee would be considered a tax subject to the Hancock Amendment and should have been voted on by the taxpayers.

The Missouri Constitution Article X, Section 22(a), commonly known as the Hancock Amendment, prohibits political subdivisions from increasing existing taxes, licenses, or fees above levels authorized at the time of passage of the Hancock Amendment without voter approval.

Section 67.042, RSMo, provides that fees may be increased if supported by a statement of costs, which shows the increase is necessary to cover costs of providing the service. To ensure utility rates are set to cover the cost of



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providing the related services, the city should perform and document a detailed cost study of its water and sewer costs, including depreciation, and establish rates to cover the total cost of operations without generating excessive profits.

5.2 Shut off procedures

The city code regarding shut off procedures for nonpayment of services gives the City Clerk some discretion when shut offs should occur but does not provide for any oversight of this process. In addition, the city code does not address the use of pay agreements or how they will be enforced. Currently, the City Clerk allows users to enter into pay agreements to postpone potential service shut off, but the reasons for authorizing the agreements are not documented, and the agreements are not enforced consistently and not reviewed and approved by an independent person.

All utility charges are included on the same billing and the city code states if any billing or charge remains unpaid after the 4th Wednesday of the month, the City Clerk may cause service to be shut off. The City Clerk indicated electric service is typically shut off for nonpayment, but water would be shut off if the customer does not get electric service from the city. The City Clerk stated she does not consider the current month's billing when determining if shut offs or payment agreements are necessary, which is not consistent with the wording of the ordinance. Thirteen of 47 billings reviewed were paid after the 4th Wednesday of the month and there is no evidence utility service was shut off for any of these customers, such as a reconnect charge being added to their account. Several of these users had already entered into pay agreements, but they did not comply with the terms of the agreements. Reasons for not shutting off service were not documented. In addition, no records are maintained of when a user has service disconnected so it is difficult to determine if services were shut off when appropriate.

Article I, Section 715.030(C) of the city code states if any billing or charge remains overdue past the 4th Wednesday of the month, the City Clerk may cause that utility service to be disconnected. It also states the City Clerk may consider previous payment history, time of year, and other factors deemed relevant by the City Clerk. To ensure all customers receive equitable treatment and city revenue is maximized, the city code should specify when a shut off of service is required and when a pay agreement is authorized. For pay agreements, city code should address allowable reasons for the agreements, an approval process, and independent review procedures.

5.3 Non-monetary adjustments

Non-monetary adjustments are not reviewed by an independent person. Non-monetary adjustments are any transactions where monies are not received; however, the account balance has been changed in the accounting records, such as waiving customer late charges, adjusting usage for inaccurate meter readings, or reducing a balance due to water leaks. The Utility Billing Clerk and Deputy Billing Clerk both receipt and post utility payments, and both can



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also post non-monetary adjustments to the system. Non-monetary adjustments are posted to the system regularly and are not reviewed and approved by an independent person. We reviewed 25 non-monetary adjustments and while each looked appropriate and had supporting documentation, none of them had been approved by an independent person. Because these employees are responsible for collecting utility monies and have the ability to alter or delete individual utility account information, there is an increased risk that unsupported or unauthorized changes can be made in the utility system. The city does not produce reports of non-monetary adjustments for the Board to review and approve.

Non-monetary adjustments should be verified and approved by a person independent of the person posting these transactions to ensure they are legitimate. Because of the risks associated with non-monetary adjustments, the Board should consider monitoring all such transactions.

Recommendations

The Board of Aldermen:

- 5.1 Consult the city attorney to determine if the wastewater fee is allowable and ensure a formal review of sewer rates is performed periodically to ensure revenues are sufficient to cover all costs of providing the service without generating excessive profits.
- 5.2 Revise the city code to clarify when shut off of service is required and ensure the ordinance is followed. In addition, a record of shut offs should be maintained.
- 5.3 Ensure a documented review of all non-monetary adjustments posted to the utility system is performed by an independent person.

