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Missouri State Auditor

City of Warrenton



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CITIZENS SUMMARY

Findings in the audit of the City of Warrenton

Real Estate Acquisition and Planning

In 2007, the city purchased 6.91 acres of land for \$791,000 (\$114,450 per acre) for construction of a recreational facility, but did not obtain an appraisal prior to making the purchase. The city had planned to construct a recreational facility on the property, but the associated tax issue needed to finance the construction failed on two separate occasions. The city has not developed a contingency plan for the land and has no alternative means to finance this project. In January 2006, the Industrial Development Authority (IDA) borrowed \$908,600 to purchase 30 acres in a neighboring city for industrial development, and the city signed a 15 year "lease" agreement with the IDA. After the purchase the IDA determined it was too costly to develop the property and the project was abandoned. The city has not utilized the property and has no documented plans for its future use, but has begun making lease payments to the IDA so the loan payments can be made. At the completion of the "lease" the city will have paid \$717,000 plus interest to the IDA, and the IDA will own the property.

Health Insurance Procurement

The city did not ensure all potential health insurance bidders had sufficient historical claims information to provide complete proposals, thereby favoring the existing contractor. Since the existing contractor was an insurance agency owned by the Mayor at the time of the bidding, this arrangement has the appearance of a conflict of interest. By not providing the same level of information to all potential bidders the city's process is flawed. City officials also did not adequately document the evaluation and selection process.

Restricted Funds

The city transfers monies from the Park Fund to the General Fund, but does not separately track parks and recreation expenses within its General Fund. As a result, the city cannot be sure restricted parks monies are being spent for the intended purpose, as required by state law. In addition, the city used \$218,000 in recreational capital improvements monies to purchase a building which is partly used for non-recreational activities. The city has not established a separate fund or accounting procedure to ensure law enforcement training receipts are expended only for local law enforcement training.

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.

City of Warrenton

Table of Contents

State Auditor's Report	2
------------------------	---

Management Advisory	
Report - State Auditor's	
Findings	
1. Real Estate Acquisition and Planning	4
2. Health Insurance Procurement	6
3. Restricted Funds	9

Organization and Statistical	13
Information	



THOMAS A. SCHWEICH

Missouri State Auditor

To the Mayor and Board of Aldermen
Warrenton, Missouri

The State Auditor was petitioned under Section 29.230, RSMo, to audit the City of Warrenton. We have audited certain operations of the city in fulfillment of our duties. The city engaged Boatz, Deal, and Company, P.C., Certified Public Accountants (CPAs), to audit the city's financial statements for the year ended June 30, 2012. 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 June 30, 2012. 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 operations, 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 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 its audited financial statements 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 Warrenton.

An additional report, 2013-52, *Twelfth Judicial Circuit, City of Warrenton Municipal Division*, was issued in June 2013.

A handwritten signature in black ink, reading "Thomas A. Schweich". The signature is fluid and cursive, with the first name "Thomas" and last name "Schweich" clearly legible.

Thomas A. Schweich
State Auditor

The following auditors participated in the preparation of this report:

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City of Warrenton

Management Advisory Report

State Auditor's Findings

1. Real Estate Acquisition and Planning

Recreational facility

City officials entered into a real estate transaction without obtaining an appraisal, and did not adequately plan for contingencies in the event funding for the project did not pass voter approval. In another project, city officials did not perform sufficient planning to ensure a development project would be successful prior to purchasing the property.

In 2007, the city purchased 6.91 acres of land for \$791,000 for the future construction of a recreational facility. The city did not obtain an appraisal prior to purchasing property to ensure the price paid, \$114,450 per acre, was reasonable. While the city planned to construct a recreational facility shortly after the purchase, the associated sales tax issue necessary to finance the construction of the facility failed on two separate occasions, November 2008 and April 2012. The city did not develop and document a contingency plan for the land should the funding fail, and currently has no alternative means to finance this project.

Good business practice requires that major real estate purchases be formally and independently appraised to ensure a reasonable price is paid, and discussions and reasons supporting the eventual purchase price are documented. To ensure efficient use of city resources, projects should be adequately planned, including appropriate contingencies.

