



# Thomas A. Schweich

Missouri State Auditor

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## City of Bolivar

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December 2013  
Report No. 2013-139



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<http://auditor.mo.gov>



**Thomas A. Schweich**  
Missouri State Auditor

# CITIZENS SUMMARY

## Findings in the audit of the City of Bolivar

Financial Monitoring	The Board of Aldermen failed to adequately monitor the financial condition of the city. The city's Park Fund is subsidized by other funds, approximately \$500,000 in restricted Street Funds were inappropriately used, and the cash balance in the city's General Fund represents less than one month's operating expenses. The city also appears to be facing significant future costs for mold remediation, wastewater treatment facility upgrades, and defending an age discrimination lawsuit.
Aquatics Center	Under current financing arrangements, the city will pay \$16.8 million for the \$6.3 million aquatics center. The city did not adequately monitor construction costs, which significantly exceeded estimates, and failed to adequately estimate operating costs. The city estimated annual operating costs would be between \$120,000 and \$180,000, but they were \$200,000 for the first 6 months. Revenues during 2012 were \$89,000, of which the city received \$26,000 per its agreement with the YMCA.
Restricted Funds	The city uses restricted funds to improve the financial condition of the city's General Fund. Administrative transfers into the General Fund have increased significantly and exceeded the amount of applicable expenses. The city transfers money from the Water and Sewer Fund to the General Fund as payments in lieu of taxes, but there is not an authorizing ordinance. The city does not properly track and record various restricted receipts.
Disbursements	The city does not always solicit bids or proposals, as required by city policy and did not always document its evaluation and selection of engineering services. The city disbursed \$6,545 in federal grant funds in January 2011 for weapons it still has not received, and there is no documentation to support why the city paid \$70,000 for land appraised at \$25,863. The Mayor's signature stamp is not adequately controlled, checks are signed in advance, and the City Treasurer is not bonded. The city has incurred late fees and finance charges for not timely depositing payroll taxes or paying bills, and the city does not always file forms 1099-Misc as required.
Employee Leave Records and Procedures	The city converted to a new leave policy, and the Board did not approve payouts of some leave balances. The city owes over \$67,000 in accumulated sick leave payments, some high level city employees accumulate more leave than authorized, and computerized leave records do not always agree with manual leave records.
Accounting Records and Procedures	The City Clerk's accounting records contained inaccuracies and many journal entries are posted without independent review or posted several months after the accounting period ends. Bank reconciliations are not performed timely, and some transfers between funds posted to the financial records were not approved by the Board of Aldermen, while some transfers approved by the Board were not posted to the financial records.
Controls and Oversight	The City Clerk's duties are not segregated or adequately reviewed, and access to monies is not sufficiently limited. Passwords are not kept confidential or periodically changed, and information in the computerized accounting records did not always agree with the actual checks issued.

Payroll and Related Matters	The city did not properly tax and/or report some employee compensation and benefits, and some employees are improperly paid as independent contractors. The city did not submit required commissioning/employment documentation when former Police Chief Hamilton was appointed, there is no independent review of automatic payroll-related deposits, and supervisors do not always sign timesheets.
City Procedures and Written Agreements	The city lacks adequate procedures to follow up on unpaid business licenses; audit staff found 120 out of 500 licenses remained unpaid as of February 14, 2013. The city waived \$7,422 in building permit inspection fees without approval by the Board of Aldermen, and the city does not always enter into written agreements and paid the airport contractor \$20,148 in fuel commissions although not provided for in the written agreement.
Budgets and Financial Reporting	The Board of Aldermen does not adequately monitor budget-to-actual receipts and disbursements, and the city exceeded budgeted appropriations for some city funds. Budget documents do not contain all elements required by law, and the city does not publish financial statements or submit annual financial reports to the State Auditor's office, as required by law.
Utility System Controls	The city increased sewer rates without preparing a statement of costs, as required by law. The city lacks adequate controls over utility adjustments and does not reconcile customer utility deposits to the accounting records.
Property Controls and Records	City property records are not complete, and the city does not properly monitor fuel and vehicle usage. The police department does not maintain a complete control log of evidence and seized property, and it is holding numerous property items that should be disposed.
Ordinances and Sunshine Law Issues	The city does not follow some city ordinances and charges some fees not authorized by city ordinance. The city charges inconsistent fees for record requests and charges research fees which exceed the stated rate, and the Board discussed and voted on some topics in closed board meetings which were not allowable under the Sunshine Law.

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

\*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.

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# City of Bolivar

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# **THOMAS A. SCHWEICH**

## **Missouri State Auditor**

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

The State Auditor was petitioned under Section 29.230, RSMo, to audit the City of Bolivar. We have audited certain operations of the city in fulfillment of our duties. The city engaged Davis, Lynn & Moots, PC, Certified Public Accountants (CPAs), to audit the city's financial statements for the year ended December 31, 2012. To minimize duplication of effort, we reviewed the report and substantiating working papers of the CPA firm for the year ended December 31, 2011, audit, since at the time of our audit, the CPA firm's audit for the year end 2012 was not complete. The scope of our audit included, but was not necessarily limited to, the year ended December 31, 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 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. The accompanying Management Advisory Report presents our findings arising from our audit of the City of Bolivar.

An additional report, No. 2013-032, *Thirtieth Judicial Circuit, City of Bolivar Municipal Division*, was issued in April 2013.



Thomas A. Schweich  
State Auditor

The following auditors participated in the preparation of this report:

Deputy State Auditor:	Harry J. Otto, CPA
Director of Audits:	Regina Pruitt, CPA
Audit Manager:	Donna Christian, CPA, CGFM
In-Charge Auditor:	Candi Copley
Audit Staff:	Shannon Spicer Meghan Dowell

# City of Bolivar

## Management Advisory Report

### State Auditor's Findings

#### 1. Financial Monitoring

The Board of Aldermen failed to adequately monitor the financial condition of the city and was not aware of the severity of the city's financial condition in a timely manner. The city has improperly used street monies to finance Park and Cemetery operations and has not effectively planned how to make principal and interest payments for the aquatics center for the next 27 years. Additionally, the city is facing several significant future financial obstacles that could result in a continuing decline of the city's financial condition.

The city's independent CPA audit for year ended December 31, 2010, recommended that the Board of Aldermen adequately monitor revenues and expenditures to ensure city funds maintain adequate cash reserves, and this recommendation was repeated in the independent CPA audit for the year ended December 31, 2011. The Board did not act upon the CPA's recommendation and continued to operate during 2011 as if the city had sufficient reserves. For example, total expenditures for all city funds increased from approximately \$9.9 million in 2010 to over \$14.3 million in 2011. Most of this increase relates to the city starting construction of a \$6.3 million aquatics center (see MAR finding number 2). Additionally, on December 15, 2011, the Board approved wage increases of up to 4.5 percent for city employees and a \$12,000 annual salary increase for the former City Administrator. Less than one month later, on January 9, 2012, the Board rescinded the raise for the former City Administrator. In February 2012 the Board began significantly cutting city expenses, and in April 2012 the Board approved the reduction of city staff by 13 employees through terminations and resignations. The Board's failure to properly monitor city finances resulted in these significant actions.

#### Park Fund

The city's Park Fund requires significant subsidization from the Street Fund, Capital Improvement Sales Tax Fund (CIST), and General Fund as shown in the chart below:

Transfers to the Park Fund for the Year Ended December 31,			
	2012	2011	2010
Street Fund	\$ 0	410,048	0
CIST Fund	446,800	298,413	265,698
General Fund	159,000*	0	0
<b>Total</b>	<b>\$ 605,800</b>	<b>708,461</b>	<b>265,698</b>

\* Transfer to reimburse Park Fund for purchase of police cars with aquatics center bond proceeds.

Revenue from the city's half-cent park sales tax and park related fees is not adequate to fund park operations. In 2012 park revenues totaled approximately \$580,000, while park related expenses were in excess of \$1 million. The operation of the city's new aquatics center has placed a significant drain on city finances with an operating loss of over \$500,000 during its first year of operation in 2012. During 2012 the city used revenue from its Capital Improvement Sales Tax to fund the debt service payments



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on the aquatics center bond issue. Additionally, in 2011 the city took over operations of its golf course that was previously operated by a private entity. The city incurred losses on golf course operations of approximately \$97,000 and \$120,000 during the years ended December 31, 2012 and 2011, respectively.

Street Fund

According to the city's 2011 audit report, the city inappropriately used \$497,869 in restricted street monies for Park (\$410,048) and Cemetery (\$87,821) operations. The use of the \$497,869 was the primary cause of the significant reduction in the Street Fund's cash balance from \$536,919 at December 31, 2010, to a negative \$169,381 at December 31, 2012. City accounting records show a \$300,000 transfer from the General Fund to the Street Fund to bring the cash balance up to \$130,619 at December 31, 2012.

Only \$100,000 has been repaid to the Street Fund from the Park Fund as of December 31, 2012, and the city has not appropriated funds to repay the \$397,869 (\$310,048 from the Park Fund and \$87,821 from the Cemetery Fund) balance in the 2013 budget document or calculated interest owed to the Street Fund.

Cemetery Fund

The city is responsible for maintaining the Greenwood Cemetery. In 2012 the city transferred \$55,000 from the General Fund to the Cemetery Fund to cover maintenance costs, and as noted above, in 2011 \$87,821 was inappropriately transferred from the Street Fund to the Cemetery Fund because adequate funds were not available in the Cemetery Fund or in the General Fund to cover maintenance expenses.

Water and Sewer Fund

The Water and Sewer Fund has operated at a loss for two of the last three years, resulting in an accumulated loss of approximately \$100,000 for the three years ended December 31, 2012.

According to correspondence from the city's legal counsel, the city may be facing significant costs to upgrade its wastewater treatment facilities, which could cost the city millions. The city is in discussions with the Missouri Department of Natural Resources and the U.S. Environmental Protection Agency regarding the extent of the improvements needed.

General Fund

The General Fund unrestricted cash balance has historically been at a low level until 2012 when the balance showed some growth, increasing from \$70,167 at December 31, 2011, to \$234,938 at December 31, 2012. However, this growth is largely because of a significant increase in transfers from other restricted city funds. These transfers are questionable and lack adequate documentation (see MAR finding number 3). The city spends approximately \$3 million annually (\$250,000 monthly). Thus, the city's unrestricted cash balance represents less than one month's operation.





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Additionally, the growth in the General Fund's unrestricted cash balance is offset by potential future costs related to city buildings. In 2013 toxic mold was discovered in the city hall building resulting in all city offices being relocated, and the city is now incurring monthly rental expenses of \$1,875. Further, the City Administrator indicated mold removal and rebuilding costs are estimated between \$250,000 and \$750,000, depending on the extent of the mold. In October 2013 the city purchased the juvenile detention center building as a potential city hall building for \$500,000 and is financing the purchase through its depository bank. Additionally, the city may have other outstanding liabilities. For instance, in October 2013 the city had to pay approximately \$35,000 for three months of outstanding fuel credit card bills because the fuel vendor discontinued service to the city for lack of payment. Also, in November 2013 nine former employees filed suit in U.S. District Court claiming the city violated the Age Discrimination in Employment Act.

### Conclusion

It is essential the Board of Aldermen actively monitor the financial condition of all city funds, both in the immediate- and long-term future. To improve the financial condition, the Board should review disbursements and reduce spending as much as possible, evaluate controls and management practices to ensure efficient use of city resources, attempt to maximize all sources of revenue, and develop a plan to repay \$397,869 to the Street Fund. The recommendations contained in this report, if implemented, will help the city establish procedures to operate within available resources and help improve the financial condition.

### Recommendation

The Board of Aldermen closely monitor the overall financial condition of all city funds, perform long-term planning, and ensure disbursements are closely monitored and receipts are maximized. The Board of Aldermen should also make efforts to reduce subsidizing other funds, avoid improper interfund transfers, and develop plans to repay amounts owed to the Street Fund.