Auditee's Response

- 5.1 *The Board has been advised that the wastewater treatment fee is not believed to violate the Hancock Amendment. The City Treasurer and City Auditor will work with the City Attorney to ensure sewer rates are sufficient to meet the city's financial obligations without being excessive. The Board will review the wastewater treatment fee in preparation of the fiscal year 2019 budget to determine/verify its legality. All utility rates, and any fees, will also be reviewed on an annual basis as a part of the budgetary process to ensure compliance with all laws related to such rates and fees.*
- 5.2 *Ordinance 1304, passed by the Board on April 2, 2018, addresses "Payment and Procedure Upon Non-Payment" of city utilities. Implementation of the ordinance has been, and will continue to be, strictly followed. A record of shut offs has been maintained by the City Clerk for the last few months, and will continue.*



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5.3 *Ordinance 1304, passed April 2, 2018, minimizes the number of non-monetary adjustments. Non-monetary adjustments will be reviewed by non-accounting personnel on a periodic basis.*

6. Expenditures

Controls over city expenditures need improvement.

6.1 Bidding

City personnel do not always solicit competitive bids or proposals for goods and services as required by the city code. We identified several purchases of goods or services where written quotes or proposals were required but they were either not obtained or not retained, including road salt (\$3,225), concrete construction (\$3,808), airport maintenance (\$1,800), and a lifeguard training/operations audit (\$4,008).

We also identified instances where written quotes were not solicited for road work (\$4,000) and water treatment pump repairs (\$2,200). City personnel indicated these purchases were of an emergency nature and therefore not bid, but the reasons were not documented.

Bidding procedures for major purchases provide a framework for economical management of county resources and help ensure the city receives fair value by contracting with the lowest and best bidder. In addition, competitive bidding ensures all interested parties are given an equal opportunity to participate in city business. Article III, Section 135.070(A).3 of the city code states for purchases of goods or services between \$1,500 and \$5,000 three written quotes will be obtained. The city's bid policy does not address emergency purchases; however, city personnel should document reasons for noncompliance with city policy if an emergency purchase is necessary.

6.2 Real estate transactions

The city did not obtain appraisals prior to selling property or leasing property with the intent to purchase. In 2015, city officials were in discussion with a retail corporation to establish a store in Bethany. The corporation was interested in the building, which formerly served as the fire station/community center, and made an agreement with the city to purchase the building and land for \$250,000 in August 2015. No current officials could explain how the sale price was determined and they indicated they contacted the former Mayor to determine if he could provide an explanation, but he could not. The city did not obtain an appraisal of this property.

In June 2015, the city entered into a 5-year lease purchase agreement, totaling \$150,000, for a building that was originally intended to house the Street Department, but currently houses the fire station. An appraisal of this property did not occur and city officials could not explain how the lease purchase price was determined.



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Because the city did not obtain an appraisal for either property, it is difficult to determine whether the amount paid/received was reasonable and approximated fair market value.

Recommendations

The Board of Aldermen:

- 6.1 Ensure bids are solicited in accordance with the city code. Documentation should be maintained to support specific instances where it is not practical to obtain bids due to an emergency.
- 6.2 Ensure appraisals are performed for any property considered to be bought or sold in the future.

Auditee's Response

- 6.1 *The Board will review the procedures contained in the city's purchasing policy and will clarify, in the policy, emergency purchasing procedures. Additionally, the Board will ensure that all bids are solicited in accordance with the city code.*
- 6.2 *The Board solicits and procures appraisals or Brokers' Professional Opinions (BPOs) for all proposed property purchases and sales. Since July 7, 2016, appraisals or BPOs have been obtained for all properties considered to be bought or sold by the Board.*

7. Sunshine Law

The city did not ensure compliance with the Sunshine Law for closed meetings.