Industrial park

The Board of Aldermen did not ensure the development of an industrial park was adequately planned prior to signing a "lease" document to allow the city's Industrial Development Authority (IDA) to take out a significant real estate loan.

In January 2006, the IDA borrowed \$908,600 for the purchase of approximately 30 acres in a neighboring city for industrial development. To assist the IDA with securing this loan, the city signed a 15 year "lease" agreement with the IDA. City officials indicated the IDA had planned to develop the property with monies set aside for IDA purposes which would allow the property to generate income to pay the loan, making the city's "lease" payments unnecessary. According to discussion with city officials, after the purchase of the land the IDA determined the development of the property required a more significant investment than initially thought. As a result, the industrial development project was abandoned. When IDA funds were depleted in January 2010, the city began making the "lease" payments to the IDA so the loan payments could be made. The city has not utilized the property and does not have any documented plans for the future use of this property. Between January 2010 and June 2012, the city has paid approximately \$172,000 from the General Fund for the "lease" of this property. At the completion of the "lease" the city will have paid approximately \$717,000, plus interest, to the IDA, and the IDA will own the property.



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

Currently, the IDA and city are attempting to sell this property; however, based on discussion with city officials, it is unclear when, or if, the funds used to make the loan payments will be repaid to the city upon the sale or future development of this property by the IDA.

Documented long-term planning is essential to ensure city resources are used effectively and efficiently. Failure to adequately plan for future needs and potential contingencies could result in wasted resources. A project of such magnitude should be given the utmost care, attention, and scrutiny of the Board to ensure funds are spent in the best interest of the city and potential liabilities to the city are minimized.

Recommendation

The Board of Aldermen should ensure independent appraisals are obtained for all future real estate purchases. In addition, the Board should develop plans for the utilization of property purchased and ensure adequate planning is performed and documented and associated costs are considered for future real estate purchases. All actions taken and decisions made should be fully documented during all phases of future projects.

Auditee's Response

The Board of Aldermen provided the following written response:

The city agrees that additional planning would have provided guidance for alternative uses of the properties previously purchased by the city and be beneficial prior to the purchase of real property by the city in the future. The city will develop and pass an ordinance related to future purchases of real property and its associations requiring: 1) an independent appraisal of the property, 2) a written report which includes details of projected uses, 3) estimated costs of necessary improvements, 4) projected improvement completion dates, 5) alternative uses and estimated associated costs of alternative uses, and, 6) use of the due diligence period of the real estate purchase agreement to develop projected costs of additional investment prior to closing on the purchase of the real property. Documentation of all studies, cost estimates, written plans and agreements will be compiled and maintained in the property file.

The city will pursue options for the use of the 6.91 acre property on Market Street and develop a written study of feasible uses. The city will investigate the ability to take ownership of the Industrial Development Authority property and will continue to pursue selling the property. At such time as the property is sold, any funds in excess of those required to pay off the balance of the loan will be repaid into the General Fund of the city.

Auditor's Comment

The industrial park property and any potential proceeds from its sale are under the control of the IDA Board. The IDA Board would need to vote to transfer the property or any proceeds from the property's sale to the city.



2. Health Insurance Procurement

City officials did not ensure all potential health insurance bidders had sufficient historical claims information to provide complete proposals, thereby favoring the existing contractor, who already had claims data. Since the existing insurance provider is an agency owned by the city's Mayor at the time the bids were solicited, this arrangement has the appearance of a conflict of interest. City officials also did not clearly document the methodology used to select the winning bid. The city expended more than \$436,105 for employee health insurance for the fiscal year ended June 30, 2012.

The city solicited proposals for employee health insurance in 2011. During the bid process, the city indicated it was not willing to provide employee health information, typically obtained through the completion of individual health questionnaires, to allow bidders adequate information to provide final rate quotes. Upon request of the bidders, the city did eventually provide previous claim history information (number of claims; total dollar amount of claims); however, the data was provided approximately 30 hours before bids were due, and the bid deadline was not extended.

