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Missouri State Auditor

City of Joplin

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Missouri State Auditor

CITIZENS SUMMARY

Findings in the audit of the City of Joplin

Master Developer

City of Joplin officials did not ensure the selection process for the master developer was independent and free of bias. The request for proposal may have been written to favor Wallace Bajjali Development Partners, L.P., and documentation supporting the selection of the master developer was insufficient to support the city's decision. Some of the points awarded to Wallace Bajjali in the evaluation process were not reasonable. The predevelopment agreement was also written to benefit Wallace Bajjali and did not adequately protect the city. The city did not adequately monitor the predevelopment agreement for compliance with its terms and did not hold Wallace Bajjali accountable for failing to comply with obligations and requirements, including failure to submit a master plan and progress schedule documents. Some expenses related to the creation and presentation of the master plan were erroneously reimbursed to Wallace Bajjali, and many pursuit cost invoices submitted for reimbursement by Wallace Bajjali were inappropriate. Some of the provisions of the land assemblage agreement were unclear, and some amounts paid to Wallace Bajjali for transfer fees were questionable or excessive. As of January 26, 2015, the city had paid Wallace Bajjali \$1 million in pursuit costs and \$475,500 in land assemblage fees, and no redevelopment had occurred.

Purchases of Redevelopment Area Real Estate and Conflicts of Interest

The Joplin Redevelopment Corporation (JRC) failed to obtain independent appraisals or adequately research previous real estate transactions when purchasing multiple properties for redevelopment, and, as a result, paid substantially more for some of the properties than necessary. The JRC purchased 16 out of 36 properties in the redevelopment zone from Four State Homes (FSH), a real estate development company, which had purchased the 16 properties from the original landowners, and then sold the properties to the JRC, in most cases for substantially higher prices (39 percent higher than the original purchase price), a short time later. Several activities involving former Mayor and current Councilmember Woolston represent potential conflicts of interest, including his signing the real estate sales contracts as the broker on these 16 properties originally purchased by FSH and subsequently sold to the JRC for much higher prices. The JRC entered into multiple agreements to sell property to Wallace Bajjali and his affiliates, who failed to comply with contractual obligations. Despite these failures, the JRC and city extended real estate purchase contract deadlines related to the land assemblage agreement on multiple occasions, with no new provisions to increase the likelihood that Wallace Bajjali and partners would fulfill contract requirements.

Disaster Recovery

The city Finance Department did not file reimbursement claims in a timely manner for approximately \$10.9 million in disaster recovery grant funds. The Finance Department also did not allocate city labor and equipment expenses, totaling more than \$1.6 million, incurred after the tornado to the applicable Federal Emergency Management Agency (FEMA) projects for

reimbursement, or submit supporting documentation to the city's insurance company to claim additional proceeds, totaling approximately \$1 million, timely. The city did not take proper action to prevent duplication of benefits from federal disaster recovery funds and other sources. The city did not ensure contracts with various vendors providing services contained suspension and debarment clauses required by city policy and grant provisions. Performance bonds were not required to be furnished by contractors as required by state law related to a disaster recovery grant for soil remediation. The city did not establish adequate and consistent policies and procedures to administer FEMA mutual aid grant funds.

Sunshine Law Issues

The city did not always comply with the Sunshine Law. Minutes were not prepared for 10 of 24 closed sessions held from the date of the tornado through the year ended October 31, 2013, as required. City officials improved procedures and maintained minutes for 24 of 25 closed sessions held from November 1, 2013, through February 28, 2015. Some issues discussed in closed meetings were not allowable under the Sunshine Law. The Council did not prepare meeting minutes for work sessions, which were held on a fairly regular basis, and the city did not always give proper notice of council meetings.

Procurement Procedures and Contracts

The city and the JRC did not solicit proposals, enter into or update written contracts, or ensure invoices were adequate for several professional services. The city did not always follow its own bid policy for goods and services. The city does not have a formal written change order policy, and neither the City Manager nor the Council approved change orders for significant amounts or changes in scope of services. The Public Works Department poorly planned projects, resulting in significant change orders, and did not competitively bid significant changes to construction projects. The city did not properly monitor its contract or expenditures paid to the Joplin Area Chamber of Commerce.

Joe Becker Stadium

The city entered into an agreement with a baseball organization without conducting a feasibility study and purchased property without obtaining a current appraisal.

Disbursements and Payroll

Adequate controls and procedures over manual and system generated checks have not been established. Purchase orders were sometimes approved or prepared after the date of the corresponding invoices. Some city disbursements and purchases appeared to be unreasonable or have no benefit to the city. The city used grant monies to fund a salary increase although the reason for the increase did not pertain to grant related duties.

Overhead Cost Allocations and Restricted Funds

The city has not established adequate procedures to allocate overhead costs and ensure restricted monies are used only for intended purposes. Some city parks/stormwater and transportation sales tax monies were used for Joplin School District projects rather than city projects.

Fuel and Vehicle Use and Vehicle Allowances

The city does not have adequate procedures to review and evaluate the reasonableness of vehicle and equipment usage, and access to the city's public works facility and unleaded fuel pumps is not adequately restricted. The city allows 62 city vehicles to be taken home by city employees and has

not established procedures to adequately review and document the necessity and justification for use of the vehicles. Forty of these vehicles are driven to addresses outside the city. The city has no documentation to show vehicle allowance amounts are reasonable or necessary compared to actual expenses incurred.

Cash Handling Controls and Procedures	Significant improvement is needed in the handling of city monies including the segregation of duties; receipting, recording, and depositing/transmitting of city monies; reconciliation of licenses and permits; petty cash and change funds; and the security of monies.
Finance Department Controls and Procedures	Improvement is needed in the city's handling of adjustments and write-offs related to the sewer system and special tax bills, assessment of late payment penalties on delinquent sewer accounts, and assessment of administrative fees on special tax bills.
Financial Issues and Reporting	The city has not prepared adequate long-range plans for the Health Self Insurance Fund. The golf course and airport operate at a loss and need continual financial support from other city funds. The city and the municipal division do not have procedures in place to identify traffic violation tickets and the associated fines and court costs collected, and did not accurately calculate the percent of annual general operating revenue from fines and costs related to traffic violations.
Internal Audit Function	The city does not have an internal audit function and some recommendations made by the city's independent financial statement auditor had not been implemented.

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 Joplin

Table of Contents

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

Management Advisory Report - State Auditor's Findings	
1. Master Developer	4
2. Purchases of Redevelopment Area Real Estate and Conflicts of Interest	23
3. Disaster Recovery	33
4. Sunshine Law Issues	41
5. Procurement Procedures and Contracts	43
6. Joe Becker Baseball Stadium	54
7. Disbursements and Payroll	56
8. Overhead Cost Allocations and Restricted Funds	62
9. Fuel and Vehicle Use and Vehicle Allowances	65
10. Cash Handling Controls and Procedures	68
11. Finance Department Controls and Procedures	74
12. Financial Issues and Reporting	78
13. Internal Audit Function	84

Organization and Statistical Information	85
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Appendixes

A Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	89
B Statement of Revenues, Expenditures, and Changes in Fund Net Position - Proprietary Funds	90
C Summary of Disaster Recovery Funding and Expenditures	91



NICOLE R. GALLOWAY, CPA
Missouri State Auditor

To the Honorable Mayor
and
Members of the City Council
Joplin, Missouri

The State Auditor was petitioned under Section 29.230, RSMo, to audit the City of Joplin, Missouri. We have audited certain operations of the city in fulfillment of our duties. The city engaged Cochran Head Vick and Company, P.C., Certified Public Accountants (CPAs), to audit the city's financial statements for the years ended October 31, 2013 and 2014. To minimize duplication of effort, we reviewed the report and substantiating working papers of the CPA firm for the year ended October 31, 2013, audit, since at the time of our audit, the CPA firm's audit for the year end 2014 was not complete. The scope of our audit included, but was not necessarily limited to, the year ended October 31, 2014. 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.

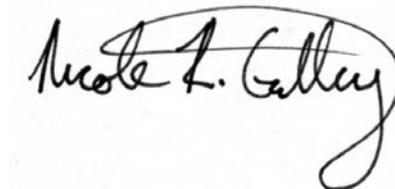
Our methodology included reviewing minutes of meetings, written policies and procedures, financial records, and other pertinent documents; interviewing various personnel of the city, as well as certain external parties; and testing selected transactions. We obtained an understanding of internal controls 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 and procedures. The accompanying Management Advisory Report presents our findings arising from our audit of the City of Joplin.

An audit of the *Twenty-Ninth Judicial Circuit, City of Joplin Municipal Division*, fulfilling our obligations under Chapter 29, RSMo, is still in progress, and any additional findings and recommendations will be included in the subsequent report.

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

Nicole R. Galloway, CPA
State Auditor

The following auditors participated in the preparation of this report:

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City of Joplin

Management Advisory Report

State Auditor's Findings

1. Master Developer

On May 22, 2011, Joplin was struck by an EF-5 tornado, which resulted in at least 161 deaths and more than 1,000 injuries; there was destruction of thousands of houses and severe damage to numerous apartments, businesses, and schools, including a medical center. The tornado-damaged area, which required cleanup and rebuilding, was approximately one mile wide and 13 miles long.

The city and the Joplin Redevelopment Corporation (JRC), a component unit of the city, entered into a predevelopment agreement on July 2, 2012, and a land assemblage, disposition, and management services agreement on August 20, 2012, with a development firm headquartered in Sugar Land, Texas, a suburb of Houston, Wallace Bajjali Development Partners, L.P. (Wallace Bajjali). The stated purpose of the relationship with the master developer was to create a public-private partnership to redevelop and invigorate the area most affected by the tornado. This redevelopment was to be accomplished by, among other things, replacing lost residential and commercial property. Additionally, these redevelopment efforts were to be used to build upon existing city goals for new development and redevelopment in Joplin.

The city did not ensure the selection process for the master developer was handled by persons independent and free of bias; and, documentation supporting the selection of the master developer was insufficient to support the city's decision. The predevelopment agreement was written to benefit Wallace Bajjali and did not adequately protect the city; and Wallace Bajjali failed to comply with several contractual requirements and obligations. Some pursuit costs, defined in the predevelopment agreement as expenses related to the creation and presentation of the master plan and performance of predevelopment services, were erroneously reimbursed to Wallace Bajjali; many pursuit cost invoices submitted for reimbursement by Wallace Bajjali were inappropriate; and various other concerns related to pursuit costs were identified. Some of the provisions of the land assemblage agreement were unclear, and some amounts paid to Wallace Bajjali for transfer fees were questionable or excessive. As of January 26, 2015, the city had paid Wallace Bajjali \$1 million in pursuit costs and \$475,500 in land assemblage fees, and no redevelopment had occurred, more than 2 1/2 years after the effective date of the predevelopment agreement.

In December 2014, due to turnover of key city officials and the lack of critical city records to explain the city's decision making process regarding the master developer, we issued subpoenas to compel testimony and for production of relevant records. After we took depositions on January 8 and 9, 2015, and reviewed additional records provided, we notified appropriate law enforcement agencies and the Jasper County Prosecuting Attorney in January 2015, of facts in our possession, which pertain to possible violations of state and/or federal statutes and possible malfeasance, misfeasance, or



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

nonfeasance. On January 26, 2015, the city was notified by email that the two principal officers (David Wallace and Costa Bajjali) of Wallace Bajjali had resigned from the company. David Wallace was the Chief Executive Officer and worked primarily with the city. He resigned from the company and all its subsidiaries and Joplin projects on January 7, 2015; however, the city was not notified of his resignation until January 26, 2015. Costa Bajjali was the President of Wallace Bajjali. On February 3, 2015, the city terminated both the predevelopment and land assemblage agreements with Wallace Bajjali "as a result of demonstrated facts of insolvency, and for committed acts of gross negligence, fraud, and willful misconduct."

1.1 Selection process

The city did not ensure some individuals selected by the Citizens Advisory Recovery Team (CART) Implementation Task Force (ITF) to draft the master developer request for proposal (RFP) requirements and evaluate the proposals received were independent and free of bias. The city also did not ensure documentation prepared by the 10 members of the CART ITF serving as RFP evaluators was sufficient to support the significant point differences awarded to each respondent.

The CART was formed on June 30, 2011, at the suggestion of the Federal Emergency Management Agency (FEMA) Long-Term Community Recovery Task Force. The CART was comprised of city officials, business leaders, and community leaders and residents; and its initial purpose was to gather community input and make recommendations to the City Council (Council) regarding rebuilding and redevelopment of the city. The first community meeting was held on July 12, 2011. On November 7, 2011, the CART presented a report to the Council summarizing the citizens vision for a rebuilt Joplin, and a list and conceptual drawings of the proposed projects. At the November 7, 2011, Council meeting, the CART ITF was recommended by then Mayor Mike Woolston and was established to implement the redevelopment plans recommended in the CART report. The ITF was comprised of representatives from the CART, the city, the school district, and the chamber of commerce, and was responsible for the selection of the master developer. In a memorandum dated December 12, 2011, the ITF recommended the Council execute a RFP for a master developer. The Organization and Statistical Information section provides a list of key CART members and CART ITF members. Also included is a list of JRC members.

The city issued a RFP and qualifications for a master developer for the Joplin redevelopment effort on December 28, 2011. The RFP required submission of proposals and qualifications by January 31, 2012. Interviews for potential master developers were held on February 27 and 29, 2012, in Joplin.

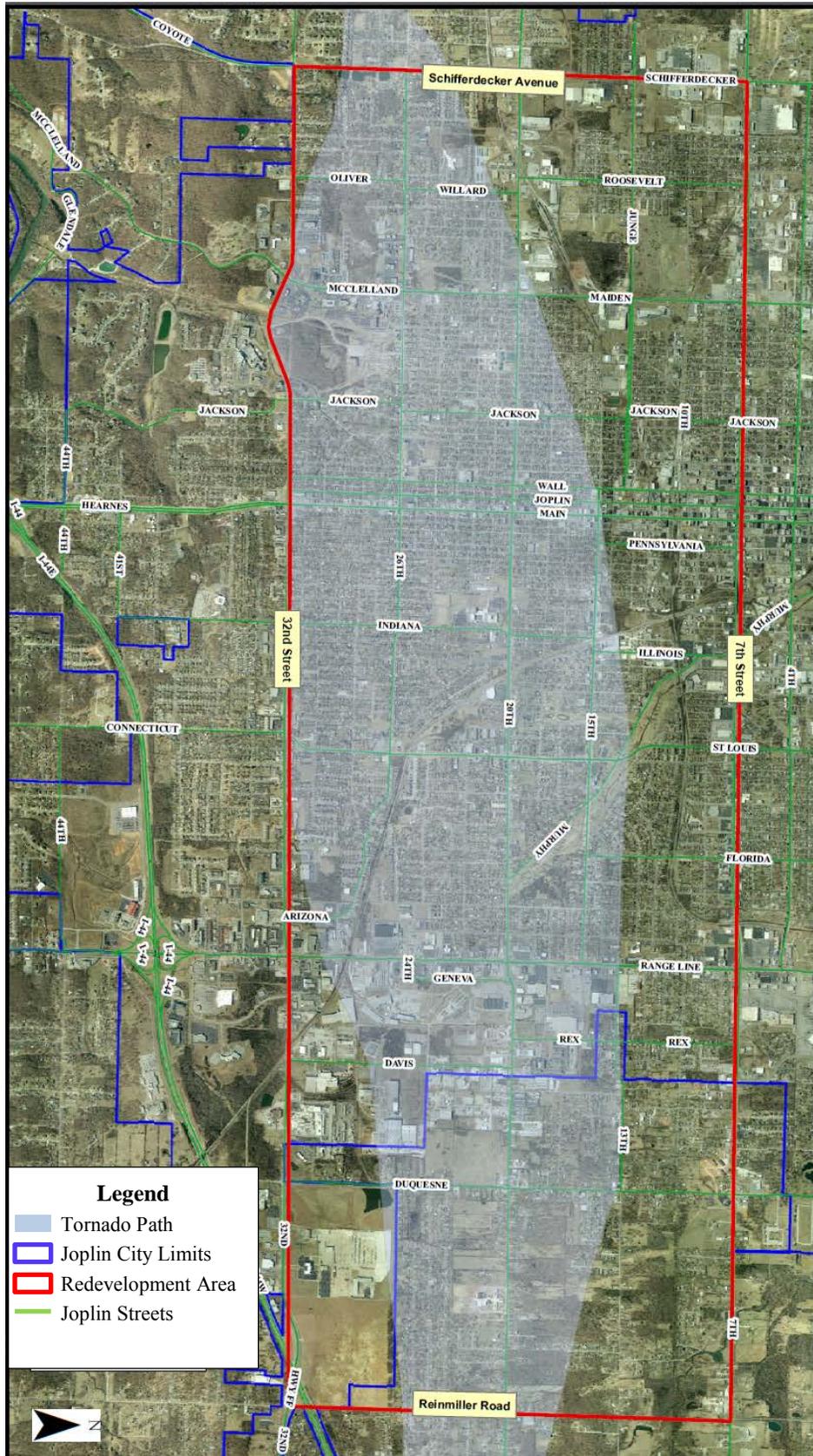


City of Joplin
Management Advisory Report - State Auditor's Findings

The redevelopment area includes the extended disaster recovery area directly impacted by the May 22, 2011, tornado, the downtown area of Main Street connecting the downtown to 20th Street, and other locations mutually agreed to by the city and the master developer. A map of the redevelopment area, which includes portions of both the cities of Joplin and Duquesne, follows:



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





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

Independence and conflicts
of interest

Wallace Bajjali may have benefited from favorable treatment during the RFP and qualifications preparation and evaluation process because the RFP preparer and two evaluators had been meeting with David Wallace or employees of Wallace Bajjali before the RFP was drafted and proposals solicited. In addition, the city did not take sufficient actions to eliminate potential conflicts of interest before awarding the master developer contract.

The Joplin Chamber of Commerce President Rob O'Brian (a member of the ITF) drafted the RFP and qualifications for the master developer during December 2011. Chamber invoices indicate Chamber of Commerce President O'Brian and another chamber employee, Gary Box, traveled to Houston, Texas, on October 1, 2011, to meet with representatives of Wallace Bajjali. They also met with David Wallace in Joplin on October 13, 2011. Box later evaluated the potential master developer proposals and was subsequently hired by Wallace Bajjali in August 2012. Additionally, an employee of Wallace Bajjali submitted a parking invoice from Dallas, Texas, dated December 5, 2011, which indicated he was meeting with city of Joplin representatives. Chamber credit card invoices indicated Chamber of Commerce President O'Brian was also in Dallas, Texas, on December 5, 2011. Additionally, in sworn testimony Chamber of Commerce President O'Brian indicated he first met with Wallace in August 2011, and met with him several other times during the fall of 2011. Also in sworn testimony CART Chairperson Jane Cage indicated she had met Wallace a few months after the tornado and at other times during the fall of 2011. Chairperson Cage was also a member of the CART ITF and an evaluator. Chairperson Cage developed the evaluation scorecard, evaluated the master developer respondents and completed a scorecard, and compiled the totals of the scorecards. It is questionable why the Chamber President, CART Chairperson, and another chamber employee had multiple meetings with a potential master developer company or its partners prior to drafting and evaluating the RFPs. In sworn testimony Chamber of Commerce President O'Brian indicated Wallace suggested the "master developer concept" for redevelopment of the city, and a Wallace Bajjali employee emailed him a template of a RFP at Wallace's request. However, Chamber of Commerce President O'Brian indicated he deleted the email. These prior relationships with Wallace Bajjali may have impaired the RFP preparer and the evaluators' ability to act impartially when preparing and evaluating the RFPs.

Some of the RFP requirements and terminology may have been favorably written for Wallace Bajjali. The RFP included terminology regarding pursuit costs as a form of compensation, which was not used in proposals submitted by the 5 other RFP respondents. The ability to estimate these types of costs was also questioned by one of the respondents. In addition, some of the RFP requirements likely would have required the respondents more than a month to prepare and were questioned by other respondents.



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

For example, the RFP requested submission of letters of intent, an action plan and time frame for project completion, and an anticipated budget for the projects.

It is unclear how Wallace Bajjali was able to obtain 11 letters of intent for various projects within the redevelopment area before the concept of a master developer was presented to the City Council or a RFP was issued, unless the firm had prior knowledge of potential project details. Wallace Bajjali submitted 11 letters of intent dated prior to the ITF's December 12, 2011, recommendation to the Council to retain a master developer (8 of the 11 letters were dated in September 2011 and the remaining letters were dated in November 2011). In total Wallace Bajjali's proposal included 15 letters of intent. Six of the letters utilized the same basic language and appear to be based on a letter of intent template. Of these 6 letters, 5 were dated in September 2011, and 1 was undated and noted "DRAFT LETTER OF INTENT." Another letter dated in September 2011, appeared to use an abbreviated version of the same letter of intent template. The additional 2 letters dated in September 2011, had unique language. Of the 3 letters dated in November 2011, 2 had unique language. The remaining November 2011 letter refers to Wallace Bajjali as the master developer although the city had not made a decision regarding this approach. We were unable to confirm the company submitting this letter existed and the letter was signed by an individual who incurred expenses in August and September of 2011, that Wallace Bajjali submitted as pursuit costs for reimbursement by the city. The 3 remaining letters were dated January 2012 and used unique language. These letters documented various entities' non-binding interest in building, locating, or otherwise doing business in the redevelopment area. While Wallace Bajjali submitted 15 letters of intent with its RFP response, other respondents provided a limited number of letters. Three respondents provided no letters of intent and 2 others provided 5 to 8 letters of intent all dated subsequent to the RFP issuance date.

Additionally, in sworn testimony the city's Planning and Community Development Director, Troy Bolander, indicated he was shown Wallace Bajjali's letters of intent prior to the issuance of the RFP and even before the city determined it was going to hire a master developer.

The second highest ranked respondent indicated in its RFP response that, "Redevelopment of this area will take many, many years and perhaps decades. It is virtually impossible to outline a specific plan through completion of the redevelopment." The respondent also indicated, "It is quite difficult to estimate expected out of pocket costs without specific knowledge of the agreed to scope. . ." and "this is a long term project which will require professional services from several disciplines. These primary service providers should be in direct contract with the City and most are not accustomed to working in a contingent fee environment."



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

Wallace Bajjali subsequently hired 2 of the 10 RFP evaluators and former chamber employees in August 2012, a month after entering into the predevelopment agreement. In sworn testimony Chamber of Commerce President O'Brian indicated the chamber has no policies limiting a chamber employee from accepting employment from a vendor he/she worked with on a chamber project.

According to Chapter 7 of the National Association of State Procurement Officials (NASPO) publication (best practices) *State and Local Government Procurement: A Practical Guide*, the independence of the evaluation committee is essential to its fairness.

Evaluation

The city did not ensure documentation prepared by the ITF evaluators was sufficient to support the points awarded to each respondent, and some of the points awarded to Wallace Bajjali were not reasonable. The city awarded the contract to the vendor that scored the highest based on the 24 evaluation criteria. The following table shows the points awarded to respondents.



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

Criteria ¹	Wallace	Other Respondents				
	Bajjali	#1	#2	#3	#4	#5
1. Success of the track record.	45	45	43	37	17	21
2. Financial capacity and stability.	37	38	36	34	13	16
3. Willingness to dedicate adequate resources, including staff to the project.	41	43	40	29	20	16
4. Willingness to consider participating financially in the pursuit of the costs and development and operations of project assets.	41	23	29	28	14	9
5. Willingness to provide qualified on-site leadership and institute appropriate administrative and financial management.	44	41	41	26	22	11
6. Has working experience with appropriate governmental and business entities.	43	42	42	33	19	27
7. Submitted an initial conceptual plan.	10	10	8	5	4	0
8a. Demonstrated substantive experience that relates to CART's recommendations in economic development.	10	10	10	4	0	0
8b. Demonstrated substantive experience that relates to CART's recommendations in infrastructure and environment.	10	10	10	5	1	1
8c. Demonstrated substantive experience that relates to CART's recommendations in schools and community facilities.	8	9	9	3	1	1
8d. Demonstrated substantive experience that relates to CART's recommendations in housing and neighborhoods.	10	10	10	10	6	3
9. Successful public engagement experience.	10	9	10	7	3	1
10. Submit in full the required submittal documents.	10	10	9	7	1	0
11. Demonstrated its experience with past public-private partnerships.	45	43	39	30	18	12
12. Demonstrated the necessary real estate related involvement with past public-private partnerships.	42	42	40	31	18	16
13. Demonstrated success in past experience with economic development tools, programs, and other legislative initiatives.	42	43	39	31	16	18
14. Demonstrated how such economic development tools have been successfully utilized in public-private partnerships.	43	38	35	29	18	9
15. Provided summaries of private sector co-development partners that have been secured for the project, including a clear magnitude of the capital that will be invested and the appropriate letters of intent from such partners.	42	32	33	30	13	10
16. Described the architectural, engineering, investment banking, legal, consulting and other professional team members, and letters of intent were provided by these team members.	44	40	40	34	12	10
17. Outlined an action plan and time frame for successful project completion.	10	10	8	5	2	0
18. Provided an anticipated budget of out of pocket pursuit costs that the city or corporation would be required to budget for both entities.	37	26	19	25	11	9
19. Expects financial participation from the city.	9	9	9	8	7	7
20. Provided the anticipated fee arrangement for their team.	9	7	3	7	4	2
21. Worked as a team before.	10	9	10	7	5	4
Total	652	599	572	465	245	203

¹ Criteria 1 through 6, 11 through 16, and 18 each had maximum points available of 50, and the maximum points available for the remaining criteria was 10.