- The Board discussed some items in closed meetings that are not allowed by law. For example, we noted discussions and a vote in a closed meeting regarding the City Administrator's salary and discussion of incentives for volunteer firemen and plans to finish the North TIF project.
- The Board does not make specific reference to the section of law allowing the closure of the meeting when voting to go into a closed meeting. The minutes of the open meeting only make reference to the general topic the meeting is being closed for, such as personnel, legal, or real estate.
- The Board sometimes discussed issues other than the general topic cited in the open minutes for going into a closed meeting. For example, in one closed meeting the Board met with the city's independent auditor to discuss the audit results; however, the open minutes cited personnel issues and legal as the reasons for going into a closed session.

Section 610.021, RSMo, lists the topics that may be discussed in closed meetings and requires discussion in closed meetings be restricted to the allowable topics listed. Section 610.022, RSMo, requires a closed meeting, record, or vote be held only after the vote of each member on the question of



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closing the meeting and the specific reason for closing the meeting or vote by making specific reference to the specific section of law is to be announced publicly at an open session and entered into the minutes. This section also provides that public governmental bodies shall not discuss any other business during the meeting that differs from the specific reasons used to justify closing such meeting, record, or vote.

Recommendation

The Board of Aldermen ensure only allowable topics are discussed in closed meetings, the specific section of law allowing the closure is announced publicly and recorded in the minutes, and discussions in closed meetings are limited to only those specific reasons cited for closing the meeting.

Auditee's Response

The Board will willingly comply with the legal requirements of the Sunshine Law.

8. Budgets and Ordinances

Budgetary procedures need improvement. In addition, compensation is not set by ordinance.

8.1 Budgets

The Board does not have adequate procedures to prepare or monitor budgets.

City budgets for the fiscal years ended March 31, 2017, and March 31, 2018, did not include all statutorily required elements. The budgets did not include the actual beginning and estimated ending cash balances for any city funds or actual receipts and disbursements for the 2 preceding years. Actual receipts and disbursements are included from 2 years ago, but budgeted amounts are shown for the most recent fiscal year.

In addition, the Board's practice is to budget all available revenue for each fund, which results in unreasonable expenditure budget estimates for some funds. For example, budgeted expenditures for the year ended March 31, 2017, for the Water Fund were \$1,007,910, but actual expenditures were only \$691,591. For the Sewer Fund, budgeted expenditures were \$1,138,260, but actual expenditures were only \$584,467. As a result of this budgeting method, the city has significantly more money than anticipated in several funds. For example, the Water and Sewer Fund cash balances increased by approximately \$870,000 during the year. Because cash balances are not included in the budgets, it is unclear if the Board is actually aware of the cash balance of each fund when approving the budgets. City personnel indicated the budget is prepared in this manner because they believed this method was required to balance the budget.

Section 67.010, RSMo, requires the budget present a complete financial plan for the ensuing budget year and sets specific guidelines for the format. A complete and well-planned budget, in addition to meeting statutory requirements, can serve as a useful management tool by establishing specific



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financial expectations for each area of city operations. It also assists in setting tax levies and informing the public about city operations and current finances.

8.2 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:

- 8.1 Prepare annual budgets that contain all information required by state law and ensure budgeted expenditures for each fund are a reasonable approximate of what the Board actually intends to spend from each city fund.
- 8.2 Establish the compensation of all city officials and employees by ordinance.

Auditee's Response

- 8.1 *The Board will make improvements to the budget format and methodology, and will incorporate both in the fiscal year 2019 budget.*
- 8.2 *The Board will comply with legal requirements for establishment of compensation with the fiscal year 2019 budget.*

9. Electronic Data Security

Controls over city computers are not sufficient. As a result, city records are not adequately protected and are susceptible to unauthorized access.

9.1 Passwords

The city has not established adequate password controls to reduce the risk of unauthorized access to computers and data. Passwords are not required to access the city's accounting software.