The city received multiple proposals for health insurance coverage; however, according to a city official, proposals which included final rates were given higher consideration. The city's refusal to initially provide employee health information and the untimely presentation of claim information to prospective insurance companies precluded them from providing a proposal with final rates. The city's request for proposals did not specify that proposals with final rates would be given higher consideration, and the only vendor that would have realistically been able to provide final rates was the city's existing provider, an insurance agency owned by the city's Mayor at the time the bids were solicited.

Sections 105.454 and 105.458, RSMo, require public notice to solicit proposals and the acceptance of the lowest bid or offer for financial transactions involving more than \$500 between the city and appointed officials. In this case, the appointed official's company was the lowest bidder; however, the flawed procurement process impacted the ability of other bidders to provide a competitive proposal. In fact, one bidder did provide a proposal that was lower than the selected proposal, but city officials eliminated it from consideration because it did not include final rates and varied slightly from the bid request. However, the winning bid also varied from the bid request in terms of copays and coinsurance percentages. While the former Mayor abstained from all discussions and decisions related to selection of health insurance, the city has an obligation to ensure potential conflicts of interest and opportunities for personal gain are avoided. In addition, the city's conflict of interest policy states no officer or employee shall profit from any contract, sale, or service between the city and the person or company.



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

City officials also did not adequately document the evaluation and selection process for health insurance. The city retained a side-by-side comparison of the proposals, including the various coverage levels and deductibles, but did not document the criteria used to evaluate the various proposals. As a result, it is unclear why the plan selected was chosen over the other proposals submitted.

An open and fair procurement process helps ensure all interested vendors are given an equal opportunity to participate in the city's business and the city receives the best services for the best price. In addition, when a potential conflict of interest arises, city officials must take steps to ensure the procurement process is fairly administered. Complete documentation of reasons why a bid or proposal was selected helps demonstrate the city conducted a fair procurement process and provides necessary information should questions arise.

Recommendation

The Board of Aldermen ensure all potential vendors are given the same opportunity to provide final bids in future efforts to procure health insurance. For all significant purchases of goods and services, the Board of Aldermen should establish a formal competitive selection process which includes the preparation and retention of a standard analysis of proposals, including methodology used and criteria considered, and reasons for selecting the bid.

Auditee's Response

The Board of Aldermen provided the following written response:

The city agrees with the Auditor's suggestion that the city implement a rating system based upon specific aspects of employee health insurance benefit plans to be included in the standardized selection methodology for the bidding and award of employee health insurance. Health insurance plans vary significantly in benefits, employee co-pays and cost to the city from provider to provider. A standardized selection methodology that more clearly defines and furthers the city's goal of minimizing the financial impact of health insurance premiums to the city yet balances the increase in financial burden of coverage changes to employees will be reviewed and implemented in the city's health insurance bidding process. Consideration will also be given to selecting a broker to handle the health insurance bidding for the city.

With regards to the bidding of health insurance in 2011, the city respectfully disagrees with some of the factual representations set forth in the Auditor's report. In 2011, the city advertised for bidders to submit at least one plan matching the benefits of the current insurance plan offered to city employees in 2010. The city specified twenty-one separate components of the health insurance benefits offered by the 2010 insurance plan to which bidders were requested to submit at least one matching plan. When bids were received



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

some of the submitted plans did not meet the advertised bid criteria in that they contained as much as a 20 percent increase in co-insurance for benefits that had no co-insurance requirements under the 2010 plan. Even though some of submitted plans quoted lower premiums, these plans were disregarded because of the significant increase in out-of-pocket costs to the employee. Because these plans were disregarded, it was unnecessary to solicit final rates for these plans in that they failed to meet the advertised bid criteria. The two plans reviewed for final consideration by the city were selected because they most closely met or exceeded the twenty-one specified benefits of the 2010 employee plans. The lowest cost plan was selected from the two plans that the city determined had the most comparable benefits to the 2010 health insurance plan.

Every bidder that had a contract to provide a bid from United Health Care had access to final rate quotes from United Health Care. Additionally, two separate agencies requested previous claims history information, one on March 17, 2011, and the second on March 26, 2011, which was in turn requested from the 2010 insurance plan carrier along with renewal rate information. The city received the requested claims history report and renewal rates at 4:22 pm on April 4, 2011, and forwarded it to all bidders at 10:26 am on April 5, 2011, consistent with standard bidding practices. No other requests were received for individual or group health information nor did any bidder request that the city extend the bid deadline to allow for additional final rates to be obtained.