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

The ITF did not retain or provide comments or notes explaining the basis for rankings of each respondent. As illustrated in the table on page 11, there were significant point differences between respondents. The only documentation retained to support the ranking of the respondents was a list of the criteria evaluated and the points awarded to each respondent by criteria for each evaluator. Detailed and adequate comments are necessary to substantiate such differences, support points awarded, and provide clarity should questions arise. Also, the dates the evaluator scorecards were prepared by evaluators and dates reference checks were completed was not documented to support the timing of events and decisions made. Also, the ITF conducted a site visit to one of Wallace Bajjali's past projects, but did not conduct site visits to other respondents' projects.

Based upon the points awarded and the RFP responses, it is questionable why Wallace Bajjali was evaluated, (1) equally with Respondent #1 for criteria 1 (success of the track record) when Wallace Bajjali had been in business for approximately 5 years, while Respondent #1 had been in business for over 15 years; (2) almost equally with Respondent #1 (37 points versus 38 points) for criteria 2 (financial capacity and stability) when Wallace Bajjali had multiple projects enter bankruptcy and was facing a substantial fine by the Securities and Exchange Commission (SEC), while Respondent #1 had been involved with several successful projects, including a project located in Joplin; and (3) equally or almost equally with Respondent #1 for criteria 1 and 2, when Wallace Bajjali's response to the RFP listed multiple cases of litigation and claims in which it was involved and had multiple projects enter bankruptcy, while Respondent #1 indicated there were no past or pending litigation or claims that would affect the firm's ability to perform.

Based upon evaluator documentation provided in response to a subpoena issued to CART Chairperson Cage, it is additionally questionable why Wallace Bajjali was selected as the master developer. One of the documents provided was from an ITF evaluator with financial and banking experience. The document was addressed to the Chamber President and indicated the evaluator was "seriously questioning" Wallace Bajjali's "staying power for the long term and the tangled web that we (the city) could be drawn into by contracting with Wallace Bajjali." The evaluator also questioned Wallace Bajjali's cash balance in comparison to the balance of SEC fines assessed and the amount of pursuit costs Wallace Bajjali was requesting in comparison to Wallace Bajjali's past revenues. This evaluator also documented additional comments he had received through the reference check process. One of the individuals contacted for a reference check indicated Wallace Bajjali's proposal responses regarding its own financial position were "a little strong," "overstating their position," and "don't know if they are able to pull it off or not." Comments from another individual contacted for a reference check were also critical of Wallace Bajjali and



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

included "stay away as far as you can;" "big hats no cattle;" "no capabilities;" "how financed"- response is, "we've got partners"- "they have nothing;" and "making a huge mistake to be involved with them." Comments from another ITF evaluator's reference checks regarding Wallace Bajjali's projects in Amarillo, Texas included "lots of sizzle but not much done," "Wallace talked a good game but nothing had happened yet," "wouldn't do business with Wallace," and that Wallace Bajjali "had claimed credit for projects where they were only minor players."

Wallace Bajjali scored 7 or more points higher than all other respondents on criteria 11, 12, and 14 combined (dealing with public-private partnerships). It is unclear why Wallace Bajjali scored so much higher than Respondent #1, who had several successful projects working with governments located in Missouri, including Joplin. The city's purchasing policy indicates preference will be given to Missouri vendors providing services; however, no additional points or consideration was given to Respondents #1 and #2, who were Missouri vendors. In addition, information provided in Wallace Bajjali's proposal showed the experiences with public-private partnerships primarily included Wallace serving as an elected official and a Wallace Bajjali employee serving as an employee of a public governmental entity rather than as a private developer or as an employee of a private developer. Also, Wallace Bajjali scored 13 or more points higher than all other respondents on questionable criteria 15 and 16 combined (dealing with letters of intent), which were not provided by all respondents and 11 or more points higher than all other respondents on questionable criteria 17 and 18 combined (dealing with an action plan and time frame for project completion, and an anticipated budget for the projects).

As compared to other ITF evaluators, three evaluators had large differences between overall points awarded to their 2 top ranked respondents. Each evaluator ranked the respondents based on a total of 76 points possible. Mayor Michael Seibert awarded Wallace Bajjali 13 more points overall than his next highest ranked respondent (Respondent #1); former Councilmember Trish Raney awarded Wallace Bajjali 10 more points overall than her next highest ranked respondent (Respondent #2); and Gary Box awarded Wallace Bajjali 10 points more overall than his next highest ranked respondent (Respondent #1). The remaining 7 evaluators awarded overall points with variances in points from 0 to 3 points between their top 2 ranked respondents, with 3 of these 7 evaluators with only a 1 point variance and 2 of the 7 with a tie. Mayor Seibert indicated he could not specifically recall why he awarded Wallace Bajjali more points than Respondent #1. Councilmember Raney indicated she gave Wallace Bajjali more points because the firm was interested in participating in development while other respondents indicated they would act as a middle-man between the city and independent developers. She also indicated Wallace Bajjali was



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

able to explain to her satisfaction any concerns regarding litigation involving the firm.

NASPO best practices state it is critical that the written record of each key step in the procurement be sufficient to demonstrate that decision. These best practices further state the procurement officer needs to look at the documentation in the file from the view of competing bidders, the public, the press, and auditors, and ask whether it tells a reasonable story about the process, particularly about the basis for award.

1.2 Predevelopment and land assemblage agreements The city and the JRC entered into a predevelopment agreement on July 2, 2012, and a land assemblage agreement on August 20, 2012, with Wallace Bajjali.

Predevelopment agreement The predevelopment agreement required Wallace Bajjali to perform a list of 31 predevelopment services including (1) coordinating and overseeing the creation of a master plan; (2) conducting feasibility studies and land assessments to determine market need and success of potential projects; (3) analyzing historic and current site conditions; (4) identifying projects that will provide anchors for further development; and (5) selecting architects, engineers, general contractors, and subcontractors for the redevelopment area. Our review of the predevelopment agreement provisions identified various concerns.

Termination clause and deadline requirements Terms of the predevelopment agreement termination clause provided for excessive contract termination fees and unfairly benefited the master developer. The predevelopment agreement did not adequately provide the city a means to terminate the agreement without significant penalties. The predevelopment agreement termination clause provided for the city to pay Wallace Bajjali \$5 million if the agreement was terminated within the first year, \$4 million if terminated within 2 years, \$3 million if terminated within 3 years, \$2 million if terminated within 4 years, and \$1 million if terminated within 5 years. Additionally, the agreement did not adequately protect the city by providing project/accomplishment deadlines regarding redevelopment or include liquidated damages provisions for lack of performance.

Owner's representation and development fees Some fees in the predevelopment agreement were questionable because it appears no new services were being provided for the fees. The predevelopment agreement required the city to pay Wallace Bajjali an owner's representative fee for construction management services of 2.25 percent of project costs on all projects Wallace Bajjali or an affiliate developed. In October 2014, city officials indicated they could not explain what the fee represented or the scope of services they would receive from Wallace Bajjali in return. Due to no redevelopment, the city had not paid



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

any owner's representative fees as of the contract termination date of February 3, 2015.

Additionally, the agreement provided for the city to pay Wallace Bajjali a development fee of 5.75 percent of project costs of any project undertaken within the redevelopment area that (1) directly or indirectly, includes, references or otherwise makes use of any information and/or concepts contained within the master plan and, (2) includes the city or a city controlled entity as a participant in a proposed project within the redevelopment area. However, the pursuit costs provided for in the agreement included predevelopment expenses in development of a master plan; therefore, there appears to be no new service being provided for this fee. Due to no redevelopment, the city had not paid any development fees as of the contract termination date of February 3, 2015.

Compliance with agreement

The city did not adequately monitor for compliance with the predevelopment agreement terms, and Wallace Bajjali had not met several of the terms as of the contract termination on February 3, 2015. The city could not provide the master plan or evidence the city ever received a master plan as required by the predevelopment agreement.

- Article VIII, Section 8.2 of the predevelopment agreement required Wallace Bajjali to use commercially reasonable efforts to be prepared to formally present an initial portion of the master plan to the Council for its consideration on or before September 30, 2012, and all portions of the master plan to the Council for its consideration on or before December 31, 2013. The recitations to the agreement state that, ". . . it is proposed that the City Group and the Developer will undertake the creation of the Master Plan as a 'team.' " Council meeting minutes for the 3 fiscal years ended October 31, 2014, do not indicate a complete master plan was ever presented or approved by the Council. City officials were unable to locate a master plan and were unsure one existed when a copy was requested in November 2014. An electronic slide-show presentation of Wallace Bajjali's initial plans for redevelopment was presented to the Council on July 9, 2012, 7 days after the initial predevelopment agreement was signed. It would have been unreasonable to expect a complete master plan to have been developed this quickly or that the electronic slide-show presentation was considered the formal completed master plan. City officials believe a master plan was presented to and discussed by the Council at a work session; however, a copy of a master plan had not been located as of February 2015, and meeting minutes were not prepared for Council work sessions (as discussed in MAR finding number 4). As a result, the city did not ensure or cannot demonstrate that Wallace Bajjali complied with this predevelopment agreement term.



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

- Article III, Section 3.3 required Wallace Bajjali and the city to prepare an estimated progress schedule including ". . . the creation of the Master Plan and property assemblage" by August 31, 2012. City officials could not locate an estimated progress schedule and were unsure one had been prepared when a copy was requested in November 2014. City officials subsequently provided several progress schedules; however, no documentation exists to determine when they were prepared and presented. Based on the information in these progress schedules, February 4, 2013, was the earliest date the city officials could have received a progress schedule. As a result, Wallace Bajjali and the city failed to comply with this term of the predevelopment agreement.

Without a complete master plan and progress schedules, the city could not effectively monitor Wallace Bajjali's progress.

Pursuit costs

The agreement provided for the city to reimburse Wallace Bajjali 50 percent of up to \$2 million in pursuit costs incurred, a maximum of \$1 million. We identified various concerns related to these costs.

- The city paid Wallace Bajjali \$790,453 in reimbursement of pursuit costs incurred after entering into the predevelopment agreement, although Wallace Bajjali did not meet the contractual requirements for reimbursement. Article III, Section 3.5b states that as a condition to being entitled to payment of pursuit costs, "Developer shall submit its request for certification of Pursuit Costs incurred within one hundred twenty (120) days of the applicable Completion Date." The agreement defines the completion date as being related to completion and readiness to present to the Council any part of the master plan. However, there is no evidence Wallace Bajjali notified the city that any portion of the master plan was complete and ready for formal presentation to the Council.
- Article III, Section 3.5b required Wallace Bajjali to submit documentation of any pursuit costs incurred prior to the signing of the agreement (on July 2, 2012) for reimbursement by October 30, 2012; however, Wallace Bajjali did not comply with this requirement. The city paid Wallace Bajjali \$209,547 for pursuit costs incurred prior to July 2, 2012. Documentation of these pursuit costs was not submitted to the city until November 20, 2012, 21 days after they were required to be submitted by the contract. City personnel indicated Wallace Bajjali was advised that the city would not reimburse pursuit costs until the new budget/fiscal year started on November 1, 2012. It is questionable why the city agreed to pay for pursuit costs incurred prior to entering into an agreement with Wallace Bajjali. The costs a vendor incurs to pursue a customer's business is not typically reimbursed to the vendor by its customer.



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

- The Finance Department erroneously reimbursed Wallace Bajjali \$33,170 (included in the \$209,547 of pursuit costs discussed above) related to the creation and production of the master developer RFP response. The Finance Director was unaware the city had reimbursed Wallace Bajjali costs to respond to the RFP until we questioned the invoice and related payment. The RFP specifically stated ". . . the JRC and the city will not compensate respondents for any expenses incurred in response preparation or for any presentations that may be made, unless agreed to in writing in advance or required by law. Respondents submit the responses at their own risk and expense."
- Many invoices submitted to the city for reimbursement by Wallace Bajjali were inappropriate and did not meet the criteria of pursuit costs. The Finance Director properly refused to reimburse Wallace Bajjali for some of these billed costs. These invoices were delivered by United Parcel Service from Sugar Land, Texas to Joplin. Wallace Bajjali submitted 305 invoices (mostly for small amounts) totaling \$311,983 for reimbursement that were questioned by the Finance Director and not reimbursed by the city. Following are examples of expenses the Finance Director did not reimburse.

- A pair of men's dress shoes costing \$161

David Wallace, Costa Bajjali, and an affiliate flew into Tulsa, Oklahoma, on July 1, 2012, and traveled to Springfield, Missouri, to spend the night (hotel costs totaling \$333), where Wallace purchased the shoes. They all traveled back to Joplin for a meeting the next day.

- Hotel costs incurred in Arkansas on September 6, 2011, (approximately 4 months prior to the issuance of the RFP) totaling \$222, which included in-room movies costing \$19

- Airline tickets for flights on October 12 and 14, 2011, totaling \$769

These costs were incurred approximately 2 1/2 months prior to the city's issuance of an RFP for a master developer and, therefore, were inappropriately claimed and did not meet the criteria of pursuit costs. Further, Wallace Bajjali billed the city \$246 twice for the cost of the return trip.

- Alcoholic drinks costing \$155 purchased on November 15, 2012

The invoice for the drinks indicated David Wallace, Costa Bajjali, Councilmember Mike Woolston, former City Manager Mark Rohr,



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

CART Chairperson Jane Cage, and chamber employee Gary Box were in attendance.

- Article III, Section 3.5b required Wallace Bajjali to identify the specific line item category within the project budget to which the pursuit cost was to be assigned. However, documentation submitted by Wallace Bajjali did not identify these details.

Additionally, Article III, Section 3.5b required Wallace Bajjali to submit detailed supporting documentation of the pursuit costs incurred. Our review of the 623 invoices or other documents submitted for reimbursement and paid by the city identified 31 invoices or documents totaling \$69,770 lacked adequate details. For example, 13 invoices totaling \$66,257, submitted for reimbursement only listed "public policy consulting" with the total amount due and no detailed description of the work provided.

- The city paid \$1 million in reimbursement of pursuit costs in 4 payments including a \$768,611 wire transfer and 3 checks totaling \$231,389. None of the payments were brought before the Council for discussion prior to payment. In addition, the Finance Department paid the \$1 million of pursuit costs reimbursements to a third party without obtaining formal authorization from a partner of Wallace Bajjali. The city only received email messages from an employee of Wallace Bajjali requesting the city wire transfer and issue the 3 checks to a third party on behalf of Wallace Bajjali. According to city documents, Wallace Bajjali obtained financing from the third party company. In addition, the city did not have W-9 forms on file for either Wallace Bajjali or this third party company and issued no 1099-MISC forms related to these payments.

Land assemblage agreement The land assemblage agreement required Wallace Bajjali to provide various services, including but not limited to (1) working actively with real estate brokers to identify master developer recommended sites for development called "opportunity sites" for the JRC to potentially acquire, (2) conducting feasibility studies and land assessments to determine market need and success of potential projects, (3) identifying projects that will provide anchors for further development, (4) authorizing and coordinating with appraisers, and (5) entering into brokerage agreements regarding opportunity sites. The land assemblage agreement required the JRC to pay Wallace Bajjali a transfer fee equal to 5.75 percent of the transaction costs for the transfer of property within the redevelopment area. Our review of issues related to the agreement identified several concerns.

- The agreement required the JRC to represent to the master developer any litigation or administrative proceedings that would materially and adversely affect the ability of the JRC to perform any of its contractual obligations, but it did not require the master developer to do the same.



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

- Some of the transfer fees paid by the JRC to Wallace Bajjali were questionable or excessive.
 - It is questionable why the JRC did not request a refund of transfer fees paid to Wallace Bajjali for property purchased and subsequently returned to a local hospital. The JRC paid Wallace Bajjali transfer fees totaling \$57,500 in February 2014, for property purchased in August 2013, from a local hospital through use of a \$1 million promissory note. The land was later returned to the hospital in September 2014, because it had not been redeveloped as a science/discovery center in the timeframe expected, and the promissory note was canceled. The JRC made no principal or interest payments on the promissory note to the local hospital.
 - Amounts paid for the purchase of some properties were excessive as noted in MAR finding number 2.1, and as a result, Wallace Bajjali may have been paid at least \$21,703 (\$377,444 x 5.75 percent) more in transfer fees than was necessary.

A question arose between the city and Wallace Bajjali as to whether the land assemblage agreement required the 5.75 percent transfer fee to again be paid to Wallace Bajjali on the sale by the JRC of property for development that had previously been purchased and on which Wallace Bajjali had already been paid the 5.75 percent fee. In order to avoid future misunderstandings, on May 14, 2013, the city amended the agreement to clarify that the city would only pay Wallace Bajjali a "single" transfer fee of 5.75 percent when the city initially purchased property for the redevelopment area, and in no event would the city be charged an additional fee of 5.75 percent upon the sale of these properties to Wallace Bajjali or any other developer.

Conclusion

The city paid Wallace Bajjali approximately \$1.5 million and spent approximately \$11 million to purchase property to implement Wallace Bajjali's plans for redevelopment; however, Wallace Bajjali had only purchased one of these properties back for \$551,016, and no redevelopment had occurred by January 26, 2015, over 2 1/2 years after the effective date of the predevelopment agreement.

In contrast to the failure of the master developer, as of April 1, 2015, other individuals and entities succeeded in bringing redevelopment to Joplin. The Housing Authority of the City of Joplin rebuilt 103 homes within 1 1/2 years of the tornado. City residents, through the Joplin Homebuyers Assistance Program (J-HAP), have built 260 homes. The Joplin School District has built 2 elementary schools, a middle school, the high school/technical center, and several community safe rooms. A total of 43 businesses have built in the recovery Tax Increment Financing (TIF) redevelopment area without the assistance of the master developer. The city is also in the process of building a new library without the involvement of the master developer.



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

The following pictures depict examples of properties purchased for redevelopment by Wallace Bajjali shortly after the tornado in 2011 and again in 2015, showing no redevelopment had occurred.



2631 Cunningham

December 21, 2011



March 24, 2015



2601 Cunningham

December 21, 2011



March 25, 2015



2614 S McCoy

December 21, 2011



March 24, 2015



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



1722 W 27th

December 21, 2011



March 24, 2015

The city and Wallace Bajjali agreements' penalties for early termination, lack of vendor progress requirements, and fees were questionable or unreasonable. The city had a fiduciary responsibility to ensure that public funds were used effectively and consistent with its mission. In addition, the city should have monitored agreements for compliance with all terms.

Recommendations

The City Council:

- 1.1 Ensure future evaluation committees are independent and free of potential conflicts of interest before awarding contracts, and prepare adequate documentation to support the points awarded to respondents.
- 1.2 Ensure all major contracts include appropriate deadlines and liquidated damages, are properly monitored, and properly safeguard city interests. The Council should recover questionable amounts paid to Wallace Bajjali.

Auditee's Response

The city wishes to express its gratitude to the State Auditor's office and understanding for the right of citizens to request the audit. The city appreciates the professionalism and courtesy extended by the State Auditor's staff members who performed this audit. The Council and city staff believe the results of this audit will help the city improve processes and procedures. Implementing additional policies and procedures, as well as improving existing processes, will help ensure the integrity of the accounting records and assist in safeguarding the assets of the city, which in turn helps to maintain the public's confidence in the city. The Council and city staff strive to ensure public funds are managed properly and allocated wisely.



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

This audit reviewed information following one of the worst disasters on record in the United States. As a result of the cleanup and rebuilding efforts following the EF-5 tornado that struck our community on May 22, 2011, city resources have been stretched to the limit. In many cases, the disaster recovery effort impacted the normal processes of the city. However, detailed responses to the specific findings are included with each section. Additionally, it will be noted in various sections that the city began implementing recommendations included in the findings based on conversations with the audit staff during the audit process.

1.1 If a committee is used by the city in the future, the city will endeavor to make sure the committee is independent, free of any conflicts of interest and follows an independent selection process. The CART was formed at the suggestion of FEMA. The Council did not appoint this task force. The CART was an independent task force of community members. As such, it was a different type of organization than a normal city board, commission, or advisory committee, where the city typically has more internal control over the processes and procedures. The city acknowledges that it should have been more proactive with oversight of the CART ITF; specifically, its procurement procedure used for the master developer.

The city places great importance on its bid procedure and procurement policies to ensure fair and equal treatment in any selection process. It is rare for the city not to have exclusive control over its procurement process. The common and ordinary practice for the city is to internally create and review all RFPs and RFQs. This process typically includes department heads, as well as the Finance and Legal Departments. The city strives to create bid documents that are fair and equal to all bidders. The city also has a selection process that includes multiple persons that review and score the bid responses. The city will take additional steps to ensure that the bid and selection process is fair and equal for all bid requests and that proper documentation is retained.

1.2 It is well established that the contract with Wallace Bajjali, the predevelopment agreement, did a poor job of protecting the city. The contract has been terminated by the city. It is customary and ordinary practice for the city to include deadlines as well as penalty and liquidated damages in all contracts. It is also standard practice for the city to include non-appropriation clauses and termination clauses in all contracts to protect the city. Prior to the city approving these contracts, Wallace Bajjali developed the agreements. Wallace Bajjali applied tremendous pressure on previous city administration to rush this process. City staff was not



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

allowed sufficient time to properly review the agreements. Additionally, recommended changes to the agreements to help protect the city were not approved by Wallace Bajjali. Therefore, the city will ensure future contracts protect city interests. The city will also implement new policies to better monitor the progress of contracts to ensure that compliance and deadlines are properly enforced.

Regarding pursuit costs, the city reimbursed Wallace Bajjali 50 percent of its pursuit costs, not to exceed \$1 million, pursuant to the predevelopment agreement. The city verified receipts and documentation before reimbursing Wallace Bajjali. The city feels that its payments complied with the predevelopment agreement.

Regarding the hospital land transfer, city administration determined a land fee was due to Wallace Bajjali under the land assemblage agreement. The property was to be developed as a science and discovery center by Wallace Bajjali. When it became evident that the hospital property was going to revert back to the hospital from the JRC, the JRC discussed at length whether Wallace Bajjali should reimburse the JRC for the \$57,500 land fee. The hospital property was necessary in assembling the required amount of land for the JRC to obtain approximately \$3.8 million in Distressed Area Land Assemblage tax credits from the State of Missouri. As a result, the JRC made the determination the fee should not be reimbursed by Wallace Bajjali. The court awarded the city a \$1.475 million judgement against Wallace Bajjali. The judgement consists of \$1 million in pursuit costs and \$475,500 in land assemblage fees.

2. Purchases of Redevelopment Area Real Estate and Conflicts of Interest

The JRC failed to perform due diligence by use of independent appraisals and consideration of previous real estate transactions when purchasing multiple properties for redevelopment, and paid substantially more for real estate than necessary. Several transactions involving Councilmember Woolston represent actual, or at the very least, an appearance of conflicts of interest, and he may have used his city authority for personal gain. Woolston served as Mayor from April 2010 to April 2012, and has served as a councilmember from April 2012 to present. The JRC entered into multiple agreements to sell property to Wallace Bajjali and its affiliates, who failed to meet contractual obligations.

In 2012, the JRC altered its purpose to serve the city of Joplin as a land banking entity, which would borrow funds to purchase and then resell property to other developers, including the city's master developer, Wallace Bajjali, for redevelopment.



