



Office of Missouri State Auditor  
**Nicole Galloway, CPA**

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**Independence Events Center  
Community Improvement District**



**Nicole Galloway, CPA**  
Missouri State Auditor

# CITIZENS SUMMARY

## Findings in the audit of Independence Events Center Community Improvement District

Administrative Fees	The Independence Events Center Community Improvement District (CID) failed to competitively procure administrative services. As a result, the district is paying excessive administrative fees to the city.
Expenditures	The CID Board did not review or approve any expenditures related to the construction of the event center, which circumvents the Board's primary responsibility of providing oversight of district expenses.
Non-Compliance with State Law	The CID Board did not submit budgets to the city within the time frames required by state law.

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

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

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

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# Independence Events Center Community Improvement District

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## **NICOLE GALLOWAY, CPA**

### **Missouri State Auditor**

Mark Randall, Chairman and Executive Director  
and  
Board of Directors  
Independence Events Center Community Improvement District  
Independence, Missouri

We have audited certain operations of the Independence Events Center Community Improvement District as authorized under Section 67.1471.5, RSMo. The scope of our audit included, but was not necessarily limited to, the year ended June 30, 2016. The objectives of our audit were to:

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

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.

For the areas audited, we identified significant deficiencies in internal controls, non-compliance with legal provisions, and the need for improvement in management practices and procedures.

The accompanying Management Advisory Report presents our findings arising from our audit of the Independence Events Center Community Improvement District.

Nicole R. Galloway, CPA  
State Auditor

The following auditors participated in the preparation of this report:

Director of Audits:	Robert Showers, CPA, CGAP
Audit Manager:	Todd M. Schuler, CPA
In-Charge Auditor:	Wayne Kauffman, MBA, CPA

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# Independence Events Center Community Improvement District

## Introduction

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### Background

The Independence Events Center Community Improvement District (CID) is located in the City of Independence. The CID was organized in December 2007 by an ordinance passed by the City Council. Pursuant to the petition filed requesting the formation of the district, the members of the Board of Directors of the district are appointed by the Mayor, with the consent of the City Council.

The CID was formed for the purpose of providing funding for the acquisition of property for and the construction of the Independence Events Center, the construction of public improvements for the center, and to establish transportation services to serve the district. Prior to the opening of the center, the transportation services were discontinued due to a lack of public interest. The CID has a fiscal year end of June 30 and had an independent audit performed for the year ended June 30, 2016.

### Obligations

Bonds with principal amounts totaling \$85,235,000 were issued between 2008 and 2010 to finance the project and establish various required funds, such as the Debt Service Reserve Fund. These bonds were refinanced in stages between 2011 and 2016 through the issuance of advance refunding bonds with principal amounts totaling \$92,765,000. According to district personnel, the refinancing lowered net debt service payments by approximately \$20 million.

### Revenues

In February of 2008, the qualified voters of the CID, in this case the property owners, approved the imposition of a sales tax of up to 1 percent on all taxable transactions within the boundaries of the district for 35 years. The Board of Directors subsequently passed a resolution that set the sales tax rate at 1/2 of 1 percent, effective July 1, 2008. The Board subsequently passed a resolution increasing the sales tax rate to 3/4 of 1 percent at the direction of the city, effective July 1, 2012. The retail establishments within the district are required to collect and remit the sales tax to the Missouri Department of Revenue (DOR). In turn, the DOR distributes the sales tax monies to the city pursuant to an agreement between the city and the CID.

Major retailers within the district include Costco and Lowes south of Interstate 70; Walmart, Sam's Club, and Menards north of Interstate 70; Best Buy, Kohl's, JC Penney, and Target north of East 39th Street; and Macy's and Sears in the Independence Center.