### Auditee's Response

*The Board of Aldermen provided the following written response:*

*The financial issues faced by the city as of the first quarter of 2012, have been well documented in the public statements made by the elected officials, and in the actions taken by the city staff at the direction of the Board. While it is true that there were transfers (regardless of how they may have been termed by the previous administration) which did not comply with regulations regarding restricted funds usage, those practices ceased upon the change of administrations. It must be noted that since March 31, 2012, there has been a complete turnover of the City Administrator and every single department head-level staff member, resulting in a new methodology for conducting city business and in implementing Board policies.*



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*Our current staff is addressing the concerns raised by the audit report found in section 1, while maintaining the ongoing responsibilities of municipal government for today and the future of our community. The stated goals of this Mayor, Board, Senior Staff, and each employee are centered upon being as service oriented to the public as we can be, while maintaining the highest standard of integrity, professionalism, and compliance with any and all regulations impacting the City of Bolivar.*

## 2. Aquatics Center

The Board's failure to properly plan the financing, construction and operation of the city's new aquatics center has resulted in excessive costs and negatively impacted the city's financial condition. Under current financing arrangements, the \$6.3 million center will cost over \$16.8 million and the city does not have an option to refinance most of the debt until 2020. Construction costs were not properly approved and operation costs are significantly higher than projected.

In April 2010 city residents passed a 1/4 cent sales tax for the purpose of funding city parks, including the construction of an aquatics center. The aquatics center was constructed on land owned by the city adjoining a recreational facility owned by the Young Men's Christian Association (YMCA). The aquatics center opened in July 2012 and is operated by the YMCA through a management agreement with the city.

### Financing

Aquatics center financing proposals solicited, received, and approved by the Board did not agree with the actual financing the city ultimately obtained. The city issued \$6.45 million in certificates of participation at interest rates as high as 8.5 percent for a term of 30 years.

In June 2010 the city solicited proposals for loan proceeds of \$5.5 million to construct the aquatics center. In September 2010 the Board passed a resolution to issue \$6 million in certificates of participation. In December 2010 the city issued \$6.45 million in certificates of participation. There is no documentation to support the various amounts of financing estimated by the city or the increase of nearly \$1 million in financing obtained, and no approval by the Board for the additional \$450,000 in financing eventually obtained.

According to the August 6, 2010, board meeting minutes, the city received two proposals for financing the aquatics center with interest rates of 4.031 percent and 3.4 percent. According to actual bid documentation, the 4.031 percent financing was through certificates of participations for 20 years based upon an "A" bond rating, and the 3.4 percent financing was a 5-year lease purchase. The city contracted with the company that proposed the 4.031 percent interest rate. While board meeting minutes do not indicate why the higher interest rate financing proposal was selected, city personnel



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indicate funds were not adequate to repay the debt under the 5-year lease purchase option.

Actual financing obtained, however, varied from the financing proposal. The city issued two series of certificates, a tax exempt series for \$1.675 million carrying interest rates as high as 5 percent for 15 years and a taxable series for \$4.775 million with interest rates as high as 8.5 percent for 30 years. Additionally, the taxable certificates were sold at a discount of over \$348,000 resulting in less bond proceeds for the city. Both certificates were only rated "BBB+" which is a reflection of the city's financial condition and resulted in the higher interest rates and the discount in proceeds. Prepayment on bonds is not allowed until 2016 for the tax-exempt bonds, and 2020 for the taxable bonds.

The repayment of the certificates is structured based upon the city's ability to make annual payments, with payments on the \$4.775 million taxable certificates applying to interest only of \$404,025 annually until 2026, after the \$1.675 million tax exempt certificates are paid. As a result, over \$6.2 million in interest will be paid on the \$4.775 million certificates before a principal payment will be made. Interest on the \$4.775 million certificates is partially funded through the Build America Bond Program which provides a subsidy to help municipalities pay the interest on the certificates. At the time the certificates were issued the federal government subsidy was 35 percent or \$141,409 annually; however, as of May 1, 2013, this subsidy has been reduced by \$12,303 annually. The subsidy is not guaranteed and is based upon the amount of funds appropriated by the federal government. The city is responsible to pay any amount of the subsidy that is not appropriated by the federal government.

In addition, proposals were not solicited for bond counsel, and the selection of the bond counsel has the appearance of a conflict of interest. The city's bond counsel contact attorney is the nephew of the assistant city attorney for the Board. According to city personnel, the city used the same law firm as bond counsel on other bond issues in previous years. The city paid \$40,000 for bond counsel.

## Construction

The city did not adequately monitor construction costs which significantly exceeded estimates.

In May 2010 the city solicited design/build proposals for the aquatics center with a project budget of \$4 to \$5 million, including fees. The city considered qualifications first to select the firm; then entered into negotiations with the firm to determine the scope of work and the cost of services to accomplish the project. The city signed a design/build (one contract for both design and construction) agreement on September 21, 2010, with a project budget of \$5.5 million. This contract price was already



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more than the city's projected cost of \$4 to \$5 million. According to the agreement, the budget was a fixed limit of all project costs unless the budget was modified by written amendment or change order. Further, the agreement with the contractor indicated a guaranteed maximum price would be determined after the design process was completed; however, there is no evidence to indicate a guaranteed maximum price was ever established. The city paid the contractor over \$5.9 million which is more than the estimate indicated in the proposal and more than the budget in the design/build agreement, and the city had no documentation of a written amendment.

Change orders were not reviewed and approved by the Board when issued. According to the city, all costs associated with the project were documented through change orders instead of in a contract. There were four change orders totaling approximately \$5.8 million issued in February, June, and November 2011, and February 2012. While the change orders were signed by the former Mayor or former City Administrator, the Board did not approve the change orders until February 6, 2012, nearly one year after the initial change order was issued. Without approving change orders, the Board failed to approve any costs associated with the project until after work was completed and payment was made.

In May and June 2012, the city signed two additional agreements with the design/build contractor to add a diving board, ceiling fans, painting and other costs to the project totaling approximately \$100,000.

The city paid other construction related costs totaling over \$300,000. These costs included payments to outside vendors and the cost of city labor for dirt work and equipment rental. According to the City Clerk, the city paid these costs outside of the design/build contract in order to save money; however, it is unclear why these costs were not included within the costs outlined in the design/build agreement.

The city used the balance of the aquatics center bond money (\$159,000) to purchase police cars.

## Operation

The city did not adequately project anticipated costs to operate the aquatics center which have significantly exceeded estimates, and the city has not reviewed accounting records of the YMCA to confirm financial information reported by the YMCA is accurate.

The operating costs for the first 6 months were significantly more than the city's projected annual operating costs. City officials indicated costs to run the center were estimated between \$120,000 and \$180,000 annually; however, according to city financial records the city incurred approximately \$200,000 in operating costs from July through December 2012.



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Utility costs for the pool during the winter months are significant. For example, the December 11, 2012, Board meeting minutes estimate the costs for propane and electric for pool operations at \$850 a day which is significantly more than estimated. According to city personnel, the center's placement in the shade of the existing YMCA building makes the greenhouse design inefficient which results in higher than expected heating costs.

In 2010 prior to construction, the city negotiated a contract with the YMCA to manage the aquatics center. In the agreement the city pays all operational costs, except labor, and receives 29 percent of the operational revenue. According to city records, aquatics center revenue during 2012 was approximately \$89,000 and the city received a contractual share of approximately \$26,000. The contract provides the city the opportunity to review accounting records of the YMCA to confirm calculations under the agreement; however the city has not executed this authority.

#### Conclusion

Good business practices require adequate planning prior to approving significant capital improvement projects and entering into long-term financing arrangements. Further, written contracts documenting project costs and the proper monitoring of project costs is necessary to ensure city funds are properly disbursed. Business relationships that impair the independence of those in a position to influence the distribution and use of city funds reduce the effectiveness of controls and decision making and harm public confidence. Adequate planning for major capital projects is necessary to ensure the projects are financially feasible and supported by the taxpayers, and to help prevent potential problems or misunderstandings during the project.

#### Recommendation

The Board of Aldermen should ensure adequate planning and monitoring is performed and documented on future projects. The Board of Alderman should also review the financial operations of the aquatics center and determine the appropriate course of action to minimize the amount of city subsidies required for the debt service payments and operating expenses.

#### Auditee's Response

*The Board of Aldermen provided the following written response:*

*The Board of Aldermen understands and agrees that better control of the planning and implementation phases of large projects must be put in place and maintained in the future. The financial aspects of the aquatics center operations have been, and continue to be, a grave concern for the Board. In an effort to address those issues, such items as: town hall meetings (in order to gain citizen input), closing down the aquatics center through the colder, winter months (when usage is at its lowest and operational costs are at their highest), and dissolving the management agreement with the Bolivar YMCA so as to maintain better, and more direct operational controls, have already*



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*been implemented by the city. Furthermore, the city has recently been upgraded by Standard & Poors from a BBB+ to an A- credit rating, thereby making any future financing more appealing to the city than the bond rates utilized to build the aquatics center. As soon as it is economically feasible to do so, the city intends to refinance those higher rate bonds with lowest possible rate options available.*

### **3. Restricted Funds**

The city is using restricted funds through the administrative transfer calculation to improve the financial condition of the city's General Fund. Additionally, the city does not have an ordinance authorizing the transfer of monies for payments in lieu of taxes, and the city does not have adequate procedures to track restricted monies.

#### **3.1 Administrative transfers**

Administrative transfers into the General Fund have increased significantly and exceeded the amount of expenses the city classified as administrative in the accounting records. Additionally, the type of expenses classified as administrative is questionable and the city continues to change methods for calculating administrative transfer amounts without adequate documentation to support calculation methods.

City financial statements for 2012 report transfers totaling \$919,916 into the General Fund from other departments and restricted funds to cover administrative expenses; however, expenses classified as administrative were only \$839,808 (a difference of \$80,108). Further, additional transfers of \$67,281 were made from the Capital Improvement Sales Tax Fund to reimburse the General Fund for capital asset purchases made for administrative purposes. These capital asset costs were also included in the administrative expense classification and used by the city in the calculation of the \$919,916 transfer amount. As a result, according to city financial records, the city's administrative department of the General Fund received \$987,197 in transfers which is \$147,389 more than expended.

According to the January 18, 2012, board meeting minutes, the Board approved the transfer of personnel positions from the administrative department of the General Fund into positions in healthier restricted funds. In June 2012 the City Administrator changed the allocation formula and began transferring more from each department/fund to the General Fund. The city then restated monthly financial reports for January through May 2012 making adjustments to increase transfer amounts for the new calculations. As a result, the cash balance of the General Fund increased significantly after the administrative allocations were recalculated. For example, the General Fund cash balance reported to the Board for January 31, 2012, at the February 2012 board meeting was only \$8,226; however, after the administrative allocations were recalculated city accounting records report the General Fund cash balance at January 31, 2012 as



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\$110,314. The changes in administrative allocations were not approved by the Board.

Monies transferred into the General Fund to cover administrative expenses will triple from 2011 to 2013 based upon the city's budget estimates as shown in the chart below:

	Year Ended December 31,		
	2013*	2012	2011
Administrative Transfers to the General Fund	\$ 1,571,000	919,916	515,717

\*Projected in the city's 2013 budget.

Additionally, we compared administrative payroll related expenses for July 2012 and December 2012 and noted several more employees were classified as administrative employees in December, some which are questionable. For example, the salaries of the Golf Pro Shop Attendant, Animal Caretaker, Fire Chief, Police Chief, and Public Works Director were all added to the General Fund administrative payroll expense line of the financial statements and removed from their respective department/funds. As a result, administrative payroll related expenses increased from approximately \$35,000 in July to approximately \$75,000 in December, and these salaries are allocated to other restricted funds, such as the Street, Parks, Water and Sewer, and Cemetery Funds. It is questionable these restricted funds should be used to pay salary expenses related to some of these employees. For example, based upon the December 2012 calculations the Street Fund reimbursed the General Fund 14 percent of the salary of the golf pro shop attendant and other employees listed above.