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

The JRC has spent approximately \$11 million for the purchase of 36 properties and for lease payments on another property to implement Wallace Bajjali's plans for redevelopment. These 36 properties were selected and recommended as sites for redevelopment by Wallace Bajjali. A local loan consortium, led by Arvest Bank, loaned the JRC approximately \$8 million to purchase the 36 properties. After purchasing the 36 properties, the JRC entered into real estate contracts to sell the properties to Wallace Bajjali and its affiliates for redevelopment.

2.1 Properties purchased by the JRC

Properties purchased from real estate development company

The JRC failed to obtain independent appraisals or adequately research previous real estate transactions for some of the properties purchased and, as a result, paid substantially more for some of the properties than necessary.

Sixteen of the 36 properties were purchased from Four State Homes (FSH), a real estate development company owned by Charlie Kuehn. FSH purchased the 16 properties from the original landowners during the period September 12, 2012, to July 16, 2013, and then sold the properties to the JRC, in most cases for a substantially higher price (39 percent higher than the original purchase price), a short time later on July 3, 2013, and August 14, 2013. Councilmember Woolston was aware of the properties the JRC was considering buying for redevelopment and may have used this information for personal gain. Councilmember Woolston signed the real estate sales contracts as the broker on the 16 properties originally purchased by the FSH and subsequently sold to the JRC. Further, NEWCO, LLC was formed on April 4, 2013, as a partnership between Wallace Bajjali and Charlie Kuehn to purchase these 16 properties back from the JRC for redevelopment into a theatre and retail/loft shopping center near the new library. The following table shows the details of the purchases of the 16 properties by FSH and the subsequent sale to the JRC.



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

Property Address	Date of Purchase by FSH ¹	Date of Purchase by JRC ²	Purchase Price Paid by FSH ¹	Purchase Price Paid by JRC ²	Difference in FSH and JRC Purchase Prices	Appraised/Evaluated Value of Property ²	Amount Paid Over(Under) Appraised/Evaluated Value
1801 Delaware	07/01/13	08/14/13	\$ 35,000	165,742	130,742	45,500	120,242
1917 Carolyn Place	07/16/13	08/14/13	75,000	115,960	40,960	15,500	100,460
1919 East 20th Street	04/01/13	07/03/13	75,000	87,304	12,304	102,000	(14,696)
1802 Delaware	02/15/13	07/03/13	16,900	35,232	18,332	18,500	16,732
1811 Delaware ³	12/27/12	07/03/13	335,000	202,556	(132,444)	127,900	258,156
1811 1/2 Delaware ³	N/A	07/03/13	N/A	183,500	183,500	N/A	N/A
1820 Delaware	09/12/12	07/03/13	12,347	26,475	14,128	14,000	12,475
1830 Delaware	12/27/12	07/03/13	20,000	23,702	3,702	14,000	9,702
1825 Carolyn Place ⁴	02/15/13	07/03/13	30,511	28,733	(1,778)	15,500	13,233
1831 Carolyn Place ⁴	N/A	07/03/13	N/A	26,503	26,503	13,000	13,503
1901 Carolyn Place	02/28/13	07/03/13	30,000	35,123	5,123	17,000	18,123
1907 East 19th Street ⁵	11/30/12	07/03/13	149,500	33,192	(116,308)	19,500	13,692
2203 East 20th Street ⁵	N/A	07/03/13	N/A	148,247	148,247	93,500	54,747
1921 East 20th Street and 1901 East New Jersey	03/28/13	07/03/13	171,122	202,682	31,560	155,500	47,182
1840 Delaware	11/30/12	07/03/13	13,000	25,873	12,873	14,000	11,873
Total			\$ 963,380	1,340,824	377,444	665,400	675,424

¹ Subpoenaed information obtained from applicable title companies.

² Information obtained from JRC records.

³ 1811 and 1811 1/2 Delaware were purchased together by FSH, were also appraised together, but were purchased separately by the JRC.

⁴ 1825 Carolyn Place and 1831 Carolyn Place were purchased together by FSH, but purchased separately by the JRC.

⁵ 1907 East 19th Street and 2203 East 20th Street were purchased together by FSH, but purchased separately by the JRC.

The JRC obtained independent appraisals on only 5 of these 16 properties prior to purchase, and failed to document its reasons for purchasing these 5 properties for approximately \$360,000 more than the appraised values. In addition, all of the appraisals obtained indicated the properties were already under contract by the JRC for the purchase prices noted above. It is unclear why the JRC obtained appraisals after entering into purchase contracts. The 5 properties with independent appraisals included 1811 and 1811 1/2 Delaware (appraised together), 2203 East 20th Street, and 1921 East 20th Street and 1901 East New Jersey (appraised together).

It is unclear why the JRC did not require independent appraisals for the remaining 11 properties purchased from FSH. Arvest Bank performed in-house evaluations for these properties. The JRC failed to document its reasons for purchasing these properties for approximately \$315,000 more than the amounts documented on the in-house evaluations performed by the bank.

At least one member of the JRC board questioned the inflated amount the JRC was being asked to pay for properties compared to the amount they were purchased for by the seller and their appraised value. Former JRC Chairperson Ron Darby told this board member in an email message that



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

"All parties, The City, Wallace Bajjali and the JRC are trying to do the best job we can for the citizens of Joplin. . . I do not want to have any more controversial problems at every meeting." David Wallace responded to these questions in a letter he requested be shared with the JRC board that said, ". . . we are attempting to focus our energies on executing the duties and responsibilities of the Master Development Agreement. We have committed to do so with a fiduciary responsibility to the citizens of Joplin, . . . However, I refuse to stand by and let a JRC Board member attempt to impugn the integrity of my firm."

Properties purchased from original owners

The JRC purchased 20 of the 36 properties from the original landowners, but failed to obtain independent appraisals for 14 of these properties. It is unclear why the JRC or the bank did not require independent appraisals for these properties. Arvest Bank prepared in-house evaluations for 8 of the 14 properties, and the JRC documented assessed values from a local government website for the other 6 properties.

In contrast to the properties purchased from FSH, the JRC paid less for 14 of the 20 properties and only small amounts more for the remaining 6 properties purchased than the appraised values, in-house evaluation amounts, or assessed values as follows:

Property Address	Purchase Price	Appraised/ Evaluated Value of Property	Amount Paid Over(Under) Appraised/ Evaluated Amount
2502 South Main	\$ 600,000	608,500	(8,500)
2411 South Jackson	212,500	425,000	(212,500)
1301 South Virginia	495,000	500,000	(5,000)
2105 Pennsylvania	7,000	4,750	2,250
2212 Grand	7,000	4,750	2,250
2307 Pennsylvania	7,000	4,750	2,250
2326 Joplin	7,000	6,790	210
2514 Pennsylvania	7,000	4,750	2,250
1712 West 27th Street	43,500	60,500	(17,000)
1722 West 27th Street	52,500	60,500	(8,000)
2601 Cunningham	50,000	69,500	(19,500)
2614 South McCoy	50,000	60,500	(10,500)
2617 Cunningham	42,000	47,000	(5,000)
2630 McCoy	50,000	53,000	(3,000)
2631 Cunningham	43,000	80,000	(37,000)
2700 McClelland	3,071,000	3,070,000	1,000
South West Corner of 26th and McCoy	50,000	56,500	(6,500)
2602 Cunningham	52,500	57,000	(4,500)
1802 W 26th and Woodland Hills South ¹	1,080,000	1,354,750	(274,750)
Total	\$ 5,927,000	6,528,540	(601,540)

¹ These 2 properties were purchased together by the JRC from the original landowners. The remaining property was purchased from a local hospital and is discussed in finding number 1.2.



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

Independent appraisals and documentation of previous real estate transactions would have provided a basis for negotiations and assurance the JRC paid a reasonable price for the properties.

2.2 Conflicts of interest

Some activities involving Councilmember Woolston created actual, or at the very least, an appearance of conflicts of interest. We noted the following concerns:

- Councilmember Woolston signed the real estate sales contracts as the broker on the 16 properties, listed in the table on page 25, purchased by FSH, and commissions totaling \$11,436 were paid to the realtor/broker firm for which he worked. The properties were later sold to the JRC. In addition, Woolston (as both Mayor and Councilmember) was a member of the CART, which held numerous meetings from June 30, 2011, until November 7, 2011, to discuss potential redevelopment areas. On November 7, 2011, the CART presented a report to the Council regarding the proposed redevelopment area.

Due to Councilmember Woolston's involvement with the CART, he was aware of properties the JRC and city were considering buying for redevelopment and may have used this information for personal gain. Further, acting as a broker and signing the sales contracts involving FSH's purchase of real estate in the redevelopment area (which the CART and the city had identified for future development by the JRC) created an actual, or at the very least, an appearance of conflicts of interest.

- Councilmember Woolston did not abstain from voting (or disclose his business relationship with the developer) on an ordinance approving a tax increment financing redevelopment plan involving Kevin Steele, a developer with whom he co-owns a local realty company. During the July 7, 2014, Council meeting, the Council approved the Hope Valley Tax Increment Financing Redevelopment Plan, which established a redevelopment area, and designated Hope Valley Development Group, Inc., a group that includes Kevin Steele, as the developer of Redevelopment Project I.

In November 2013, the city entered into an agreement with an individual for investigative services including, "The facts, circumstances, and ethical considerations surrounding the involvement of Councilmember Woolston with Mr. Charlie Kuehn/Four State Homes, its subsidiaries and related entities, and the City's Master Developer, Wallace Bajjali, with respect to the purchase, sale, or leasing of real estate for current or future development." The investigator concluded in his final report, issued February 3, 2014, that "All business should be stopped under the contracts between Wallace Bajjali and the City of Joplin. Further investigations



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

should be considered." He further concluded in his final report that, "The Missouri Ethics Commission should be advised of these past appearances of improprieties to cleanse the City of suspicion by its public."

The Missouri Supreme Court has stated, "A public officer owes an undivided loyalty to the public whom he serves and he should not place himself in a position which will subject him to conflicting duties or expose him to the temptation of acting other than in the best interests of the public." *State ex rel. St. Louis County v. Kelly*, 377 S.W. 2d 328, 332 (Mo. 1964) (quoting 43 Am. Jur., Public Officers, § 266, p. 81).

Councilmembers of a city serve in a fiduciary capacity. Personal interests in business matters of the city create actual or the appearance of conflicts of interest, and a lack of independence could harm public confidence in the Council and reduce its effectiveness.

Section 15.09 of the Home Rule Charter addresses conflicts of interest and states "Any city officer or employee who has any financial interest, direct or indirect or by reason of ownership of stock in any corporation, in any contract with the city or in the sale of any land, material, supplies or services to the city or to a contractor supplying the city/shall make known that interest and refrain from voting upon or otherwise participating in his capacity as a city officer or employee in the making of such sale or in the making or performance of such contract." Section 2-50 of city ordinances also address conflicts of interest, and states "A Councilmember shall not have a financial interest, direct or indirect, in any contract with the city, or be financially interested, directly or indirectly, in the sale to the city of any land, materials, supplies or services, except on behalf of the city as an officer or employee. Any violation of this subsection renders the contract or sale void, and any Councilmember violating this section thereby forfeits his office or employment. Nothing contained in this subsection shall be construed to apply to any contract, sale or lease not initiated, proposed, instituted, introduced or commenced by an officer or employee of the city who may be involved or interested in such undertaking."

Section 105.458.1(3), RSMo, indicates in part that no member of any governing body of any political subdivision shall attempt, for any compensation other than that provided for performance of his or her official duties, to influence the decision of the political subdivision on any matter. Section 105.452.1, RSMo, indicates that no elected official of any political subdivision shall act or refrain from acting in any capacity in which he is lawfully empowered to act as such an official or employee by reason of any payment, offer to pay, promise to pay, or receipt of anything of actual pecuniary value paid or payable, or received or receivable, to himself or any third person, including any gift or campaign contribution, made or received in relationship to or as a condition of the performance of an official act,



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

other than compensation to be paid by the political subdivision. Section 105.452.1, RSMo, also indicates that no elected official of any political subdivision shall favorably act on any matter that is so specifically designed so as to provide a special monetary benefit to such official.

Sections 105.454, RSMo, and 105.458, RSMo, prohibit conflicts of interest by members of legislative or governing bodies of political subdivisions, including the selling, renting, or leasing of real property without public notice, and prohibits attempts to influence decisions of the political subdivision for compensation beyond that received for performance of official duties.

Section 105.461, RSMo, indicates any member of the governing body of a political subdivision who has a substantial personal or private interest in any measure, bill, order or ordinance proposed or pending before such governing body, shall, before such official passes on the measure, bill, order or ordinance, file a written report of the nature of the interest with the clerk of such governing body and such statement shall be recorded in the appropriate journal or other record of proceedings of the governing body. Section 105.450(10), RSMo, defines substantial interest as ownership by the individual, the individual's spouse, or the individual's dependent children, whether singularly or collectively, directly or indirectly, of 10 percent or more of any business entity, or of an interest having a value of \$10,000 or more, or the receipt by an individual, the individual's spouse or the individual's dependent children, whether singularly or collectively, of a salary, gratuity, or other compensation or remuneration of \$5,000, or more, per year from any individual, partnership, organization, or association within any calendar year. Section 105.450(11), RSMo, defines substantial personal or private interest in any measure, bill, order or ordinance as any interest in a measure, bill, order or ordinance which results from a substantial interest in a business entity.

We were unable to investigate in more depth the issues of possible conflicts of interest as the pursuit of some information (e.g., subpoenaing personal bank records) is beyond the scope of our audit power. However, we have referred this matter to proper law enforcement authorities who can conduct such in-depth investigations.

The city should make every effort to resolve the conflicts of interest question to restore the public's confidence in its City Council.

2.3 Sale of properties purchased by the JRC

The JRC entered into contracts to sell 31 of the 36 properties it purchased for redevelopment to Wallace Bajjali and its partners; however, Wallace Bajjali and its partners failed to meet the contractual obligations related to 29 of the properties. The JRC sold 5 properties (which were selected and recommended for purchase by Wallace Bajjali) at a loss, when Wallace



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

Bajjali subsequently decided not to purchase and redevelop the properties. The JRC paid Arvest bank \$138,387 in interest related to purchasing and holding these properties for resale.

Contracts and extensions

Despite Wallace Bajjali and its partners failure to comply with contractual requirements and obligations, the JRC and city extended real estate purchase contract deadlines related to the land assemblage agreement on multiple occasions. The amendments included no new provisions for earnest monies or payments to be made to further secure the likelihood of Wallace Bajjali and its partners' fulfillment of contract requirements. The JRC and city continued to incur legal and personnel costs related to the multiple contracts and extensions, and had not received funding that could have been utilized for other projects.

The city entered into numerous real estate purchase contract amendments (first and second amendments) for 31 of the 36 properties due to Wallace Bajjali and its partners continually failing to meet contractual obligations.

- The JRC entered into multiple contracts with a buyer (NEWCO, LLC) in April and August 2013, to purchase all 16 properties (the properties JRC purchased from FSH) for a total purchase price and related costs of approximately \$1.4 million. Thirteen of the contracts (one contract with 2 properties) were signed in April 2013, and the remaining 2 contracts were signed in August 2013. Anticipated closing dates were scheduled for July 3, 2014, and August 13, 2014.

However, amended real estate purchase contracts with NEWCO, LLC were executed on August 12, 2014, and September 9, 2014 (after the initial closing dates), with anticipated closing dates of December 1, 2014. Second amended contracts with NEWCO, LLC were executed on November 25, 2014, with anticipated closing dates of February 6, 2015; however, the two principal officers of Wallace Bajjali resigned from the company and NEWCO, LLC on January 26, 2015, which terminated these contracts.

- The JRC entered into a real estate purchase contract with Wallace Bajjali on August 13, 2013, for the purchase of 1 of the 36 properties for \$640,671. The anticipated closing date was August 13, 2014. However, an amended real estate contract was executed on September 9, 2014 (after the initial closing date), with an anticipated closing date of November 30, 2014. A second amended contract with Wallace Bajjali was executed on November 25, 2014, with an anticipated closing date of February 6, 2015; however, the two principal officers of Wallace Bajjali resigned from the company on January 26, 2015, which terminated this contract. The property was planned to be redeveloped for transitional living housing.



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

- The JRC entered into multiple contracts with a buyer (SWJOMO Seniors, LLC) in April 2013, to purchase 9 of the 36 properties for approximately \$3.7 million to be redeveloped for a senior housing project. SWJOMO Seniors, LLC (SWJOMO), a partnership between Wallace Bajjali and O'Reilly Development Co., LLC, was formed on April 4, 2013. Anticipated closing dates were scheduled for April 23, 2014. Amended real estate contracts with SWJOMO were executed on February 19, 2014, with anticipated closing dates in March and April 2014. Second amendment contracts with SWJOMO were executed on March 11, 2014, with an anticipated closing date of December 31, 2014.

The JRC also entered into multiple contracts with SWJOMO in August 2013 to purchase another 3 properties for approximately \$1.2 million to be redeveloped for a senior villa project. Anticipated closing dates were scheduled for August 13, 2014. An amended real estate contract with this same buyer was executed on January 14, 2014, to split the project into two projects (senior housing with SWJOMO Seniors, LLC and senior villas with Joplin Villas, LLC). A second amendment was executed on March 17, 2014, (site development agreement). Neither amendment provided for anticipated closing dates. Joplin Villas, LLC, a partnership between Wallace Bajjali and O'Reilly Development Co., LLC, was formed on October 8, 2013.

However, the city terminated all contracts related to the senior housing and senior villa redevelopment projects on November 17, 2014, due to problems with the procurement process. Wallace Bajjali failed to include O'Reilly Development as a partner in the redevelopment in the procurement process, resulting in noncompliance with U.S. Department of Housing and Urban Development (HUD) Community Development Block Grant (CDBG) guidelines.

J-HAP properties

The JRC spent \$44,326, which included \$2,013 of transfer fees paid to Wallace Bajjali, to purchase 5 of the 36 properties recommended for purchase and redevelopment by Wallace Bajjali. However, when it was identified that these properties qualified for the J-HAP program and related CDBG funds, Wallace Bajjali chose not to purchase them. The JRC sold the properties to private citizens for \$24,550, at a loss of \$19,776.

Conclusion

As a result of the failure to perform due diligence by use of independent appraisals and consideration of previous real estate transactions, and due to questionable agreements with Wallace Bajjali as discussed in MAR finding number 1, the JRC has acquired property costing approximately \$11 million that it may have difficulty selling because it no longer has the master developer available as the buyer.



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

Recommendations

The City Council:

- 2.1 Ensure independent appraisals are obtained and adequately research previous real estate transactions for all future real estate purchases. The Council should also ensure the JRC documents its reasons for disparities between appraised values and purchase prices of real estate.
- 2.2 More closely examine transactions to identify and avoid apparent and actual conflicts of interest, and prohibit the use of city authority for private purposes. City officials should ensure strict compliance with state law and city charter and ordinances when conducting city business. The city should further investigate whether Councilmember Woolston's actions represent conflicts of interest and cooperate with any law enforcement agency's investigation into the matter.
- 2.3 Ensure compliance with future agreements, and consider not entering into such agreements when the buyer does not have financing in place.

Auditee's Response

- 2.1 *The JRC is an Urban Redevelopment Corporation organized under Chapter 353 of the Revised Missouri Statutes. Its board members serve on a volunteer basis. Prior to the tornado, the JRC Board was created solely to consider tax abatements under Chapter 353. Following the tornado, former City Administration, under the guidance of Wallace Bajjali, altered the JRC's purpose to serve the city as a land banking entity. The predevelopment agreement and land assemblage agreements imposed new and substantial responsibilities on the JRC, which were largely outside the scope of its normal functions. The JRC should have been better instructed on the use of appraisals and other mechanisms to protect its business dealings. To a large degree, the JRC relied on the former City Administration and staff recommendations in its decision-making process. Appraisals were done on properties that exceeded a dollar amount set by the bank, and the use of comparable sales and informal opinions of value were used for lower value sales. The JRC will ensure that future real estate purchases are supported by independent appraisals. This is certainly prudent and the best practice.*
- 2.2 *The city is proactive in educating Council about conflicts of interest and ethical rules of conduct. The city will implement a policy to annually update staff and Council on conflicts of interest and ethical rules of conduct. The city will cooperate fully with any outside investigation into Councilmember Woolston's actions. The*



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

Council recognizes its responsibility to address the allegations of any conflicts of interest.

2.3 *Wallace Bajjali did not comply with the contracts covering the sale of properties by the JRC. Given the predevelopment agreement and the land assemblage agreements, the JRC and city staff believed the contracts should have been extended. Previous City Administration should have handled the entire land bank process differently. The city will ensure compliance with future agreements. Further, the city does not envision entering into any such agreements.*

3. Disaster Recovery

Significant improvement is needed in the handling of disaster recovery funds.

3.1 Reimbursement claims

The city Finance Department has not filed reimbursement claims timely for approximately \$10.9 million in disaster recovery grant funds. As of May 26, 2015, the Finance Director indicated she has not completed or filed reimbursement claim forms for at least \$6.6 million of FEMA and \$2.7 million of the state's portion of Community Development Block Grant (CDBG) funds for completed projects. Of the \$6.6 million expended for FEMA projects, \$2.1 million of the projects were completed in 2011, \$2.8 million in 2012, and \$1.7 million in 2013. In addition to the \$9.3 million, the Finance Department has not allocated city labor and equipment expenses, totaling \$1,646,000, incurred during the time period immediately following the tornado, to the applicable FEMA projects and requested reimbursement.

The U.S. Department of Housing and Urban Development, Office of Inspector General conducted an audit and the city received the audit and a letter on January 29, 2014, concluding minor deficiencies related to the CDBG disaster recovery program. The letter stated "The City has been slow at obligating and expending its CDBG disaster recovery funds in the Disaster Recovery Grant Reporting (DRGR) system." and "By delaying requests for reimbursement from its grants, the City ties up its general funds that could be used for other City programs." The city's Finance Department and Planning and Community Development Department "do not appear to be staffed properly."

To maximize revenues, the city should ensure adequate staff and procedures are in place to request reimbursements timely. The failure to submit reimbursement claims timely could result in claims being denied.

3.2 Insurance proceeds

The Finance Department has not timely submitted supporting documentation to the city's insurance company to claim additional proceeds. The insurance company's statement of loss indicates at least \$934,243 has been placed on hold until projects are completed and supporting



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

documentation is submitted by the city for the repair and replacement of damaged city buildings, infrastructure, equipment, vehicles, and other personal property. This amount represents the difference between the actual cash value and the replacement cost for buildings and property damaged by the tornado. City records indicate the city had spent \$1,006,559 for the repair and replacement of this property. Some of the buildings and property have been replaced since 2012, with replacement of the last fire station in early 2014. The insurance company paid the city \$3.5 million in March 2012 for the actual cash value claims.

To maximize revenues, the city should ensure procedures are in place to timely submit required documentation for insurance claims. The failure to submit required documentation timely could result in claims being denied.

3.3 Duplication of benefits

The city has not taken proper action to ensure that neither the city, nor property owners, receive a duplication of benefits from federal disaster recovery funds and other sources. Federal law generally prohibits federal assistance when financial assistance has been received from another source.

After the May 2011 tornado, FEMA reviewed properties in the tornado zone and deemed 43 addresses eligible to receive funding for demolition work. FEMA agreed to reimburse the city 75 percent of these demolition costs and the State Emergency Management Agency (SEMA) agreed to reimburse the city an additional 10 percent of these costs.

In addition, the city was awarded a \$2.8 million grant from a CDBG through the Department of Economic Development (DED) for demolition and debris removal costs to remove structures and foundations on properties in the tornado zone, which were not eligible for FEMA reimbursements.

The city's Building Board of Appeals deemed all of the applicable properties to be dangerous buildings in accordance with city code.

Demolition

City officials in the Public Works and Finance Department assessed and issued special tax bills to some property owners to collect the same demolition costs being reimbursed to the city through the FEMA, SEMA, and CDBG grants, resulting in a duplication of benefits.

As of March 8, 2015, the city had issued 75 of these special tax bills totaling \$362,573 to property owners and had collected \$115,883 (32 percent) of the principal balances billed. Of the amount collected, \$3,355 was for FEMA funded properties and the remaining balance of \$112,528 was for CDBG funded properties.

