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Missouri State Auditor

City of Savannah



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CITIZENS SUMMARY

Findings in the audit of the City of Savannah

Water and Sewer System	<p>Prior Boards of Aldermen failed to properly address the weak financial condition of the Combined Water and Wastewater Fund. Since at least August 2006, the city has not funded reserve accounts as required by bond covenants. Recent Boards have taken actions to address the financial condition of the fund, but the city has indicated that it will take several years to fulfill the reserve requirements. The city does not always prepare an adequate cost analysis to support water rate and sewer rate increases. The city lacks adequate policies and procedures regarding handling and accounting for delinquent utility accounts, adjustments to customer account balances are not reviewed and approved by an independent person, and the city does not always assess the late penalty or disconnect services for city officials and employees when their utility payments were late. The City Administrator does not approve partial payment arrangements, and these arrangements are not always in compliance with city policy. The city does not charge all city departments for water usage at city facilities, and the city lacks sufficient procedures to ensure monies received from the bulk water sales machine are deposited.</p>
Accounting Controls, Records, and Procedures	<p>The city does not track the balance of various restricted revenues. The city absorbed \$9,900 in credit card fees from utility bill payments rather than passing these fees on to the credit card users. The City Administrator does not use actual costs or other documented rationale to allocate wages and applicable withholdings or assess administrative fees, making it difficult to accurately determine the results of operations of specific activities. The city does not reconcile fuel usage to fuel purchases, which would help reduce the risk of loss, theft, and misuse. The city does not have an accounting policies and procedures manual, and the city's independent auditor reported a material weakness in city controls regarding financial reporting.</p>
Golf Course	<p>The golf course does not adequately segregate duties, record the method of payment received, or maintain the change fund at a constant amount. Neither the Board nor the advisory committee have reviewed and approved the prices/fees or considered related costs, and the advisory committee did not always comply with the Sunshine Law requirements regarding closed meetings. The golf course manager does not perform a periodic physical inventory of golf course concession items and merchandise or reconcile the inventory to sales and purchases of the concession items/merchandise.</p>
Parks and Recreation	<p>The Parks and Recreation Department does not adequately segregate duties, issue receipt slips, or maintain records of monies received. The Park Board has not reviewed and approved prices/fees and does not have written agreements with several organizations, as required by law. The Park Board approved deficit fund balances, does not adequately monitor monthly budget to actual reports and amend the budget when necessary, and has not submitted an annual report of operations to the city.</p>

Procurement and Contracts	The city did not solicit competitive proposals or bids for several significant purchases as required by City Code and does not buy concession items in bulk. The city does not have formal written agreements with several not-for-profit organizations defining services to be provided or benefits to be received, and the not-for-profits do not regularly provide the city with documentation of the services provided.
Personnel Policies and Procedures	The city provides full-time employees with certain benefits, including a \$600 annual family golf membership, a \$200 family swimming pass, one free rental of the Clasbey Center per year, and two city cemetery plots for employees with 20 or more years of service, which it does not report on the employees' W-2 forms. Each December the city pays eligible employees \$30 for each year of employment, which violates the Missouri Constitution's prohibition against extra compensation for services already rendered. The city did not protest the unemployment claims of two former council members although elected officials are exempt from unemployment claims. City personnel policies do not address some current personnel practices, and at least one policy regarding compensatory time is not being followed.
Closed Meetings	The Board uses the same statement in each meeting notice/agenda to indicate the potential for a closed meeting, rather than citing the specific exception when applicable. The Board discussed some items in closed meetings that are not allowed by state law and sometimes discussed issues other than the specific reason cited in the open meeting minutes for going into a closed meeting.
Computer Controls	The city has not established adequate computer system controls. The city does not have a formal, written contingency plan for resuming operations and recovering computer systems and data in the event of a disaster and does not store backup data at a secure off-site location.
Capital Assets	The city does not maintain complete and detailed records of all capital assets, tag or otherwise identify capital assets as property of the city, or perform an annual physical inventory of city property.
Tickets	The police department does not account for the ultimate disposition of traffic tickets and the city has not developed adequate procedures for collecting on unpaid parking tickets.

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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THOMAS A. SCHWEICH

Missouri State Auditor

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

The State Auditor was petitioned under Section 29.230, RSMo, to audit the City of Savannah. We have audited certain operations of the city in fulfillment of our duties. The city engaged Cochran Head Vick & Co., P.C., Certified Public Accountants (CPAs), to audit the city's financial statements for the year ended September 30, 2012. To minimize duplication of effort, we reviewed the report and substantiating working papers of the CPA firm. The scope of our audit included, but was not necessarily limited to, the year ended September 30, 2012. The objectives of our audit were to:

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

Our methodology included reviewing minutes of meetings, written policies and procedures, financial records, and other pertinent documents; interviewing various personnel of the city, as well as certain external parties; and testing selected transactions. We obtained an understanding of internal controls that are significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We tested certain of those controls to obtain evidence regarding the effectiveness of their design and 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 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 Savannah.



Thomas A. Schweich
State Auditor

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Management Advisory Report

State Auditor's Findings

1. Water and Sewer Systems

There are significant weaknesses regarding water and sewer operations. As a result, there is less assurance water and sewer rates are established at an appropriate level and properly billed and collected.

1.1 Financial condition

Prior Boards of Aldermen failed to properly address the weak financial condition of the Combined Water and Wastewater Fund (water/sewer fund).

Since at least August 2006, the city has not funded reserve accounts, including debt service, debt service reserve, and depreciation/replacement, as required by bond covenants of the water/sewer fund revenue bonds. As of September 30, 2012, the balance of the reserve accounts was \$579,000 and the accounts were underfunded by a total of approximately \$640,000. In addition, an engineering study in February 2012, identified that in the next 10 years, the city would need to spend approximately \$500,000 for equipment replacement and \$1 million for capital improvements. These obligations and anticipated future costs, along with weaknesses noted in sections below have contributed to the weak financial condition of the water/sewer fund.