Additionally, annual debt service payments of \$55,979 related to property located outside city limits and purchased for airport usage was paid from the administrative department of the General Fund in 2012 rather than the Airport Fund. This debt service payment was included in the administrative allocation calculations. In 2007, when the land was purchased, the city received a written legal opinion from their city attorney indicating that the acquisition of this property for any reason, other than the airport would be unlawful based upon its location outside city limits. However, a portion of the debt payment on this property is now allocated to restricted city funds other than the airport and this is contrary to the city attorney's legal opinion. Prior to 2012, debt service payments were made from the Airport Fund (see MAR finding number 9.2).

Further, in January 2013 the city again changed the administrative allocation method by setting some administrative transfer amounts for some departments/funds at fixed amounts and continuing to calculate others based



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upon the allocation formula. For example, according to the 2013 budget the Cemetery Fund and the Aquatics Center (within the Park Fund) will each transfer \$30,000 to the General Fund to reimburse for administrative costs. In 2012 the Cemetery Fund and the Aquatics Center transferred \$12,359 and \$79,822, respectively to the General Fund which is significantly different than the \$30,000 fixed amount. There is no documentation to support why the transfer changed so significantly or how the \$30,000 was calculated.

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.

### 3.2 Payment in lieu of taxes

The city does not have an ordinance authorizing the transfer of monies from the Water and Sewer Fund to the General Fund for payments in lieu of taxes (PILOTS). The city transferred approximately \$123,000 during 2012.

Monthly the City Clerk transfers five percent of the gross revenue received by the Water and Sewer Fund to the General Fund. City officials indicated these transfers are to subsidize the General Fund for a gross receipts (utility franchise) tax the city would otherwise collect if a private company operated the utilities within the city. While the city has an ordinance authorizing a 5 percent franchise tax that is applied to the privately owned electric and cable companies for the use of city streets and other public places within the city; there is not an ordinance specifically authorizing this tax on city-owned utilities.

To ensure transfers for PILOTS are proper and authorized, the city should evaluate the propriety of the transfers from a legal standpoint and in conjunction with existing city ordinance.

### 3.3 Use of restricted funds

The city operated with negative balances for some funds in the city's checking account. Monies from most city funds are comingled into one pooled checking account, and the city routinely pays disbursements from funds showing negative balances within this checking account. There is an overall positive cash balance in the pooled checking account because these disbursements are covered by funds with positive balances. This practice results in inappropriate borrowing of restricted monies.

According to city accounting records, all city funds had positive cash balances at December 31, 2012; however, several times during 2012





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numerous city funds had negative cash balances. For example, the chart below reflects the cash balances of city funds in the pooled cash account at April 30, 2012.

Fund	Balance
General Fund	\$ 174,564
Economic Development Fund	(11,744)
Airport Fund	24,814
Cemetery Fund	(75,762)
Fire Fund	110,764
Water and Sewer Fund	(215,968)
Parks and Recreation Fund	(143,739)
Street Fund	60,736
Special Road District Fund	285,453
Capital Improvement Sales Tax Fund	560,733
Wastewater Major Improvement Fund	202,579
Peace Officer Standards Training Fund	6,255
Other Restricted Funds	30,614
Municipal Division Court Bonds	18,928
Reconciled account balance	\$ 1,028,227

Various state laws place restrictions on the use of the certain city funds. The funds of the city are separately established to account for specific activities of the city. To ensure restricted monies are used for the intended purpose, monies should not be disbursed from funds with negative cash balances.

### 3.4 Tracking and recording restricted receipts

The city is not properly tracking and recording various restricted receipts.

- During the year ended December 31, 2011, the city received Federal Equitable Sharing Funds of \$3,791 from the U. S. Department of Justice and deposited these monies into the city's pooled cash checking account without tracking the related interest receipts, disbursements, and balances of these restricted monies. The city received another \$15,714 in January 2013. Agreements signed for the receipt of equitably shared monies require a separate revenue account or accounting code in addition to the deposit of any related interest income earned on equitably shared funds.
- Law Enforcement Training (LET) fees totaling approximately \$2,000 were received by the city from the municipal division and were not properly recorded as restricted monies. Section 488.5336.2, RSMo, requires LET fees to be used only for the training of law enforcement officers.



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To ensure restricted monies are used for the intended purpose, monies received should be credited to the appropriate fund as required by contracted agreement or state law.

## Recommendations

The Board of Aldermen:

- 3.1 Allocate expenditures to city funds based on specific criteria and retain documentation to support these allocations. Further, the city should review allocations in 2012 and 2013 and review expenses designated as administrative costs for proper classification and make corrections as necessary.
- 3.2 Evaluate the propriety of the PILOTS transfers in conjunction with the existing city ordinance.
- 3.3 Ensure adequate monies are available within the respective fund in the city's pooled cash bank account prior to making disbursements.
- 3.4 Determine the amount of equitable sharing monies and LET monies held by the city and establish separate funds or a separate accounting of these monies.

## Auditee's Response

*The Board of Aldermen provided the following written responses.*

- 3.1 *The Board of Aldermen has reviewed the methodology of the administrative allocations for the budget, and documentation as to that methodology will be codified and maintained with the city records. There is not any intent to be incorrect in the application of administrative allocations, but rather to be more accurately reflective of the actual city workings, in an attempt for further transparency of effort. The alteration of the methodology in 2013, noted in the audit report, was not intended by the administration, and when that alteration was discovered by the Budget Officer and the City Administrator in the preparation of the 2014 cycle, it was corrected immediately. Once the 2014 budget cycle is complete in its preparation, adoption, and implementation, the staff will, under the oversight of the Board, go back through 2012 and 2013 to make certain that no unintended allocations are left uncorrected.*
- 3.2 *The evaluation of the PILOTS transfer methodology historically employed by the city is underway with the City Attorney, and any necessary ordinance upgrade, or alteration of procedure shall be addressed at the earliest possible option.*
- 3.3 *One of the primary purposes for hiring the current City Administrator was to deal with the financial and budgetary issues*



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*which were facing the city at the end of the first quarter of 2012. Since that time, every effort has been made to rectify the previous expenditure policies that allowed the city to enter such a serious financial condition in the first place. While it has taken some time, and those efforts are not fully finished by any means, the city has finished 2012 with all funds in a positive balance (as noted in the report), and those positive balances have been maintained throughout 2013. No disbursements will be made by this administration, or approved by this Board, without the adequate monies being available in the respective fund from which it is to be drawn.*

3.4 *The city, under the oversight of the Board, has recently employed a new Deputy City Clerk with more than sixteen years' experience in municipal clerking, and is widely respected among her peers, state-wide. With her help in this area, the city understands the need for more specific accounting procedures for such monies going forward, and will establish the required funds for the current monies in question.*

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## 4. Disbursements

The city does not solicit bids for some city purchases or solicit proposals for some professional services. Some purchase decisions made by the Board were not properly documented and late fees and finance charges were incurred for the untimely payment of some bills. Check writing controls need improvement, and some payments were not properly reported on Forms 1099-Misc.

### 4.1 Bidding

The city has not always solicited bids as required by city code.

The city's bidding/purchasing policy, City Code Section 145.010, requires city officials to solicit bids for the purchase of goods or services over \$10,000 and requires purchase orders or contracts for all purchases over \$100. The policy further requires the City Administrator or Mayor to sign the purchase order and the City Clerk's office to attest that the appropriate amount of money has been budgeted. Additionally, City Code Section 135.010 requires the solicitation of banking services every odd year after the municipal election in April.

#### Computer equipment

The city did not solicit bids for computers and computer related equipment costing approximately \$195,000.

In June 2011 the city advertised to solicit qualifications for oversight, design, consulting, and maintenance of all city information systems and subsequently signed a two-year contract with a computer company of which the assistant city attorney is an officer of the corporation. The assistant city attorney's advisory relationship with the Board and corporate officer



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relationship with the computer company could result in a conflict of interest. These services cost the city approximately \$31,000 annually. During 2012 the city paid an additional \$72,000 to this company for items including a new server, laptops, cables and switches, and signed a 5-year lease purchase agreement with this company to finance the purchase of 42 new computers and related equipment costing approximately \$123,000 at 8 percent interest. These purchases were made without soliciting bids.

There is no evidence the city had formally established guidelines or performed adequate planning for these significant computer upgrades. While the city's 2012 budget message mentions the need for computer improvements, significant computer upgrade purchases were not included in the 2012 budget.

In addition, purchase orders were not completed for some of the purchases from this computer company as required by the city's purchasing policy, and the city has authorized this company to obtain payment for its consulting services by automatically debiting the city's bank account. Consulting service amounts vary from month to month and are not posted to the city's accounting records or reviewed by the Board until the month after payment has already been made. The city does not utilize this payment and approval method for other vendors.

Additionally, the city did not attempt to obtain financing of the \$123,000 at an interest rate lower than 8 percent. The city's depository bank recently renewed an unrelated lease with the city at only 2.36 percent interest. The city will pay finance costs totaling \$26,663 during the life of the computer lease.

Further, the city purchased similar computer equipment in October 2010 from a different computer vendor, and according to city personnel, some of that equipment costing approximately \$5,000 has never been utilized or removed from the original packaging.

Considering the poor financial condition the city experienced during 2012, it is unclear why these significant purchases would be made without adequate planning and proper bidding.

#### Police cars

The city did not solicit bids for 8 police cars totaling \$147,920 purchased with bond proceeds from financing the aquatics center. The city transferred \$159,000 from the General Fund to the Parks Fund for the repayment of the bond proceeds including interest related to this purchase. The City Clerk indicated bids were not solicited because the Police Department wanted Ford vehicles.



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Street paving

The city advertised for bids in March 2012 for paving of the aquatics center parking lot and accepted the low bid of \$88,700; however, the vendor was paid an additional \$15,000 for other projects related to the cemetery and the walking trail that were not included in the original bid request. Additionally, adequate detailed documentation was not included on the vendor invoice to determine if the additional \$15,000 paving costs were billed at the same rate as the paving bid for the parking lot.

Banking services

The city has not solicited proposals from banking institutions since 2009. City code requires proposals for depository services and short term loan services be solicited in each odd numbered year. The city was charged account maintenance fees totaling \$4,397 during 2012, including \$146 in service charges for a bank account that only maintained a balance of \$3 during the year.

Additionally, the city used its depository bank to acquire funds through lease agreements totaling over \$1.9 million at December 31, 2012. The city paid over \$100,000 in interest associated with these leases.

Conclusion

In addition to being required by city code, the routine use of a competitive procurement process for major purchases ensures the city has made every effort to receive the best and lowest price and all interested parties are given an equal opportunity to participate in city business. Business relationships that impair the independence of those in a position to influence the use of city funds reduce the effectiveness of controls and decision making and harm public confidence. Properly completing purchase orders for all disbursements helps to ensure purchases are properly authorized.

4.2 Professional services

Professional services are frequently obtained without benefit of a competitive selection process. While city policy requires bids for goods and services exceeding \$10,000, the policy does not distinguish the handling of professional services from other services.

- The city has used the same law firm for legal services without conducting a competitive selection process. City personnel indicated the city has used this firm since 1960 and until recently had appointed the same attorney within the firm as City Attorney since 1972. The city currently utilizes several attorneys within the firm for legal and prosecution services. The city paid \$88,733 for legal services during the year ended December 31, 2012.
- The city did not solicit proposals for auditing services and has used the same auditing firm since 2006. The city paid \$26,300 for auditing services during 2012.