42 USC 5155, also known as Section 312 of the Robert T. Stafford Disaster Assistance and Emergency Relief Act, prohibits federal assistance when



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

financial assistance has been received from another source. An exception is allowed when the entity agrees to repay all duplicate assistance to the agency providing financial assistance; however, the city has not established such an agreement.

Although the city had not received a duplication of benefits, (since a reimbursement claim had not been filed with FEMA or for CBDG funding as noted in finding 3.1) the city plans to claim reimbursement of these costs. The Finance Director did not initially believe the city would be violating Section 312 of the Robert T. Stafford Disaster Assistance and Emergency Relief Act until we brought this issue to her attention. The Finance Director indicated the city will refund the special tax bill amounts paid by property owners.

Debris removal

The Finance Department failed to establish adequate procedures to process and timely bill property owners for repayment of duplication of benefits related to a debris removal FEMA project.

Property owners inside the FEMA determined Expedited Debris Recovery (EDR) zone could sign a Right-of-Entry (ROE) form, which allowed government-funded contractors to come onto private property and remove loose debris. FEMA required the city to determine whether these property owners, who benefited from the debris removal services, also received private insurance proceeds for debris removal, resulting in a duplication of benefits.

The Finance Director initially believed that by reviewing property owners' insurance policies, the city would be able to determine if any duplication of benefits had occurred. However, after reviewing some of the insurance policies, the Finance Director discovered that many policies indicated coverage was for both debris removal and demolition and did not distinguish between debris removal and demolition. Therefore, the city was not only required to track insurance policies containing debris removal coverage, but also amounts claimed specifically for demolition, to determine any remaining coverage amounts that were applicable to debris removal. For example, if insurance coverage for an individual policyholder was for \$10,000 for debris removal and demolition, and \$5,000 was claimed for demolition work, a portion of the remaining balance could be owed to FEMA for debris removal.

Because of language combining debris removal and demolition in many insurance policies, the city's Finance Director consulted with the Missouri Department of Insurance, Financial Institutions and Professional Registration, for guidance on determining the amount of insurance benefits available for debris removal. Based upon this guidance, in December 2012, the Finance Department sent letters requesting property owners sign release



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

forms, allowing their insurance companies to send benefit information to the city.

The Finance Department received most of these property owner release forms in early 2013. However, the Finance Department did not timely request information from the insurance companies and bill property owners. On February 27, 2015, approximately 2 years since requesting the release forms, the city sent bills totaling \$766,474 to 400 property owners and their insurance companies. As of April 1, 2015, \$235,617 (31 percent of the amount billed) has been collected. Because the city did not timely bill property owners, and many property owners relocated from the Joplin area, the likelihood of collection of these amounts has diminished.

3.4 Suspension and debarment

The city did not ensure contracts with various vendors providing services contained suspension and debarment clauses required by city policy and grant provisions. During our review of federally funded projects, we identified 7 of 13 vendor contracts without the required suspension and debarment clauses, and the Public Works Department and Finance Department did not document verification of whether 12 of the 13 vendors reviewed were suspended or debarred by the federal government in accordance with city policy. The city has paid these 12 vendors approximately \$15.9 million since the date of the tornado.

The city's Purchasing Policies and Procedures manual indicates employees are to comply with applicable purchasing requirements established by the federal government. It also requires each department to verify the vendor is not debarred or suspended by the federal government, before placing an order with a vendor. The OMB Circular A-133, Compliance Supplement, Section 3-I, Procurement and Suspension and Debarment, prohibits entities from contracting with parties that are on the prohibited list. We checked the General Service Administration's Excluded Parties List System and determined none of the 13 vendors used were suspended or debarred.

3.5 Performance bond

The Public Works Director did not require contractors to furnish performance bonds related to a disaster recovery grant for soil remediation (lead removal). The city contracted with soil remediation contractors in March 2012 (phase I) and again in June 2013 (phase II) without obtaining performance bonds. As of November 1, 2014, the city paid the contractors approximately \$4.2 million for this work.

In 2012, 2013, and part of 2014, Section 107.170, RSMo, required all public entities to obtain a performance bond for public works contracts with costs estimated to exceed \$25,000. Effective August 28, 2014, this section of law requires all public entities to obtain a performance bond for public works contracts with costs estimated to exceed \$50,000. Performance bonds provide assurance for proper completion of such projects and may have



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

relieved the city from any potential liability to subcontractors upon default by the contractor.

3.6 Mutual aid grants

The city did not establish adequate and consistent policies and procedures to administer FEMA mutual aid grant funds. The city enlisted 73 outside agencies through mutual aid agreements to assist in providing security, fire protection, emergency medical care, and search and rescue operations from May 22, 2011, to June 30, 2011.

The expenses considered eligible for reimbursement identified in the letters sent to these agencies were different from those contained in the attached mutual aid agreements each agency was requested to sign. The Finance Department letters stated the city would reimburse overtime labor charges; however, the mutual aid agreements indicated regular time and overtime wages or salaries would be eligible for reimbursement.

The city disbursed \$1,517,203 in overtime and equipment usage to outside agencies from May 23, 2011, to December 30, 2011. However, due to the conflicting wording and agency questions, the city disbursed an additional \$496,362 in regular wages on June 29, 2012.

To ensure outside agencies are treated equitably and their expenses are appropriately reimbursed, the city should ensure reimbursement criteria are clearly established and consistently addressed in both letters and agreements.

Recommendations

The City Council:

- 3.1 Consider hiring additional staff or reassigning duties of existing staff, and ensure procedures are in place to request reimbursements timely.
- 3.2 Ensure documentation for insurance claims is submitted timely.
- 3.3 Establish plans to address the potential duplication of benefits caused by the collection of both special tax bills and federal assistance for demolition costs. The Council should also actively pursue collection of duplication of benefits from property owners and their insurance carriers related to debris removal, and work with FEMA to resolve any duplication of benefits.
- 3.4 Ensure city policy and federal requirements related to the suspension and debarment of vendors are followed.
- 3.5 Ensure performance bonds are obtained on public works projects as required by state law.



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

- 3.6 In the future, ensure mutual aid expense reimbursement criteria is clearly established and consistently addressed in both letters and agreements.

Auditee's Response

- 3.1
&3.2 *Following the disaster, the Council reviewed its options to administer the FEMA reimbursement process, either in-house or outsourcing this service. The evaluation revealed outsourcing this service in past disasters was quite costly to the local jurisdiction, as well as the federal and state agencies. In the evaluation, Council was notified that keeping the service in-house would be a slow process for the Finance Department, since department employees had to continue to perform their regular day-to-day duties. The evaluation also revealed outsourcing this function has typically slowed down the reimbursement process. As a result, Council made the choice to save taxpayer funds and handle the reimbursement process in-house, but with the understanding, that the reimbursement process would take time. The City has given the public periodic updates on the status of the reimbursement process.*

The cleanup and rebuilding effort of city damaged or destroyed property is being funded by several sources. This includes FEMA, SEMA, State CDBG, as well as insurance proceeds. As a result, the reimbursement requests for the various sources must be completed together to ensure accurate reimbursements are requested and received from the appropriate source. Inaccurate reimbursements could result in the city being required to return funds to federal and/or state agencies as a result of future audits of these proceeds.

Due to the strong financial position of the city prior to the tornado, the city's finances have not been unduly affected by the time lag in receiving reimbursements from FEMA, SEMA, State CDBG, and insurance. The Council is confident current city staff will meet the reimbursement deadlines for these requests. Also, the Council believes it is imperative the requests are accurate, in order to avoid any future repayment by the city.

- 3.3 *The State of Missouri awarded a portion of their CDBG grant to the city to assist with the cost of removing concrete from the rights-of-way, as well as the removal of certain damaged structures and foundation remnants left as a result of the tornado. Concrete removal is not an eligible reimbursable cost under FEMA guidelines. According to existing policy, when the city hires a contractor to remove a structure or foundation, the property owner is charged for the cost incurred by the city. The city is aware that under most grant guidelines, collection of the same proceeds from*



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

two different sources is not allowed. However when the city was awarded this grant, the Finance Director discussed the city's existing policy with State officials to determine the duplication of benefits guidelines for this particular grant. The city was initially advised that it would be within the grant guidelines to receive the grant, while also assessing a special tax bill to the property owner.

Following the disaster, the city was awarded approximately \$158.5 million in CDBG-Disaster Recovery funds. Under the CDBG-DR grant guidelines, these funds include eligibility and national objective restrictions such as low-to-moderate income, slum and blight, and urgent need. The city is currently in the process of compiling a capital project plan, which will outline the projects to be completed with the remaining unallocated funds. This process has included input from citizens, stakeholders, and city staff.

As a result of the presidentially declared Expedited Debris Recovery, government-funded contractors were allowed to enter private property with permission of the property owner to clean the loose, tornado debris. Without the Presidential declaration, government-funded contractors are only allowed to remove debris from the rights-of-way, rather than entering private property. Under federal guidelines, a possible duplication of benefits can occur when private property is cleaned by the government. A property owner is prohibited from receiving both insurance proceeds and the cleanup by government-funded contractors. According to FEMA guidelines, it is the city's responsibility to ensure no duplication of benefits occurred for each piece of private property cleaned by the U.S. Army Corps of Engineers. The Office of Inspector General will audit the city's duplication of benefits process. The process must be as accurate as possible to protect the city from any possible repayment to the federal government.

Where federal or state funds are being utilized by the city for demolition and cleanup, the city will terminate any existing outstanding special tax bills and refunds will be issued for any payments received prior to the city receiving any payment from federal or state agencies. The city has already begun the process of terminating existing special tax bills for demolition and cleanup.

While efforts to identify duplication of benefits for the tornado debris cleanup have progressed slowly, the city is confident that its efforts will withstand federal audit scrutiny. Following the disaster, the city held meetings with the major insurance carriers to educate them about the duplication of benefits guidelines. As a result of this meeting, many of the major insurance carriers retained the



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

appropriate amount awaiting the city's billing and collection process. As of June 10, 2015, through documentation provided by insurance and/or the property owner, the duplication amount billed has been reduced to \$692,277. The city has now collected 60.3 percent of this amount or \$417,417 on behalf of the federal government. City staff have been forced to prioritize its heavy workload and to meet deadlines on various tasks and projects. All deadlines are realistic and will be met by the city.

3.4 *The city will follow the existing purchasing policy and document the review of suspension and debarment of vendors. Additionally, the city will ensure contracts include the appropriate suspension and debarment clauses.*

3.5 *The city has allowed the substitution of a letter of credit for a performance bond. The city obtained a letter of credit for the soil remediation contract. The city was unaware a substitution is not allowed under State Statute. In the future, the city will comply with State Statute and obtain a performance bond for all public works contracts over \$50,000.*

3.6 *Immediately following the tornado, while the city was dealing with the cleanup from the disaster, the city was informed it had to develop a mutual aid agreement for all of the various responding agencies. The city affected by the disaster determines what will be reimbursed to other agencies in terms of regular wages, overtime wages, and equipment usage, since these are FEMA eligible reimbursable costs. FEMA reimburses 75 percent, SEMA reimburses 10 percent, and the city is responsible for 15 percent of the costs of the disaster. The city used the standard federal language for the mutual aid agreement. During the development of the mutual aid agreement, it was unclear how much in total would be funded by the city for the mutual aid assistance, since the total costs incurred by outside agencies were unknown. To help protect the financial well-being of the city, the determination was made to reimburse overtime wages and equipment usage only. Along with the mutual aid agreement, the city sent a letter to each agency detailing the costs that would be reimbursed by the city. The city believed the agreement language "allowed" rather than "required" the reimbursement of regular wages. Several months later, after the city reimbursed those agencies requesting reimbursement and two agencies questioned the reimbursement by the city, the total costs requested by responding agencies were known. By this point in time, the city had a clear picture of the financial impact of the disaster. As a result, due to the tremendous assistance provided by all of the responding outside agencies and after correspondence*



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

with FEMA and SEMA, the city made the determination to also reimburse all of the requesting agencies for their regular wages incurred.

The city has accepted the finding and recommendation of the State Auditor and has since updated the language in the existing mutual aid agreements to give the city any flexibility needed to reimburse responding agencies, while protecting the city finances.

4. Sunshine Law Issues

The city did not always comply with Chapter 610, RSMo (the Sunshine Law).

4.1 Closed sessions

The Council held 49 closed session meetings from the date of the tornado (May 22, 2011) through February 2015, but some requirements of the Sunshine Law, regarding closed session meetings were not followed.

- Minutes were not prepared for 10 of 24 closed sessions held from the date of the tornado through the year ended October 31, 2013. Many significant discussions and decisions regarding disaster recovery and redevelopment of the city were made during this time period. City officials improved procedures and maintained minutes for 24 of 25 closed sessions held during the period November 1, 2013, through February 28, 2015.
- Based upon closed meeting minutes, some issues discussed in closed meetings were not allowable under the Sunshine Law. For example, the Council discussed the recruiting brochure for the City Manager position on July 7, 2014, and the requirement for department heads to live within a 12 mile radius of the city on January 12, 2015.

The Sunshine Law requires minutes of closed meetings to be taken and retained by the public governmental body, and limits discussions in closed meetings to only those specifically allowed by law.

4.2 Council work sessions

The Council does not prepare meeting minutes for Council work sessions. Work sessions are held on a fairly regular basis, with 10 held during the year ended October 31, 2014. According to work session agendas, significant city business was conducted including: project updates from Wallace Bajjali, bringing a professional baseball team to the area, baseball stadium financing options, the selection process for the city manager, the city budget, and water rates. An agenda for one of the work sessions also included a closed session.



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

The governing bodies of all political subdivisions in Missouri are required by the Sunshine Law, Chapter 610, RSMo, to take and retain meeting minutes.

4.3 Agendas

The city did not always give notice of some Council meetings in compliance with the Sunshine Law. The city did not give proper notice for 3 of 11 special meetings held during the year ended October 31, 2014.

Section 610.020, RSMo, requires meeting notice be given at least 24 hours, exclusive of weekends and holidays when the facility is closed, prior to all meetings of a public governmental body.

Recommendations

The City Council:

- 4.1 Ensure closed session minutes are maintained for all closed meetings and only allowable subjects are discussed.
- 4.2 Ensure all city business is conducted in compliance with the Sunshine Law, and meeting minutes are maintained.
- 4.3 Ensure meeting notices are given for all Council meetings.

Auditee's Response

- 4.1 *Compliance with the Sunshine Law is extremely important to the city. The city has implemented several changes to ensure that closed session minutes are properly and accurately maintained. These changes have already improved compliance with the Sunshine Law requirements as noted in the Auditor's report. With regard to discussion of issues in closed sessions, the city acknowledges that at the July 7, 2014, meeting, the hiring and search for the City Manager was discussed, and this included a discussion of the brochure that was developed by the search firm. RSMo §610.021(3) does allow this topic to be addressed, even though it is related to the hiring of the City Manager. Further, the city acknowledges that at the January 12, 2015, meeting, the hiring of the new Fire Chief was discussed, and this included a discussion of waiving the twelve mile radius residence requirement because the candidate could not meet this requirement. Although this waiver directly related to the hiring of the Fire Chief, a strict interpretation of RSMo §610.021(3) only allows for the waiver of this requirement to be discussed and voted on in an open meeting. The city will ensure that all topics discussed in closed session will comply with the Sunshine Law, even if they are directly related and integral to permissible closed session discussions.*
- 4.2 *The city has implemented a change in practice and now keeps minutes and a record of votes for all Council work sessions.*



4.3 *The city will seek to make improvements in its process to ensure notices of all meetings are given timely.*

5. Procurement Procedures and Contracts

City procedures for selecting and contracting for goods and services are not sufficient. In addition, supporting documentation for some payments was not sufficient.

5.1 Professional services

The city and the JRC did not solicit proposals for several professional services. Without requesting proposals for professional services, the city and the JRC have not ensured they have received quality services at a fair price. In addition, the city and the JRC did not always enter into or update contracts for professional services or ensure invoices were adequately detailed.

Procurement

The city and the JRC paid for various services without periodically conducting a competitive selection process during the year ended October 31, 2014, and had not entered into or updated contracts for the following professional services:

Service Provided	Amount	Competitively Procured?	Current Written Contract?
Development and hosting of the city's Geographic Information System (GIS) website	\$267,942	No	No
Legal services related to JRC's redevelopment tax credits (firm hired by Wallace Bajjali)	81,109	No	No
Legal services related to the city's TIFs, ballot issues, and Wallace Bajjali agreements	49,675	No	No
City sewer rate study ¹	38,578	No	Yes
City theatre feasibility study and Hope Valley TIF redevelopment revenue study	25,287	No	No
Legal services related to city litigation and liability claims	23,033	No	No
Legal services related to the city's collective bargaining	22,644	No	Yes
Consulting services for the Convention and Visitor's Bureau (preparing visitor's information, travel writing, and photography-4 vendors) ²	19,955	No	No
City lobbying services	18,000	No	No
City investment consulting services	16,540	No	No
Legal services related to JRC's tax liability on tax credits	14,705	No	No
City pension accounting services	6,500	No	Yes
Legal services related to the city's franchise tax	6,013	No	No
Legal services related to city trademarking and JRC's tax liability on tax credits	5,888	No	No

¹ The city paid an additional \$8,322 in November 2014, for the sewer rate study.

² One vendor of 4 had a current written contract.



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

In addition, the city contracted with an attorney to provide public defender services during the year ended December 31, 2015, but the contract did not include provisions to adequately monitor the services received.

Supporting documentation

The JRC paid a firm, hired by Wallace Bajjali, \$81,109 on February 3, 2014, for legal services related to obtaining tax credits for the redevelopment area. The invoice submitted only indicated "legal fees, costs and expenses related to Capital Pursuit through January 2014;" providing no hours worked, cost per hour, services performed, or dates of hours worked. It is questionable whether the city was obligated to pay this invoice since the city did not bid, contract, or hire this firm.

Bond counsel and financial advisor

The city did not solicit proposals for its bond counsel and financial advisor related to the issuance of some bonds and certificates of participation (COPS). In addition, the city did not always enter into contracts with its bond counsel or financial advisor and invoices submitted were not always itemized or adequately detailed.

- The city issued \$18,250,000 of tax increment revenue bonds for the recovery TIF redevelopment project, and did not solicit proposals for its bond counsel or financial advisor. The city did not enter into contracts with its bond counsel, and the contract with the bond underwriter required the city to pay the underwriter's bond counsel, but did not specify the amount of fees to be paid. Additionally, the invoices submitted by the city's financial advisor and bond counsel, and the underwriter's bond counsel were not itemized or adequately detailed. A duplication of services and amounts paid could have occurred because the city failed to obtain a contract or itemized invoices detailing the services performed by its bond counsel. The city paid its bond counsel \$75,000, financial advisor \$25,000, and the underwriter's bond counsel \$50,000.
- In November 2014, the city sold COPS totaling \$2 million to help finance the renovation/construction of the Joe Becker Baseball Stadium, and the Council did not select its bond counsel or financial advisor competitively. The city also did not enter into a written contract with the financial advisor. The city paid its bond counsel \$25,000 and financial advisor \$20,000 related to the issuance of these COPS.

Conclusion

Soliciting proposals for professional services is a good business practice, helps provide a range of possible choices, and allows the city to make better-informed decisions to ensure necessary services are obtained from the best qualified provider after taking expertise, experience, and cost into consideration. Written contracts are necessary to ensure all parties are aware of their duties and responsibilities, no duplication of related services are performed, and to prevent misunderstandings. Section 432.070, RSMo,



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

requires contracts for political subdivisions to be in writing. Without adequate documentation, the city cannot ensure charges are reasonable.

5.2 Bidding

The city did not always follow its own bid policy for goods and services or retain adequate documentation for selecting other than the low bid. In addition, the city signed a contract with a vendor before bids were accepted by the Council.

City policy requires employees to contact at least 3 vendors by phone for purchases from \$1,000 to \$3,000, obtain written or faxed bids from at least 3 vendors for purchases from \$3,000 to \$15,000, and advertise and obtain formal sealed bids for purchases greater than \$15,000. City policy also requires each city department, with the assistance of the Finance Department, to prepare and issue all formal bid documents. We identified the following problems.

- The Public Works and Finance Departments did not advertise or obtain sealed bids for landfill fees for debris removal. The Public Works Department contacted 5 area landfills by phone for prices in August 2011. The city paid the vendor selected approximately \$815,000 during the period September 2011 through May 2012. The September 6, 2011, Council meeting minutes show a written contract with this vendor was approved; however, a signed written contract with effective dates of service was not maintained.
- The Public Works and Finance Departments did not advertise or obtain sealed bids for gravel. The city paid two vendors approximately \$89,000 during the year ended October 31, 2014, for gravel.
- The Fire and Finance Departments failed to maintain documentation of bids obtained or efforts made to locate a used fire truck, purchased for \$81,950.
- The City Manager issued an RFP for the construction of a skate park in November 2014, without seeking assistance from the Finance Department. The RFP focused solely on a qualification-based process, rather than the cost-based process typically used and recommended by the Finance Department to solicit construction services. The RFP also listed the amount the city had budgeted for this project, which further hindered the city's ability to obtain the lowest and best bid price for the project. At the January 5, 2015, Council meeting, councilmembers questioned why the RFP did not ask for proposed construction costs. The Planning and Development Director indicated the city awarded the bid without consideration of price and later negotiated a price for the design and construction of the skate park.



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

- Even though the bid opening was not until December 3, 2012, the Convention and Visitors Bureau Director and a representative of the vendor signed a contract on December 2, 2012, for print media buyer services. The city paid this vendor \$91,713 during the year ended October 31, 2013, and \$128,808 during the year ended October 31, 2014. In addition, no documentation was provided to indicate this contract was approved by the former City Manager or Council. City policy requires the City Manager's approval of purchases between \$15,000 and \$100,000 and the Council's approval of purchases over \$100,000 that are not provided for in the approved budget.

In addition to complying with city ordinances, competitive bidding helps ensure all parties are given an equal opportunity to participate in city business. Complete documentation should be maintained of all bids and proposals received and the reasons why a bid or proposal was selected.

5.3 Architectural and engineering services

The city did not re-evaluate qualifications of an engineer/project manager for a project when significant time had passed, enter into current written agreement for services, and did not always retain documentation of the selection process.

- For one of the Rebuild Damaged Infrastructure Program projects in process, we noted the Public Works Department utilized a 2008 request for qualifications (RFQ) to select an engineer/project manager instead of re-evaluating qualifications of engineering firms when this funding was approved in 2014. In addition, the city did not enter into a current written agreement with this engineering firm for services provided, and as of March 13, 2015, the firm had been paid approximately \$73,000 for this project. The Public Works Department should re-evaluate and select engineering services periodically to ensure the most qualified engineering firm is selected.
- Parks and Recreation Department officials did not document their selection of architectural and engineering firms for the Joe Becker Baseball Stadium project. The only documentation retained to support the ranking of the respondents for architectural services was a list of the criteria evaluated and the points awarded to each respondent by criteria for each evaluator, and the selection process for engineering firms was not documented. The city paid \$200,000 for architectural services and \$45,200 for engineering services during the year ended October 31, 2014.

Sections 8.289 and 8.291, RSMo, provide requirements for the evaluation and selection of architectural and engineering services. Complete documentation should be maintained of the selection process. Without adequate documentation, the city cannot ensure charges are reasonable.



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

Written contracts are necessary to ensure all parties are aware of their duties and responsibilities, no duplication of related services are performed, and to prevent misunderstandings. Section 432.070, RSMo, requires contracts for political subdivisions to be in writing.

5.4 Change orders

Significant improvement is needed in the city's handling of change orders.

- The city does not have a formal written change order policy, and neither the City Manager nor the Council approve change orders for significant amounts or changes in scope of services. City policy requires the City Manager's approval of purchases between \$15,000 and \$100,000 and the Council's approval of purchases over \$100,000 that are not included in the annual budget.
- The Public Works Department poorly planned projects, resulting in significant change orders, and did not competitively bid significant changes to construction projects, when appropriate.

The original contract for the 26th Street widening project totaled \$1,950,065; however, 18 change orders totaling \$852,943 were processed and not bid. One additional change order totaling \$82,147 was pending and had not been finalized as of February 2015. These change orders including the pending change order represent approximately 48 percent of the original contract amount. Change orders totaling \$763,232, were for significant items not originally included or planned for in the initial bid. Examples of these items and associated costs include, subgrade stabilization (\$224,951); time and material for the American with Disabilities Act ramps (\$91,699); time and material to reinforce a wall (\$89,857); and time overrun costs for sign rentals, sign inspections, road and vehicle maintenance, and erosion control maintenance (\$96,928). In addition, documentation was not obtained to support some amounts included in the change orders. We noted 16 line items totaling \$99,404 on 6 change orders were not supported by a contractor's change order request.