### Governance

The CID Board acts as the policymaking body for the district's operations and serve without compensation. Members of the Board at June 30, 2016, were:



## Independence Events Center Community Improvement District Introduction

Name	Term Expires
Larry Kauffman (1) (5)	December 19, 2019
Eric Urfer (2) (5)	December 19, 2017
Angela Pyszczyński (3) (6)	December 19, 2017
Brian Watson (4) (5)	December 19, 2019
Tom Thomas (6)	December 19, 2017

- (1) Chairman and Executive Director. He resigned in October 2016 and Mark Randall was appointed to this position in May 2017.
- (2) Vice Chairman
- (3) Secretary. She resigned in March 2017 and this position is currently vacant.
- (4) Treasurer
- (5) Representative of the city
- (6) Representative of the retailers within the boundaries

## Scope and Methodology

The scope of our audit included, but was not necessarily limited to, the year ended June 30, 2016.

We reviewed relevant statutes and CID agreements; including state law,<sup>1</sup> the petition to form the CID, the ordinance forming the CID, the intergovernmental agreement between the CID and the city, and the bylaws of the CID. Our review of these statutes and agreements covered the legal responsibilities of the district and the CID Board (Board). In addition, we reviewed the official statements for the bonds issued to fund the project and to refinance the previous bond issuances as well as summary statements provided by the city's Finance Director. Our review of these financial documents and statements included obtaining an understanding of the sources and uses of funds, the terms of the obligations, and the requirements imposed on the district. We also reviewed Board meeting minutes to obtain an understanding of actions taken by the Board.

We held discussions with a Board member, the city's Finance Director and the City Clerk, and legal counsel representing the district for the purpose of obtaining an understanding of the district's operations and Board decisions made, as well as obtaining evidence of compliance with certain requirements. In addition, we held conversations with other CIDs and two private accounting firms to determine the sales tax monitoring and accounting fees paid by other CIDs as well as estimated annual fees for providing sales tax monitoring and accounting services to a large CID.

We obtained an understanding of the internal controls that are significant within the context of the audit objectives and assessed whether such controls

<sup>1</sup> Section 67.1401 through 67.1571, RSMo, Section 105.145, RSMo, Section 67.010, RSMo, and 15 CSR 40-03.030



## Independence Events Center Community Improvement District Introduction

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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 risk that illegal acts, including fraud, and violations of applicable contract or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instance of noncompliance significant to those provisions.

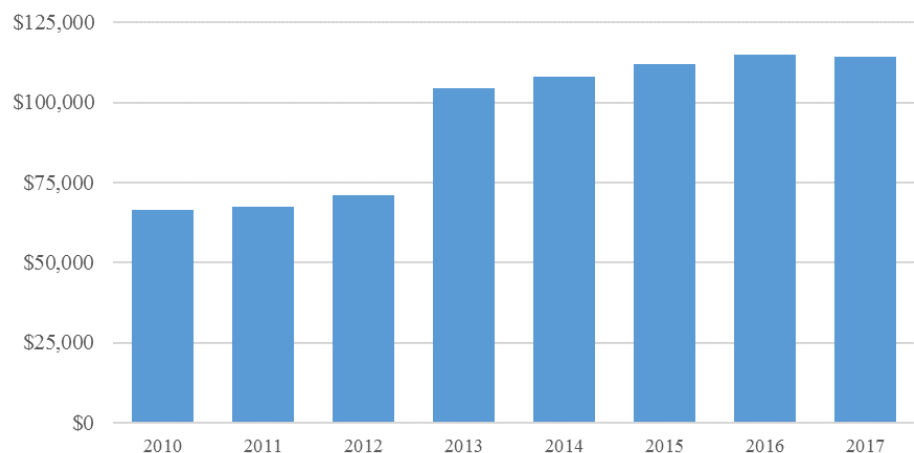
# Independence Events Center Community Improvement District Management Advisory Report State Auditor's Findings

## 1. Administrative Fees

The Independence Events Center Community Improvement District (CID) failed to competitively procure administrative services. As a result, the district is paying excessive administrative fees to the City of Independence. Since the Board includes representatives of the city, including the city's Finance Director, this arrangement represents a significant conflict of interest.