A more comprehensive procurement policy addressing the solicitation and consideration of proposals for professional services would provide a more



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effective framework for economic management of city resources. While professional services, such as attorneys and auditors, may not be subject to standard bidding procedures, the city should solicit proposals for professional services to the extent practicable. Soliciting proposals and subjecting such services to a competitive selection process does not preclude the city from selecting the vendor or individual best suited to provide the service required. Such practices help provide a range of possible choices and allow the city to make a better-informed decision to ensure necessary services are obtained from the best-qualified vendor at a reasonable cost.

### 4.3 Engineering services

The city did not always document its evaluation and selection of engineering services, and when qualifications were solicited from engineering firms the documentation was not adequate to support the selection.

In June 2011 the city solicited qualifications and evaluated information submitted by four engineering firms for consulting services related to the municipal airport. Each firm was scored by two board members and the former city administrator on four criteria related to the airport. The firm with the lowest accumulated score was awarded the contract without any documentation explaining why the highest rated firm was not selected. In October 2011 the city entered into an agreement with the engineering firm with the highest accumulated score to provide on-call city engineering services unrelated to the airport. The city's June 2011 request did not solicit qualifications for on-call city engineering services. The city paid approximately \$67,000 to the airport engineer and approximately \$86,000 to the on-call city engineer during 2012.

Sections 8.289 and 8.291, RSMo, provide requirements for obtaining, evaluating, and negotiating engineering services.

### 4.4 Weapons purchase

The city disbursed \$6,545 in federal grant funds in January 2011 for weapons not received.

According to police department documentation, the city paid a vendor \$10,075 in advance for various weapons, and nearly 3 years later, 7 weapons with a total cost of \$6,545 have not yet been received by the department. Additionally, this vendor was given police department ammunition purchased by the city through a state contract and valued at approximately \$600 in exchange for applying gun coating on two department weapons. Letters and email correspondence were sent to the vendor during 2012 requesting a refund of the \$6,545, but no refund has been received. The city's attorney indicated legal action will most likely be needed to recover the funds or obtain the weapons; however, another attorney from the same law firm represents the vendor and as a result, the city's attorney has recused himself from taking legal action.



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By paying in advance the department had limited assurance the weapons would be received, and the bartering of ammunition purchased through a state contract is an improper use of department assets.

#### 4.5 Land purchase

There was no documentation to support reasons the city paid more than the appraised value for 10 acres of land to be used for a wastewater treatment plant upgrade. An appraisal was obtained that indicated the purchased land was valued at \$25,863; however, the city paid \$70,000. Board meeting minutes approving the purchase of the property do not provide justification for the purchase price.

Considering the large investment and to ensure the proper use of city funds, the city should document reasons for purchasing land for more than the appraised value.

#### 4.6 Disbursement controls

The Mayor's signature stamp is not adequately controlled, checks are signed in advance, and the City Treasurer is not bonded.

The City Clerk, who can sign checks, has custody of a facsimile stamp of the Mayor's signature and uses the stamp to sign checks. As a result, the City Clerk has authorization for two of the three required signatures on checks which diminishes the control intended by multiple signatures. We observed a blank check signed by the Mayor and City Clerk without the payee or the amount indicated. Further, the City Treasurer has check signing authority and is not bonded.

To reduce the risk of misuse, access to signature stamps should be limited and checks should not be signed in advance. Further, the failure to properly bond individuals who have access to funds exposes the city to risk of loss.

#### 4.7 Late fees and finance charges

The City Clerk does not ensure payroll taxes are deposited and bills are paid in a timely manner causing the city to incur late fees and finance charges. For example, the city failed to deposit payroll taxes timely during September 2012 and April 2013 incurring \$425 in penalties and interest, and the city's monthly credit card bill was not paid timely in December 2012 and February 2013 resulting in \$332 in late payment fees. Other instances were noted where bills were not paid timely with lesser amounts of late fees and finance charges incurred or the vendor waived the late payment fees.

To prevent unnecessary fees and finance charges, procedures should be in place to ensure payroll taxes and bills are paid timely.

#### 4.8 Forms 1099-Misc

Forms 1099-Misc are not always filed when required and some forms contained errors when filed with the Internal Revenue Service (IRS).

We identified payments to several vendors where Forms 1099-Misc were not issued. After bringing this to the city's attention, Forms 1099-Misc were



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reissued on April 18, 2013; however, the reissued forms did not include some payments made to one recipient and duplicate forms were issued to another recipient.

To ensure compliance with IRS requirements, the city should establish procedures to ensure Forms 1099-Misc are issued in all applicable instances and include accurate information.

## Recommendations

The Board of Aldermen:

- 4.1 Solicit bids and complete purchase orders as required by city code.
- 4.2 Solicit proposals for professional services and consider expanding the city's purchasing/bidding policy to address professional services.
- 4.3 Comply with state law when procuring engineering services and document the evaluation and selection process.
- 4.4 Discontinue the practice of paying for goods in advance and bartering with city assets, and consult outside legal counsel regarding legal action on recovering city monies.
- 4.5 Document reasons for purchasing land for more than the appraised value.
- 4.6 Limit access to the Mayor's signature stamp to maintain the controls intended for multiple signatures on checks, discontinue signing checks in advance, and obtain bond coverage for the City Treasurer.
- 4.7 Implement procedures to ensure bills and payroll taxes are paid timely.
- 4.8 Implement procedures to ensure Forms 1099-Misc are accurately filed as required by law.

## Auditee's Response

*The Board of Aldermen provided the following written responses.*

- 4.1 *Going forward, the city will continue to seek any and all bids for purchases over the limits set forth by ordinance.*
- 4.2 *The Board will solicit proposals for all professional services, going forward, and will strongly take under advisement the report's recommendation regarding the purchasing/bidding policies for professional purchases.*





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- 4.3 *The city, having changed administration since the actions cited within this section of the report, will not be making similar mistakes in procuring engineering services, nor has the city made such errors since that change has been made. The city will be compliant with all pertinent regulations contained within Sections 8.289 and 8.291, RSMo.*
- 4.4 *Again, the city is no longer in the practice of acting as is outlined in this section, and legal counsel has been sought, regarding what the city's options are in rectifying the situation described.*
- 4.5 *The land purchase in question, is one wherein little option was left to the city at the time. While it is true that the land was appraised at the value cited, the landowner simply did not have a strong need to sell the land at any price. However, it was land that, being contiguous to the Waste Water Treatment Plant, and being the only location possible for the city to utilize for the UV Treatment Plant required by the Missouri Department of Natural Resources (MDNR) to be built and operational by the city no later than April of 2013, there simply were no other options than to negotiate for the needed land from a disadvantaged position. Had the city implemented such negotiations earlier in the process, when MDNR had given the city notice of such expansion requirements, the amount might well have been different. However, the city was under strict orders from MDNR to be compliant by April 2013, and being found compliant was one of the first goals achieved by the current administration, even though the resulting land expenditures were more than the city would have otherwise hoped.*
- 4.6 *The Mayor's signature stamp has been destroyed, checks shall not be signed in advance by anyone, and the City Treasurer's position will be included in the city's bond coverage.*
- 4.7 *Given the addition to our staff of our Deputy City Clerk, procedures are being formulated and implemented to assure that all bills are paid on a timely basis.*
- 4.8 *New policies are being implemented to make certain that this oversight is not allowed to happen in the future.*

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## **5. Employee Leave Records and Procedures**

Concerns were noted with the city's conversion to a new leave policy, and the handling and payouts of some leave balances did not have documented Board approval. The city owes current and former city employees over \$67,000 in accumulated sick leave payments, and some high level city employees accumulate more leave than authorized. Additionally, problems



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were noted with leave payments to terminated employees and employee leave records.

## 5.1 Sick leave payout

Procedures used to convert employees' accumulated leave time to the guidelines established by the new leave policy have resulted in the city paying sick leave benefits owed to employees in quarterly installment payments without clear approval from the Board or consulting with the city's legal counsel.

Effective January 1, 2012, the Board approved for all employee vacation, sick, personal, and emergency leave to be combined into one category designated as paid-time-off (PTO). The old leave policy allowed employees with over 10 years of service to be paid for their accumulated sick leave at termination; however, the new PTO policy does not address this issue. According to the City Clerk, in order to convert all employees to the new policy guidelines, the Board approved paying accumulated sick leave over the 120 hour PTO maximum to all employees with over 10 years of service to eliminate this leave liability. However, there is no documentation in the board meeting minutes of this approval. The City Clerk began paying accumulated sick leave to employees in January 2012 and indicated the Board instructed her to make these payments in 40 hour increments in quarterly installments because the city did not have the money to pay all accumulated benefits at one time. There is no documentation to indicate the Board approved the installment payments of these benefits, and the installment payment for the second quarter of 2012 was not paid.

In addition, when city employees were terminated or resigned in April 2012, the city did not pay some of these employees their sick leave balance owed upon termination, but continued paying them quarterly. There is no documentation to indicate the city consulted with legal counsel regarding the appropriateness of paying terminated employees their benefits on an installment basis.

According to city payroll records, the city paid approximately \$38,000 in sick leave benefits to current and former employees in 2012 and owed approximately \$67,000 (\$36,000 to current employees and \$31,000 to terminated employees) at December 31, 2012. Based upon the city's current payment schedule, it will take approximately two years for all ten-year employees who were terminated or resigned in April 2012 to receive the benefits owed to them.

To ensure employee leave benefits are properly paid, the Board should review the procedures used to convert to the new employee leave policy and the related payout of accumulated sick leave. In addition, the Board should consult with legal counsel regarding the unpaid balance owed to former



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employees and determine if it is appropriate to pay amounts owed in installment payments.

## 5.2 Employee leave time

Several high level city employees accumulate more PTO leave than authorized by city policy or employment contracts, received payment of leave time upon termination that did not comply with city policy, and have incomplete or inaccurate leave records.

### Leave earned

Some city officials and employees accrue more PTO than allowed by city policy or employment contracts.

The employment contract approved by the Board for the City Administrator in March 2012 allows for PTO benefits to accumulate based on one full year of service; however, PTO is actually accumulating as if the City Administrator had 3 years of service. As a result, the PTO accrual is 14 hours monthly instead of 10 hours monthly, an additional 48 hours of leave time annually. This excess leave accumulation is due to the leave accrual date in the city's payroll system for the City Administrator being April 1, 2009, rather than his start date of April 1, 2012.

Additionally, the leave accrual dates of the Fire Chief and the Human Resource Director entered into the payroll system did not agree with the actual hire dates for these employees. As a result, an additional 72 hours of PTO is accumulated annually for each employee. There is no documentation that the increased PTO accrual has been approved by the Board and neither employee had a written employment contract documenting that leave in excess of city policy should be awarded.

To ensure employee leave accruals are valid and proper, the city should follow its leave accumulation policies and/or employment contracts and make adjustments to reduce employee leave accruals as appropriate.

### Leave payments

Final payroll checks for two city officials included leave payments that were in excess of the amount allowed by city policy or employment contracts.

- Former City Administrator Mersch was paid for 65.5 hours of holiday compensatory time totaling \$2,519 in his final paycheck on January 31, 2012. According to his employment contract, the former City Administrator was not entitled to compensatory time or other form of compensation for hours worked in excess of 40 hours.
- Former Police Chief Walter received a final payroll check in October 2012 totaling \$11,938 for payment of 326 hours of PTO and 56 hours of holiday compensatory time. Former Police Chief Walter was employed with the city for only approximately 14 months but was credited for PTO leave equivalent to a seven year employee. The city did not have a



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written employment agreement with Former Police Chief Walter and the board minutes do not specify benefits agreed upon at the time of employment. Additionally, the city's personnel policy does not authorize for the payment of accrued PTO for employees with less than 2 years of service. As a result, is it unclear if the PTO hours and compensatory hours paid in the final payroll check of the former police chief was proper.