Passwords are necessary to authenticate access to computers and data, and to reduce the risk of unauthorized access to and use of systems and data. Passwords should be unique, confidential, and changed periodically to reduce the risk of a compromised password and unauthorized access to and use of computer data.

9.2 Data Backup

The city does not store backup files at an off-site location. In addition, the city does not periodically test backup data. Failure to store backup data at a secure off-site location results in the data being susceptible to the same damage as the data on the computer.



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To help prevent loss of information and ensure essential information and computer systems can be recovered, backups should be stored at a secure off-site location and tested on a periodic basis.

Recommendations

The Board of Aldermen:

- 9.1 Require confidential passwords that are periodically changed to prevent unauthorized access to the city's computers and data.
- 9.2 Ensure backup data is stored in a secure off-site location and tested on a regular, predefined basis.

Auditee's Response

- 9.1 &
9.2 *The Board will work with our IT support to effect these changes by January 1, 2019.*

City of Bethany

Organization and Statistical Information

The City of Bethany is located in Harrison County. The city was incorporated in 1860 and is currently a 4th-class city. The city employed 23 full-time employees and 28 part-time employees on March 31, 2017.

City operations include fire protection services, law enforcement services, utilities (gas, electric, water, sewer), street maintenance, and recreational facilities (gym, pool, parks).

Mayor and Board of Aldermen

The city government consists of a mayor and 4-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 March 31, 2017, are identified below. The Mayor is paid \$291.67 per month and Aldermen \$100 per month. The compensation of these officials is established by ordinance.

Dick Graner, Mayor
Randy Brejnik, Alderman
Gene Ishmael, Alderman
Steve Miles, Alderman
Todd Williams, Alderman

Other Principal Officials

The City Administrator, City Clerk, Police Chief, and Fire Chief are appointed positions. The City Attorney is a contracted position. The city's principal officials at March 31, 2017, are identified below:

Jonne Slemons, City Administrator
Nita Schroff, City Clerk
Tara Walker, City Attorney
Brian Groom, Police Chief
Jacob Denum, Fire Chief

Financial Activity

Appendixes A-D present a summary of the city's financial activity for the year ended March 31, 2017. We obtained this information from the city's audited financial statement report.