The day after the city established the CID, the Board entered into an intergovernmental agreement with the city regarding the administration of the district; the imposition, administration, and disbursement of the district sales tax; the construction and maintenance of the improvements; and other aspects of the monitoring and financing of the district. The agreement allows the city to bill the district for 2 percent of the total district sales tax revenues collected for administering and accounting for the district's sales tax. The agreement also allows the city to seek additional compensation if the 2 percent fee does not fully reimburse the city for the actual costs and expenses incurred. However, the agreement does not allow the CID to seek a refund from the city if the fees paid are in excess of actual costs. Figure 1 shows the amount paid to the city for administrative fees for fiscal years 2010 through 2017.

Figure 1: Administrative fees paid to city, fiscal year 2010 to 2017



Source: 2010 - 2016 data from city audited financial statements, 2017 from unaudited city financial data.

### Increase in fees without increase in services provided

The intergovernmental agreement in place between the city and the district is not in the district's best interest. Since the agreement is based on a percentage of revenues collected, an increase in the sales tax rate resulted in a significant increase in administrative fees without an increase in services required by the city. The fee increased by approximately \$33,500 (47 percent) from fiscal year 2012 to 2013 as a result of the Board increasing the district sales tax rate from 1/2 cent to 3/4 cent. It is unclear why the Board did not renegotiate to lower the 2 percent administrative fee when this occurred.





## Independence Events Center Community Improvement District Management Advisory Report - State Auditor's Findings

Fees higher than what other districts pay for the same service

The amounts paid to the city for district administration services are significantly higher than what other large CIDs pay for the same service to private firms. We surveyed the next 10 largest CIDs in the state in terms of sales tax revenue<sup>2</sup> and determined the surveyed districts pay approximately \$12,000 annually for administration services. This amount is 89 percent less than what the Independence Events Center CID has averaged since the district's sales tax rate was increased to 3/4 of 1 percent. In addition, we interviewed two private firms that perform district administrative services for special taxing districts, such as CIDs, and representatives from both firms indicated they would likely administer and account for the sales taxes for approximately \$10,000 per year.

In addition, the Board does not receive information from the city showing the actual costs and expenses incurred for providing the services to the CID. City officials indicated they have not tracked this information.

Legal counsel for the district indicated the Board decided to contract with the city to account for the CID monies so the city had assurance the debt service requirements are satisfied. A Board member who represents the city indicated the CID Board has not considered having another entity perform the service.

Conclusion

The CID Board, which is controlled by the city, could not explain why the CID is paying the city fee amounts that far exceed the costs other similar sized CIDs incur for similar services. The CID Board has a fiduciary duty to the taxpayers to ensure district funds are spent in a manner that provides the greatest benefit to the CID. We could not determine how the higher fees paid for sales tax monitoring and accounting services result in a benefit to the CID. In addition, paying an excessive amount for these services reduces the amount of money available for debt service payments, resulting in unnecessary taxation of the public. Furthermore, this situation creates the appearance of a conflict of interest since the city is benefiting from the higher fees paid by the district and the city appoints the majority of the CID Board of Directors.

Recommendation

We recommend the CID Board renegotiate the terms of the intergovernmental agreement with the city for administrative and sales tax monitoring services to the city or consider competitively procuring the services.

Auditee's Response

*Each year the Board of Directors meets to approve a proposed budget, which includes payment of the annual administrative fee. By approval of the budget each year, the Board approves the reasonableness of the fee. City*

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<sup>2</sup> Independence Events Center CID is the largest district in the state.