Recent Boards have taken actions to address the financial condition of the water/sewer fund. Since 2010, the Board has increased water and sewer rates and reduced debt payments by refinancing various revenue bonds. However, city officials indicated it will take several years at the increased rates to collect sufficient revenues to fulfill the reserve requirements.

It is essential the Board continues to address the financial condition of the water/sewer fund in both the immediate- and long-term future to ensure the solvency of the water/sewer fund and compliance with bond covenants.

1.2 User rates

The city does not always raise water and sewer rates based on an adequate cost analysis to ensure rates are sufficient.

Water rates

The city did not prepare an adequate cost analysis to support the approximate 30 percent increase in water rates approved in November 2010. To support the increase, the city prepared a cost analysis that indicated the calculated percentage rate increase could produce sufficient revenues to cover the fiscal year 2011 budget. This analysis did not include other needed information such as equipment replacement, capital improvements, or funding reserve accounts.

Subsequently, the city obtained a cost study of water rates from a professional engineer in February 2012. This study concluded the city had taken on substantial debt over the last few years without raising user rates and fees commensurately and the current rate structures were not fairly structured. The study evaluated the water system over a 10-year period, and, in addition to normal operation costs, the study considered depreciation,



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capital improvements, equipment replacement, and accumulating adequate reserves. In response to the study and based upon recommendations from a citizens' ad hoc committee on water rates, the Board increased water rates in May 2012 by 48 percent, with annual automatic increases of 3 percent each year until May 2017. In May 2013, the Board rescinded the automatic increases starting May 2014. According to city personnel, the Board plans to review and evaluate rates on an annual basis.

Sewer rates

The city did not prepare an adequate cost analysis to support an increase in sewer rates approved in September 2011. To support the increase, the city prepared a cost analysis that indicated the calculated percentage rate increase could produce sufficient revenues to cover the fiscal year 2012 budget. This analysis did not include other needed information such as equipment replacement, capital improvements, or funding reserve accounts. Prior to the September 2011 increase, the most recent sewer rate increase occurred in 2003.

Subsequently, in November 2011, the city completed the Missouri Department of Natural Resources Rate Assist (Wastewater) Program with the assistance of the Missouri Rural Water Association. The program results indicated the current sewer rates were generating sufficient revenues. However, sewer rates have not been analyzed and have remained the same since November 2011, and it is unclear if the rates are currently sufficient.

Conclusion

Bond covenants require the city to maintain rates that produce sufficient revenues to pay the expenses of the system, the principal and interest of outstanding bonds, and provide adequate reserves. Water and sewer fees are user charges, which should cover the cost of providing the related services. The city's cost analysis of water and sewer rates should consider expenses such as debt service costs, need for the extension of the system, equipment repairs and replacement, depreciation, enlargement of plant, capital improvements, and operating and incidental expenses. The preparation of a comprehensive statement of costs would not only allow the city to determine the rates necessary to support current and future operations, but also provide documentation to customers of the rationale behind the rates.

1.3 Delinquent accounts

The city has not developed adequate policies and procedures regarding handling and accounting for delinquent utility accounts. As of May 2013, accounts delinquent for over 30 days totaled \$103,680.

Delinquent accounts are considered closed (water service shut off and no billings) after 3 billing cycles. Our review of 9 delinquent accounts each with balances due greater than \$1,000 indicated:

- Four accounts, totaling \$13,813, have been delinquent and closed for more than 5 years, and three accounts, totaling \$6,491, have been



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delinquent and closed within the last 3 years. According to city personnel, no collection efforts were made on these accounts prior to closing the accounts.

- Two accounts, totaling \$11,856, belong to the same customer. According to city personnel, although the accounts were sent to a collection agency; the customer filed for bankruptcy and the city chose not to file a claim.

To help maximize utility revenues, policies and procedures should be developed to ensure adequate steps are taken to collect delinquent accounts.

1.4 Adjustments

Adjustments to customer account balances are not reviewed and approved by an independent person. The Deputy City Clerk collects and posts payments and has the ability to adjust account balances. These adjustments are not reviewed or approved by the City Clerk or City Administrator. As a result, there is an increased risk that unsupported or unauthorized changes can be made to the utility system.

Adjustments to customer account balances should be verified and approved by a person independent of the postings of such transactions to ensure they are legitimate. In addition, for the Board to be aware of the number and amount of adjustments, a report of adjustments should be presented periodically to the Board.

1.5 Partial payments

The City Administrator does not approve partial payment arrangements, and these arrangements are not always in compliance with city policy. The Deputy City Clerk sometimes allows customers with delinquent water accounts to make alternative payment arrangements. Partial payment arrangements are granted in the event of a water service line break, because an abnormal and significant amount of water may be discharged through the break.

City Code, Chapter 66 provides that payment arrangements require an on-time payment of no less than \$200, and/or carry forward a balance of no more than \$200, and the total cumulative balance due must be paid in the next two billing periods, regardless of total balance due. In addition, the City Administrator is to approve partial payment arrangements.

As of May 2013, there were five partial payment arrangements. None of the arrangements were in compliance with city policy:

- One arrangement did not document the amount of the one-time payment or the required monthly payment. As a result, it is unclear if the amount delinquent was paid within 2 billing periods. The total amount due was \$6,792.



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- One arrangement allowed an initial payment of \$182 with monthly payments of \$150 (6 months). This arrangement would result in a final payment of \$100. The total balance due was \$1,182.
- One arrangement allowed an initial payment of one-half of the amount due or \$394, with monthly payments of \$50 (7 months). This arrangement would result in a final payment of \$43. The total balance due was \$787.
- One arrangement allowed an initial payment of \$108 with monthly payments of \$50 (14 months). This arrangement would result in a final payment of \$1. The total balance due was \$809.
- One arrangement allowed monthly payments of \$75 (25 months). This arrangement would result in a final payment of \$28. The total balance due was \$1,903.

To ensure all customers are treated in a fair and equitable manner, payment arrangements should comply with city policy and be approved by the City Administrator.

1.6 Penalty and disconnect of service

The city does not always assess the late penalty or disconnect services for city officials and employees when their utility payment is received after the due date or shutoff date.