Appendix A

CITY OF BETHANY, MISSOURI
Balance Sheet - Governmental Funds
March 31, 2017

	General Fund	Road Fund	Park Fund	Sales Tax	South TIF District	Street Improvement Bond Fund	Other Governmental Funds	Total Governmental Funds
Assets								
Current assets								
Cash (Note 2)	\$ 176,840	\$ 32,298	\$ 368,303	\$ 1,457,715	\$ 671,561	\$ -	\$ 52,033	\$ 2,758,750
Certificates of deposit (Note 2)	-	-	-	-	-	-	102,638	102,638
Receivables (net of allowance for uncollectibles)								
Taxes (Note 3)	13,513	18,303	29,350	51,363	-	-	-	112,529
Customers (Note 5)	4,915	3,630	-	-	-	-	-	8,545
Interest	-	-	-	-	-	-	40	40
Notes	-	-	-	350,527	-	-	40,000	390,527
Prepaid expenses	2,505	-	-	-	-	-	-	2,505
Total current assets	<u>197,773</u>	<u>54,231</u>	<u>397,653</u>	<u>1,859,605</u>	<u>671,561</u>	<u>-</u>	<u>194,711</u>	<u>3,375,534</u>
Restricted assets (Notes 2 and 7)								
Cash	285,133	4,879	34,836	-	937,359	2,634,193	657,529	4,553,929
Total restricted assets	<u>285,133</u>	<u>4,879</u>	<u>34,836</u>	<u>-</u>	<u>937,359</u>	<u>2,634,193</u>	<u>657,529</u>	<u>4,553,929</u>
Total assets	<u>\$ 482,906</u>	<u>\$ 59,110</u>	<u>\$ 432,489</u>	<u>\$ 1,859,605</u>	<u>\$ 1,608,920</u>	<u>\$ 2,634,193</u>	<u>\$ 852,240</u>	<u>\$ 7,929,463</u>
Liabilities and Net Position								
Current liabilities								
Accounts payable	\$ 35,478	\$ 15,320	\$ 3,293	\$ -	\$ -	\$ -	\$ 1,759	\$ 55,850
Bank overdraft	4,206	-	-	-	-	-	-	4,206
Accrued expenses	13,411	3,276	1,147	-	-	-	572	18,406
Total current liabilities	<u>53,095</u>	<u>18,596</u>	<u>4,440</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,331</u>	<u>78,462</u>
Net Position								
Reserved for:								
Fines and fees due to others	-	-	-	-	-	-	660,379	660,379
Roads	-	40,514	-	-	-	2,634,193	-	2,674,707
Parks	-	-	34,836	-	-	-	-	34,836
South TIF District	-	-	-	-	1,608,920	-	-	1,608,920
Assigned for:								
Sales tax purposes	-	-	-	1,859,605	-	-	-	1,859,605
Other governmental	-	-	393,213	-	-	-	189,530	582,743
Unassigned	429,811	-	-	-	-	-	-	429,811
Total Net position	<u>429,811</u>	<u>40,514</u>	<u>428,049</u>	<u>1,859,605</u>	<u>1,608,920</u>	<u>2,634,193</u>	<u>849,909</u>	<u>7,851,001</u>
Total liabilities and net position	<u>\$ 482,906</u>	<u>\$ 59,110</u>	<u>\$ 432,489</u>	<u>\$ 1,859,605</u>	<u>\$ 1,608,920</u>	<u>\$ 2,634,193</u>	<u>\$ 852,240</u>	<u>\$ 7,929,463</u>

Appendix B

CITY OF BETHANY, MISSOURI
Statement of Revenues, Expenditures, and Changes in Net Position - Governmental Funds
March 31, 2017

	General Fund	Road Fund	Park Fund	Sales Tax	South TIF District	Street Improvement Bond Fund	Other Governmental Funds	Total Governmental Funds
Revenues								
Taxes	\$ 194,446	\$ 269,024	\$ 408,477	\$ 714,836	\$ -	\$ -	\$ 410,470	\$ 1,997,253
Charges for service	125,280	-	-	-	-	-	-	125,280
Grants	-	-	-	-	-	-	39,258	39,258
Intergovernmental	-	-	-	-	-	-	-	-
Special assessment levy	375,000	-	-	-	-	-	-	375,000
Fines and penalties	103,747	-	-	-	-	-	18,990	122,737
Licenses and permits	23,678	-	-	-	-	-	293	23,971
Interest	496	12	775	8,515	3,445	2,545	1,092	16,880
Sale of goods	-	-	32,474	-	-	-	-	32,474
Donations	2,485	-	-	-	-	-	834	3,319
Miscellaneous	7,418	154	22,594	-	158,500	-	85,572	274,238
Total revenues	832,550	269,190	464,320	723,351	161,945	2,545	556,509	3,010,410
Expenditures								
Current								
General government	451,962	-	-	10,500	-	-	209,753	672,215
Public safety	378,287	-	-	-	-	-	16,809	395,096
Streets	-	413,246	-	-	-	-	-	413,246
Administration	44,832	-	-	-	149,700	-	-	194,532
Culture and recreation	333,492	-	124,393	-	-	-	77,557	535,442
Capital outlay	-	995,693	76,000	-	-	-	-	1,071,693
Total expenditures	1,208,573	1,408,939	200,393	10,500	149,700	-	304,119	3,282,224
Excess of revenues over (under) expenditures	(376,023)	(1,139,749)	263,927	712,851	12,245	2,545	252,390	(271,814)
Other Financing Sources (uses)								
Bond proceeds	-	-	-	-	-	1,665,551	-	1,665,551
Operating transfers in	235,955	1,146,357	158,300	-	-	-	71,739	1,612,351
Operating transfers out	-	-	(394,256)	(234,788)	-	(986,357)	-	(1,615,401)
Total other financing sources (uses)	235,955	1,146,357	(235,956)	(234,788)	-	679,194	71,739	1,662,501
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(140,068)	6,608	27,971	478,063	12,245	681,739	324,129	1,390,687
Net position - beginning of the year	569,879	33,906	400,078	1,381,542	1,596,675	1,952,454	525,780	6,460,314
Prior period adjustment	-	-	-	-	-	-	-	-
Net position - end of the year	\$ 429,811	\$ 40,514	\$ 428,049	\$ 1,859,605	\$ 1,608,920	\$ 2,634,193	\$ 849,909	\$ 7,851,001