In addition, some of the change orders for a city street resurfacing project were for items not originally included or planned for in the initial bid and some were unrelated to street resurfacing. Items that were not included in the original bid or were unrelated to street resurfacing included petro mats (used to extend the life of asphalt pavements) costing \$24,647, paving of Travis Acres city/county road costing \$17,010, and paving of Joplin Sports Complex Tennis Courts for \$24,950. In addition, the city did not have a written contract with the county to share the cost of paving the Travis Acres city/county road.



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

- The Public Works Director did not retain documentation of his approval of some change orders; and some work was completed before a notice to proceed with work was approved. During the resurfacing project previously discussed, no documentation could be provided of the Public Works Director's approval of 2 change orders totaling \$36,926. In addition, the invoice for work associated with one of the change orders (the Travis Acres city/county road project) was dated July 1, 2013, and the work was performed/invoiced before the notice to proceed with work on the project was approved on July 31, 2013.

While change orders often occur on construction contracts, they are normally used to make adjustments for minor problems that are unknown when construction projects are originally bid. Change orders should be kept to a minimum to ensure the maximum amount of construction costs are subjected to competitive bidding and to reduce the amount of administrative time and effort in processing change orders. Change orders should not be used to make significant changes to existing contracts. If the scope of a project changes substantially, consideration should be given to bidding those parts of the project. In addition, to prevent potentially unnecessary work, documented reviews of change orders are necessary and work should not be performed prior to the approval of change orders or notices to proceed with work.

5.5 Chamber of Commerce

The city did not properly monitor its contract with the Joplin Area Chamber of Commerce and provides the chamber significantly more funding than some other cities. The city last amended its contract with the chamber in 1991. The contract provides for the city to fund the chamber for economic development based upon the amount approved in the city's annual budget and requires the chamber to submit receipts, vouchers, or other documentation to verify the expenses for economic development. The city's fiscal year 2014 budget provided for \$335,000 in funding to the chamber.

The chamber invoices the city on a monthly basis for actual costs incurred including a portion of the salary and benefits of 3 employees; the Chamber President, the Director of Member Service and Development, and the Chamber President's Executive Assistant. The city also reimburses the chamber a percentage of office telephone, vehicle, and equipment expenses; and actual expenses related to economic development including cell phone bills, meeting and travel expenses, membership costs, and other miscellaneous items. We noted concerns in our review of the city's contract with the chamber and various documentation.

- The city did not ensure the chamber complied with the terms of the contract. The contract requires the chamber to file its independent audit reports with the city; however, the chamber had not filed them with the



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

city. At our request, the city obtained the chamber's independent audit report for the 2 years ended March 31, 2014.

- Invoices received from the chamber did not contain adequate detail and amounts charged to the city were inconsistent. For example, the chamber's March 2014 reimbursement request did not provide adequate documentation to support the salary and benefits paid to 3 chamber employees totaling \$7,860. Also for March 2014, the chamber requested reimbursement for 30 percent of the phone bill (\$485) and 40 percent for both automobile expenses (\$188) and equipment expenses (\$1,822). There is no basis for the variance in percentages between expense categories or how the percentages (which do not change from month to month) were originally established. Also, the chamber did not submit documentation, such as phone and mileage logs or invoices, to support these requests.

The city also did not adequately review documentation to ensure amounts requested for reimbursement were accurate prior to payment. For example, the chamber submitted a bill in December 2014 requesting the city reimburse \$448 for an economic development breakfast meeting and the city paid the entire amount; however, the attached invoice indicated the chamber had also requested that the United Way reimburse the chamber half of this bill (\$224).

Documentation received from the chamber for reimbursement of lobbying services costing \$35,000 was also not adequate. The chamber did not provide an invoice or other documentation showing proof of payment or services received on behalf of the city by the lobbyist.

- The city reimbursed the chamber for several expenses that were either incurred by the chamber without prior knowledge of the city or were questionable. For example, in November 2013, the chamber requested reimbursement of some master developer (Wallace Bajjali) costs it had incurred totaling \$7,500, including an economic impact study for professional baseball in Joplin costing \$5,750 and architectural drawings for a medical school expansion/performing arts center costing \$1,750. However, the Finance Director and former City Manager were not aware these costs had been incurred on behalf of the city by the chamber. The former City Manager subsequently approved reimbursement of these costs. Additionally, it is unclear why the city reimbursed the chamber \$1,150 or half the cost of a custom mural in August 2014. The Finance Director did not know the mural's location or why the city paid for part of it. In another example, during February, April, and October 2014, the chamber requested reimbursement for the purchase of 3 smartphones and a headset costing \$1,446, and it is questionable why the city would be purchasing chamber equipment.



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

Also, we reviewed chamber invoices for the smartphones and determined the chamber (and as a result the city) was overcharged \$450 for one smartphone. The smartphone vendor credited the chamber's account for this amount on its February 2015 statement, and it was adjusted from the economic development expense requested from the city for February 2015.

- The city paid the chamber \$342,645 (\$335,000 budgeted plus \$7,645 for miscellaneous expenses not budgeted) during fiscal year 2014. We contacted 3 cities with similar or larger populations to determine the amount of funding provided to their local chamber organizations for each city's most recent fiscal year for comparable services. Joplin provides its chamber significantly more funding than the other cities.

City	Population	Annual Amount of Funding Provided to Chamber
Joplin	50,150	\$ 342,645
Jefferson City	43,057	185,000
St. Joseph	76,780	175,000
Chesterfield	47,484	25,983

To ensure city funds are spent wisely, the Council should evaluate the amount of funding provided to the chamber. The Finance Department should monitor the contract to ensure compliance with contract terms. Only by receiving detailed invoices to support the services provided and payments made can the city ensure the amount claimed for reimbursement is accurate.

5.6 Investigative services contract

The city made a payment to an investigator prior to signing the related contract and also paid the investigator more than the contracted amount.

The city hired an investigator to perform an independent investigation of the conduct of certain councilmembers. The contract provided for the city to pay the investigator an hourly rate of \$175 per hour with the total not to exceed \$40,000 and out of pocket expenses not to exceed \$5,000. Our review of payments determined the city paid the investigator \$9,082 for services provided from October 17, 2013, through November 8, 2013, 3 days prior to the Council signing the contract on November 11, 2013. Additionally, the investigator billed and the city paid \$27,291 more than the maximum contract amount and there was no documentation of prior approval by the Council as required by contract terms. The city paid the investigator a total of \$72,291 for the period of October 17, 2013, through February 5, 2014.



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

The city should ensure contracts are approved before related services are rendered and any payments made, monitor contracts to ensure compliance with contract terms, and obtain documented approval from Council prior to contract overruns.

5.7 Library District

The city provides financial support and services to the Joplin Library District, but has not entered into a written contract with the district regarding this relationship.

The city deposits all library funds into city bank accounts and processes all expenses of the Library District (including payroll) through the city's accounting system. The city received approximately \$2.1 million in receipts and paid expenses totaling approximately \$1.9 million on behalf of the Library District during the year ended October 31, 2014. The city provided financial support totaling approximately \$227,000 to the district and transferred approximately \$97,000 from district funds to the city's General Fund for administrative costs during the year ended October 31, 2014.

Written contracts are necessary to ensure all parties are aware of their duties and responsibilities and to prevent misunderstandings.

Recommendations

The City Council:

- 5.1 And the JRC solicit proposals for professional services, enter into or update written contracts for professional services, ensure contracts contain provisions to adequately monitor services received, and require submission of adequately detailed invoices prior to payment.
- 5.2 Ensure bids are solicited for all applicable purchases in accordance with city policy, maintain documentation of decisions made, and ensure bids are opened and evaluated prior to the signing of related contracts. The Council should also ensure all contracts are signed and include effective starting dates.
- 5.3 Comply with state law when procuring architectural and engineering services, including re-evaluating engineering services periodically and documenting the selection process.
- 5.4 Monitor change orders, give consideration to bidding when substantial project changes are needed, and ensure change orders are adequately supported by documentation, approved, and work is not performed prior to approval of change orders or notices to proceed with work. The Council should enter into written contracts for services provided.



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

- 5.5 Monitor the contract for compliance and reconsider the amount of funding provided to the chamber. The Finance Department should also ensure adequately detailed invoices are obtained and reviewed to support payments to the chamber.
- 5.6 Ensure services are not incurred prior to approval of related contracts and cost overruns are approved and documented prior to incurring the services/costs.
- 5.7 Enter into a written contract with the Library District.

Auditee's Response

The city has an adopted purchasing policy that requires competitive bidding for goods and services which complies with the City Charter. Section 4.04, competitive bidding, of the Home Rule Charter of the City of Joplin, states the following:

It shall be policy of the city to give ample opportunity for competitive bidding prior to making any purchase or contract or letting any contract for improvements. The council may authorize exceptions to this policy for appropriate reasons such as emergencies, contracts for services of a specialized, professional, or technical character or for contracts involving small amounts. When authorizing contracts without requiring competitive bidding, the council shall state the reasons why competitive bidding is deemed inappropriate. In giving opportunity for competitive bidding, the city may use any method deemed fair and reasonable to notify prospective bidders.

- 5.1 *The Council has awarded professional contracts utilizing the above language included in the Home Rule Charter, that was approved by the voters of Joplin.*

As stewards of taxpayer funds, the city believes strongly in ensuring that we are receiving the best value for goods and services with the limited resources available. As a result, the city will now issue cost and qualification based bids for professional services. The city also acknowledges that some contracts have not been updated in a timely manner. The city has begun the process of updating contracts and will continue to update contracts as bids can be let. The city will also explore developing and adopting a new policy governing procurement related to professional services and contracts. Additionally, the city will ensure contracts contain provisions to adequately monitor services received and require detailed invoices prior to payment.

The JRC is an Urban Redevelopment Corporation organized under Chapter 353 of the Revised Missouri Statutes. As such, they are not



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

required to follow the same purchasing policies and guidelines as the city. However, the JRC also strives to be good stewards of taxpayer funds and, as such, has endeavored to follow the city's purchasing policies. Insofar as the city was following Section 4.04 for professional services, the JRC was mirroring this same practice. In order to ensure the JRC is obtaining the best value, the JRC will follow city procurement policies and will also issue cost and qualification based bids for professional services.

5.2

&5.3 Following the disaster, the city had to contract landfill services for the concrete cleanup effort. Due to driving distance, the landfill had to be in close proximity to Joplin. There were a set number of landfills that could have been used for the cleanup. Tipping fees are established, regulated fees with each state. After discussion with officials with FEMA and the State, the city contacted each landfill and obtained the price and awarded based on the lowest and best bid obtained.

The city will ensure purchasing policies are followed, in order to obtain the lowest and best bid. As required by State law, the city will issue proper RFP's, including cost and qualification based bids, for goods and services and proper RFQ's for architectural and engineering services. The City will comply with State law when procuring architectural and engineering services. Bids will be opened and reviewed prior to requesting Council approval on the award of contracts. The city will improve the retention of documentation concerning purchasing decisions. The city will implement processes to ensure contracts are signed and properly retained.

5.4 *The city concurs with the State Auditor's recommendation that significant improvement is needed in the area of change orders issued by the city. The city will develop and adopt a change order policy, which addresses the issues outlined in this report.*

5.5 *The Chamber of Commerce provides economic development services for the city. The Council has begun the process of reviewing the level of funding provided for this service. Additionally, the city is also working on developing a new contract with the Chamber, which will outline various expectations such as the documentation required to make payment to the Chamber. The updated contract will assist the Finance Department in ensuring proper documentation is obtained prior to making payment.*



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

5.6 *The City will ensure that contracts are approved, as well as any proposed cost overruns are approved and documented, before services are rendered.*

5.7 *The Joplin Public Library is a component unit of the city. The Council sets the real estate property tax levy for the library and the city. Prior to 1983, the city and the Library assessed personal property taxes, as well as real estate property taxes. In 1983, the city asked the voters to approve a one-half cent transportation sales tax, and if approved, the city agreed to abolish personal property taxes. The voters approved this measure. This action took away a funding source of the Joplin Public Library. At that time, city leaders made an arrangement with the Library Board to make the library whole for the lost revenue. The city would pay the value of the lost personal property taxes to the Library. Thus, the city has made this payment annually to the Library.*

The city acknowledges that the arrangement with the Joplin Public Library to provide for the abolished personal property taxes and the services the city provides to the Library is not outlined in a formal, written agreement. The city is currently utilizing a \$25 million Economic Development Administration (EDA) grant to build a new Library at 20th and Connecticut. The EDA requires the city to own the facility for at least 20 years following its completion. The city agrees that a formal contract will need to be adopted prior to the opening of the facility to outline the responsibilities of both parties. This agreement will include the provisions for the replacement of the lost personal property taxes, as well as the services the city shall provide to the Library and the costs associated with those services.

6. Joe Becker Baseball Stadium

The city entered into an agreement with a baseball organization without conducting a feasibility study and purchased property without obtaining a current appraisal.

6.1 Lack of independent study

The city entered into an agreement with an independent professional baseball organization committing the city to major renovation/construction of a city-owned baseball stadium without a feasibility study of independent professional baseball in Joplin.

The city entered into an agreement with Pro Baseball Management, LLC, in May 2014, to lease the city-owned Joe Becker Baseball Stadium for a term of 20 years and 2 months at \$150,000 per year. As part of the agreement, the city is required to make specified alterations and improvements to the stadium to prepare it for use by an independent professional baseball team. The agreement states the landlord (the city) will, ". . . expend up to \$4,000,000 for said improvements." However, the city Finance Director



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

indicated bids for the specified work required for the stadium renovation/construction totaled approximately \$4.7 million.

As referred to in MAR finding number 5.5 the chamber of commerce obtained an economic impact study for professional baseball in Joplin. However, that study, dated October 2013, included significant additional development that is no longer planned and focused on minor league, rather than independent professional baseball. The city did not obtain an independent professional analysis of the feasibility of independent professional baseball in Joplin.

6.2 Appraisal

The city purchased property (multiple lots, a metal building, and parking lots) from a local church to remodel for locker rooms, a club house, and front offices located near the stadium, without obtaining a current appraisal. The city purchased the property for \$226,000 in February 2015, although the last formal appraisal of the property was completed in March 2007. The city obtained an informal email update to the 2007 appraisal in September 2013. The appraiser valued the property at \$226,000 but referred to the amount as a ". . . rough estimate of the value."

The value of appraisal information diminishes over time and should be reconsidered, particularly when there are significant economic and market changes. A current formal appraisal would have provided a basis for negotiations and additional assurance the city paid a reasonable price for the property.

Recommendations

The City Council:

- 6.1 Obtain feasibility studies of future city projects, as needed.
- 6.2 Ensure current, formal appraisals are obtained before making significant real estate purchases.

Auditee's Response

- 6.1 *In the evaluation of proposed major projects, the city routinely obtains feasibility studies as part of the due diligence of the city prior to committing to a project. However, the city acknowledges that a policy does not exist, which outlines the due diligence the city should follow when evaluating a proposed new major project or redevelopment project. The city will develop and adopt a policy that establishes procedures for evaluating such projects.*
- 6.2 *The city will adopt a policy outlining the use of current and formal appraisals prior to the purchase of any real estate.*



7. Disbursements and Payroll

We noted weaknesses in controls and procedures over disbursements and payroll.

7.1 Manual and system generated checks

The Finance Department's controls and procedures over manual and system generated checks could be improved. The city issued 68 manual checks totaling approximately \$1.1 million during the fiscal year ended October 31, 2014. The city processes disbursements and issues system generated checks each Friday. The same check stock is used for both system generated and manual checks, and therefore use the same numerical sequence.

- The city has not established policies for the use of manual checks; however, the Finance Director indicated manual checks should only be issued in the case of an emergency. Our review of manual checks for the year ended October 31, 2014, identified 26 manual checks totaling \$915,250 that did not meet the emergency criteria. For example, a manual check was issued on Friday, September 5, 2014, for \$297,479 for grant consulting services, and the vendor invoice covered services from March 2, 2014, to July 26, 2014. Additionally, we identified 10 manual checks totaling \$283,263 issued to a dental insurance provider for monthly premiums. The Finance Director indicated city employees failed to submit approved invoices or other supporting documentation to the Finance Department timely to meet system generated check deadlines, thus requiring the manual checks.
- The city has not limited access to the signature plate used on system generated checks or to the manual and system generated check stock. The city also has not adequately limited who has the authority to sign manual checks.

The check signing machine is maintained on the counter in the mail room of the Finance Department. A signature plate and one of the two keys required to run the check signing machine are kept in the machine at all times and the other key and another backup signature plate are maintained in a safe in the Finance Department vault. The safe and vault remain open during the day and all employees with access to the Finance Department have access to the signature plates and keys.

Four Finance Department employees also have authority to sign manual checks, including the Senior Accountant, who prepares the bank reconciliation. Manual and system generated check stock is also stored in an unlocked cabinet in the Finance Department, and all employees with access to the Finance Department have access to the check stock.

- The Finance Department's Senior Accountant does not account for the numerical sequence of system generated and manual checks during his



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

review of the bank reconciliation, and the Accounts Payable Clerk does not account for the numerical sequence of manual checks upon preparation of the manual check log. The check signing machine has the capability to count the number of times a signature is applied; however, the Finance Director indicated this information is not used to reconcile system generated checks issued to the system generated check stock used. In addition, the Finance Department shreds all voided checks.

To ensure manual checks are used when appropriate, the city should establish policies for their use. To decrease the potential for unauthorized disbursement by check and to ensure checks are properly distributed, access to the signature plate, the number of individuals with signature authority for manual checks, and check stock should be limited. To ensure all checks are accounted for and issued only for authorized purposes, the numerical sequence of all checks should be accounted for, and all voided checks should be properly defaced and retained.

7.2 Purchase orders

Purchase orders were sometimes approved or prepared after the date of the corresponding invoices. Nineteen purchase orders totaling \$308,101 were approved as late as 45 days after the date of the invoice during the period November 2011 through December 2014. In addition, we reviewed 58 purchases at 2 local stores where the city has charge accounts and determined 26 purchases totaling \$6,061 were made prior to the preparation of the purchase order requisition. The city's purchasing policy requires preparation of purchase requisitions and approval of purchase orders by the applicable employees prior to purchase for all disbursements.

To ensure the validity and propriety of disbursements, purchase orders should be completed and approved prior to the purchase in accordance with city policy.

7.3 Cell phone allowances

The city paid monthly cell phone allowances ranging from \$48 to \$52 to 132 of 504 full-time city employees. Allowances totaled approximately \$77,000 during calendar year 2014. Given the significant number of cell phone allowances and amount paid, the city should periodically review whether each employee still needs an allowance and whether the provided allowance is reasonable.

7.4 Questionable disbursements

During our review of city disbursements, we identified several purchases that did not seem reasonable and/or to benefit the city.

- Food purchases were sometimes made without documentation of the business purpose or the persons in attendance as required by city policy. City records indicated approximately \$19,700 was spent on meals and food purchases for employee meetings, training sessions, and lunches at local restaurants during the year ended October 31, 2014.



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

In addition, the city provides meals for all Council meetings and work sessions held. The City Manager's Executive Assistant indicated approximately 15 meals are purchased for each meeting. The meals were catered from a variety of local restaurants. The city spent \$12,401 of the \$19,700 for Council meetings and work sessions.

In addition, the city pays for the cost of meals provided for the funerals of Councilmember's immediate family. In one instance the city was billed approximately \$1,500 for such meals. When the Finance Director questioned the bill, the former City Manager authorized payment of \$350 to the vendor and Councilmembers donated the remaining amounts to cover the bill. The \$350 is close to the amount the city has typically paid toward funeral meal costs. The city does not have any policies in place authorizing payment for such costs.

- The city spent approximately \$16,500 for an employee appreciation banquet during the year ended October 31, 2014. This amount included meals (\$5,150); raffle prizes including a 55 inch television (\$698), a \$500 Walmart gift card, a laptop (\$499), and a sound bar (\$239); years of service award gift cards (\$4,550); entertainment (\$1,801); gifts for all employees in attendance including thermal drink sleeves, badge holders, lunch coolers, and leatherette certificates (\$2,049); and other items such as decorations (\$1,099). The Human Resource Specialist indicated he could not recall or provide documentation of the winners of the television, gift card, laptop, and sound bar; or a list of attendees to the banquet. In addition to the years of service award gift cards, employees also receive longevity pay based upon years of service.
- The city spent \$4,584 for the 2014 Christmas dinner attended by city employees and retirees and their families.
- It is questionable why the city spent approximately \$3,500 to send the former City Manager and 2 city employees to Tuscaloosa, Alabama, for 3 days to observe and discuss Tuscaloosa's recovery from an EF-4 tornado, which struck in April 2011. No documentation was retained to support the benefits received from this trip. In addition, some costs of the trip were excessive. For example, \$1,140 of the total hotel costs incurred (\$1,440) pertained to stays at a hotel on the University of Alabama campus on Friday and Saturday nights when motel rates were inflated because of a football game. The city paid rates of \$285 per room per night for 2 rooms and the city employees attended the University of Alabama football game on Saturday. City officials completed a tour of Tuscaloosa's tornado recovery on Friday, but did not fly back to Joplin until Sunday. Email correspondence between Tuscaloosa and a Joplin representative indicated ". . . we would enjoy staying over on Saturday and footballing with you all. . . ."



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

Taxpayers have placed a fiduciary trust in the Council to spend public funds only on items necessary and beneficial to the city. These expenditures were not a necessary use of city resources. The city should develop more comprehensive policies regarding food purchases and review the need for Council and local meal expenses in an effort to control and reduce these costs.

7.5 Memberships and professional licenses

The city does not have a written policy to limit the number of employee memberships and professional licenses paid for from city funds. The city paid approximately \$46,000 for individual memberships (professional and civic) and professional licenses during the year ended October 31, 2014. A written policy would give the city greater control over these disbursements and ensure they are beneficial to the city. The policy should cover the number of memberships that will be paid for each employee or establish an annual dollar amount that may be spent by an employee for memberships and dues. It should address the types of memberships and professional licenses that will be paid or reimbursed, limiting such memberships to those benefiting the city.

7.6 Segregation of payroll duties

Payroll duties are not adequately segregated. The Payroll Clerk is responsible for entering information from timesheets into the electronic payroll system, verifying the information, and submitting the information for preparation of payroll disbursements. The Payroll Clerk processes her own and her husband's payroll information, and a documented supervisory review of the related payroll records is not performed.

Proper segregation of duties helps ensure all transactions are accounted for properly. If proper segregation of duties is not possible, a timely supervisory review of the work performed is necessary.

7.7 Questionable pay raise

The city used grant monies from the U.S. Department of Commerce Economic Development Administration (EDA) to fund a salary increase for the city's Disaster Recovery Coordinator although the reason for the increase did not pertain to his grant related duties.

The Disaster Recovery Coordinator was promoted to Neighborhood Services Manager in July 2014, and given an annual salary increase from \$57,156 to \$66,500. It was later determined that funds remained in the EDA grant he was working under as Disaster Recovery Coordinator. The decision was made by the City Manager to retain this employee in his former position until the grant expired, but pay him the \$66,500 salary for the new position that he did not assume until the EDA grant expired on November 1, 2014. The pay increase was funded from the EDA grant, which allowed for a salary increase for duties related to the grant; however, the city's reason for the pay increase was unrelated to grant related duties and was not adequately documented or conveyed to the granting agency.



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

Federal grant monies should be used in accordance with applicable grant agreements and should not to be used for any other purposes.

Recommendations

The City Council:

- 7.1 Establish policies regarding the use of manual checks; limit access to the signature plate, and check stock; and limit the number of individuals with signature authority on manual checks. The Council should also ensure the Finance Department accounts for the numerical sequence of checks issued and defaces and retains all voided checks.
- 7.2 Ensure purchase orders, including those for local store charge accounts, are prepared and approved in accordance with city policy.
- 7.3 Periodically evaluate cell phone allowance amounts and the number of employees receiving allowances.
- 7.4 Ensure purchases are reasonable and prudent uses of public funds. The Council should also develop comprehensive policies regarding city food purchases that establish specific guidelines regarding what is proper and allowable along with documentation requirements.
- 7.5 Establish a policy to address the payment of employee memberships and professional licenses.
- 7.6 Segregate payroll duties to the extent possible and implement appropriate reviews and monitoring procedures.
- 7.7 Ensure federal awards are only used for allowable purposes.