We noted an employee was not assessed a penalty for paying his bill after the due date. In addition, the employee's service was not disconnected even though his bill was paid after the shutoff date. We also noted an elected official was not assessed a penalty for paying her bill after the due date.

City Code, Chapter 66 provides all bills not paid before the 16th day of the month shall be delinquent and subject to a penalty of 10 percent, and should any customer fail or refuse to pay when due, the city shall discontinue utility service. However, prior to discontinuance a notice will be mailed, and on or about the 22nd day of each month the names of all customers who are to be disconnected shall be delivered to the Director of Public Works.

It is not good public policy to make exceptions to city policies for elected officials and employees. Failing to enforce city policy related to utility services for elected officials and employees does not provide equitable treatment of all utility users and reduces the incentive for elected officials and employees to make timely payments.



1.7 Water usage not billed

The city does not charge most city departments for water usage at city-owned facilities. As a result, the cost of water is not being properly allocated to city operations. Only the Parks Department and golf course are charged for water usage.

In order to establish appropriate user fees for its utilities, the city should ensure water costs are properly allocated to the various city departments. In addition, bond indentures require water rates to be set at a level to produce sufficient revenue to cover all operating costs and to provide for bond payments. Since the city's rate calculations spread these revenue requirements across all paying utility customers, the city's paying utility customers are covering the cost of city water consumption.

To equitably allocate the cost of city water use to utility customers and ensure compliance with bond indentures, the city should charge all city departments for water consumption.

1.8 Bulk water sales

The city does not have sufficient procedures to ensure monies received from the bulk water sales machine are deposited. For the year ended September 30, 2012, the city deposited \$3,308 from the machine's change box. According to city personnel, water is dispensed from the machine in 15 second increments (approximately 25 gallons) for 25 cents, monies are collected from the machine's change box monthly, and a meter tracks the total gallons sold monthly. However, the city does not have procedures to reconcile monies collected to water dispensed.

To improve accountability over the bulk water sales machine, the city should reconcile money collected to water dispensed to determine if all bulk water revenues are deposited. Without proper reconciliation procedures, there is less assurance bulk water revenue is accounted for properly and transmitted to the bank.

Recommendations

The Board of Aldermen:

- 1.1 Continue to monitor the financial condition of the Combined Water and Wastewater Fund, and ensure required accounts are properly funded in compliance with bond covenants.
- 1.2 Ensure adequate cost studies are prepared that consider all relevant expenses such as operating expenses, debt obligations, and future repair/maintenance costs and capital improvements. The Board should also consider periodically obtaining a formal water and/or sewer rate study from a professional engineer to ensure rates are sufficient.



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- 1.3 Establish policies and procedures regarding the collection of delinquent accounts.
- 1.4 Require adjustments to account balances be reviewed and approved by an independent person. In addition, the Board should receive a report of adjustments on a periodic basis.
- 1.5 Ensure partial payment agreements are in accordance with city policy and approved by the City Administrator.
- 1.6 Ensure the late penalty and water disconnect procedures are applied to city officials and employees, when applicable.
- 1.7 Charge all city departments for water consumption at city-owned facilities.
- 1.8 Develop reconciliation procedures to ensure revenue from the bulk water sales machine is deposited and reasonable.

Auditee's Response

The Board of Aldermen provided the following written responses:

- 1.1 *The City understands the importance of the financial condition of the Combined Water and Wastewater Fund and reserve accounts. At the August 21, 2013 meeting, the City Council¹ approved bringing the reserve levels up to meet the bond covenants. The City is currently in compliance with bond requirements and will continue to monitor the financial condition of the Combined Water and Wastewater Fund.*
- 1.2 *The City will make an effort to ensure all relevant expenses are included in rate studies. The City will periodically obtain a formal water and/or sewer rate study from an outside source to ensure rates are sufficient. The Fiscal Year 2014 budget includes hiring a financial advisor for projects which would include review of the City's rates. The City has published the legal notice in the local newspaper with the requests for qualifications for a financial advisor due by November 20.*
- 1.3 *The City Council, staff, and City Attorney will work together to enhance the policies and procedures regarding the collection of delinquent accounts. The City Attorney will create a policy on step-by-step collection procedures for Council's approval. The Utility*

¹ In the responses provided, the Board of Aldermen refers to itself as City Council or Council.



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Clerk attended the Missouri Rural Water Association conference in October 2013 that included a session on collection procedures.

- 1.4 *The City has implemented a practice where the City Administrator will review and sign off on all adjustments to account balances. The Council will review a report of adjustments on a periodic basis.*
- 1.5 *The City has implemented a practice where the City Administrator will review and sign off on any payment agreements and ensure any arrangement follows City policy.*
- 1.6 *The City realizes the importance of disconnect procedures. The City has implemented the practice of applying disconnect procedures to all officials and employees.*
- 1.7 *The City will take this recommendation under advisement. The City will research further what would need to be done to charge all city departments for water consumption at city-owned facilities including what amounts would need to be budgeted in the future.*
- 1.8 *The City has implemented new procedures to track the gallon readings from the bulk water machine with the revenues from the coin 25 cent collections. Periodically the City will test to make sure the number of gallons matches up to the cost.*

2. Accounting Controls, Records, and Procedures

Accounting controls, records, and procedures need improvement.

2.1 Restricted revenues

The city does not track the balance of various restricted revenues. These restricted monies include state motor vehicle-related revenues, Law Enforcement Training (LET) fees, one-half cent sales tax revenues, and grant monies.

These restricted monies are accounted for in the General Fund. Although the annual revenues and expenditures of these restricted monies are separately tracked within the General Fund, the balances of these restricted monies are not. As a result, the city cannot determine at a point in time what portion of the General Fund represents restricted monies.

Article IV, Section 30, Missouri Constitution, requires motor vehicle-related revenues apportioned by the state of Missouri be expended for street related purposes. Section 488.5336.2, RSMo, requires LET fees be used for the training of law enforcement officers. By city ordinance, the sales tax is



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restricted for streets and street improvements. Grant funds can only be used for purposes provided in the grant agreement. A separate accounting, with a current balance, would help ensure these restricted revenues are used properly.