The city believes that the 2011 health insurance bid process was fair and impartial; the advertised bid specifications were unambiguous and all bidders had the ability to request the information necessary to submit comparable bids. Furthermore, the incumbent insurance agency did not have access to claims history information other than the existing insurance carrier having the claims data to provide final renewal rate for the existing policy which was provided to all agencies. In the future, additional efforts will be undertaken to implement a rating system as a component of a more clearly defined selection methodology. Documentation of the reason why a proposal was or was not selected, along with comparative data will be maintained.

Auditor's Comment

The city's representation of the bid process for health insurance conflicts with documentation and other information obtained during audit fieldwork. Auditors were given information which indicated the lack of final rates was a significant factor in certain plans being excluded, while the city's written response indicates other factors made the final rates unnecessary. Improved documentation of the criteria used to evaluate the proposals, as recommended above, would have helped to clarify the selection process. This is particularly important considering the Mayor's insurance agency was chosen to provide the city's health insurance. The Mayor's agency, along



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

with any agent selling the existing insurance carrier's policies, would have indirect access to claims data; however, agents selling other carriers' policies would not. By not providing the same level of information to all potential bidders the city's process was flawed.

3. Restricted Funds

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

3.1 Parks and Recreation

The city has not established procedures to separately account for park related expenses paid from the General Fund to ensure these park expenses are at least equal to the amount transferred from the Park Fund. In addition, records of any accumulated balance of these monies in the General Fund are not maintained. As a result, the city cannot determine at any point in time what portion of the General Fund balance represents restricted park monies or demonstrate compliance with restrictions. The city transfers 95 percent of the Park Fund's annual revenues to the General Fund. In 2012, the transfer from the Park Fund to the General Fund totaled \$163,750.

In September 2006 the Parks and Recreation Board entered into a maintenance and management agreement with the City of Warrenton and the city assumed responsibility for the supervision, maintenance, improvement, and care of all parks and recreational areas of the city for an annual transfer from the Park Fund to the city's General Fund not to exceed 95 percent of the annual revenue from the real and personal property taxes collected for parks purposes. In December 2010, this agreement was amended to reflect the annual contractual transfer amount would equal 95 percent of the annual parks tax revenue.

Section 90.500, RSMo, requires tax collections levied for public parks be deposited in the city treasury to the credit of the park fund and utilized for the establishment and maintenance of free public parks. Separately accounting for park-related expenses would help ensure restricted park monies are used for their intended purpose.

3.2 Capital improvement

Capital improvement sales tax monies, which are restricted to funding recreational improvements and activities, were used for non-recreational purposes. In October 2012 the city purchased a building for \$218,000 using capital improvement sales tax monies. The building is currently used to store grounds and maintenance equipment and house grounds and maintenance offices. While the grounds and maintenance department is responsible for the maintenance of city parks and recreational areas, it is also responsible for non-recreational activities such as streets, cemetery, and general city maintenance.

The use of recreational capital improvement sales tax monies to purchase a building used, in part, for non-recreational purposes appears inappropriate.



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

The city has not completed an analysis of the percentage of time the grounds and maintenance department spends on maintaining parks and recreational facilities versus other non-recreational responsibilities. Such an analysis would allow the city to reimburse the recreational capital improvement fund for any non-recreational portion of the purchase.

3.3 Law enforcement training

The city has not established a separate fund or accounting procedure to ensure law enforcement training receipts are expended only for the purpose of local law enforcement training. As a result, the city cannot determine at any point in time what portion of the General Fund balance represents these restricted monies or demonstrate compliance with statutory spending restrictions. During the year ended June 30, 2012, the city received local Law Enforcement Training fees of \$7,545 from the City of Warrenton Municipal Court and Peace Officer Standards and Training Commission monies of \$4,307 from the state. These fees were deposited in the general bank account. According to city records, the city provided funding totaling \$7,246 for police personnel training during the year ended June 30, 2012.