Auditee's Response

- 7.1 *The Finance Director or Assistant Finance Director must approve any manual check that is written. Many of the manual checks written were for payroll related items, such as health and dental insurance coverage. Those bills must be reconciled prior to payment. When the reconciliation is completed, the payment is usually due to continue coverage. However, the city acknowledges that there is no adopted written policy regarding manual checks. The city will develop a policy regarding manual checks and an accounting of the numerical sequence of checks issued, as well as defacing and retaining all voided checks.*

The city has other checks and balances in place to help ensure no unauthorized checks are written, such as timely reconciliation of the bank accounts and positive pay. However, the city will further limit access to the signature plate and check stock. For many years, the



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

Finance Department only had three senior accounting staff. This necessitated that the person reconciling the bank statements also had authority to sign checks. However, with the addition of staff, the Finance Department now has a sufficient number of staff to properly segregate these duties. The city has already removed the check signing ability from the person that performs the bank reconciliation.

7.2 *It is city policy for all departments to obtain an authorized purchase order prior to placing an order or picking up any items. Additionally, all vendors receive written notification that the city is not responsible for payment of such goods unless an authorized and valid purchase order has been issued first. The city will continue to strive to enforce this policy as written.*

7.3 *Under the existing cell phone policy of the city, employees must provide certain documentation in order to be approved initially to receive the reimbursement. Additional cell phone allowances are only approved through the budget process by the City Manager and Council. Given the rapidly changing cell phone environment, the city concurs with the State Auditor's recommendation that the policy should be updated to include a periodic review of the documentation, as well as the number of employees receiving the allowances. The city will update this policy to reflect these recommendations.*

7.4 *The meetings for which food is provided are normally after-hours' meetings for volunteer boards and the city believes it is appropriate to provide meals or snacks under certain circumstances. The city will develop and adopt a comprehensive policy regarding city food purchases and the documentation required.*

City employees are a valuable asset to the community as they are the foundation providing the daily services to the residents and visitors of our city. Therefore, the Council feels it is important to recognize the employee's service and contributions to the community through the annual employee appreciation banquet and Christmas lunch. In the future, the city will ensure there is a business-related reason for all expenditures.

7.5 *Membership dues paid by the city are for employees that are required to have certain professional designations for their position. However, the city does not have a current policy regarding membership dues and subscriptions. The city concurs with the State Auditor's recommendation that a policy should be established.*



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

Therefore, the city will develop a policy regarding membership dues and subscriptions.

7.6 *The Finance Department does perform a supervisory review of the payroll functions. However, the process is not documented and we have not retained documentation of the review. The Finance Department will document the proper segregation of payroll duties and retain records of the review.*

7.7 *The grant awarded by the EDA was set to expire on June 30, 2014. The grant covered disaster recovery efforts following the tornado. In the spring of 2014, it became evident that grant funds would still be available as of the expiration date. On May 14, 2014, the city requested an extension of the grant to utilize the remaining funds to pay for the Disaster Recovery Coordinator's time to complete the scope of the project. At the beginning of September 2014, the city received approval from the EDA to extend the grant deadline to October 31, 2014, and use the remaining funds for the disaster recovery coordinator position.*

While awaiting approval from the EDA to extend the grant for the temporary Disaster Recovery Coordinator position, the employee was retained and promoted to a full-time position as the Neighborhood Services Manager in July 2014. With the promotion to the full-time position, the annual salary increase was granted under the city personnel rules and regulations.

Upon approval of the extension request, the city corresponded with the EDA about the annual salary increase already granted. EDA officials indicated the annual salary increase was an eligible reimbursable cost within the grant guidelines. However, the city did not retain documentation of the details of this correspondence with the EDA. Additionally, the city acknowledges the extension request should have occurred sooner to ensure the continuation of the temporary position. The city will continue to ensure that federal awards are only used for allowable purposes.

8. Overhead Cost Allocations and Restricted Funds

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

8.1 Overhead cost allocations The Finance Department uses several different calculations to allocate overhead costs (including payroll) to various city funds, and some calculations used are questionable. The Finance Department allocates these



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

overhead costs and makes administrative transfers from various city funds to repay the General Fund each month. The Finance Department allocated approximately \$4 million of overhead costs to various departments/funds during the year ended October 31, 2014.

Finance Department staff allocate overhead costs of Human Resource Department employees based upon a percentage of full-time employees (FTEs) assigned to each individual department compared to total FTEs. They allocate the overhead costs of general government (overhead costs assigned to the Council, City Manager, City Clerk, Legal, Finance, Municipal Court, and Information System offices or departments) based upon a percentage of each department's adjusted revenues compared to total revenues. They decrease the revenues of each department (used in the allocation calculation) for grants, proceeds from the sale of assets, insurance proceeds, and transfers received. They also allocate a small portion of the police and fire departments overhead costs to several city funds/departments such as the library, health, airport, sewer, and solid waste without explanation. The amounts allocated to the city funds/departments vary from 0.01 percent to 0.5 percent with no explanation for the variances. The Finance Director indicated the city has used these calculations for many years. It is questionable why the Finance Department uses multiple and inconsistent overhead cost allocation calculations and has not re-evaluated the reasonableness of any of the calculation methods used in several years.

Generally accepted accounting principles and various legal restrictions require reflecting receipts and disbursements associated with specific activities 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.

8.2 Use of parks and
stormwater and
transportation sales tax
monies

Some city parks/stormwater and transportation sales tax monies were used for Joplin School District projects, rather than city projects. Monies generated from the city's parks/stormwater sales tax are restricted to funding the maintenance of city stormwater control and city park improvements. Monies generated from the city's transportation sales tax are restricted to funding the maintenance of city streets, street markings and traffic signal systems, energy costs for streetlights, and transfers to street capital project funds. The city provided the Joplin School District \$1,838,560 from the Parks/Stormwater Sales Tax Fund and \$301,910 from the Transportation Sales Tax Fund in June and September 2014, to fund projects of the high



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

school on school property. The use of these city sales tax monies to fund school project costs is inappropriate.

Use of Parks and Stormwater Sales Tax Fund monies are restricted by Section 644.032, RSMo, and voter approved ballot language, for stormwater control and park improvements purposes. Use of Transportation Sales Tax Fund monies are restricted by Sections 94.600 to 94.655, RSMo (formerly Sections 94.600 to 94.650, RSMo), for transportation purposes.

Recommendations

The City Council:

- 8.1 Allocate overhead costs to city funds based on specific criteria and retain documentation to support the allocations.
- 8.2 Ensure monies are used in compliance with state law.

Auditee's Response

- 8.1 *The city has had an overhead allocation based on certain specific criteria in place for many years. While the Finance Department reviews the allocation annually, the entire formula has not changed for an extended period. The city concurs with the State Auditor's recommendation that the overhead allocation must be based on verifiable, specific criteria to ensure accurate costs are charged to the appropriate functions throughout the city. The city also agrees that the overhead allocation formula should be updated in an appropriate manner. The Finance Department will work to determine a verifiable, specific formula to use that strives to allocate accurate costs to each function. The Finance Department will also continue to periodically review the allocation.*
- 8.2 *In 2004, the voters approved a one-fourth cent parks/stormwater sales tax with a specific list of projects to be completed with the tax proceeds. There were two stormwater projects on the voter approved list near the location of the high school prior to the tornado. One project was Indiana Avenue from 20th to 22nd Street at an original budgeted cost of \$1,324,861 and the other project was Iowa Avenue from 20th to 24th Street at an original budgeted cost of \$1,379,048. The city was set to start these two projects when the tornado struck. Following the tornado, the city completed the Indiana stormwater project, but waited on the Iowa project to determine the location of the new high school. When the high school relocated and acquired additional property, the stormwater requirements for the Iowa project moved to the property owned by the school district.*

The school district made a request for assistance with the stormwater needs, as well as some improvements to a road. The city



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

does not use public funds to assist with private developments and city engineers made this distinction in the public discussion about this request. In this instance, the city was scheduled to make the stormwater improvements. A disaster that destroyed the high school could not be anticipated when the voter approved project list was finalized. The school district is funded by public dollars, the same as the city. Given that the voters approved the stormwater improvements in this location and the school district requested assistance to complete the stormwater and street improvements, the Council believed utilizing these funding sources would benefit the taxpayers of Joplin.

However, the city understands the importance of using specific tax proceeds in the manner promised to the voters of the community. The Council believes that the city has excelled at ensuring those funds have been used in the manner promised to the taxpayers. The city will continue to use the special tax proceeds in the manner approved by the voters, as well as in compliance with state law.

9. Fuel and Vehicle Use and Vehicle Allowances

Controls and procedures over fuel use and purchases, city vehicles, and vehicle allowances need improvement.

9.1 Fuel, vehicle, and equipment use and security

The city does not have adequate procedures to review and evaluate the reasonableness of vehicle and equipment usage and does not reconcile fuel usage to billings, and access to the city's public works facility and the unleaded fuel pumps is not adequately restricted. The city spent more than \$930,000 on fuel during the year ended October 31, 2014.

The city uses an automated fuel system to track fuel usage. Each time a vehicle or piece of equipment is fueled, the following information is documented in the system: the vehicle or equipment identification number, employee, transaction number, department, the current date and time, and amount of fuel dispensed via use of key fobs. The current odometer or hour meter reading is required to be entered by the employee.

Fuel usage reports generated from the automated fuel system are not reconciled to fuel purchases. In addition, odometer or hourly readings are not always accurately entered into the fuel pump by city employees at the time of fueling at the public works facility. Several city employees enter "0" as the odometer reading at the time of fueling. We noted the same concern with airport fueling facility records, which are provided to the Public Works Department for reconciliation.



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

Access to the unleaded fuel pumps and the public works facility is not adequately restricted. Unleaded fuel pumps are located outside of the fenced public works facility, and diesel fuel pumps are located within the fenced area of the public works facility. At least 388 employees had access to the unleaded fuel pumps, through use of key fobs (individual and vehicle) and pin number at the time of our review. The use of individual key fobs also provides access to the fenced public works facility. It is questionable whether all these employees need access to both the unleaded fuel pumps and the fenced public works facility, where diesel fuel and other inventory items are located. While the Public Works Department has the capability to generate a report of who gained access to the fuel pumps and public works facility, it is not prepared and reviewed periodically.

To ensure the reasonableness of fuel costs, the Public Works Department accounting specialists should reconcile fuel usage reports to fuel purchased and on hand. Failure to account for fuel usage could result in theft or misuse of fuel occurring without detection. In addition, accurate entry of odometer or hour meter readings are necessary to document the appropriate use of vehicles and equipment and to also support fuel purchases. To safeguard against possible loss or misuse of fuel and public works inventory, access to the fuel pumps and public works facility should be limited and reviewed periodically for propriety.

9.2 Take home vehicles

The city allows 62 city vehicles to be taken home by city employees and has not established procedures to adequately review and document the necessity and justification for use of the vehicles. Forty of these vehicles are driven to addresses outside the city of Joplin and the remaining 22 are driven to addresses inside the city limits.

Thirty-seven employees commute more than 15 miles round trip daily, and the value of personal commuting mileage was not determined or reported on the Police and Fire Department employee's W-2 forms as compensation. Of the 62 take home vehicles, 50 are assigned to Police Department employees, 4 are assigned to Fire Department employees, and 8 are assigned to administrative employees. While the Police Chief and Fire Chief indicated some of these employees are on-call periodically (most are only on call one week every quarter), it does not seem reasonable they would need a vehicle when not on call. For example, one Police Department employee commutes 106 miles round trip daily, and we estimated the employee commutes 27,560 miles a year (106 miles*5 days*52 weeks) in a city vehicle. Internal Revenue Service (IRS) regulations do not consider commuting of police and fire department employees in city-owned vehicles a taxable benefit when specific criteria are met; however it is not clear the vehicle usage of these employees always meets this criteria.



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

Allowing city employees to take their vehicles home (both inside and outside of city limits), results in additional and unnecessary costs to the city. The costs associated with vehicles driven to addresses outside city limits are substantial. The fuel costs for these vehicles total approximately \$46,000 annually and miles incurred totaled approximately 278,000. Given the high costs associated with vehicle ownership, maintenance and fueling, the city should periodically review the assignment of city-owned vehicles.

9.3 Vehicle allowances

The city has no documentation to show vehicle allowance amounts are reasonable or necessary compared to actual expenses incurred. The city pays vehicle allowances ranging from \$600 to \$5,400 annually to 20 employees that use their personal vehicles to conduct city business.

It is questionable whether some of these city employees should be paid the same vehicle allowance based upon their differing job duties and travel requirements. The following table lists employees receiving vehicle allowances during the fiscal year ended October 31, 2014, annual allowance amounts, and the average miles that would need to be driven per month to justify the vehicle allowances (based on the city's 2014 mileage reimbursement rate of \$0.51).

Employee	Annual Allowance Amount	Average Miles per Month
City Manager	\$ 5,400	882
City Clerk	4,800	784
Human Resources Director	3,600	588
Public Works Director	3,600	588
Parks and Recreation Director	3,600	588
Capital Improvement Sales Tax Project Manager	3,600	588
Disaster Recovery Coordinator	3,600	588
City Attorney	2,875	470
Public Information Director	2,400	392
Convention and Visitors Bureau Director	2,400	392
City Prosecutor	1,800	294
Public Works Operations Manager	1,800	294
Building Maintenance Supervisor	1,800	294
Finance Director	1,200	196
Information Services Director	1,200	196
Planning and Community Development Director	1,200	196
Assistant Parks and Recreation Director	1,200	196
Assistant City Prosecutor	1,200	196
Custodian	1,200	196
Executive Assistant to the City Manager	600	98
Total	\$ 49,075	



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

The city should review the necessity and reasonableness of the mileage allowances paid and set the allowances to reasonably reflect the actual expenses incurred by the employees.

Recommendations

The City Council:

- 9.1 Establish adequate records and procedures to effectively monitor vehicle, equipment, and fuel use, restrict access to the fueling center and public works facility, and periodically review access reports for propriety.
- 9.2 Review the necessity and cost effectiveness of allowing employees to take city vehicles home; establish adequate procedures for the justification, approval, and monitoring of take home vehicles; and ensure the city complies with IRS guidelines for reporting personal commuting mileage.
- 9.3 Review the necessity of vehicle allowances and set the allowances to reasonably reflect the actual expenses incurred by the applicable employees.

Auditee's Response

- 9.1 *The city agrees with the State Auditor's recommendation that it needs to establish policies and procedures to monitor and safeguard vehicles, equipment and fuel usage. The city will develop and adopt policies and procedures regarding the monitoring of vehicles, equipment, and fuel usage.*
- 9.2 *The city currently does not have a take home vehicle policy. The city concurs with the State Auditor's recommendation that it needs to establish a policy regarding take home vehicles. The city will develop and adopt a take home vehicle policy.*
- 9.3 *The city will review vehicle allowances. The city will either ensure the vehicle allowance matches actual mileage or the city will move to the IRS allowable mileage reimbursement for actual documented miles driven for city business.*

10. Cash Handling Controls and Procedures

Significant improvements are needed in the handling of fees collected and change and petty cash funds maintained at the parks and recreation, golf course, building and code enforcement, metro area public transit system (MAPS), planning and community development, and health departments/offices. These types of receipts are at greater risk since a large portion is received in cash and there are numerous collection points throughout the city with a variety of handling and record-keeping methods. In addition, written guidance for standard procedures needs improvement.



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

As a result of numerous control weaknesses, there is less assurance all city monies have been handled and accounted for properly.

We observed and reviewed procedures and conducted cash counts on February 3 and 5, 2015, at various collection points throughout the city. The following table summarizes the amounts of monies collected according to city records for those areas we reviewed.

Department/Office	Year Ended October 31, 2014
Parks and Recreation	\$ 629,312
Golf Course	467,842
Building and Code Enforcement	467,100
Metro Area Public Transit System (MAPS)	128,195
Planning and Community Development	86,411
Health	80,844
Total	\$ 1,859,704

10.1 Segregation of duties

The duties of receiving, recording, and transmitting monies are not adequately segregated in some city departments.

- The Health Department has two clerks in the administrative office, who prepare and reconcile a batch report of their office receipts daily and also two clerks in the medical office, who prepare and reconcile a batch report of their receipts daily. These clerks also receive monies and process transactions throughout the day. There is no independent review or reconciliation of the daily batch reports to receipts on hand when preparing transmittals.
- The Planning and Community Development office within the Public Works Department has one clerk who receives payments, records receipts, reconciles the daily batch report to monies on hand, and transmits receipts to the Finance Department.

Proper segregation of duties helps ensure all transactions are accounted for properly and assets are adequately safeguarded. If proper segregation of duties is not possible, a timely supervisory review of the work performed is necessary.

10.2 Receipting, recording, depositing/transmitting and concessions

We noted several concerns regarding receipting, recording, and depositing/transmitting city monies. In addition, improvement is needed in controls over concessions.

Accounting for receipts

The Finance Department does not properly account for all receipt slip numbers issued by its accounting system. In addition, the accounting system allows the user to manually enter the date when a batch is opened.



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

The city's financial accounting system uses one numerical receipt slip sequence for multiple cash collection locations. Therefore, receipt slips at each cash collection point are not issued in numerical sequence. The Finance Department, which has access to receipt reports for all of these locations, does not account for the numerical sequence of receipt slips to ensure all monies are accounted for and properly transmitted and deposited.

We obtained a receipt listing from the city accounting system for February 2 through 4, 2015. There were 3,132 transactions in this time period totaling \$264,284. Of these transactions, there were 610 receipt slip numbers that were not accounted for in the numerical sequence on this report. The Finance Director indicated she did not know why this situation occurred and did not realize that receipt slip numbers were not accounted for on this report. Upon further review of 30 of the 610 unaccounted for receipt slip numbers, additional concerns were identified. The receipt dates and batch opened dates for some cash, check, and credit card payments did not match. For example, 13 receipt slip numbers reviewed were receipted on February 4, 2015, but the date the batch was opened was February 5, 2015. The Finance Director indicated the accounting system allows the user to manually enter in the date when a batch is opened and those dates may have been erroneously entered into the accounting system.

Athletic complex and golf course personnel record receipts in an accounting system separate from the city's main accounting system, which is used by other city personnel. No accounting for the numerical sequence of receipt slips for these two entities is performed and no independent reconciliation is performed between this accounting system and the city's main accounting system to ensure all receipts are deposited.

Receipting procedures

Receipting procedures at several cash collection points are inadequate.

- Various city departments issue generic manual receipt slips for some monies collected. These manual receipt slips are not official receipt slips with the city name on them. The MAPS office, the Public Works Department, and the Police Department issue this type of receipt slip for the purchases of trolley passes and tokens, transactions in the planning and development office and occasionally for the building office receipts, and for bonds and work release monies, respectively.
- The Health Department does not issue manual receipt slips for flu shots administered offsite. The flu shot consent form, which is not prenumbered, is used as the receipt.
- Manual receipt slips are issued in the building office of the Public Works Department when the Senior Clerk is absent; however, an independent person does not subsequently reconcile the manual receipt



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

slips to the city's electronically generated receipt slips and the related transmittal to the Finance Department.

Transmitting Documentation is not always maintained to support the transmittal of city monies between city staff or to the Finance Department. We identified numerous instances at various city departments where documentation of the transmittal of city monies was not maintained.

Concessions The city does not follow its concessions inventory policy. City policy indicates the beginning inventory, items sold, items provided at no cost to officials, ending inventory, and amount and dollar value of product sold are to be maintained on a daily log and for periodic surprise audits to be conducted; however, the Parks and Recreation Department is not performing these procedures.

Conclusion To properly account for all receipts and ensure monies are accounted for properly and deposited intact, official prenumbered receipt slips should be issued in numerical order for all monies received, the numerical sequence of all receipt slip numbers issued should be accounted for, and documentation should be maintained to support the transmittal of monies. In addition, the Parks and Recreation Department should follow the city's concessions inventory policy.

10.3 Reconciliation of licenses, permits, and other source documents The city does not have adequate procedures to reconcile city issued licenses and permits, as well as logs and other source documents, to monies collected and amounts deposited.

- The Health Department maintains logs for flu shots, tuberculosis testing, and yellow fever vaccinations; however, only the flu shot logs are reconciled to the batch report of receipts collected and transmitted to the Finance Department.
- Supporting documentation for background checks performed by the Police Department is not maintained to ensure all monies received for this service have been accounted for properly, and bond forms used by the Police Department are not prenumbered. As a result, the city is unable to adequately reconcile these documents to the related receipts collected.
- Business licenses, liquor licenses, pet licenses, contractor licenses, and health permits are sequentially numbered, separately from the related receipt slip numbers; however, they are not reconciled to the related recorded receipts.
- The Public Works Department receives monies for various types of applications such as rezoning and special use. The department maintains



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

application case number logs; however, the logs are not reconciled with the batch reports of receipts collected to ensure all monies received with the applications are accounted for properly.

To ensure monies received for all licenses, permits, bonds, and city provided services are properly collected, recorded, and deposited, documents associated with the receipt of monies should be prenumbered and the numerical sequence accounted for properly, and should be periodically compared to monies received, recorded and deposited. Further, all records associated with receipt of monies, including manual or electronic logs of services provided, should be reconciled to monies received, recorded and deposited.

10.4 Petty cash and change funds

Petty cash and change fund procedures need improvement.

- The Health Department does not maintain a current ledger to document all petty cash transactions and a current balance. This information is not documented until the time of replenishment. At the time of our cash count, the Health Department maintained a \$50 petty cash fund.
- The Health Department takes \$75 from the cash register as a change fund when giving flu shots off site; however, no one signs for the cash taken or documents the return of the cash.
- There is no log for when change funds are released and returned for concession stands at the athletic complex. The athletic complex keeps various change funds for concession stands ranging from \$150 to \$200.

The city should ensure a petty cash ledger documenting receipts, disbursements, and the balance of the petty cash fund is maintained for each petty cash fund. Written policies should be established outlining the procedures for maintaining, using, and accounting for change funds.

10.5 Security of monies

Monies collected are not always maintained in a secure location.

- The Health Department places monies received and cash change funds in lock boxes and stores them in unlocked drawers overnight with keys to the lock boxes accessible to numerous employees who do not need access. The Health Department administrative office had 12 employees and the medical office had 6 employees with access to monies.
- In the Public Works Department, when the Senior Clerk in the building department is absent, the other clerk accepts payments for permits and places the monies received on the Senior Clerk's desk, along with a copy of the permit, where they remain until the Senior Clerk returns.



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

To safeguard against possible loss or misuse of funds and to ensure receipts are properly handled, receipts should be maintained in a secure location until deposited.

Recommendations

The City Council:

- 10.1 Ensure duties of receipting and transmitting/depositing monies are segregated or implement timely adequate supervisory reviews if duties cannot be appropriately segregated.
- 10.2 Account for the numerical sequence of receipt slip numbers, ensure monies are properly receipted and transmitted/deposited, and work with the city's software vendor to ensure dates batches are opened cannot be changed. The Council should ensure the Parks and Recreation Department follow the city's concessions inventory policy.
- 10.3 Ensure all documents associated with the receipt of monies are prenumbered and reconciled to monies received, recorded and deposited. Also, ensure manual or electronic logs of services provided are reconciled to monies received.
- 10.4 Ensure a petty cash ledger documenting receipts, disbursements, and the balance of the petty cash fund is maintained for all petty cash funds. Establish written policies outlining the procedures for maintaining, using, and accounting for change funds.
- 10.5 Ensure receipts are maintained in a secure location until deposited.

Auditee's Response

Following the discovery of the poor management of payment collections by some outside departments in 2013, the Finance Department began a comprehensive review of all payment collection procedures by each department. As part of this review, the Finance Department is writing extensive payment collection policies and procedures for each department based on the various types of collections. This task is a major undertaking and the Finance Department is still working on this project. Once this project is complete, a periodic review of these policies and procedures will be completed by the Finance Department. Additionally, surprise internal audits performed by the Finance Department are included in these policies and procedures.