2.2 Expense allocation

The City Administrator does not use actual costs or other documented rationale for allocating wages and applicable withholdings of certain employees between the city's funds or assessing an administrative fee to certain city funds to cover costs incurred by the General Fund. The city assessed an administrative fee of \$10,000 and \$9,600 to the Duncan Hills Golf Course and Parks and Recreation Funds, respectively, for the year ended September 30, 2012. These transfers are authorized in the budget.

According to city personnel, wage allocation percentages are based on workload estimates (see table below) made by each employee. Although city employees prepare timesheets, the timesheets show no detail of activity or department. According to the city's budget for the year ended September 30, 2012, the percentage allocation of wages and applicable withholdings to be charged to various city funds was as follows.

Personnel	General Fund	Water Fund	Wastewater Fund	Sanitation Fund	Street Account	Cemetery Fund
City administrator	55%	15%	15%	15%		
City clerk	55%	15%	15%	15%		
2 city hall staff	30%	25%	25%	20%		
4 street employees		20%	20%	10%	50%	
2 wastewater employees			90%	10%		
1 street/cemetery employee				30%	50%	20%

However, actual administrative wages of \$141,504 for the year ended September 30, 2012, were not allocated by the percentages indicated in the table above. Rather, the allocation was 71 percent to the General Fund, 16 percent to the Water Fund, and 13 percent to the Wastewater Fund. In addition, a portion of these costs were not allocated to other accounts and funds managed by city administration including the Street Account within the General Fund or the Cemetery Fund.

It is essential the city properly allocate payroll costs, to accurately determine the results of operations of specific activities, thus enabling the city to establish the level of taxation and/or user fees necessary to meet all operation costs. Salary expense should be allocated to the various city funds based on actual time or estimated time based on historical data, and documentation should be maintained to support the allocation. In addition, the administrative fee should be in direct proportion to the benefits received by the various funds from the General Fund.



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2.3 Accounting manual

The city does not have an accounting (policies and procedures) manual related to processing and recording financial transactions. In addition, for the year ended September 30, 2012, the city's independent auditor reported a material weakness in city controls regarding financial reporting, associated with the recording and reporting of certain financial transactions. For example, the trial balance did not include all required journal entries to properly accrue accounts receivable, interest payable, or depreciation expense, and some significant accounts were not reconciled such as the bond cash account. An accounting manual would help ensure all required entries are made, and accounts reconciled as needed.

Employees need written policies and procedures to ensure operations are conducted in accordance with the city's intent, assist employees in properly performing their assigned duties, and aid in the training of new employees. An accounting manual would also assist in the preparation of financial statements.

2.4 Credit card convenience fees

The city allows utility bills to be paid with personal credit cards; however, credit card users are not charged a convenience fee to offset the related costs to the city. Personal credit cards are also accepted by the golf course. Credit card fees, which totaled approximately \$9,900 during the year ended September 30, 2012, are absorbed by the city.

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

2.5 Fuel use

The city does not adequately monitor diesel fuel used by city departments. Diesel fuel purchases totaled approximately \$4,500 for the year ended September 30, 2012.

The city has a bulk diesel tank for city equipment and two vehicles, which use diesel fuel. A public works employee oversees the bulk tank, maintains a log of gallons used by each department, and has the tank refilled when needed. However, the usage log is not reviewed for reasonableness and fuel usage is not reconciled to fuel purchases. Reconciling fuel usage to purchases helps to reduce the risk of loss, theft, and misuse of fuel occurring without detection.

Recommendations

The Board of Aldermen:

- 2.1 Determine the balance of restricted monies in the General Fund and establish separate funds or a separate accounting of these monies.



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- 2.2 Ensure payroll costs allocated to applicable city funds are supported by adequate documentation. In addition, the city should develop a methodology for determining the appropriate administrative fee to be charged to various funds. Thorough and detailed documentation of the rationale and calculation of the fee should be maintained.
- 2.3 Develop a policies and procedures manual for the accounting system.
- 2.4 Consider charging a convenience fee when customers pay by credit card.
- 2.5 Establish procedures to effectively monitor diesel fuel use, and reconcile use to purchases.

Auditee's Response

The Board of Aldermen provided the following written responses:

- 2.1 *With the new fiscal year 2014, the City has implemented listing the balances of restricted monies that are in the General Fund, in the monthly reports to the City Council.*
- 2.2 *The City will prepare detailed documentation on how payroll and other costs are allocated to specific city funds. City employees whose pay is split between departments are periodically providing timesheets with the breakdown of time spent on tasks for each department. The average will then be used to budget for that department. The City is developing a methodology to determine the appropriate administrative fee to be charged to the Park and Golf departments which are currently charged \$10,000 annually. Detailed documentation will be provided on the rationale and calculation of the fee.*
- 2.3 *The City has been researching accounting and procedures manuals from other cities. The City is in the process of developing an accounting policy and procedures manual, which will provide more detail beyond the current Procurement chapter of the City Code. This new section will relate to the processing and recording of financial transactions.*
- 2.4 *The City will review the convenience fees and payment method options including e-checks, online payments over the City's website, and alternate credit card processing companies. The City Council will consider charging a convenience fee when customers pay by credit card.*



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2.5 *The City tracks fuel from the bulk diesel tank through a usage log. The City will review the current setup and decide the best procedures to more effectively monitor diesel fuel use and reconcile use to purchases.*

3. Golf Course

Significant weaknesses were noted in golf course controls, policies, and procedures.

A five-member committee, appointed by the Mayor, with the consent of the Board of Aldermen, acts as an advisory committee for golf course operations. However, the Board has final approval of all decisions regarding the golf course.

The golf course accepts cash, checks, and credit cards. For the year ended September 30, 2012, city records indicate the following receipts were collected by the golf course and deposited in the city's main bank account.