Appendix C

CITY OF BETHANY, MISSOURI
Statement of Net Position - Proprietary Funds
March 31, 2017

	Electric Fund	Gas Fund	Water Fund	Sewer Fund	Other Non-Major Business - Type Funds	Total Business - Type Funds	Governmental Activities Internal Service Fund
Assets							
Current assets							
Cash (Note 2)	\$ 2,045,580	\$ 1,036,744	\$ 555,466	\$ 581,406	\$ 373,924	\$ 4,593,120	\$ 3,838
Certificates of deposit (Note 2)	-	-	-	-	-	-	-
Accounts Receivables (net of allowance)	432,806	175,095	87,430	104,356	34,997	834,684	-
Lease proceeds receivable	18,620	21,463	30,651	-	-	70,734	-
Accrued interest	-	-	-	-	-	-	-
Prepaid expenses	1,755	56,080	3,500	3,500	-	64,835	755
Inventory	105,486	81,242	90,994	7,548	-	285,270	-
Total current assets	<u>2,604,247</u>	<u>1,370,624</u>	<u>768,041</u>	<u>696,810</u>	<u>408,921</u>	<u>5,848,643</u>	<u>4,593</u>
Noncurrent assets							
Restricted cash (Notes 2 and 7)	178,500	62,329	24,950	754,273	6,289	1,026,341	-
Note receivable	-	626,120	-	175,263	87,632	889,015	-
Property and equipment (net of accumulated depreciation) (Note 8)	3,414,412	879,970	2,538,460	634,516	-	7,467,358	-
Total noncurrent assets	<u>3,592,912</u>	<u>1,568,419</u>	<u>2,563,410</u>	<u>1,564,052</u>	<u>93,921</u>	<u>9,382,714</u>	<u>-</u>
Total assets	<u>\$ 6,197,159</u>	<u>\$ 2,939,043</u>	<u>\$ 3,331,451</u>	<u>\$ 2,260,862</u>	<u>\$ 502,842</u>	<u>\$ 15,231,357</u>	<u>\$ 4,593</u>
Liabilities and Net Assets							
Current liabilities							
Accounts payable	\$ 267,534	\$ 4,768	\$ 36,817	\$ 7,703	\$ 39,285	\$ 356,107	\$ 1,616
Accrued expenses	1,581	1,945	-	-	22,350	25,876	913
Lease payable	24,265	27,875	39,925	-	-	92,065	-
Total current liabilities	<u>293,380</u>	<u>34,588</u>	<u>76,742</u>	<u>7,703</u>	<u>61,635</u>	<u>474,048</u>	<u>2,529</u>
Noncurrent liabilities							
Lease payable	271,986	312,454	447,534	-	-	1,031,974	-
Deposits	70,050	62,329	24,950	-	-	157,329	-
Total noncurrent liabilities	<u>342,036</u>	<u>374,783</u>	<u>472,484</u>	<u>-</u>	<u>-</u>	<u>1,189,303</u>	<u>-</u>
Total liabilities	<u>635,416</u>	<u>409,371</u>	<u>549,226</u>	<u>7,703</u>	<u>61,635</u>	<u>1,663,351</u>	<u>2,529</u>
Net Position							
Net investment in capital assets	3,112,992	533,701	2,042,495	634,516	-	6,323,704	-
Restricted	-	-	-	754,273	6,289	760,562	-
Unassigned	2,448,751	1,995,971	739,730	864,370	434,918	6,483,740	2,064
Total net position	<u>5,561,743</u>	<u>2,529,672</u>	<u>2,782,225</u>	<u>2,253,159</u>	<u>441,207</u>	<u>13,568,006</u>	<u>2,064</u>
Total liabilities and net position	<u>\$ 6,197,159</u>	<u>\$ 2,939,043</u>	<u>\$ 3,331,451</u>	<u>\$ 2,260,862</u>	<u>\$ 502,842</u>	<u>\$ 15,231,357</u>	<u>\$ 4,593</u>