- 10.1 *The city will ensure the proper segregation of duties, when possible, in the payment collection policies and procedures. Additionally, appropriate supervisory reviews will be included.*



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

- 10.2 *In the payment collection policies and procedures, the city will ensure monies are properly receipted and deposited, along with a proper accounting of receipt numbers. There are various cash receipt dates in the electronic software system of the city, including a batch date, a transaction date, and a post date. The software system hard codes the transaction date and the post date to ensure nobody can change these dates. The system does allow the batch date to be physically entered when the batch is opened. However, once a batch is opened, the batch date can't be altered. The city believes the cash receipt dates in the electronic software system are sufficiently protected. The city will also follow the existing concession policy.*
- 10.3 *In the payment collection policies and procedures, the city will ensure documents are prenumbered and reconciled to monies received, recorded and deposited, whether manual or electronic.*
- 10.4 *The city does not have an extensive petty cash policy. However, the city departments are required to keep a log of all petty cash transactions, which shows a current balance of the fund. The city will develop a comprehensive petty cash and cash drawer policy that includes guidelines for maintaining, using, and accounting for petty cash and cash drawers.*
- 10.5 *As a part of the payment collection policies and procedures, the city will ensure that all outside departments maintain collections in a secure place until the funds are deposited.*

11. Finance Department Controls and Procedures

Accounting controls and procedures over the city's sewer system and special tax bills need improvement.

The city provides sewer services to approximately 19,000 customers. Per city accounting records, the city collected approximately \$9.2 million in sewer fees during the year ended October 31, 2014. The city has various city ordinances allowing the Finance and Public Works Departments to assess special tax bills against city residents for public improvements, such as dangerous buildings and debris removal.

11.1 Adjustments and write-offs

Improvement is needed in the Finance Department's handling of adjustments and write-offs related to the sewer system and special tax bills.

Sewer system

While adjustment forms are reviewed and approved by the Assistant Finance Director prior to an Accounting Specialist in the Finance Department posting them to the computerized sewer system, a subsequent independent review of adjustments posted to the sewer system is not performed or documented. Adjustments are sometimes needed to change a



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

customer account balance, including writing off a balance, waiving late charges, or reducing a balance due to errors. Because the Accounting Specialist is responsible for several utility functions, the ability to post adjustments without subsequent review and approval represents a significant control weakness.

Special tax bills

The Finance Department is not adequately documenting adjustments and write-offs made in the billing system for special tax bills. Adjustments to special tax billings were made for changes in land ownership. Adjustment forms were not prepared for 3 of 11 write-offs reviewed and the reason for one of the other 8 write-offs was not documented. Additionally, while the adjustment forms require two signatures of approval, 8 of the 11 write-offs reviewed were approved with only one signature. A subsequent independent review of adjustments posted to the billing system is not performed or documented.

To ensure all billing adjustments are valid, the authorizing employees and reasons should be adequately documented. Requiring someone independent of receipting and recording functions to review and approve adjustments subsequently posted to the billing system would help ensure adjustments are valid. A written policy related to write-off procedures is necessary to ensure consistency and establish adequate internal controls over accounts receivable. A write-off policy should include which accounts and how often accounts should be written off, and the approval procedures for the write-off of accounts.

11.2 Late payment penalties, delinquent sewer accounts, and write-off policies

Late payment penalties are not assessed on delinquent sewer accounts in accordance with city ordinance. In addition, the Finance Department has not established procedures to periodically review delinquent sewer accounts of Finance Department employees or other key city officials. The city also does not have a written policy for the write-off of uncollectible accounts receivable (sewer, special tax bills, and bus fares).

At the time of our review of delinquent sewer accounts on January 29, 2015, the Accounting Specialist had not made a payment on her sewer bills since July 7, 2014, and had accumulated a delinquent balance of \$486. The Finance Director was not aware of this situation until we brought it to her attention. The Accounting Specialist paid off her balance on February 2, 2015.

City Ordinance No. 2013-126 states any sewer service charge remaining unpaid for 30 days after the date of billing may be increased by 10 percent of the total outstanding balance. Late payment penalties (10 percent) are only assessed on the current month's delinquent balance and not on the accumulated delinquent balances. The city's shut off policy requires sending a notice of delinquency to customers when they are 45 days past due and at



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

least \$75 in arrears advising them their service will be subject to termination if payment is not received within 10 days or 55 days past due. Allowing customers to receive service without paying reduces the incentive to make payments, potentially reduces city receipts, and could impact the sewer rates for other paying customers. A written policy related to write-off procedures is necessary to ensure consistency and establish adequate internal controls over accounts receivable. A write-off policy should include which accounts and how often accounts should be written off, and the approval procedures for the write-off of accounts.

11.3 Administrative fee on special tax bills

The city assesses the maximum administrative fee of \$500 in addition to title search fees and advertising fees on special tax bills in possible violation of city ordinance. City Code of Ordinances, Article X, Section 26-616(6) states "the charge for demolition of any building or structure or the abatement of any public nuisance abatable pursuant to this article shall be collectible by a special tax bill, which shall include the actual cost of repair, demolition, water service cut, boarding, cleanup and all other necessary security measures and a cost of administering the provisions of this article, which shall be pursuant to an existing schedule or as it may be set out by the building board and maintained as a public record. In no case shall such administrative charge exceed \$500.00." However, the Public Works and Finance Departments could not provide documentation of an existing schedule of fees charged, outlining the types and amounts of costs included in the \$500 administrative fee. As a result, the city may have over charged property owners.

The city assessed approximately 90 special tax bills from May 2011 to August 2014. We reviewed 64 of these bills and noted the city assessed \$2,356 in advertising fees, \$4,875 in title search fees, and \$31,000 in administrative fees. It is unclear why title search fees and advertising fees charged were not considered a part of the maximum administrative fee.

To ensure property owners are charged fairly and equitably, the Council should establish a schedule of fees charged, outlining the types and amounts of costs included in the administrative fee.

Recommendations

The City Council:

- 11.1 Ensure the authorization and reasons for any billing adjustments are adequately documented by the Finance Department and all adjustments posted to the billing system are independently reviewed and approved.
- 11.2 Ensure penalties are assessed in accordance with city ordinance. The Council should also review past delinquent customer accounts and consider billing for the correct amount of penalties, if appropriate. Ensure an adequate review of delinquent sewer reports



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

is performed and sewer service is shut off in accordance with city ordinance. Develop written policies for the write-off of uncollectible accounts.

- 11.3 Establish a schedule of fees charged, including defining the types and amounts of costs included in the \$500 administrative fee.

Auditee's Response

11.1 *As noted by the State Auditor's review, the Finance Department has some procedures in place for billing adjustments to accounts receivable, including sewer and trash billing. However, the Finance Department does not have a comprehensive policy addressing accounts receivable adjustments and write-offs. The city concurs with the State Auditor's review that all adjustments must be independently reviewed and approved, as well as performance of an independent follow-up review of all adjustments made. The city will develop and implement proper policies and procedures to ensure sufficient controls are in place to safeguard city assets.*

11.2 *The city changed the sewer penalty ordinance after taking over the sewer billing and collecting. This penalty calculation by the computer system has already been corrected by the Finance Department to properly match the ordinance.*

The city does not review all past due balances to determine if city employees are delinquent. However, the Finance Department understands that we are held to a higher standard than other city employees in performing the billing and collecting of sewer and trash bills. The Finance Department will strive to ensure this situation does not happen in the future.

The city is aware of the sewer and trash balances being carried by many residents of Joplin. Since taking over the billing, the Finance Department has been making every effort to reduce these balances through the shut-off process. However, the city is limited by the sheer number of shut offs the private water company can perform.

When the utility billing and collection services were transferred to the city from the private water company, the Finance Department adopted certain policies and procedures required to provide this service. The Finance Department also understood that additional policies and procedures would need to be implemented, as well as continuing to update the adopted policies as the department began to learn what was needed to provide an efficient and effective service. The city will continue to implement needed new policies, such as a write-off policy, as well as continuing to alter existing policies to ensure this process is as efficient as possible.



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

11.3 *The city will establish a detailed basis for the administrative fees related to demolitions. Administrative fees do not contain outside costs for title searches and publications costs, but are meant to cover and recoup internal administrative costs such as personnel, postage for certified letters, vehicle operation and maintenance, office equipment and supplies, etc., used throughout the "dangerous building" and demolition process. The city is currently conducting the bi-annual fee review. During this review, the administrative fee assessed for special tax bills will be included. Also, the city will develop and adopt formal policies and procedures regarding special tax bills, including any interest assessed.*

12. Financial Issues and Reporting

Improvement is needed in the city's handling of certain financial issues and reporting.

12.1 Health Self Insurance Fund (HSIF)

The city has not prepared adequate long-range plans for the Health Self Insurance Fund (HSIF), and the city has not formally projected whether fund assets along with revenues will be sufficient to cover fund expenses and the minimum reserve balance or if the city will need to subsidize the HSIF fund with other city funds. In addition, the city has not utilized all contract provisions.

The city implemented a self-funded medical plan in 2011. The city contracts with a third party administrator (TPA) to review, process, and pay claims, and has stop-loss coverage to insure individual claims exceeding \$150,000. Currently, the city pays monthly medical premiums for employees, 75 percent of medical premiums for employee family members, 70 percent of dental premiums for employees, and 65 percent of dental premiums for employee family members. Retirees and Consolidation Omnibus Budget Reconciliation Act (COBRA) participants are responsible for their own premiums. All premium rates are set by the Council in conjunction with the city's insurance consultant. All premiums are held in the HSIF, and claims and other costs related to the medical and wellness programs are paid from this fund.

The costs to operate the medical plan have gradually increased and fiscal year 2014 revenues slightly exceeded expenditures. The following table presents the HSIF revenues, expenditures, assets, estimated liabilities, and reserve balances for the 4 years ended October 31, 2014.



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

	Year Ended October 31,			
	2014	2013	2012	2011
Beginning totals asset	\$ 2,257,356	1,678,430	1,233,787	0
Revenues				
Medical contributions and premiums	4,453,885	4,346,942	4,162,333	3,378,487
Stop-loss insurance proceeds	413,730	193,604	614,176	435,333
Interest	0	1,897	8,417	2,105
Transfers in	0	0	0	1,000,000
Total revenues	<u>4,867,615</u>	<u>4,542,443</u>	<u>4,784,926</u>	<u>4,815,925</u>
Expenditures				
Medical claims	4,081,387	3,198,908	3,654,898	3,110,982
Premiums and fees	404,310	481,353	401,602	261,002
Consulting	55,900	21,000	37,500	19,500
Benefit plan administration	271,155	260,789	245,945	190,654
Wellness and other costs	8,679	1,467	337	0
Total expenditures	<u>4,821,431</u>	<u>3,963,517</u>	<u>4,340,282</u>	<u>3,582,138</u>
Ending total assets	2,303,540	2,257,356	1,678,431	1,233,787
Estimated liability for unpaid claims	331,510	254,067	215,478	222,400
Reserve Balance	\$ <u>1,972,030</u>	<u>2,003,289</u>	<u>1,462,953</u>	<u>1,011,387</u>

At the time the self-funded medical plan was implemented, the Council approved decreasing the employer share of coverage of medical premiums for the employee's family from 80 percent in January 2011 to 77 percent in January 2012 and 75 percent in January 2013. At the same time, the Council approved increasing the employer's share of coverage of dental premiums for the employee from 66 percent in January 2011 to 68 percent in January 2012 and 70 percent in January 2013 and decreased the employer's share of coverage of dental premiums for the employee's family from 66 percent in January 2011 to 65 percent in January 2012. No other changes have occurred since January 2013.

While the city has established a goal for the minimum reserve balance for the HSIF, it has not set a date it plans to reach the goal. The city's goal is for the minimum reserve balance to approximate the annual average of medical claim payments. Based on the medical claim expenditures and reserve balances in the table above, the city had not met its goals, as the minimum reserve balances were underfunded at the start of each year by \$2.1 million for 2015, \$1.2 million for 2014, \$2.2 million for 2013, and \$2.1 million for 2012.

Failure to adequately plan for future needs could result in a decline of the financial condition of the HSIF and may require the city to subsidize the



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

fund. Documented long-term planning is essential to ensure HSIF resources are sufficient to cover expenses and minimum reserve balances and improve the fund's financial condition.

Contract provisions

The city has not utilized a TPA contract provision that allows the city to conduct an audit of claims during the current calendar year or immediately preceding calendar year. The city paid approximately \$4 million in medical claims and \$673,000 in administrative and stop-loss fees to this company during the year ended October 31, 2014.

Periodically conducting or obtaining audits of claims would provide the city added assurance that services provided and amounts paid out for claims are reasonable and appropriate and adequately supported.

12.2 Financial issues

The golf course and airport operate at a loss and need continued financial support from other city funds to cover operating costs. In addition, improvement is needed in the city's handling of airport contracts.

Golf course subsidization

The city has historically operated its golf course at a loss, and as a result, the General Fund is required to subsidize course operations and activities. The Golf Course Fund operating revenues, expenditures, and operating loss according to information obtained from the city's independent audit report for the last 4 years are noted in the following table.

		Year ended October 31,			
		2014	2013	2012	2011
Revenues	\$	467,842	477,947	569,372	498,234
Expenditures		708,400	704,517	662,275	622,205
Operating Loss	\$	(240,558)	(226,570)	(92,903)	(123,971)

In addition, the city obtained a golf course study in 2008 that recommended rate increases of 3.33 to 6.25 percent annually; however, the city only increased rates in 2009.

Airport subsidization

The city has historically operated its airport at a loss, and the city has transferred \$650,000 from the Transportation Sales Tax Fund to the Airport Fund in each of the last 4 years (2011 through 2014) to subsidize airport operations and activities. In addition, the city has reported an unrestricted deficit for the Airport Fund for the last 4 years. The Airport Fund revenues, expenditures, loss, and unrestricted deficit according to information obtained from the city's independent audit report for the last 4 years are noted in the following table:



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

		Year ended October 31,			
		2014	2013	2012	2011
Revenues	\$	646,922	623,806	628,923	666,173
Expenditures		2,186,624	2,312,084	2,347,518	2,398,811
Operating loss before transfers and contributions	\$	(1,539,702)	(1,688,278)	(1,718,595)	(1,732,638)
Unrestricted (deficit)	\$	(574,696)	(530,280)	(492,620)	(799,723)

Airport lease contracts and parking

The Airport Manager does not adequately monitor hangar lease contracts and has not updated some hangar lease and rental car company contracts. In addition, the Finance Department lacks adequate collection procedures for delinquent accounts, and the city does not charge for parking at the airport, a common revenue source for most airports. The Airport Manager signs all lease contracts on behalf of the city, maintains the contracts at the airport facility, and notifies the Finance Department of rate increases. The Finance Department sends bills to each tenant and collects the lease payments, but does not provide a collection report to the Airport Manager. As a result, the Finance Department is unaware of the details contained in each contract, and the Airport Manager is unaware if tenants are delinquent in making payments. The airport received approximately \$102,000 from hangar leases and \$69,000 from car rental companies during the year ended October 31, 2014.

Hangar lease contracts do not provide for late payment penalties or eviction procedures for lack of payment, and the city lacks collection procedures for delinquent accounts. As of February 3, 2015, a tenant had a balance due of \$3,410, equivalent to over 20 months of rent at \$165 per month. Another tenant had a balance due of \$2,325, or over 14 months of rent, and this tenant had not paid his balance in full since September 2006. The city had taken no steps to pursue collection of any delinquent airport lease accounts.

The Airport Manager has not updated or signed contracts with some tenants. During our review of 5 hangar leases, 3 tenants were billed at a higher rate than the rate specified in their contract. These contracts had not recently been updated and did not contain the current amounts charged by the city for hangar rentals. The contracts with the 2 rental car companies were outdated (contracts on file were for the period July 1, 1993, through June 30, 1998) and not signed.

Conclusion

While the golf course and airport provide benefits to city residents and the city's General Fund has an adequate financial condition, the city should take steps to minimize losses in these funds. To maximize receipts, the Airport



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

Manager and Finance Department should work together to update and monitor contracts and pursue the collection of delinquent accounts. The city should also consider including contract provisions for late payment penalties and eviction procedures and charging for parking at the airport.

12.3 Calculation of excess revenues

The city and the municipal division do not have procedures in place to identify traffic violation tickets and the associated fines and court costs collected. This information is needed to accurately calculate the percent of annual general operating revenue from fines and court costs related to traffic violations. The city's fiscal year ended October 31, 2014, and 2013, audited financial reports were timely filed with the State Auditor's office, and included an accounting of the percent. However, our review determined the reported percent was not accurate because it included both traffic and general ordinance violations.

Effective August 28, 2013, Section 302.341.2, RSMo, was amended, reducing the threshold for remitting excess revenues to the state, and requiring cities to provide an accounting of the percent of annual general operating revenue from fines and court costs in its annual financial report submitted to the State Auditor's office as required by Section 105.145, RSMo. Section 302.341.2, RSMo, further provides that a city that is noncompliant with the law and fails to make an accurate or timely report ". . . shall suffer immediate loss of jurisdiction of the municipal court of said city. . . on all traffic-related charges until all requirements of this section are satisfied." Thus, it is imperative the city work with the court to obtain the required traffic violation data and file annual financial reports that provide the required accounting.

Recommendations

The City Council:

- 12.1 Closely monitor and take the necessary steps to fund the minimum reserve balance and improve the financial condition of the HSIF, and conduct periodic audits of claims as allowed by contract.
- 12.2 Closely monitor the ongoing financial condition of the Golf Course Fund and Airport Fund. Take the necessary steps to ensure timely collection of delinquent airport accounts and consider including contract provisions for late payment penalties and eviction procedures, and charging for parking at the airport. Ensure airport contracts are updated periodically and signed by both parties.
- 12.3 Accurately calculate the percent of annual general operating revenue from fines and court costs related to traffic violations as required by law.



Auditee's Response

12.1 *The city agrees it is imperative to constantly monitor the Health Self Insurance Fund (HSIF). The effort undertaken by the city in regard to switching to partially self-insured health insurance is still in its infancy. The city has developed short-term goals and some long-term goals. However, the city has not developed comprehensive long-term goals for this effort. The city concurs with the State Auditor that comprehensive long-term goals for the HSIF need to be developed, especially given the changes created by the Affordable Care Act (ACA).*

There are only 2 ways to increase the reserve balance. One is to have less in claim expenses than anticipated. The other is to increase premium costs to the city and to the employees to ensure revenues are higher than claim expenses. The city will work with our outside consultant to adopt a comprehensive long-term plan that outlines a method of achieving and maintaining the targeted reserve balance, as well as strives to address the future of the city's health insurance given requirements of the ACA. Additionally, the city will consider utilizing the option of periodic audits of the claims administrator.

12.2 *The city Finance Committee, with the assistance of the Parks Department, the Finance Department, and the City Manager, recently reviewed the golf course finances and made recommendations to help improve the overall financial condition. Those recommendations included increasing fees and hiring a golf course professional. The Council adopted those recommendations and the changes were recently implemented. The city will continue to monitor the financial condition of the golf course and make appropriate changes as needed to try to recover its operating expenses.*

As noted in the city's response to 11.1, the city will adopt accounts receivable policies and procedures, which will address the process for delinquent accounts. The Finance Department will work with the airport to include appropriate language in the contract provisions to assist with the collection of delinquent accounts. The airport will develop and adopt policies and procedures to ensure contracts are updated timely and all signatures are obtained.

While the city understands the financial condition of the Airport Fund, the city believes that free parking attracts people from outside the region to fly in and out of Joplin, rather than using other area regional airports such as Springfield, Tulsa, or Northwest Arkansas. The city further believes the benefit of free parking outweighs the revenue gain from charging for parking.



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

12.3 *As noted, the city has been calculating the percent of annual general operating revenue from fines and court costs related to traffic violations and general ordinance violations. At 5 percent, the city is well below the 30 percent parameter of the State law when including both violations. By only including traffic violations, the city percentage will decrease, which is still well below the State requirement of 30 percent. However, the city understands that by computing the calculation using the sum of both violations, the city is not in complete compliance with State statute. The Finance Department will work with the municipal court to separate the collections of traffic violations from the collections of general ordinance violations in order to properly comply with the law.*

13. Internal Audit Function

During fiscal year 2014, the city had annual revenues and expenditures of approximately \$88 million each, and numerous cash collection points and compliance and policy requirements; however, the city does not have an internal audit function or similar alternative arrangements for audits of various processes. In addition, some recommendations made by the city's independent financial statement auditor for the year ended October 31, 2013, had not been implemented.

If utilized properly, the internal audit function can assist management in performing its duties more efficiently and effectively, and the savings could potentially exceed the cost. In addition, an internal audit function can enhance the city's annual external financial statement audit by providing valuable information to those auditors and ensuring the city has strong internal controls and accounting procedures in place. An effective internal audit function could have helped in discovering and/or resolving many of the accounting and procedural control weaknesses, and policy and compliance issues addressed in this report.

Recommendation

The City Council consider appointing an internal auditor or contracting with an independent audit firm to conduct audits of specific city operations and activities.

Auditee's Response

The city respects the State Auditor's comments in this section. The city will consider the ability to implement this recommendation given the financial constraints of the city. If the city is unable to implement this recommendation as outlined by the State Auditor, the city will strive to achieve the same outcome by other means within the current city staffing levels or on a contract basis.

City of Joplin

Organization and Statistical Information

The City of Joplin is located in Jasper and Newton Counties. The city was incorporated in 1873 and is currently a home rule-charter class city. The city employed 504 full-time employees and 133 part-time employees on October 31, 2014.

City operations include police and fire protection services, sewer service, low-income health care services, convention and tourism promotional activities, airport services, economic development, street maintenance, and recreational facilities (aquatic centers, golf course, and parks).

Mayor and Councilmembers The city government consists of a nine-member Council, elected at large for 4-year terms, with four members required to be residents of specific geographic zones. Every 2 years the Council selects one of its members to serve as mayor and another as mayor pro tem, who assumes mayoral responsibilities in the mayor's absence. Zone I covers North Joplin, Zone II covers West Joplin, Zone III covers the Center and East Joplin, and Zone IV covers South Joplin. The Councilmembers (including the mayor) are paid \$5 for each meeting attended, but not exceeding \$120 a year. The compensation of these officials is established by city charter. The Mayor and Councilmembers as of October 31, 2014, are listed below.

Michael Seibert, Mayor and Zone IV Councilmember
Morris Glaze, Mayor Pro Tem
Bill Searce, General Councilmember
Miranda Lewis, General Councilmember
Ryan Stanley, General Councilmember
Mike Woolston, General Councilmember
Gary Shaw, Zone I Councilmember
Melodee Colbert-Kean, Zone II Councilmember
Dr. Benjamin Rosenburg, Zone III Councilmember



City of Joplin
Organization and Statistical Information

Other Principal Officials

Compensation Paid for
the Year Ended
October 31, 2014

Name and Title	
Samuel Anselm, Interim City Manager ¹	\$117,196
Peter Edwards, City Attorney ²	72,172
Barbara Hogelin, City Clerk ³	67,091
Department Directors⁴	
Leslie Haase, Finance	99,587
Mark Morris, Information Services	94,432
Daniel Pekarek, Health	93,712
Nicholas Heatherly, Public Works	92,551
Christopher Cotton, Parks and Recreation	92,137
David Allgood, Human Resources	90,585
Jason Burns, Police Chief ⁵	76,995
Troy Bolander, Planning and Community Development	75,080
Steve Stockam, Airport Manager	71,052
Jacque Gage, Library	65,619
Lynn Onstot, Public Information	64,770
James Furgerson, Interim Fire Chief ⁶	61,817
Patrick Tuttle, Convention and Visitor's Bureau	55,228
Leslie Simpson, Art Library	49,895
Sunny Goodwin, Public Safety Communications Manager	44,180

¹ Mark Rohr served as City Manager until he was terminated in February 2014. His compensation for the year ended October 31, 2014, was \$100,834 which includes longevity pay of \$717, a vehicle allowance of \$1,800, and a cell phone allowance of \$156. Samuel Anselm was the Assistant City Manager until he was appointed Interim City Manager in February 2014. He served in this capacity until his appointment as City Manager in November 2014. His compensation includes a vehicle allowance of \$5,400 and a cell phone allowance of \$624.

² Brian Head served as City Attorney until he resigned in May 2014. His compensation for the year ended October 31, 2014, was \$71,400 which includes longevity pay of \$1,185, a vehicle allowance of \$2,800, and a cell phone allowance of \$364. Peter Edwards was the Assistant City Attorney until he was appointed interim City Attorney in May 2014. He served in this capacity until appointment as City Attorney in August, 2014. His compensation includes longevity pay of \$1,484, a vehicle allowance of \$2,875, and a cell phone allowance of \$624.