The accurate and consistent payment of leave time to former employees is necessary to ensure adherence to city policy and employment contracts, prevent incorrect or improper payments, and ensure equitable treatment of city employees.

Leave records

Computerized leave records did not always agree with manual leave records.

The city maintains records of leave earned and taken by employees on both manual forms and computerized records. According to the City Clerk the manual leave records are maintained as a means to double check the accuracy of the computerized records; however, our review identified several instances where manual leave records did not agree with computerized leave records. As a result, it is not clear which record is accurate.

For example, the computerized leave records for the City Clerk indicated 45.5 hours of sick leave accumulated at December 31, 2012; however, manually maintained leave records showed no sick leave balance. The City Clerk indicated the 45.5 hours were earned prior to 2012; however manual leave records do not reflect this balance in prior periods and it is unclear why this sick leave balance, if accurate, was not converted to PTO when the policy changed January 1, 2012. After our inquiry, the City Clerk provided documentation showing she donated 23 hours of this leave to another city employee; however, this does not fully explain the discrepancy. Additionally, manual leave records for another city employee included 36 hours more of leave accrued than reflected on the computerized records. Employee leave records are maintained by the City Clerk.

Accurate leave records are necessary to ensure employees are treated equitably and are properly compensated.

Recommendations

The Board of Aldermen:

- 5.1 Ensure procedures followed to convert to the new employee leave policy are adequately documented and approved by the Board, and consult with legal counsel regarding the appropriateness of paying amounts due to terminated employees in installment payments.



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- 5.2 Ensure city employee leave accumulations agree with city policy or employment contracts, former employees are compensated for accumulated leave in accordance with city policy, and employee leave records are accurately maintained.

## Auditee's Response

*The Board of Aldermen provided the following written responses:*

- 5.1 *The city is undertaking a complete review of all employee handbook procedures currently in place, and will, after having taken the appropriate steps to ensure legal counsel support, implement those policies in full, with the appropriate documentation in place.*
- 5.2 *Given the changes made within the city staff, all employee and former employee payments will be made only according to the approved employee handbook, as set forth by the Board of Aldermen. Leave records will be accurately maintained.*

## 6. Accounting Records and Procedures

City accounting records and financial reports provided to the Board are inaccurate, bank reconciliations are not performed timely, and interfund transfers are not always approved or accurately recorded.

### 6.1 Accounting records

The City Clerk's accounting records contained inaccuracies, resulting in errors on monthly financial reports provided to the Board. In addition, numerous journal entries are posted to the accounting records monthly without review or approval by an independent source, and many journal entries are posted several months after the accounting period ends.

- The redemption of certificate of deposit (CD) investments on July 10, 2012, totaling \$133,440, was not posted to the accounting records timely and the CDs were still reported as investments on the financial statements presented to the Board on November 13, 2012. As a result, investment funds were overstated and the checking account balance was understated.
- Balance sheets prepared by the City Clerk and provided to the Board continued to report a balance of \$2.2 million in aquatic center bond funds through December 2012 even though the funds were all spent by July 2012, resulting in the overstatement of available funds. The City Clerk indicated that she was waiting for the city's financial statement auditors to provide journal entries to remove these amounts from the balance sheet after the audit was complete.
- Fuel commissions totaling \$16,950 paid to the airport contractor were recorded as a reduction in fuel revenues in the accounting records rather



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than an expense of the airport. The remaining \$3,198 paid to the airport contractor was posted as an expense in the accounting records.

- Our review of journal entries recorded for March 2012 indicated the City Clerk posted 34 journal entries totaling \$759,694 in the city's General Fund. There is no documentation to indicate these entries were reviewed or approved, and 15 of the 34 journal entries totaling \$271,372 were not actually completed in March 2012 but were posted to the accounting records during the month of June 2012 or after and were back-dated to the March 2012 accounting records. As a result, the March 31, 2012, financial statements presented to the Board at the April 12, 2012, board meeting were changed significantly after the meeting through the posting of journal entries. For example, journal entries for administrative payroll and expenditure allocations were posted, reversed, and posted again during April and June 2012 without adequate explanation. Further, grant money for the Airport Fund totaling \$4,915 was automatically deposited into the city's bank account on March 19, 2012, but was not posted to the accounting records until June 3, 2012, by journal entry.

To be of maximum assistance to the Board and to adequately inform the public, city accounting records should accurately report financial activity and account balances. To ensure all journal entries are valid and posted timely, someone independent of recording and reporting financial activity should review and approve all journal entries.

## 6.2 Bank reconciliations

Bank reconciliations are not performed timely and did not always agree to city accounting records.

### Pooled cash account

The city maintains one main checking account where most city funds are pooled together. At the start of our audit in October 2012, the city had not reconciled accounting records to the bank statement for the pooled cash account since February 2012. As of May 23, 2013, the city was still several months behind with the last completed bank reconciliation dated January 31, 2013.

In addition, completed bank reconciliations often did not agree to the cash balance recorded in the city's accounting records. For example, significant differences were noted at both December 31, 2012, and 2011. The bank reconciliation at December 31, 2012, reflected a cash balance that was approximately \$12,000 higher than the accounting records. The City Clerk was unable to explain the difference. Our review identified a deposit in transit for \$2,692 dated December 12, 2012, listed on the bank reconciliation but the deposit did not clear the bank the following month, January 2013. It is not clear if this deposit is on the bank reconciliation in error. Further, there were several other adjustments on the bank



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reconciliations labeled as "miscellaneous" dating as far back as March 2012 that were not adequately documented and explained.

At December 31, 2011, the pooled cash bank reconciliation reflected a cash balance that was approximately \$46,000 lower than the accounting records. This difference was mostly due to a check for \$43,768 issued on December 5, 2011, and clearing the city's bank account on December 27, 2011, but not posted to the city's accounting records until January 1, 2012. An adjustment was made by the city's financial statement auditors to correct this error. Further, the city did not retain a copy of the April 30, 2012, pooled cash bank reconciliation and could not reprint one from the accounting system.

Employee Health Trust  
account

The city also maintains an Employee Health Trust bank account for the payment of a portion of employees' \$5,000 health insurance deductible. The city transfers money from the pooled cash account to the health trust account when a check is issued to an employee. The bank reconciliation for the account showed a negative balance of \$2,950 caused by inadequate transfers from the city's pooled cash account to cover the checks written. Additionally, four checks totaling \$9,408 issued to two former and two current employees had not been negotiated at December 31, 2012, and no procedures were performed by city personnel to follow up on and reissue these checks. We contacted the two current employees and they indicated they do not remember receiving the checks. One of these checks dated back to 2010.

Conclusion

Approximately \$12 million is deposited into the city's accounts annually, and without timely and accurate bank reconciliations the city cannot ensure receipts and disbursements are accounted for properly.

6.3 Transfers

Some transfers between funds were posted to the accounting records but not approved by the Board, and other transfers approved by the Board were not posted to the financial records.

The City Clerk transferred \$370,500 from the General Fund to the Street (\$300,000), Cemetery (\$55,000), Economic Development (\$15,000) and Simon Bolivar Trust (\$500) Funds without approval by the Board. According to the City Clerk, the transfers were made to prevent the funds from ending the year with a negative cash balance. Other transfers between funds were approved by ordinance or in the city's budget document; however, there is no documentation to indicate these transfers were approved.

Additionally, the Board approved Ordinance Number 3070 on December 18, 2012, to transfer \$200,000 from the Parks Fund to the Street Fund for partial repayment of the \$410,048 that was inappropriately used in



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2011 (see MAR finding number 1). However, accounting records indicate only \$100,000 was transferred and there is no documentation to support why the full transfer amount approved by the Board was not made.

To ensure transfers between city funds are proper, transfers should be approved by the Board, and procedures should be put in to place to ensure transfers approved by the Board are properly posted to accounting records.

## Recommendations

The Board of Aldermen:

- 6.1 Establish procedures to ensure accounting records accurately report financial activity and account balances, all journal entries are valid and posted timely, and someone independent of recording and reporting financial activity reviews and approves all journal entries.
- 6.2 Ensure bank reconciliations are performed monthly and agree to accounting records and bank reconciliation reports are retained. Also, the Board should ensure proper amounts are transferred to the employee health trust account, and outstanding checks are followed up in a timely manner.
- 6.3 Ensure transfers between funds are properly approved and all approved transfers are posted to the accounting records.

## Auditee's Response

*The Board of Aldermen provided the following written responses.*

- 6.1 *All accounting records and account balances will be handled according to appropriate standards of acceptable governmental accounting procedures, and the reconciliations of the same shall be performed on a timely basis. The Board of Aldermen is considering the employment of an outside accounting professional, to report solely to the Board, to ensure that the figures given to the Board from the City Clerk are accurate and up to date.*
- 6.2 *Bank reconciliations shall be performed and presented to the Board monthly. The employee health trust account shall be always properly funded, and checks disbursed from that fund shall be tracked to their final disposition.*
- 6.3 *All transfers are, and shall continue to be, properly approved by the Board of Aldermen, and procedures are being implemented now with the City Budget Officer (as a double check and segregation of duties effort) to make certain that those approved transfers occur on a timely and accurate basis.*





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## 7. Controls and Oversight

Serious weaknesses were identified in the controls and oversight of several city functions.

### 7.1 Segregation of duties

The Board has not segregated duties or performed an adequate review of the work performed by the City Clerk. The City Clerk is responsible for all record keeping and accounting functions of the city, including maintaining all accounting records, reconciling bank accounts, signing checks, authorizing purchases, and maintaining payroll records. Adequate independent reviews of her work are not performed. While the Board receives detailed monthly financial reports, these reports were not always accurate and errors were not identified and corrected. (See MAR finding number 6)

Many of the duties performed by the City Clerk would normally be performed by a City Treasurer and City Collector; however the City Treasurer and City Collector do not maintain active duties related to their positions. The City Treasurer can sign checks; however, checks are usually signed by the City Clerk and Deputy City Clerk, and then the Mayor's signature stamp is applied. The city elected a City Collector in April 2013; however, no contact had been made with the individual.

Proper segregation of duties provides a means of establishing control over assets, thus minimizing the risk of loss, theft, or misuse of funds. Attorney General's Opinion No. 24, 1955 to Dodds, concluded that in a fourth-class city, the holding of the positions of City Clerk, City Treasurer, and City Collector, or any two of these offices, by the same person at the same time would be incompatible. Current city procedures, which are allowing the City Clerk to effectively perform all these duties, jeopardize the system of independent checks and balances intended by state law. If segregation of duties is not possible, periodic independent or supervisory reviews, including a comparison of financial records to the reconciled bank statement, should be performed and documented.

### 7.2 Cash controls

Controls over receipts would be improved by limiting access to monies. Five employees, including two utility clerks, the meter reader, the City Clerk, and the payroll clerk, have the combination code to the safe where monies are stored until deposited. Additionally, the accounts payable clerk is responsible for counting receipts and preparing the deposits, and the Human Resource Director sometimes maintains the key to the locked bank bag containing the deposit.

To improve internal controls and reduce the risk of loss, theft, or misuse, access to monies should be limited.

### 7.3 Password controls

Passwords are not kept confidential and not periodically changed to help ensure they remain known only to the assigned user and to reduce the risk of



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compromised passwords. Additionally, the City Clerk, who maintains oversight responsibilities over the collection and disbursement of city funds, acts as administrator of the city computer system and has access to all employee passwords.

Passwords are regularly shared among employees responsible for collecting city receipts. The city maintains two computer terminals with separate cash drawers for the collection of receipts. Throughout the day the two utility clerks, meter reader, and other city employees share these two computer terminals and cash drawers to process receipts without logging in under their own password when they change terminals. The utility clerks indicated they usually put their initials into the computer field designated for the payer's check number as a means to document who entered the receipt information into the computer system; however, this computer field is not restricted and this is not the intended purpose of the field, and any initials can be entered. Our October 15, 2012, cash count noted cash and checks totaling \$27,368 recorded on these two terminals under the two utility clerks' passwords with five different sets of initials recorded in the check number field in the system.