Type of Receipt	Amount
Memberships	\$ 136,054
Green fees	83,474
Golf cart storage	55,800
Beer sales	51,862
Tournament fees	51,176
Golf cart rentals	47,662
Concessions	34,455
Golf apparel	21,453
Golf balls and accessories	18,841
Golf clubs	10,407
Total	\$ 511,184

3.1 Segregation of duties

Segregation of duties is not adequate and there is no supervisory review of collection activities for monies collected by golf course staff. Various staff, including the golf course manager, receive, record, and deposit monies collected, and there is no independent review of these activities.

To safeguard against possible loss, theft, or misuse of funds, internal controls should provide reasonable assurance that all transactions are accounted for properly and assets are adequately safeguarded. Internal controls could be improved by segregating duties to the extent possible. If proper segregation of duties is not possible, there should be a documented independent review of golf course records and transactions.

3.2 Receipts

Golf course personnel do not always record the correct method of payment received (cash, check, or credit cards) on receipt slips issued from the cash register. Checks received are recorded as cash.



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To ensure all monies are properly recorded and deposited intact, the method of payment should be recorded and the composition of receipt slips issued should be reconciled to the composition of deposits.

3.3 Change fund

The golf course does not maintain the change fund at a constant amount. According to golf course personnel, the balance of the change fund is \$800; however, our cash count of the change fund on March 26, 2013, was \$852.

To safeguard against possible loss, theft, or misuse of funds, the change fund should be maintained at a constant amount. Periodically, the change fund should be counted and reconciled to the authorized balance by an independent person.

3.4 Golf course prices/fees

Neither the Board nor the advisory committee have reviewed and approved the prices/fees established by the golf course manager and considered related costs for items including, concession food and drink, merchandise, green fees, membership fees, and cart rentals.

To ensure fees cover the cost of these items/services, a periodic review of prices/fees and related costs should be performed. In addition, these prices/fees should be approved by the advisory committee and authorized by the Board.

3.5 Inventory

The golf course manager does not perform a periodic physical inventory of golf course concession items and merchandise or reconcile the inventory to sales and purchases of the concession items/merchandise. To safeguard against possible loss, theft, or misuse of items/merchandise, a physical inventory should be performed and reconciled to sales and purchases on a periodic basis. The reconciliation should also account for golf merchandise given away at tournaments.

3.6 Closed meetings

The advisory committee did not always follow Sunshine Law requirements relating to closed meetings as required by Chapter 610, RSMo. The advisory committee held five closed meetings from October 2012 to June 2013. The notices for closed and open meetings and related agendas are combined into one document.

- The vote of each member for closing a meeting is not documented in the open meeting minutes.
- The minutes of open meetings typically do not document the reason(s) for closing the meeting. The reason for holding a closed meeting was documented for only one meeting.
- Minutes of open meetings do not always document that a closed meeting was held. One closed meeting held was not documented.



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- Meeting notices/agendas use the same statement for each meeting to indicate the potential for a closed meeting, instead of citing the specific exception as the reason for a closed meeting, when applicable. The statement indicates ". . . may enter into closed executive session . . . regarding personnel, the lease or sale of real estate, or legal or privileged matters . . ."
- Minutes for closed meeting are not prepared. For one closed meeting, handwritten comments were retained.

The Sunshine Law, Chapter 610, RSMo, requires that before any meeting may be closed, the question of holding the closed meeting and the reason for the closed meeting, including reference to a specific section of the law, shall be voted on at an open session. The law limits discussions in closed meetings to only those items specifically allowed by law, requires governmental bodies to prepare and maintain minutes of closed meetings, and requires reasonable notice of meetings. After the closed meeting, the governmental body should disclose the decisions made in closed meetings and the vote of each member as appropriate. In addition, the law requires notices of closed meetings to include the reason for holding it by reference to the specific exception allowed.

Recommendations

The Board of Aldermen in conjunction with the golf course advisory committee:

- 3.1 Segregate the duties of receiving, recording, and depositing golf course monies to the extent possible. If proper segregation of duties cannot be achieved, timely supervision or independent reviews of the golf course records and transactions should be performed.
- 3.2 Require the method of payment be recorded on receipt slips, and the composition of receipts be reconciled to the composition of deposits.
- 3.3 Maintain the change fund at an authorized amount. In addition, the fund should be periodically counted and reconciled to the authorized balance by an independent person.
- 3.4 Evaluate concession and golf course prices/fees and related costs on a periodic basis. In addition, concession and golf course prices/fees should be approved by the advisory committee and authorized by the Board.
- 3.5 Develop procedures to periodically reconcile inventory on hand to the sales and purchases of golf course concession items and merchandise.



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- 3.6 Ensure the notices/agendas state the specific reasons for going into a closed session, the reason and vote of each member to close a meeting is recorded in the open minutes, and minutes of closed meetings are prepared. In addition, only the items allowed by state law should be discussed in closed meetings and limited to only those specific reasons cited to justify such a closed meeting. Decisions and the vote of each member made in closed meetings should be properly disclosed to the public.

Auditee's Response

The Board of Aldermen in conjunction with the golf course advisory committee provided the following written responses:

- 3.1 *In order to safeguard the Golf Fund monies, the Golf Course will keep a log of when deposits are made, who did the deposit, and when it was taken to the bank. The Golf Course will also limit the number of parties who deal with the deposits made. Also, the supervisor will check the register at least once a day during normal shift hours. As part of the internal controls, a designated person from outside the department will periodically count the register unannounced.*
- 3.2 *To separate cash, credit cards, and checks entering the cash register, the Golf Course personnel now use the appropriate category when entering in the payments. Receipts list the correct method of payment (cash/check/credit card) and are distributed to customers on all sales. Receipts are reconciled daily with the composition of deposits.*
- 3.3 *Each night, the safe at the golf course will be counted to \$800 by personnel who will document how much change there was, the time and date they counted out the change, and initial a log when they are finished.*
- 3.4 *Prices of all merchandise and concessions will be re-evaluated every three months. The Golf Course will present all price increases/decreases to the Golf Committee in monthly meetings and ensure they are authorized by the Board.*
- 3.5 *The inventory will be taken on merchandise and concessions at the beginning of the summer and will continue to be reported every three months. When merchandise is purchased, it will be added to the inventory.*
- 3.6 *When the Golf Committee enters into closed executive sessions, it will be listed on the agenda and will be documented in the open session of the meeting minutes. The Golf Course Committee will state*



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the reason and statute number for the closed session, which member motioned and seconded, and the vote to enter into the session. The discussion will be limited to the specific reason cited. The Committee will assign a person to take the closed meeting minutes. Any decisions and votes of each member will be properly disclosed per the Sunshine Law. The City Attorney will provide a Sunshine Law orientation to the Committee members.