## Independence Events Center Community Improvement District Management Advisory Report - State Auditor's Findings

*staff members devote a substantial amount of time to the administration and oversight of the district, including the following tasks:*

- a. Properly recording and accounting for all sales tax revenues*
- b. Preparing and submitting yearly revenue reports to the State Auditor as required*
- c. Working with external auditors to supply information in connection with the yearly audit of the CID*
- d. Verification of businesses leaving and entering the CID. A quarterly audit is done to ensure all approximately 277 business are properly collecting and remitting the sales tax.*
- e. Coordinating the collection of sales tax with the other economic development areas that reside within the CID*
- f. Engaging with financial advisors to invest idle funds to ensure security and maximize return on investment*
- g. Working with bond council to determine what series of existing CID bonds may be re-financed to lower interest costs*
- h. Working with local businesses within the CID to assist them with questions they have about collection and remittance of the sales tax and its application*
- i. Preparation of a yearly budget based on historical revenue and expenditure forecasts*
- j. Assessing the capital needs of the CID and payment options to address those needs*

*The size of the district and the number of businesses located within the district contribute significantly to the amount of time necessary to properly administer the district. The Board of Directors will on an annual basis continue to review the reasonableness of the administrative fee in the context of the amount of time devoted by city staff to the administration of the district.*

## Auditor Comment

Having Board members, with some of those members being city officials, approve administrative fees they consider reasonable does not provide assurance to taxpayers that the service is being provided at a reasonable cost. Competitively procuring administrative services increases transparency, helps alleviate conflict of interest concerns, and is in the best interest of the district and taxpayers. In addition, the response suggests the Board actively monitors the amount of time city staff devote to administrative tasks of the district. However, auditors requested documentation from district and city officials during the course of the audit to support the administrative fee being charged to the district. District and city officials told us that information was not being tracked.

## 2. Expenditures

The CID Board did not review or approve any expenditures related to the construction of the event center, which circumvents the Board's primary responsibility of providing oversight of district expenses. The CID project



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## Independence Events Center Community Improvement District Management Advisory Report - State Auditor's Findings

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consisted of designing and constructing an event center at a cost of approximately \$67 million.

The city was responsible for the design and overseeing of the construction of the project, which was specified in the intergovernmental agreement between the Board and the city, but no cost certificates or invoices related to the project were presented to the CID Board for review or approval. It is the responsibility of the Board to ensure all expenditures for the project were proper, reasonable and an allowable use of district funds.

### Recommendation

The CID Board review and approve supporting documentation for any future project costs.

### Auditee's Response

*The CID Board delegated oversight of the design and construction of the Events Center to qualified city officials, consultants and contractors, and would foresee following a similar process on potential future projects. This is necessary because the CID does not have any employees and the CID Board members do not have the necessary expertise to oversee the design and construction of significant public projects. However, the Board will follow the recommendation of the Auditor's Office and require that the Board be provided documentation regarding project expenditures on future projects for review and approval.*

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## 3. Non-Compliance with State Law

The CID Board did not submit budgets to the city within the time frames required by state law. The Board submitted its fiscal year 2016 and 2017 budgets to the city 70 and 55 days, respectively, after the deadline. Legal counsel for the district indicated the internal process for ensuring the budgets were submitted timely had not been followed.

Section 67.1471.2, RSMo, requires the CID to submit its proposed budget to the governing body of the city between 180 and 90 days prior to the first day of the fiscal year.

### Recommendation

The CID Board submit its budget to the city in accordance with state law.

### Auditee's Response

*The CID Board will require that future budgets be submitted to the city in accordance with state law.*

# Independence Events Center Community Improvement District Statement of Revenues, Expenditures, and Change in Fund Balance Year Ended June 30, 2016

REVENUES	
Sales taxes	\$ 5,741,439
Interest income	10,879
Total Revenues	5,752,318
EXPENDITURES	
Debt service	4,397,238
Administration	114,874
Audit services	4,900
Bank service charges	4,136
Insurance	1,968
Legal	840
Total Disbursements	4,523,956
REVENUES OVER (UNDER) EXPENDITURES	1,228,362
Fund balance, beginning of year	3,039,431
Fund balance, end of year	\$ 4,267,793