³ Compensation includes longevity pay of \$1,783, a vehicle allowance of \$4,800, and a cell phone allowance of \$624.

⁴ Compensation includes, as applicable, longevity pay, vehicle allowances, cell phone allowances, and other stipends.

⁵ Lane Roberts served as Police Chief until he retired in March 2014. His compensation for the year ended October 31, 2014, was \$55,807. Jason Burns was promoted from Assistant Police Chief to Police Chief in March 2014.

⁶ Mitch Randles served as Fire Chief until he resigned in August 2014. His compensation for the year ended October 31, 2014, was \$80,552. James Furgerson was a Battalion Chief until May 2014 when he became Deputy Fire Chief. He was promoted to Interim Fire Chief in August 2014.



City of Joplin
Organization and Statistical Information

Joplin Redevelopment
Corporation (JRC) members

The JRC is comprised of 7 members, and those members as of October 31, 2014, are listed below.

Brad McIntyre
Fred Osborn
Phil Stinnett
Brian Shaw
Keith Grebe
Laurie Delano
Gary Duncan

Citizens Advisory Recovery
Team (CART) members

The CART was formed in June 2011 and comprised of 30 members. The 9 members in committee chair positions are listed below.

Chairperson: Jane Cage, Heartland Technology Solutions
Vice-Chairperson: Andy Martin, Walmart

Housing and Neighborhood Chairs:
Kim Cox, The Ozarks Gateway Association of Realtors
Matt Moran, Housing Authority of Joplin

Schools and Community Facilities Chairs:
Doug Doll, Arvest Bank
Jane Cage, Heartland Technology Solutions

Infrastructure and Environment Chairs:
Amanda Bilke, The Katie Bell Agency
Clifford Wert, US Bank

Economic Development Chairs:
Randy Moore, Eagle-Picher
Fred Osborn, Commerce Bank

CART Implementation Task
Force (ITF) members

The CART ITF was established in November 2011 and comprised of the 14 members listed below.

Jane Cage, CART ITF Chairperson
Kim Carr, CART Housing Co-Chair
Doug Doll, CART Schools and Community Facilities Co-Chair
Randy Moore, CART Economic Development Co-Chair
Clifford Wert, CART Infrastructure and Environment Co-Chair
Mark Rohr, Joplin City Manager
Trish Raney, City Council
Michael Seibert, City Council
C.J. Huff, Joplin Schools Superintendent
Anne Sharp, School Board
Jim Kimbrough, School Board
Rob O'Brian, Joplin Area Chamber of Commerce (JACC) President
Mike Wiggans, JACC Board Chair
Brad Beecher, JACC Board Member



City of Joplin
Organization and Statistical Information

Financial Activity

A summary of the city's financial activity for the year ended October 31, 2014, which was obtained from the City of Joplin Comprehensive Annual Financial Report; and, disaster recovery funding and expenditures from May 22, 2011 to April 30, 2015, which were obtained from city accounting records, follows:

City of Joplin, Missouri
**Statement of Revenues, Expenditures and
 Changes in Fund Balances - Governmental Funds**
 Year Ended October 31, 2014

Appendix A

	General	Parks/Storm Water Sales Tax	Transportation Sales Tax	Capital Improvement Sales Tax	Community Development Entitlement Grant	Joplin Redevelopment Corporation	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:								
Taxes	\$ 18,925,559	\$ 3,121,537	\$ 8,186,453	\$ 4,697,046	\$ -	\$ -	\$ 3,591,108	\$ 38,521,703
Intergovernmental activity taxes	-	-	-	-	-	1,411,551	850,846	2,262,397
Intergovernmental	595,951	613,490	1,143,935	2,246,878	9,372,320	-	3,182,866	17,155,440
Licenses and permits	1,488,303	-	-	-	23,701	-	-	1,512,004
Charges for services	397,312	-	540,801	-	62,710	-	3,700,165	4,700,988
Fines and forfeitures	2,164,984	-	-	-	-	-	-	2,164,984
Interest	92,758	-	-	12,439	-	966	12,527	118,690
Other	253,669	-	20,157	-	-	3,855,926	27,424	4,157,176
Total Revenues	23,918,536	3,735,027	9,891,346	6,956,363	9,458,731	5,268,443	11,364,936	70,593,382
Expenditures:								
Current:								
General government	5,655,005	-	-	-	-	344,978	200,590	6,200,573
Public safety	22,418,295	-	-	-	-	-	-	22,418,295
Public works	3,124,033	-	-	5,268,033	-	-	92,068	8,484,134
Highway and streets	-	3,718,403	8,339,597	-	-	-	-	12,058,000
Environmental	-	-	-	-	-	-	2,632,027	2,632,027
Health services	-	-	-	-	-	-	3,988,302	3,988,302
Culture and recreation	616,497	365,526	-	-	-	-	5,335,537	6,317,560
Social services	-	-	-	-	9,603,573	-	12,264	9,615,837
Capital outlay	-	-	-	-	-	-	2,303,477	2,303,477
Debt service:								
Principal	-	-	-	-	-	-	2,236,822	2,236,822
Interest	-	-	-	-	-	1,253,985	191,670	1,445,655
Total expenditures	31,813,830	4,083,929	8,339,597	5,268,033	9,603,573	1,598,963	16,992,757	77,700,682
Excess of revenues over (under) expenditures	(7,895,294)	(348,902)	1,551,749	1,688,330	(144,842)	3,669,480	(5,627,821)	(7,107,300)
Other financing sources (uses):								
Transfers in	10,503,536	-	-	-	-	-	3,041,875	13,545,411
Transfers out	(2,755,000)	(100,310)	(1,894,770)	(7,638)	-	-	(277,836)	(5,035,554)
Insurance proceeds	41,590	-	47,652	-	-	-	30,741	119,983
Sale of capital assets	37,960	-	22,185	-	-	-	-	60,145
Total other financing sources (uses)	7,828,086	(100,310)	(1,824,933)	(7,638)	-	-	2,794,780	8,689,985
Net change in fund balances	(67,208)	(449,212)	(273,184)	1,680,692	(144,842)	3,669,480	(2,833,041)	1,582,685
Fund balances (deficit)	22,786,601	972,900	706,200	11,908,599	(1,263,552)	17,118,905	10,366,188	62,595,841
Fund Balances (deficit) - end of year	\$ 22,719,393	\$ 523,688	\$ 433,016	\$ 13,589,291	\$ (1,408,394)	\$ 20,788,385	\$ 7,533,147	\$ 64,178,526

Appendix B

City of Joplin, Missouri
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the Year Ended October 31, 2014

	Airport	Sanitary Sewer	Nonmajor Enterprise Funds	Total	Internal Service Funds
Operating revenues:					
Charges for services	\$ 648,243	\$ 9,186,079	\$ 833,257	\$ 10,667,579	\$ 9,630,860
Total operating revenues	<u>648,243</u>	<u>9,186,079</u>	<u>833,257</u>	<u>10,667,579</u>	<u>9,630,860</u>
Operating expenses:					
Personnel services	415,126	2,006,073	360,265	2,781,464	1,292,410
Supplies	69,814	307,442	108,098	485,354	1,514,928
Contractual services	465,909	1,941,357	165,353	2,572,619	6,417,298
Depreciation and amortization	1,235,775	2,595,157	141,535	3,972,467	475,847
Total operating expenses	<u>2,186,624</u>	<u>6,850,029</u>	<u>775,251</u>	<u>9,811,904</u>	<u>9,700,483</u>
Operating income (loss)	<u>(1,538,381)</u>	<u>2,336,050</u>	<u>58,006</u>	<u>855,675</u>	<u>(69,623)</u>
Nonoperating revenues (expenses):					
Franchise fees	-	6,649,802	-	6,649,802	-
Insurance reimbursements and settlements	4,768	3,443	-	8,211	-
Interest income	-	149,843	9	149,852	3,056
Interest expense and fiscal charges	-	(455,490)	-	(455,490)	(25,245)
Other income	(6,089)	6,956	-	867	7,501
Total nonoperating revenues (expenses)	<u>(1,321)</u>	<u>6,354,554</u>	<u>9</u>	<u>6,353,242</u>	<u>(14,688)</u>
Income (loss) before contributions and transfers	<u>(1,539,702)</u>	<u>8,690,604</u>	<u>58,015</u>	<u>7,208,917</u>	<u>(84,311)</u>
Capital grants and contributions	3,566,858	1,214,318	-	4,781,176	-
Transfers in	650,000	-	-	650,000	-
Transfers out	(124,260)	(8,601,747)	(293,479)	(9,019,486)	(140,371)
Change in net position	<u>2,552,896</u>	<u>1,303,175</u>	<u>(235,464)</u>	<u>3,620,607</u>	<u>(224,682)</u>
Net position -beginning of year	18,915,822	48,511,242	988,552	68,415,616	7,032,241
Net position -end of year	<u>\$ 21,468,718</u>	<u>\$ 49,814,417</u>	<u>\$ 753,088</u>	<u>72,036,223</u>	<u>\$ 6,807,559</u>
Change in net position, enterprise funds				3,620,607	
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.				<u>(14,204)</u>	
Change in net position				<u>\$ 3,606,403</u>	

Appendix C

City of Joplin
 Summary of Disaster Recovery Funding and Expenditures
 Period of May 22, 2011 to April 30, 2015

Grantor Agency/Projects	Federal CFDA Number	Completion Date of Project	A		B	C	D
			Estimated Project Amount	Amount Expended	Amount Received From FEMA	Amount of Insurance Proceeds Received	Balance Due from SEMA
FEDERAL EMERGENCY MANAGEMENT (FEMA)							
Small Projects -	97.036						
Temporary emergency sirens		5/30/2011	\$ 9,047	9,047	6,785	0	905
Temporary street signs		5/30/2011	3,765	108	2,823	0	377
Emergency sirens		6/30/2011	32,562	25,195	24,421	0	3,256
Sewer manhole covers		6/30/2011	5,838	3,029	4,385	0	584
Demolition of fire stations 2 and 4		6/30/2011	24,600	4,292	0	0	20,910 ¹
26th Street and Maiden Lane traffic signal		7/31/2011	14,683	14,055	0	0	12,481 ¹
Emergency operations center		7/31/2011	48,597	7,832	33,191	0	4,860
Police, Public Works, and Parks Department damaged vehicles		7/31/2011	57,151	759	42,863	0	5,715
Direct administrative costs-Emergency disaster response		8/30/2011	48,597	25,552	36,448	0	4,860
Uniforms-police and jail		8/31/2011	11,974	1,230	8,981	0	1,197
Uniforms-fire		8/31/2011	15,762	16,379	0	10,403	0 ³
Temporary debris signage		8/31/2011	10,299	0	7,724	0	1,030
Mohaska Park		9/30/2011	2,502	1,892	1,877	0	250
Humane society sheltering animals		10/31/2011	21,045	21,091	15,784	0	2,105
Temporary tires and other equipment		10/31/2011	24,291	17,080	13,807	0	2,429
Temporary costs of fire stations		11/30/2011	8,153	6,074	1,103	0	815
Repair cascade system/generator		12/31/2011	3,371	0	0	0	2,865 ¹
Police south station		1/31/2012	1,876	4,595	1,407	12,711	188
Senior citizens center grounds		2/28/2012	14,735	7,747	11,052	0	1,474
Lost or damaged barricades/cones		4/30/2012	2,654	2,118	1,991	0	265
Fire hydrants		5/31/2012	50,680	23,267	38,010	0	5,068
Parr Hill Park bathroom		5/31/2012	24,695	199	18,521	0	2,470
Permanent tires and other equipment		6/30/2012	38,833	0	29,125	0	3,883
Radio antenna communication device		8/30/2012	12,360	13,845	9,270	21,358	1,236
Air quality monitoring		8/31/2012	10,067	3,062	7,550	0	1,007
Portable toilets		8/31/2012	29,597	31,867	22,198	0	2,960
Cunningham Park bathroom contents		10/31/2012	1,372	0	1,029	0	137
Cunningham pool house contents		10/31/2012	5,983	0	0	4,487	0 ³
Catch basin debris cleaning		10/31/2012	16,025	0	12,019	0	1,603

Appendix C

City of Joplin

Summary of Disaster Recovery Funding and Expenditures

Period of May 22, 2011 to April 30, 2015

Grantor Agency/Projects	Federal CFDA Number	Completion Date of Project	Estimated Project Amount	Amount Expended	Amount Received From FEMA	Amount of Insurance Proceeds Received	Balance Due from SEMA
Garvin Park		11/30/2012	21,898	33,318	15,925	640	2,190
Trolley stops		1/31/2013	56,561	42,185	42,421	0	5,656
School flashers		In progress	21,946	0	16,459	0	2,195
Ewert Park		⁴	5,559	0	4,169	5,000	556 ²
Totals			\$ 657,078	315,818	431,338	54,599	95,524

^A The city receives 85% of the project worksheet regardless of the amount spent.

^B Amounts equals 75% of project worksheet amount.

^C Insurance is applied to line items per the city's records.

^D Amount equals 10% of project worksheet amount.

¹ The city has not received any funding and the balance reflects the 85% of the project worksheet.

² The city is not replacing the damaged lights in Ewert Park.

³ Amount due is \$0 since the city is receiving insurance.

⁴ The city is not replacing the damaged lights in Ewert Park.

Appendix C

City of Joplin Summary of Disaster Recovery Funding and Expenditures Period of May 22, 2011 to April 30, 2015

Grantor Agency/Projects	Federal CFDA Number	Completion Date of Project	Estimated Project Amount	A Amount Expended	B Amount of Federal Funds Received	C Amount of Insurance Proceeds Received	D Balance Due from FEMA/SEMA
FEMA							
Large Projects -	97.036						
Mutual aid assistance		6/30/2011	\$ 1,516,369	2,013,077	0	0	1,711,115
Debris removal-outside expedited debris removal area		8/7/2011	95,429	15,665	0	0	13,315 ⁵
Debris removal-inside expedited debris removal area		8/7/2011	374,101	23,709	0	0	23,709 ^{3,5}
Emergency protective measures-fire		10/31/2011	778,137	383,303	0	0	325,808 ⁵
Emergency protective measures-police		10/31/2011	624,864	25,490	0	0	21,667 ⁵
Temporary fire trucks-emergency protective measures		1/31/2012	614,639	614,499	0	0	522,324
Senior citizens center building		3/30/2012	89,358	97,609	1,106	123,158	0 ¹⁰
Volunteer assistance		6/30/2012	71,986	73,640	0	0	62,594
American Society for the Prevention of Cruelty to Animals- sheltering animals		9/30/2012	350,650	350,650	0	0	298,053
Cunningham Park bathroom		10/31/2012	170,813	97,642	0	134,400	0 ¹
Cunningham Park pool house		10/31/2012	93,656	77	0	0	0
Debris removal-final cleanup		10/31/2012	1,002,211	1,216,358	0	0	1,033,904 ⁵
Sewers		10/31/2012	1	349	1	0	0 ⁶
Remote television camera inspection of sewer lines		10/31/2012	308,700	1,012,330	0	0	860,481 ⁶
Temporary repairs of sewer lines		10/31/2012	125,000	0	0	0	0 ⁶
Parr Hill Park		3/31/2013	100,258	51,503	0	0	43,778
Transitional housing unit site-firefighters		4/30/2013	245,115	371,856	0	0	316,078
Transitional housing unit site-fire truck		4/30/2013	110,000	110,000	0	0	93,500
Fire trucks		5/31/2013	439,785	1,348,631	0	40,312	1,112,071 ⁸
Street signs, poles, and sockets		6/30/2013	142,923	136,215	64,748	50,000	18,247 ^{4,8,9}
Permanent traffic signals		6/30/2013	722,559	763,577	678,610	50,000	0 ⁹
Cunningham Park		6/30/2013	894,777	793,225	0	680,338	0 ¹
Street lights		6/30/2013	96,697	994	0	50,000	845 ⁴
Demolition		6/30/2013	107,500	3,880	0	0	3,298
Fire station 2 contents		6/30/2013	70,356	22,711	0	47,667	0
Fire station 4 contents		6/30/2013	173,282	13,949	0	115,565	0
Fire station 2		6/30/2013	864,865	877,677	0	734,499	0 ⁷
Fire station 4		6/30/2013	823,730	708,926	0	672,125	0 ⁷
Fire station 2 grounds		10/31/2013	102,296	0	0	0	86,952 ⁷

Appendix C

City of Joplin

Summary of Disaster Recovery Funding and Expenditures

Period of May 22, 2011 to April 30, 2015

Grantor Agency/Projects	Federal CFDA Number	Completion Date of Project	Estimated Project Amount	Amount Expended	Amount of Federal Funds Received	Amount of Insurance Proceeds Received	Balance Due from FEMA/SEMA
Broken and damaged catch basins		In progress	101,441	0	45,175	0	0 ^{2, 11}
Sidewalks		In progress	117,897	0	0	0	0 ²
Curbs		In progress	158,278	0	0	0	0 ²
Streets and alleys		In progress	2,579,647	12,553	0	0	10,670 ²
Retaining walls		In progress	132,410	0	0	0	0 ²
Totals			\$ 14,199,730	11,140,095	789,640	2,698,064	6,558,407

^A The city receives 85% of the amount expended.

^B Received from FEMA and Federal Highway Administration (FHWA).

^C Insurance is applied to line items per the city's records.

^D Amount equals 85% of amount expended.

¹ These projects will not receive funding from FEMA because it is covered by insurance. The city will receive more money when they submit all documentation to insurance for actual costs reimbursement.

² Projects are pending.

³ Percentage of reimbursement is 100% (90% FEMA and 10% SEMA).

⁴ The street lamps project was completed with the street signs project and total costs were charged to the signs project and need to be broken out for internal purposes but does not impact total amount due.

⁵ Amounts expended are not complete because labor and equipment have not been added to each project.

⁶ All sewer projects were completed by one contractor. Total amount expended has been included on one project, but needs to be broken out appropriately for the three projects for internal purposes.

⁷ Amount expended for grounds was included in the fire station totals but has not been broken out.

⁸ Balance due equals amount expended less amount received less insurance received.

⁹ Amounts received from FHWA.

¹⁰ Amount received from FEMA. This project was covered by insurance but FEMA still disbursed \$1,106.

¹¹ This project has not begun and the city has received funding from FEMA. Finance Director believes FEMA applied insurance to the project and lowered the estimated amount to make the project a small project and paid a percentage of the small project.

Appendix C

City of Joplin
 Summary of Disaster Recovery Funding and Expenditures
 Period of May 22, 2011 to April 30, 2015

Grantor Agency/Program Title/Projects	Federal CFDA Number	Completion Date	Award Amount	Amount Expended	Amount of Federal Funds Received	Amount of Insurance Proceeds Received	A
							Remaining Project Amount
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (HUD)							
COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG)							
CDBG Disaster Recovery I -	14.218						
Sidewalks		In progress	\$ 2,500,000	0	0	0	2,500,000
Trail construction		In progress	2,000,000	198,325	198,325	0	1,801,675
Tree planting		In progress	2,000,000	0	0	0	2,000,000
Performing and visual arts center and depot		In progress	5,390,000	0	0	0	5,390,000
Single family assistance		In progress	12,750,000	8,863,102	8,119,893	0	3,886,898
Multi-family residential		In progress	9,000,000	188	188	0	8,999,812
Single family rehabilitation		In progress	1,500,000	85,402	38,113	0	1,414,598
Land acquisition/assemblage		In progress	7,440,000	0	0	0	7,440,000
FEMA transitional housing unit relocation		In progress	60,000	11,800	11,800	0	48,200
Housing authority tenant rental		In progress	290,000	65,960	65,960	0	224,040
Housing authority site repair		In progress	210,000	128	0	0	209,872
City of Joplin administrative costs		In progress	452,667	284,706	281,950	0	167,961
Consultant administrative costs		In progress	1,674,042	1,700,779	1,700,779	0	(26,737)
Totals			45,266,709	11,210,390	10,417,008	0	34,056,319
CDBG Disaster Recovery II -							
CDBG Disaster Recovery II -	14.218						
Sanitary Sewer-Design & Construction		In progress	9,001,333	1,174,037	857,253	0	7,827,296
Mercy Public Park		In progress	3,200,000	67	0	0	3,199,933
Crosslines Community Facility		In progress	555,000	56,307	233	0	498,693
Early Childhood Center		In progress	5,000,000	0	0	0	5,000,000
Planning & Design-Infrastructure		In progress	10,862,400	1,910,914	1,636,924	0	8,951,486
Mental Health		In progress	331,397	329,230	276,154	0	2,167
City of Joplin administrative costs		In progress	605,951	79,951	66,028	0	526,000
Consultant administrative costs		In progress	831,805	684,097	537,313	0	147,708
Planning		In progress	2,028,000	292,493	0	0	1,735,507
Undesignated Funding		In progress	80,860,114	0	0	0	80,860,114
Totals			113,276,000	4,527,096	3,373,905	0	108,748,904

Appendix C

City of Joplin

Summary of Disaster Recovery Funding and Expenditures

Period of May 22, 2011 to April 30, 2015

Grantor Agency/Program Title/Projects	Federal CFDA Number	Completion Date	Award Amount	Amount Expended	Amount of Federal Funds Received	Amount of Insurance Proceeds Received	Remaining Project Amount
DEPARTMENT OF ECONOMIC DEVELOPMENT (DED)							
CDBG-Concrete Removal	14.228	In progress	4,000,000	2,662,626	0	0	1,337,374 ¹
ECONOMIC DEVELOPMENT ADMINISTRATION (EDA)							
Library Construction Grant	11.307	In progress	20,000,000	1,169,330	0	0	18,830,670
Disaster Recovery Coordinator Salary- Recovery Grant	11.307	10/31/2014	253,232	231,883	231,883	0	0
DEPARTMENT OF TRANSPORTATION							
Transportation Investment Generating Economic Recovery (TIGER) Grant -							
Schifferdecker	20.933	In progress	1,558,148	2,153,765	2,134,278	0	(595,617)
Maiden Lane		In progress	4,346,085	1,691,422	724,540	0	2,654,663
26th street		In progress	2,069,375	2,765,257	2,721,138	0	(695,882)
20th street overpass		In progress	3,770,200	1,386,109	0	0	2,384,091
20th street transit		In progress	256,192	619,841	295,701	0	(363,649)
Totals			12,000,000	8,616,394	5,875,657	0	3,383,606
ENVIRONMENTAL PROTECTION AGENCY (EPA)							
Lead Remediation Grant	66.802	In progress	8,500,000	5,726,079	5,542,992	0	2,773,921
FEDERAL EMERGENCY MANAGEMENT AGENCY (FEMA)							
Flood Plain Buyout	97.039	In progress	140,321	84,447	0	0	55,874
STATE OF MISSOURI							
Budgetary Allocation -							
Stormwater system		In progress	608,260	391,652	383,515	0	216,608
Stormwater repairs		In progress	473,000	122,478	122,478	0	350,522
West of Arizona and North of 32nd street		In progress	2,081,498	533,024	345,924	0	1,548,474
Michigan and Kansas street		In progress	1,041,955	208,473	206,033	0	833,482
15th and Highview street		In progress	712,149	393,681	127,182	0	318,468
24th and Patterson streets		In progress	230,660	145,633	145,370	0	85,027
Even to Country Club streets		In progress	351,250	116,636	65,887	0	234,614

Appendix C

City of Joplin

Summary of Disaster Recovery Funding and Expenditures

Period of May 22, 2011 to April 30, 2015

Grantor Agency/Program Title/Projects	Federal CFDA Number	Completion Date	Award Amount	Amount Expended	Amount of Federal Funds Received	Amount of Insurance Proceeds Received	Remaining Project Amount
Pennsylvania and Virginia streets		In progress	1,096,700	364,005	188,002	0	732,695
Northeast side of Murphy Boulevard		In progress	804,074	801,928	801,928	0	2,146
Sewer system repairs		In progress	2,556,865	1,414,230	1,128,022	0	1,142,635
Sidewalks, curbs, streets		In progress	292,000	292,000	292,000	0	0
Sidewalk, curb, and street repair		In progress	3,466,624	634,203	376,458	0	2,832,421
Sewer system inspection		In progress	284,965	138,395	138,395	0	146,570
Totals			\$ 14,000,000	5,556,338	4,321,194	0	8,443,662

^A Remaining amount is award amount less amount expended.

¹ In June 2015, the DED reclassified the CDBG from concrete removal to disaster recovery. During the reclassification, the award amount was reduced to \$2,762,626.