4. Parks and Recreation

Significant weaknesses were noted in parks and recreation controls, policies, and procedures.

The Parks and Recreation Department (department) is governed by a nine-member Park Board, which is appointed by the Mayor with the consent of the Board of Aldermen. As authorized by state law, the Park Board has exclusive control of expenditures of department funds and supervision of the department, city park activities, and improvements to park facilities. The Park Board oversees two city parks, a youth sports complex, and a swimming pool.

The department accepts cash and checks. For the year ended September 30, 2012, city records indicate the following receipts were collected by the department and deposited in the city's main bank account.

Type of Receipt	Amount
Swimming pool	\$ 44,527
Concessions, sports complex	22,510
Baseball fees	17,064
Concessions, pool	13,813
School facility maintenance fees	13,544
Soccer fees	11,795
League fees, sports complex	8,500
Baseball field rentals	450
Shelter house rentals	260
Total	\$ 132,463

4.1 Segregation of duties

Segregation of duties is not adequate and there is no supervisory review of collection activities for monies collected by department staff. Various staff members, including the department director, activities director and pool manager, receive, record, and deposit monies collected at the department office, baseball field and pool concession stands, and pool, and no independent review of these activities is performed.

To safeguard against possible loss, theft, or misuse of funds, internal controls should provide reasonable assurance that all transactions are accounted for properly and assets are adequately safeguarded. Internal controls could be improved by segregating duties to the extent possible. If



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proper segregation of duties is not possible, there should be a documented independent review of department records and transactions.

4.2 Receipts

Department staff do not always issue receipt slips or maintain records of monies received. In addition, department staff do not always reconcile the method of payment recorded on register tapes to the composition of deposit. As a result, there is little assurance that all monies collected are properly deposited.

- Pre-numbered receipt slips are not issued for baseball league fees, baseball and soccer fees, or baseball field rental fees received by the department office.
- There is no record of monies received by the ball field and pool concession stands. In addition, department personnel do not evaluate the reasonableness of concession monies deposited. A reconciliation of concession inventories purchased to the amount sold is not performed.
- The cash register tape for pool collections such as entry fees and passes, is not adequately reconciled to the deposit. Pool personnel indicated the employee making the daily deposit should reconcile the cash register tape to the deposit.

We reviewed 14 deposits made for 15 days of receipts for pool collections from June 1 to June 17, 2013. For 6 deposits the cash register tapes exceeded the deposit, while the deposit exceeded the cash register tapes for 8 deposits. For these deposits, the cash register tapes showed \$12,466 was collected; but \$11,193 was deposited, resulting in a shortage of \$1,273.

Failure to implement adequate receipting and depositing procedures increases the risk that loss, theft, or misuse of funds will go undetected. A receipt log and/or pre-numbered receipt slips should be prepared for all monies received that are not recorded by the cash register. The method of payment should be recorded and the composition of receipt slips issued should be reconciled to the composition of deposits. Cash register tapes should also be reconciled to deposits and any differences should be investigated. In addition, a reconciliation of concession inventory purchased to the amount sold and on hand should be performed on a periodic basis by an independent person.

4.3 Concession prices and pool fees

The Park Board has not reviewed and approved concession prices and pool fees, such as entry fees and pool memberships, established by the department Director, or evaluated the related costs.



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To ensure the department is covering the costs of these services, a periodic review of prices and related costs should be performed. In addition, concession prices and pool fees should be approved by the Park Board.

4.4 Written agreements

The Park Board does not have written agreements with various organizations, including the local school district, for arrangements related to the use of city baseball fields and sports complex, operations of city youth program, or the city maintenance of athletic facilities for the local school district, as follows:

- The department rents baseball fields to a county baseball association and the local school district for a \$75 fee per day per field. Department employees maintain the fields and operate the concession stand during games.
- A city youth football organization operates the youth program for the department, and does not pay any fees for the use of the sports complex. According to department employees, both the department and the youth organization perform and/or pay maintenance, repairs and improvement costs for the complex.
- The department performs maintenance of some athletic facilities of the local school district on a reimbursement basis.

Written agreements are necessary to ensure all parties are aware of their duties and responsibilities and to prevent misunderstandings. Section 432.070, RSMo, requires agreements for political subdivisions to be in writing.

4.5 Deficits

The Park Board approved deficit fund balances for the Parks and Recreation Certificates of Participation Fund budgets. The Parks and Recreation Certificates of Participation Fund budgets reflect the following:

	Year Ended September 30,	
	2013	2012
Actual beginning fund balance	\$ (50,514)	(50,000)
Transfer from Park and Recreation Fund	56,000	57,230
Expenditures	59,000	57,228
Budgeted ending fund balance	\$ (53,514)	(49,998)

The Park Board needs to take steps to eliminate the deficit cash balance by ensuring transfers from the Parks and Recreation Fund are sufficient. In addition, Sections 67.010, RSMo, prohibits deficit budgeting.

4.6 Budgeted expenditures

The Park Board does not adequately review and monitor monthly budget to actual reports and amend the budget when necessary. For the year ended



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September 30, 2012, actual expenditures exceeded budgeted expenditures by \$350 and \$28,541 for the Parks and Recreation Fund and Parks and Recreation Certificates of Participation Fund, respectively.