Sections 488.5336 and 590.178, RSMo, provide these fees are to be used solely for the purpose of local law enforcement training. Maintaining law enforcement training monies in separate funds or properly tracking within already existing funds would help ensure the monies are spent for the intended purposes.

Recommendations

The Board of Aldermen:

- 3.1 Determine if any park revenue monies remain in the General Fund, and establish a separate accounting of these monies as required by state law.
- 3.2 Determine the portion of grounds and maintenance spending used for recreation purposes and consider reimbursing the recreational capital improvement fund for any non-recreation portion of the Butler building purchase.
- 3.3 Establish a separate fund for law enforcement training fees, or properly track training fees within existing funds, to ensure monies are used in compliance with state law.

Auditee's Response

The Board of Aldermen provided the following written responses:

- 3.1 *The city partially agrees with this finding in that the identification of expenses directly related to the parks would be more efficient if specific accounts for the direct coding of park expenses were created. Records have been maintained by each Grounds and Maintenance employee on their individual timesheet for payroll to*



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

allow for the accurate accounting of payroll costs. The Grounds and Maintenance Director's records related to each invoice provide the ability to segregate other costs specific to parks. These detailed records were utilized to prepare an analysis of the costs associated with the parks which reflected evidence that not only the entire amount of the management fee is used for parks but that the general fund expenses for this purpose far exceed the contractual management fee. Since the management fee funds are not transferred from the restricted park fund to the general fund until year end after the expenditures have occurred, there is no balance of restricted park funds contained in the general fund thus it is not necessary to maintain a separate account.

Separate expense accounts have been created to directly code invoices which will make the process more efficient at year end when an analysis will be completed and maintained in the fiscal year end files to document the compliance with the use of the restricted park funds equivalent to the management fee.

3.2 *The city agrees with the recommendation that a portion of the Grounds and Maintenance department purchase of the Butler building should come from General funds since some of the department time is spent on functions unrelated to recreation and parks. An analysis was completed of time and expense of the Grounds & Maintenance department and it was determined that 12 percent related to non-recreation activities. At the February 5, 2013 meeting the Board of Alderman approved reimbursing the capital sales tax fund for 12 percent of the cost of the building, or \$26,009, which was transferred on February 20, 2013.*

3.3 *The city agrees with the recommendation that maintaining the balance of Law Enforcement Training fees separately would simplify the reconciliation process. During the course of the audit, a reconciliation was completed reflecting the balance of unexpended Law Enforcement and Peace Officer Training funds which totaled \$4,173. At no time have these funds been expended for any purpose other than the intended law enforcement training purpose. A general ledger account was established in February, 2013 specifically for maintaining the balance of Law Enforcement Training cash.*

Auditor's Comment

3.1 *The analysis of parks expenses the city references in its response was prepared as a result of audit inquiries and comingles non-park expenses with park-related expenses. While the analysis suggests that parks-related expenses from the General Fund more than likely exceed the transfer made from the Parks Fund, without restricted*



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

funds being tracked separately it is difficult to determine whether monies restricted for parks are being used for the intended purposes.

City of Warrenton

Organization and Statistical Information

The City of Warrenton is located in Warren County. The city was incorporated in 1864 and is currently a fourth-class city. The city employed 61 full-time employees and 9 part-time employees on June 30, 2012.

City operations include law enforcement services, utilities (water, sewer, and trash), street maintenance, planning and zoning, recreational services (parks), and economic development.

Mayor and Board of Aldermen

The city government consists of a mayor and six-member board of aldermen. The members are elected for 2-year terms. The mayor is elected for a 2-year term, presides over the board of aldermen, and votes only in the case of a tie. The Mayor and Board of Aldermen, at June 30, 2012, are identified below. The mayor is paid \$750 per month and members of the board are paid \$400 per month. The compensation of these officials is established by ordinance.

Jerry Dyer, Mayor
Phil Tallo, First Ward Alderman
John Cornell, First Ward Alderman
Beth Kendall, Second Ward Alderwoman
Fred Flake, Second Ward Alderman
John Clark, Third Ward Alderman
James Dreyer, Third Ward Alderman