The lack of an effective system of user identifications and passwords and the administrative access by the City Clerk may allow unauthorized access and/or changes to the system. To establish individual responsibility, as well as help preserve the integrity of computer programs and data files, access to information should be limited to authorized individuals. To control access, a unique user identification and password should be assigned to each user of a system. These passwords should be kept confidential and changed periodically to help limit unauthorized access to computer files. Additionally, not limiting access to the cash drawers increases the possibility of loss or misuse of funds and makes it difficult to determine responsibility for any losses or unreconciled differences.

#### 7.4 Accounting system controls

Information in the computerized accounting records did not always agree with the information on actual checks issued. The computerized accounting system allows the user to change the date, payee, and amount of checks posted to the accounting system after checks have been printed.

For example, we noted one check amount differed from the accounting records. The City Clerk indicated for this example errors possibly occurred in the initial check run, and a check reprint option was used to make changes to the check information in the accounting system. Additionally, a comparison of checks recorded in the accounting records to checks clearing the bank showed check numbers 32751 through 32855 issued by the city in January 2013 did not agree with the check number sequence recorded in the city's accounting records. The City Clerk indicated the check reprint option was apparently also used in this instance; however, the original checks were not voided and new check numbers assigned when the reprint option was



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performed. Allowing financial transactions to be edited after being entered into the computer system may compromise the integrity of the city's financial data and places city finances at risk.

To properly account for all monies disbursed, the data on actual checks issued should agree with the data posted to the accounting records. To ensure the integrity of disbursement data entered into the accounting system and to prevent changes from being made to check data after the checks have been issued, the city should contact the software provider to add control features to the computerized accounting program to prevent these changes.

## Recommendations

The Board of Aldermen:

- 7.1 Adequately segregate the duties of the City Clerk. At a minimum, there should be a documented supervisory review of the reconciliation between city records and banking records.
- 7.2 Limit access to cash receipts.
- 7.3 Require confidential unique user identifications and passwords for all employees, and appropriately restrict access to cash drawers. Additionally, the Board should appoint an appropriate computer system administrator who does not have financial and accounting responsibilities or other conflicting duties.
- 7.4 Contact the software provider to request additional control features to the city accounting system that will prevent changes from being made to check data after the checks have been issued.

## Auditee's Response

*The Board of Aldermen provided the following written responses.*

- 7.1 *The duties of the City Clerk are in the process of being segregated out between the City Clerk position and that of the City Budget Officer. The manner in which this segregation of duties will be implemented shall include that the person writing checks shall not be the same person responsible for reconciling those checks with the bank statements. Furthermore, as listed above, the Board of Aldermen is contemplating the engagement of an outside accounting professional for the purpose of making certain that such actions are taking place and are being performed on a timely and accurate basis. Such a person shall be outside of the oversight of the City Administrator or of the City Clerk (answering directly to the Board), and will confirm the findings of the City Clerk and the City Budget Officer. The duties of the City Treasurer and City Collector will be discussed with legal counsel.*



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- 7.2 *Only those employees deemed necessary to have access to the cash receipts of the city shall be allowed access to them. The Deputy City Clerk shall oversee the process of how those determinations are made and report back to the Board of Aldermen as to which employees have such access in the future.*
- 7.3 *Passwords for all access to computer system components, including cash drawers, have been changed in the last thirty days, and are set to be changed and kept private on a ninety day rotation. The computer system administration duties have been assigned to an employee with IT experience, who does not have either financial or accounting responsibilities to the City.*
- 7.4 *Contact has already been made with the software provider for the city (Incode), and information for future training sessions have been sought, as has information regarding the updates available to close some of the loopholes of the original system. Arrangements are being made to engage trainers from Incode to come to the city and train the staff on the specifics of using their system. Furthermore, city staff have made connection with other cities of comparable size, which also use Incode, and are making arrangements to shadow their respective counterparts to ensure full usability of the system with the city.*

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## 8. Payroll and Related Matters

Some employee compensation and benefits are not properly taxed and/or reported, commuting use of city vehicles is not reported to the Internal Revenue Service (IRS), and some city employees were improperly paid as independent contractors. Additionally, the city did not ensure the proper documentation was submitted to the Missouri Department of Public Safety (DPS) in October 2012 when appointing Police Chief Hamilton. Further, controls are not adequate over the direct deposit of employee payroll checks and employee timesheets were not always reviewed and approved by supervisors.

### 8.1 Payroll reporting and tax withholdings

Retirement plan withholdings and compensation paid to volunteer firemen were not properly taxed and reported.

#### Retirement plan withholdings

The city failed to properly report and tax over \$105,000 in retirement plan withholdings from employee payroll checks and paid to a third party. City officials indicated that withholdings for the employee 457(b) retirement plan have been coded incorrectly in the city's master payroll file since 2007, causing withholdings from employees' payroll checks to be made prior to the calculation of social security and Medicare taxes. While these retirement withholdings are not subject to federal and state income taxes, they are subject to social security and Medicare taxes. As a result, taxes totaling over \$15,000 were not withheld from employee payroll checks and/or paid by the



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city, and the wages totaling over \$105,000 were not reported on quarterly payroll tax returns or employee W-2 forms. The city may be subject to interest and penalties for failing to report and pay taxes on these monies.

Volunteer firemen  
compensation

The city has historically paid volunteer firemen compensation for each incident response through the city's regular accounts payable process rather than paying them through the city's payroll process and withholding and paying payroll taxes on the compensation. The IRS considers volunteer firemen as employees for federal tax purposes under common law employment rules because they are subject to the will and control of the city. As a result, the IRS requires employers to withhold and pay federal and state income taxes, social security, and Medicare taxes on the compensation paid to fire department personnel. The city paid volunteer firemen approximately \$26,000 during the year ended December 31, 2012.

Conclusion

The city has the responsibility of complying with payroll related legal requirements and provisions. Because procedures have not been established to ensure the IRS regulations are followed, the city may be subject to penalties and/or fines for failure to properly report and/or tax all compensation.

## 8.2 Commuting mileage

The commuting use of city vehicles is not reported to the IRS. The City Administrator and Police Chief drive city vehicles to commute to and from home. The City Administrator's employment contract requires a mileage log documenting the use of the city's vehicle; however, a log is not maintained. Former Police Chief Hamilton drove a city vehicle to his home which is approximately 94 miles round trip from the city limits of Bolivar. Although the Police Chief indicated he was on 24-hour emergency call, considering the distance from his home it is questionable whether he could respond in a reasonable amount of time to an emergency from his residence. Further, former Police Chief Hamilton did not maintain a mileage log.

With certain exceptions, IRS reporting guidelines provide that personal commuting mileage is a reportable fringe benefit. Furthermore, IRS guidelines require the taxable fringe benefit of the provided vehicle be reported on employee W-2 forms.

## 8.3 Contracted labor

The city did not document the reasons for classifying some employees as independent contractors rather than employees. The city did not withhold payroll and income taxes from payments made to these individuals. Rather, these payments were reported to the IRS on 1099 forms.

For example, the city made contract labor payments instead of wages to a planning and zoning department employee in May 2012, shortly after the city significantly reduced the size of city staff through terminations and resignations. The City Clerk indicated the planning and zoning employee



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resigned and then contracted with the city; however, no resignation letter or other documentation of resignation was in her personnel file and no written contract was prepared. Additionally, contracted work hours were documented on an employee time sheet, job duties did not change significantly with the reclassification from employee to contractor, and she was supervised by city personnel. As a result, these payments totaling \$5,139 during 2012 should have been considered wages, and payroll taxes should have been withheld and paid. Another city employee was paid \$506 in contract payments during 2012.

Proper classification of employees is necessary to ensure compliance with various state and federal laws and regulations. The failure to withhold and properly report payroll and income taxes for city employees makes the city potentially subject to additional tax liabilities along with penalties and interest. The Internal Revenue Code requires both W-9 and 1099 forms be filed for independent contractors, and IRS Publication 15 requires a W-2 form be filed for employees.

#### 8.4 Peace officer reporting and licensure

The city did not submit the required documentation to the DPS when Police Chief Hamilton was appointed and commissioned in October 2012, and did not ensure he properly reported training documentation to the DPS for peace officer licensure.

Section 590.070, RSMo, requires the chief executive officer of each law enforcement agency to submit a Missouri Peace/Reserve Officer Commissioning/Employment Record for every licensed peace officer that is commissioned, terminated, or has a change in commission status to the Peace Officers Standards and Training Program at the DPS within thirty days. Section 590.195, RSMo, indicates any person that holds, grants, or continues a commission without a valid peace officer license is guilty of a Class B misdemeanor. Any law enforcement agency that violates this section shall be ineligible to receive state or federal funds for the purpose of training and licensing peace officers or for any other law enforcement, safety, or criminal justice purpose. After notification by the DPS, the city submitted the required commissioning/employment record on March 25, 2013, but failed to submit documentation of continuing law enforcement education training requirements for Police Chief Hamilton as outlined in 11 CSR 75-15.010. Police Chief Hamilton resigned in June 2013, and as of July 29, 2013, the required training documentation had not yet been submitted.

#### 8.5 Automatic payroll deposits

There is no independent review of the City Clerk's authorization for automatic deposits of employee payroll checks, tax withholdings, and payments to third party employee benefit providers.

Payroll check transactions are recorded in the city's computerized payroll system by an accounting clerk and are reviewed by the City Clerk. The City



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Clerk completes the automatic payroll deposit transaction for disbursement of all payroll amounts, and a review is performed by the Utility Department Supervisor who works under the direct supervision of the City Clerk. As a result, there is no independent review of automatic payroll disbursements. Payroll records indicate the city paid wages totaling \$2,290,163 with related tax withholdings of \$385,963. Payments made to third party employer benefit providers totaled \$512,680.

To ensure payroll transactions are valid and properly approved, they should be reviewed and approved by someone independent of the City Clerk's duties.

## 8.6 Timesheets

Supervisors do not always sign timesheets indicating their review and approval. Of 15 timesheets reviewed, 13 were not signed by a supervisor. Additionally, these 13 unapproved timesheets included one payment of overtime, one leave request which was not approved in accordance with city policy, one instance where a leave request form was not completed, and one calculation error in the number of hours worked.

Effective documented, supervisory reviews are necessary to ensure accuracy of hours worked, time recorded, leave taken, and policies are being followed.

## Recommendations

The Board of Aldermen:

- 8.1 Establish procedures to ensure IRS regulations are followed regarding the taxing and reporting of employee compensation and benefits.
- 8.2 Require usage logs be maintained to differentiate between personal, commuting, and business mileage; and ensure commuting and personal mileage are reported in compliance with IRS requirements.
- 8.3 Ensure all persons hired are properly classified as employees or independent contractors in compliance with state and federal laws and regulations, and all compensation paid is subject to income and payroll taxes and properly reported.
- 8.4 Ensure all future Missouri Peace/Reserve Officer Commissioning/Employment Record forms are submitted within the required thirty days, and continuing law enforcement education training requirements for peace officer licensure are verified prior to commissioning city law enforcement personnel.



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- 8.5 Ensure automatic payroll deposits and related transactions are properly reviewed and approved by someone independent of the City Clerk's duties.
- 8.6 Ensure timesheets are signed by supervisors to document their review and approval.