Section 67.040, RSMo, requires political subdivisions to keep expenditures within amounts budgeted. If there are valid reasons, which necessitate excess expenditures, a resolution should be adopted by the governing body setting forth the amount of the budget increase and the facts and reasons.

4.7 Annual reports

The Park Board has not submitted an annual report of operations to the city, as required by state law.

Section 90.560, RSMo, requires the Park Board submit an annual report to the city by the second Monday in June stating the financial condition of the park as of May 1 of that year. The report should indicate the various monies received the amount and purposes of disbursements, and other statistics and information of general interest.

Recommendations

The Board of Aldermen in conjunction with the Park Board:

- 4.1 Segregate the duties of receiving, recording, and depositing department monies to the extent possible. If proper segregation of duties cannot be achieved, timely supervision or independent review of the work performed by the department is necessary.
- 4.2 Require receipt logs and/or pre-numbered receipt slips be prepared for monies received that are not recorded by the cash register, the method of payment be recorded on receipt slips, and the composition of receipts be reconciled to composition of deposits. Also, procedures should be developed to periodically compare concession sales to purchases, and ensure cash register tapes for pool receipts are reconciled to deposits and the reason(s) for differences promptly investigated and documented.
- 4.3 Evaluate concession prices and pool fees and related costs on a periodic basis. In addition, concession prices and pool fees should be approved by the Park Board.
- 4.4 Enter into written agreements defining services provided and benefits received with entities using department facilities/personnel.
- 4.5 Discontinue approving deficit budgets.
- 4.6 Ensure actual expenditures do not exceed amounts budgeted.



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- 4.7 Ensure an annual report of park operations is prepared by the Park Board and submitted to the city.

Auditee's Response

The Board of Aldermen in conjunction with the Park Board provided the following written responses:

- 4.1 *The Supervisor of concessions and pool will keep a log of when deposits are made, who did the deposit, and when it was taken to the bank. The Parks will ensure that there is a 3rd party review of deposits to verify monies being deposited. Also, the supervisor will check the register at least once a day during normal shift hours.*
- 4.2 *The receipts will be provided for fees collected for baseball, soccer, league and ball field rentals. Since there are no cash registers at the ball field concession stands, the Parks department with the Park Board is developing a system to track receipts. Inventories will be taken on a regular basis and reconciled with the receipts. Parks will use the appropriate category (cash/checks) on the type of payment. The receipts will be daily reconciled to the composition of deposits (cash/checks). As part of the internal controls, a designated person from the Park Board will periodically check the registers.*
- 4.3 *Prices of all concessions will be evaluated prior to the beginning of the concession season. The Parks will also evaluate and compare pool prices with similar pools in the area to determine rates. These figures will be presented to the Park Board for approval on a regular basis.*
- 4.4 *The Parks Superintendent and Activities Director will assist in the development of Memorandums of Understanding with each outside entity we deal with. These agreements will be presented to the Park Board for approval and, if approved, to the City Attorney for legal review prior to signatures.*
- 4.5 *The deficit fund balance was corrected in the 2013 budget year. At the September 27, 2012, Park Board meeting the Board approved transferring from the 020 Operating Fund to the 027 Park COP Fund to end the September 30, 2012, year with a zero balance for the Park COP Fund. The original 2013 budget was approved prior to that transfer. The September 30, 2012 cash balances reflect the zero balance and correction. The Parks had positive fund balances for 2013. The Park Board will continue to monitor revenues and expenses to ensure positive balances.*
- 4.6 *The balances for each fund operated by the Park Board will be monitored by the Treasurer and Board to ensure expenditures do*



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not exceed budgeted amounts. If a transfer is required, an amendment to the budget will be made.

4.7 *The Park Board will develop and submit an Annual Report to the City Council on an annual basis. The Annual Report for Fiscal Year 2013 was submitted to the City in October 2013.*

5. Procurement and Contracts

Policies and procedures over procurement and contracts need improvement.

5.1 Procurement

The city does not always solicit competitive proposals or bids for purchases of goods and services. City Code, Chapter 25 requires bids to be obtained for supplies and contractual services estimated to cost more than \$2,500.

Bond issuance services

The city did not solicit competitive proposals for its bond underwriter, bond counsel, or financial advisor related to bond issuances, and has used the same vendors for these services for many years.

In 2013, the city issued General Obligation Bonds, Series 2013, totaling \$650,000, for pool improvements and Combined Waterworks and Sewerage Refunding Revenue Bonds, Series 2013, totaling \$5,670,000. In 2012, the city issued Refunding Certificates of Participation (COPS), Series 2012, totaling \$2,270,000, for storm water improvements. Underwriter fees, bond counsel costs, financial advisor fees and other related costs totaled \$14,339, \$83,763, and \$42,945, for the general obligation bonds, refunding revenue bonds, and refunding COPS, respectively.

Other goods and services

The city did not solicit competitive proposals or bids or maintain documentation of sole source vendors for the following significant purchases of goods and services during the year ended September 30, 2012. As a result, the city cannot ensure the best and lowest price was obtained.



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Item	Cost (1)
Pro shop inventory (2)	\$ 72,183
Quicklime	58,607
Concessions - golf course (3)	34,648
Pool chemicals	32,703
Concessions - parks/pool (3)	20,752
Water meters	19,844
Fuel (4)	15,253
Carbon dioxide - water plant	13,115
Fertilizer - golf course	11,556
Asphalt	11,473
Wireless equipment	8,805
City attorney	8,400
Rock and chat	7,621
Sludge truck tires	7,528
Water treatment chemicals	6,869
Wastewater testing services	3,334
Total	\$ 332,691

- (1) Total amount expended for the year ended September 30, 2012, except fuel.
- (2) Includes items such as golf clothing, shoes, clubs, balls, and accessories.
- (3) Includes items such as candy bars, chips, pizza, pretzels, and hot dogs for the parks/pool and golf course and beer for the golf course.
- (4) Excludes fuel purchases after March 2012. The city solicited bids and entered into a contract for fuel in April 2012.