Appendix D

CITY OF BETHANY, MISSOURI
Statement of Revenues, Expenditures, and Changes in Net Position - Proprietary Funds
March 31, 2017

	Electric Fund	Gas Fund	Water Fund	Sewer Fund	Other Non-Major Business - Type Funds	Total Business - Type Funds	Governmental Activities Internal Service Fund
Operating Revenues							
Sales and service	\$ 4,913,117	\$ 1,308,278	\$ 993,613	\$ 1,131,600	\$ 168,013	\$ 8,514,621	\$ 64,766
Materials and hookups	46,186	-	60	-	-	46,246	-
Rent	7,230	-	5,400	-	-	12,630	-
Total operating revenues	<u>4,966,533</u>	<u>1,308,278</u>	<u>999,073</u>	<u>1,131,600</u>	<u>168,013</u>	<u>8,573,497</u>	<u>64,766</u>
Operating expenses							
Production	-	-	316,893	276,537	-	593,430	-
Purchased for resale	2,890,424	605,006	-	-	-	3,495,430	-
Transmission and distribution	335,850	194,780	167,989	225,676	-	924,295	-
Administrative and general	139,819	112,500	99,691	59,983	155,690	567,683	-
Mechanical services	-	-	-	-	-	-	63,249
Depreciation	407,336	105,233	254,680	43,734	-	810,983	-
Total operating expenditures	<u>3,773,429</u>	<u>1,017,519</u>	<u>839,253</u>	<u>605,930</u>	<u>155,690</u>	<u>6,391,821</u>	<u>63,249</u>
Operating income(loss)	1,193,104	290,759	159,820	525,670	12,323	2,181,676	1,517
Non-operating Revenue (Expense)							
Interest income	2,917	12,496	696	5,222	1,938	23,269	-
Miscellaneous income	87,404	3,130	1,829	3,859	7,900	104,122	-
Loss on disposal of equipment	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Interest expense	(8,367)	(9,638)	(13,772)	-	-	(31,777)	-
Total non-operating revenue (expense)	<u>81,954</u>	<u>5,988</u>	<u>(11,247)</u>	<u>9,081</u>	<u>9,838</u>	<u>95,614</u>	<u>-</u>
Income(loss) before other financing sources (uses)	1,275,058	296,747	148,573	534,751	22,161	2,277,290	1,517
Other Financing Sources (uses)							
Operating transfers in	-	-	-	-	3,049	3,049	-
Operating transfers out	-	-	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,049</u>	<u>3,049</u>	<u>-</u>
Change in net position	1,275,058	296,747	148,573	534,751	25,210	2,280,339	1,517
Total net position - beginning of the year	<u>4,286,685</u>	<u>2,232,925</u>	<u>2,633,652</u>	<u>1,718,408</u>	<u>415,997</u>	<u>11,287,667</u>	<u>547</u>
Total net position - end of the year	<u>\$ 5,561,743</u>	<u>\$ 2,529,672</u>	<u>\$ 2,782,225</u>	<u>\$ 2,253,159</u>	<u>\$ 441,207</u>	<u>\$ 13,568,006</u>	<u>\$ 2,064</u>