## Auditee's Response

*The Board of Aldermen provided the following written responses:*

- 8.1 *All regulations of the IRS shall be followed in full, and the procedures to make certain of such compliance, in accordance with advice from legal counsel, are currently being implemented through human resources and City Clerk procedural changes.*
- 8.2 *Vehicle logs will be utilized for all city owned vehicles, shall be overseen by the respective department heads responsible for their maintenance and care, and shall be reported to the Board monthly.*
- 8.3 *All such considerations as outlined in the report shall be attended and complied with according to all relevant regulations, statutes, and/or laws.*
- 8.4 *All such regulations and state requirements shall be complied with in the City of Bolivar. However, as a point of clarification, the City of Bolivar, via then Police Chief Steve Hamilton, did receive notice that his peace officer licensure for the State of Missouri through DPS was valid through August 11, 2013. Given that he left the City's employment as a peace officer prior to that stated expiration of his peace officer license, we do not believe the City, the Mayor, the Board, the Staff, or Chief Hamilton was in violation of Section 590.195, RSMo.*
- 8.5 *As part of the segregation of duties from the City Clerk, the automatic payroll deposits are being approved by the Human Resources Manager. However, the Board of Aldermen has been considering the possibility of outsourcing that particular task to an employment/payroll privatized service, both to control costs and to assure independently verifiable data on such deposits.*

## Auditor's Comment

- 8.4 It should be of concern to the Board of Aldermen that proper training documentation was not submitted to the DPS by Police Chief Hamilton. Continued noncompliance with law enforcement training and/or reporting requirements had Police Chief Hamilton remained employed by the city may have had negative financial or legal consequences.





## 9. City Procedures and Written Agreements

City procedures for business licenses and permits need improvement, and contractual agreements are not always followed or in writing.

### 9.1 Building licenses and permits

The city does not have adequate procedures in place to follow up on unpaid business licenses. The City Administrator waived building permit fees of \$7,422 without approval by the Board.

Our review of the 2012 business license fees due July 1, 2012, identified 120 of approximately 500 business licenses remained unpaid as of February 14, 2013. City personnel indicated staff was not available after the city's workforce reduction in April 2012 to ensure all licenses were properly paid. In addition, business licenses are not prenumbered and procedures are not in place to compare business licenses issued to the amount of fees deposited. Business license revenue decreased from \$24,738 to \$20,400 from 2011 to 2012.

Additionally, building permit inspection fees totaling \$7,422 for the construction of a commercial building were waived without approval by the Board. A notation on the permit documentation indicated that the fees were waived by the City Administrator to partially offset the cost of a sprinkler system for the building; however, board meeting minutes indicate that similar requests to reduce fees for other entities were not approved. For example, in March 2012 the Board voted to table a similar request from a nonprofit organization, and referred the issue to the City Attorney. There is no documentation in the board meeting minutes to indicate that the Board was aware of or approved the \$7,422 reduction in fees. Building inspection fees decreased from \$36,106 to \$20,626 from 2011 to 2012.

To ensure business license and building permit inspection fees are issued in a timely manner and properly assessed and collected, licenses should be prenumbered and reconciled to fees received, collection procedures developed for unpaid business licenses, and any fees waived should be approved by the Board of Aldermen.

### 9.2 Written agreements

The city does not have a written agreement to support economic development contributions of \$20,000 or with the Bolivar Special Road District for administrative services. In addition, the city paid the airport contractor \$20,148 more than provided in the written agreement.

#### Contributions

Despite the city's poor financial condition, the city leases real estate to a not-for-profit (NFP) organization for \$1 per year while incurring an annual debt service payment on the property of \$55,979. The written agreement between the city and the NFP does not document any governmental purpose or



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benefit to the city. In 2007 the city received a written legal opinion from its attorney indicating the only lawful use of this property was for the airport because of its location outside city limits. The city paid \$450,000 for this property in 2007 (see MAR finding number 3.1).

Additionally, the city contributed a total of \$10,000 to the Bolivar Chamber of Commerce and \$10,000 to the Springfield Business Development Corporation (SBDC) during 2012 and 2013 without entering into written agreements or requesting documentation to show how the funds were spent. Documentation from the SBDC indicated the amount was a cash contribution with no benefits provided to the donor in consideration of the gift. The city classified these payments as economic development.

The Missouri Constitution prohibits the use of public money or property to benefit any private individual, associations, or corporations except as provided in the constitution. Without a written agreement that clearly indicates the governmental purpose provided by these entities, these uses could be considered in violation of the constitution.

Road district

The city receives and disburses funds belonging to the Bolivar Special Road District (BSRD) without maintaining a written agreement. Road tax monies for the BSRD are deposited into the city's pooled cash bank account, tracked through a separate city fund, and disbursed monthly for road district expenses related to street lighting and road maintenance. The city received approximately \$177,250 in BSRD tax money during 2012.

Airport

The city maintains a written lease agreement with a private contractor to operate the city's airport for \$1 per month payable to the city, which includes providing aircraft for charter or hire; flight instruction; the sale, lease, and repair of aircrafts; and operating a restaurant. During 2012 the city paid \$20,148 to the contractor in commissions on fuel sold at the airport; however, the contract indicates the city retains control over fuel sales and does not provide for the payment of fuel commissions. Board meeting minutes for January 26, 2012, indicate the Board discussed relinquishing the airport fuel service operations; however, no vote by Board members was recorded in the minutes.

Conclusion

Written agreements are necessary to specify the services to be performed and the compensation to be paid for the services, provide a means for the city to monitor compliance with the contract terms, and protect the city in the event of a dispute over the terms of the agreement. Also, Section 432.070, RSMo, requires government contracts to be in writing.



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## Recommendations

The Board of Aldermen:

- 9.1 Ensure business licenses are prenumbered and reconciled to fees received. Collection procedures should be developed for unpaid business licenses, and any fees waived should be approved by the Board.
- 9.2 Ensure all agreements are in writing and monitor for compliance with contract terms.

## Auditee's Response

*The Board of Aldermen provided the following written responses:*

- 9.1 *In order to ensure accountability, building licenses shall be pre-numbered prior to issuance, and all such permits and licenses shall have been in place prior to construction beginning within city limits, as issued by the Building Inspector. The reconciliation of the licenses and the requisite fees associated to them shall be reconciled by an independent source to ensure accuracy of collection of said fees.*
- 9.2 *All written agreements described in this report will be in place and maintained with documented Board approval, and all future agreements shall be documented throughout their history so as to provide an open and transparent view into the thought process and actions that brought the agreements into existence, and the city will comply with those approved contracted terms.*

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## 10. Budgets and Financial Reporting

The city did not properly prepare or monitor budgets and has not complied with state law by publishing and reporting financial information.

### 10.1 Budgets

The city has not established adequate procedures to monitor or amend budgets, and city budgets do not contain all elements required by state law.

#### Budget monitoring

The Board does not adequately monitor budget-to-actual receipts and disbursements. As a result, budget amendments for some city funds were approved after year end, and the city exceeded budgeted appropriations for some city funds.

The Board is provided budget-to-actual financial information at its meetings, but the Board is not adequately reviewing the information to ensure disbursements remain within budgeted appropriations. On December 11, 2012, the Board approved an ordinance amending the 2012 budgeted appropriations. According to the ordinance, the specific city funds



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with budget amendments were listed on "Exhibit A" attached to the ordinance; however, we were provided two different copies of "Exhibit A." One copy increased appropriations for the Airport and General Funds and another copy only increased appropriations for the Airport Fund. As a result, it is not clear whether appropriations were increased for the General Fund. In addition, the Airport Fund had already exceeded appropriations in November 2012 by \$89,341, prior to the Board addressing any amendments to the budget. Further, in February and May 2012, the Board approved ordinances to amend the city's budget for the previous year ended December 31, 2011.

Section 67.040, RSMo, requires political subdivisions to keep disbursements within amounts budgeted but allows for budget increases if the governing body officially adopts a resolution setting forth the facts and reasons. In addition, Section 67.080, RSMo, provides that no disbursement of public monies should be made unless it is authorized in the budget. Proper monitoring and amending prior to disbursing funds is necessary for the budget to be an effective management tool and comply with state law.

Budget preparation

Budget documents for 2012 and 2013 do not include the actual beginning and estimated ending available resources for city funds. As a result, the Board is not using all available information to assist in effectively managing the city, and the public is not provided a complete overview of city finances. In addition, the 2013 budget document does not include receipts and disbursements related to the city's trash service. In 2012 the city's trash collections and disbursements totaled approximately \$417,000 and \$367,000, respectively. No explanation was provided regarding this omission.

Conclusion

Section 67.010, RSMo, requires the budget present a complete financial plan for the ensuing budget year and also sets specific guidelines for the format. A complete budget should include the beginning available resources and a reasonable estimate of the ending available resources. A complete and well planned budget, in addition to meeting statutory requirements, can serve as a useful management tool by establishing specific financial expectations for each area of city operations. It also assists in setting tax levies and utility rates and informing the public about city operations and current finances.

10.2 Financial reporting

The city does not publish financial statements or submit annual financial reports to the State Auditor's office as required by law.

The city last published a financial statement in June 2010 for the year ending December 31, 2009. The city did not file the 2011 and 2010 reports with the State Auditor's office until we brought it to their attention in January 2013.



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Section 79.160, RSMo, requires the Board to prepare and publish financial statements of each six month period which include a full and detailed account of the receipts, expenditures, and indebtedness of the city. In addition, Section 79.165, RSMo, states the city cannot legally disburse funds until the financial statements are published. Section 105.145, RSMo, requires each political subdivision to file annual reports of its financial transactions with the State Auditor's office.

## Recommendations

The Board of Aldermen:

- 10.1 Properly monitor actual disbursements compared to budgeted amounts, ensure disbursements do not exceed budgeted appropriations, and prepare annual budgets that contain all information as required by state law.
- 10.2 Publish semiannual financial statements and submit annual financial reports to the State Auditor's office as required by state law.

## Auditee's Response

*The Board of Aldermen provided the following written responses:*

- 10.1 *The historical city budgeting practices of previous administrations did not reflect the methodology preferred by the current administration, which includes having a recording of the vote of Aldermen, the appropriate ordinance pertaining to that vote, and a budget amendment commensurate to the expenditure where necessary. In this manner, the budget will be continually maintained throughout the year, rather than waiting to the end of the year to assign budget amendments, as was the previous practice. All budgetary requirements set forth by law and appropriate regulation will be strictly followed by the city.*
- 10.2 *The semi-annual financial statements shall be published and the annual financial reports shall be submitted to the State Auditor's office, as required by State law.*

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## 11. Utility System Controls

Sewer rates were increased without preparing a statement of costs as required by law, controls over utility adjustments and deposits need improvement, and a reconciliation of customer utility deposits to accounting records is not performed.

### 11.1 Water and sewer rates

The city increased sewer rates in December 2012 without preparing a statement of costs or maintaining documentation of how the rate increase was calculated. The city contracted with and paid an individual \$2,000 to compare the city's water and sewer rates to rates of other similar municipalities. The city used this comparison when increasing the sewer rates rather than performing a review of the actual costs to provide the



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services. Additionally, water rates have not been reviewed or changed since 2006. Without a current cost study to support the rates charged for water and sewer services, it is unclear whether the rates assessed for these services are set at an appropriate level.

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 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.

## 11.2 Utility adjustments

Controls over adjustments posted to customer utility accounts need improvement. Adjustments are sometimes needed to change a customer account balance, including writing off a balance, waiving late charges, or reducing a balance due to water leaks. The city uses a manual form to document the approval of adjustments, but has no procedures in place to compare adjustments posted to the computer to the manual approval forms to ensure all adjustments are properly approved and only approved adjustments are made to customer accounts. While the computerized utility system assigns transaction numbers to utility adjustment transactions, these numbers are not used to match computerized adjustments to manual approval forms. Additionally, reports of adjustments are not generated and reviewed and approved. Further, the city's utility system is capable of documenting supervisory approval for all created, edited, and adjusted utility account files electronically; however, this feature is not utilized.

To ensure adjustments to utility accounts are valid and approved, adjustment transactions should be compared to manual approval forms, adjustment reports should be generated and approved, or the city should begin using the electronic approval feature in their utility computer system.

## 11.3 Utility deposits

The total of customer utility deposits is not reconciled to the amount reported in the city's accounting records. As of December 31, 2012, utility system records indicate deposits totaling \$114,085 were being held; however, the city's accounting records indicated \$116,281 was being held in the city's pooled cash account for utility deposits.

Periodic reconciliation of the customer utility deposit listing to the accounting records is necessary to ensure sufficient funds are reserved to cover potential utility deposit liabilities and allow for the prompt detection of discrepancies.



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## Recommendations

The Board of Aldermen:

- 11.1 Ensure a statement of costs is prepared to support utility rate increases, and document formal reviews of water and sewer rates periodically to ensure revenues are sufficient to cover all costs of providing these services.
- 11.2 Ensure all adjustments are properly approved.
- 11.3 Ensure customer deposits are reconciled to the cash balance and differences are investigated.

## Auditee's Response

- 11.1 The Board of Aldermen initiated Part I of the rate study, using an outside source to examine the comparative affordability of city water and sewer rates in relation to similar cities, regarding size and other identifiable variables. Part II of the rate study shall be undertaken in the very near future, and will include the statement of costs required for the final rate establishment.*
- 11.2 All adjustments of the of utility bills shall be approved by the Utilities Clerk and the City Administrator, before they are applied to the accounts in question.*
- 11.3 All customer deposits per the utility system will be reconciled to amount of deposits reflected in the accounting records on a timely basis.*

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## 12. Property Controls and Records

City property records are not complete, and fuel and vehicle usage is not properly monitored. In addition, the police department needs to improve seized property records and procedures.

### 12.1 Asset records and inventories

Property records do not include all necessary information, physical inventories are not routinely performed, and some city property is not tagged or properly identified as belonging to the city.

For example, asset records provided to us included lists of vehicles and equipment, most with no information, such as purchase date, asset cost, or identifying numbers. Additionally, city personnel indicated that an annual physical inventory of city property has not been performed in several years.

Adequate city property records and performance of annual physical inventories are necessary to secure better internal control over city property and provide a basis for determining proper insurance coverage. Property



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control tags help improve accountability and ensure assets are properly identified as belonging to the city.

12.2 City fuel and vehicle usage

The city has not established effective monitoring procedures regarding fuel and vehicle use. Without effective procedures, fuel could be purchased by employees for non-city use and the city's vehicle fleet may not be used in an efficient and appropriate manner.

According to the city's vehicle listing, at January 2013 the city maintained 53 vehicles for various city services including police, fire, parks, airport and public works. During the year ended December 31, 2012, the city incurred fuel costs of approximately \$136,000.

The city maintains bulk fuel tanks and uses fuel cards at local gas stations to fuel vehicles. Fuel logs do not include all fuel pumped from city bulk fuel tanks and these fuel logs are not reviewed or used to reconcile fuel used to fuel purchased. Also, employees are not required to submit fuel tickets associated with fuel pumped at local gas stations, and while odometer readings are required to be input when fueling, these reports are not reviewed by department directors for reasonableness. Further, fuel bills are not always reviewed and approved by department supervisors before payment is made.

Additionally, usage logs are not maintained for city vehicles to ensure vehicles are properly utilized and to ensure the vehicle is a necessary and justified expense. According to the city's vehicle listing at January 2013, several vehicles were not assigned to a specific city department, and we noted several vehicles were not being utilized. An evaluation of usage to determine if the number of vehicles is necessary and justified has not been performed.

Maintaining and reviewing vehicle mileage logs and fuel usage logs and comparing these logs to fuel purchases is necessary to ensure vehicles are properly utilized, prevent paying vendors for improper billing amounts, and decrease the risk of theft or misuse of fuel occurring without detection. Logs should provide sufficient details to allow the city to effectively monitor vehicle use and fuel costs. In addition, receipts for fuel purchases made on the city's fuel cards should be submitted to the finance department to allow more effective reviews of fuel billings.

12.3 Police department seized property controls

The police department does not maintain a complete control log of evidence and seized property. As a result, there is no assurance all property was properly handled, controlled, and safeguarded. Additionally, many items have been held by the police department for many years without proper disposition.





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The police department maintains seized property records on three different computerized systems, with each system tracking property for a separate date range depending on when the property was received. When a new computerized property system was put in place, inventory from the prior system(s) was not merged into the newer system. As a result, one complete control log of property is not maintained, making records cumbersome and difficult to follow. There is also no documentation to indicate that a physical inventory of seized property has been performed and compared to the computerized inventory records. As a result, there is no assurance all seized property is accounted for properly.

Additionally, the police department is holding numerous property items that should be disposed. Our review of property recorded on the three computerized systems determined that the police department was holding at least \$27,000 in cash in the property room. We selected one cash seizure totaling \$3,914 and determined that the related theft case was finalized in 2010 and the cash should be returned to the victim. Further, numerous other property items, such as guns, have also been held for many years without action by the police department to properly dispose of the property.

Several concerns regarding the improper use or disposition of seized property inventory were brought to our attention and were referred to the proper law enforcement agency for further investigation.

To ensure evidence and seized property are adequately controlled and safeguarded, complete inventory records should be maintained and a physical inventory should be performed periodically with the results compared to inventory records. In addition, the proper disposal of old evidence and seized property would reduce the risks of unauthorized access, use, or theft, and the related potential liability of the city for such possible improper use or access.

## Recommendations

The Board of Aldermen:

- 12.1 Ensure property records are adequately maintained and include all pertinent information for each asset, such as cost, acquisition date, and identifying number; annual physical inventories are conducted; and city assets are tagged to display ownership.
- 12.2 Establish adequate records and procedures to effectively monitor vehicle and fuel use. Bulk fuel inventory records should be maintained, invoices should be reviewed and approved, and fuel use should be reconciled to fuel purchases. Any discrepancies should be investigated. The Board should also ensure receipts for fuel purchases are submitted to the finance department and reconciled with fuel invoices. In addition, the Board should evaluate vehicle usage to determine if all vehicles are needed.



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- 12.3 Ensure the police department maintains a single complete inventory record of all evidence and seized property, performs a physical inventory of all items and compares it to the inventory records, and properly disposes of older seized items as applicable.

## Auditee's Response

*The Board of Aldermen provided the following written responses:*

- 12.1 *Property records for the city are in the process of being updated in full, including a photographic record of all properties, to be maintained within the city vault for the purposes of insurance and property maintenance accountability issues.*
- 12.2 *The Board of Aldermen will begin seeking outside advice as to how to best implement fuel management procedures, and examine whether fuel dispensing equipment may be needed in the future, as well as to assess vehicle needs for the city.*
- 12.3 *The Police Department, under the guidance of Chief Mark Webb, has hired two professionals with years of experience in police property management and management of property and evidence rooms, and they are undertaking a complete audit of the city's property and evidence room. Policies and procedures are being implemented and requisite training is being employed to ensure that professionalism and accountability in all areas are maintained.*

## 13. Ordinances and Sunshine Law Issues

Some problems were noted with city ordinances and some topics discussed in closed meetings do not comply with state law.

### 13.1 City ordinances

Some city ordinances are not followed and some fees are not consistent with or authorized by city ordinance. For example, city code provides for the election of a city collector every two years and assigns duties to the position; however, city officials indicate the City Collector performs no city functions. Also, some license and utility fees are not set by ordinance or charged in accordance with city ordinance.

Since the ordinances represent legislation passed by the Board of Aldermen to govern the city and its residents, it is important the ordinances are followed and up-to-date.

### 13.2 Record requests

The city does not estimate fees for record requests consistently and the hourly rates charged for research are significantly more than the hourly research rate stated on the city's request form.



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For example, a June 6, 2012, Sunshine Law request for employee salaries on June 1, 2012, and December 31, 2012, resulted in 5 copies provided to a citizen at a charge of fifty cents, while a Sunshine Law request on the same date for very similar information (employee wages by department on June 1, 2012, and December 31, 2012) resulted in an estimated cost totaling \$140 (5 hours labor at \$28.12 per hour) for a different requestor. Because of the cost, the second requestor did not obtain the information. The City Clerk indicated she believed the two requests were different because the second requestor wanted the information by city department; however, we requested the same information from a city employee and within approximately 15 minutes we received a computer printout with the requested information.

Additionally, the city's request for records form indicates a rate of \$10 per hour will be charged for in-depth research, not \$28.12. The City Clerk indicated the actual hourly rate of the employee who would be conducting the research was used to estimate the cost rather than the rate on the city's request form.

Section 610.026, RSMo, allows a maximum of 10 cents per page plus an hourly fee for copying public records, not to exceed the average hourly rate of pay of clerical staff, plus the actual costs incurred for any research time for processing the request. To ensure fair and equitable treatment of citizens, the city should ensure its charges for record requests are in compliance with state law, are properly reflected on the record request form, and are consistently applied to all requestors.

### 13.3 Closed meeting discussions

Some topics discussed and voted on in closed board meetings were not allowable under the Sunshine Law. For example, on March 15, 2012, the Board set the salary, benefits, and residential requirement for the vacant city administrator position; on May 10, 2012, and November 13, 2012, the Board discussed and approved changes to employee health insurance benefits; and, on December 11, 2012, the Board discussed recognizing the city attorney's service to the city.

The Sunshine Law, Chapter 610, RSMo, limits discussions in closed meetings to only those items specifically allowed by law.

## Recommendations

The Board of Aldermen:

- 13.1 Ensure city ordinances are followed and maintained in an up-to-date manner and reflect current city operations.
- 13.2 Ensure charges for record requests are in compliance with the Sunshine Law, properly reflected on the record request form, and consistently applied to all requestors.



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- 13.3 Ensure only topics allowed by state law are discussed in closed board meetings.

## Auditee's Response

*The Board of Aldermen provided the following written responses:*

- 13.1 *The city ordinances shall be maintained and followed by the Board of Aldermen and all staff. In addition, the city shall begin the process of actively updating the city ordinances to remove antiquated, or otherwise unnecessary ordinances, and to make certain that ordinances kept by the city are worded to correctly reflect the intentions of the Board of Aldermen.*
- 13.2 *Records requests will only be charged according to what the ordinances in place permit the requesting citizen to be charged. However, the regulating ordinance in question is another of those that must be updated in order to more accurately reflect the costs to the city today for the research that is sometimes required to fulfill the request.*
- 13.3 *No topics shall be discussed by the Board of Aldermen in executive session, which are not permitted by the specifics of the Missouri State Sunshine Law. The Board shall be scheduling a session with the Attorney General's office to receive training on all matters relating to the Sunshine Law and its requirements, and the City Attorney will diligently work to keep the Board on acceptable topic discussions during executive sessions.*

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# City of Bolivar

## Organization and Statistical Information

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The City of Bolivar is located in Polk County. The city was incorporated in 1835 and is currently a fourth-class city. The city employed 63 full-time employees and 4 part-time employees on December 31, 2012.

City operations include fire services, law enforcement services, utilities (water/sewer), airport services, and recreational facilities (aquatics center, golf course, and parks).

### Mayor and Board of Aldermen

The city government consists of a mayor and eight-member board of aldermen. The members are elected for 2-year terms. The mayor is elected for a 2-year term, presides over the board of aldermen, and votes only in the case of a tie. The Mayor and Board of Aldermen at December 31, 2012, are identified below. The Mayor is paid \$500 per month and members of the Board of Aldermen are paid \$291.67 per month. The compensation of these officials is established by ordinance.

John Best, Mayor  
Julie Bond, Alderman  
Terry Cornell, Alderman  
John Credille, Alderman  
Darren Cowder, Alderman  
Arleen Ferguson, Alderwoman  
Vicki Routh, Alderwoman  
Steve Skopec, Alderman  
Christopher Warwick, Alderman