According to city personnel, some purchases, such as quicklime, asphalt, water meters, and wireless equipment, are considered sole source purchases because the city has purchased these items from the same vendor for many years or because the vendor is the only local vendor. However, purchasing from the same vendor for a number of years is not a valid reason to consider the vendor a sole source vendor. City personnel also indicated they solicited phone quotes for the sludge truck tires, but did not retain this documentation. Also, instead of the city purchasing concession items in bulk for both the parks/pool and golf course, parks and golf course personnel make their own purchases, as needed.

In addition to complying with city policy, competitive procurement provides a framework for economical management of city resources and helps ensure the city has made sufficient effort to receive goods and services at the best and lowest price. Complete documentation of all bids/proposals received and reasons why a bid or proposal was selected helps demonstrate the city conducts a fair procurement process and provides information needed should questions arise. The reason bids are not taken due to sole source procurement should also be documented.



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5.2 Written agreements

The city has not entered into formal written agreements, with several not-for-profit (NFP) organizations, defining services to be provided or benefits to be received. In addition, these NFPs do not routinely and/or periodically provide the city documentation or reports outlining the services provided the city and/or city residents. For example:

- The city gave \$1,000 in November 2012 and \$500 in May 2012 to an NFP. According to city personnel, this NFP is involved in economic development for the city.
- The city pays annual dues of \$3,000 to the local Chamber of Commerce. According to city personnel, the chamber provides weekly newsletters, legislative representation, webinars/seminars, and networking opportunities.
- The city pays the local regional council an annual assessment of \$1,770. According to city personnel, the council provides services such as grant assistance and zoning/planning.

Written agreements ensure all parties are aware of their duties and responsibilities and prevent misunderstandings. In addition, Section 432.070, RSMo, requires agreements of political subdivisions to be in writing. Documentation of monies spent or services provided is necessary to monitor the funds are spent in accordance with the city's intended purpose.

Recommendations

The Board of Aldermen:

- 5.1 Ensure proposals or bids are solicited when the annual estimated cost of an item or service exceeds \$2,500, and documentation is prepared and retained for phone quotes and sole source procurements.
- 5.2 Enter into written agreements with entities providing services that clearly detail the services to be received and the compensation to be paid or benefits received.

Auditee's Response

The Board of Aldermen provided the following written responses:

- 5.1 *The City plans to update the current Procurement chapter of the City Code as advised and include more detailed information on telephone/email requests and other bid procedures. The City plans to implement bidding for annual contracts on maintenance items that exceed \$2,500 on an annual basis such as chemicals. The City did bid for the fuel supply in recent years and plans to continue to bid for similar contracts on a staggered basis over the next few years. Detailed documentation will be prepared and retained on*



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sole source procurements. Additionally, in the fiscal year 2014, the City has budgeted to hire a financial advisor for a variety of projects, including procedures for future debt financing. The City has published the legal notice in the local newspaper with the requests for qualifications for a financial advisor due by November 20.

5.2 *The City will continue to enter into written agreements with entities providing services and detail the services and/or benefits to be received. This year the City entered into a written agreement with the Chamber of Commerce. Previously the City approved by ordinance an agreement with the non-profit organization Northwest Missouri Enterprise Facilitation, which is involved in economic development. The City will enter into a written agreement with the local regional council for its services.*

6. Personnel Policies and Procedures

Personnel policies and procedures need to be improved.

6.1 Taxable benefits

The city does not report certain taxable benefits on employee W-2 forms. Each full-time employee is provided the following:

- An annual family golf membership (sold for \$600 for a family of four plus \$50 for each additional family member).
- A family swimming pass (sold for \$200 for a family of four plus \$40 for each additional family member).
- One free rental of the Clasbey Center per year. Rental rates range from \$30 for a regular rental of the kitchen on a weekday without alcohol up to \$450 for a rental of the kitchen and multipurpose room on a weekend including alcohol.
- Employees with 20 or more years of service are provided two cemetery plots (sold for \$300 each) at the city cemetery at no cost to the employee.

The city employed 24 full-time employees on September 30, 2012. Possible unreported taxable benefits (excluding the cemetery plots) for the year are \$19,920 to \$30,000.

The Internal Revenue Service (IRS) publication 15-B provides that a fringe benefit is taxable and must be included in the recipient's pay unless specifically excluded. When these benefits are used by an employee, it becomes a taxable benefit and should be included on the employee's W-2



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form. Because procedures have not been established to ensure IRS guidelines are followed, the city may be subject to penalties and/or fines for failure to report all taxable benefits.

6.2 Longevity pay

The city made longevity payments totaling \$5,030 in December 2012. These payments represent additional compensation for services already rendered and violate the Missouri Constitution.

City Code, Chapter 23 provides that after 5 full years of continuous employment each employee is to be paid \$30 for each year of employment, up to a maximum of 20 years or \$500. This longevity pay is calculated and paid in December annually.

Article III, Section 39, Missouri Constitution, prohibits granting any extra compensation, fee, or allowance to employees for services already rendered.

6.3 Unemployment claims

The city failed to protest former Alderwoman George's and Alderman Wanfluh's claims for unemployment benefits to the Missouri Department of Labor and Industrial Relations (DLIR), Division of Employment Security. As a result, from June 2009 to February 2012, the city was required to pay their unemployment claims totaling \$1,445.

According to management personnel, payroll software did not properly identify elected officials as exempt from unemployment claims. However, this situation has been corrected. DLIR guidelines provide that compensation paid to elected officials of governmental entities is not subject to unemployment claims.

To ensure the city does not incur unnecessary expense for unemployment benefit claims, procedures should be established to review and address claims on a timely basis, and ensure employees are correctly coded in payroll software.

6.4 Personnel policies

The city has not adequately addressed some current personnel practices in the City Code.

- The personnel policy provides that the city clerk and other administrative and supervisory positions should not be entitled to compensatory time; however, these individuals earn, use and are paid compensatory time. During 2012, the City Clerk and other administrative/supervisory positions were paid \$5,737 for 264 hours of compensatory time and took compensatory leave of 349 hours, totaling \$6,709.



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- The city allows each full-time employee one free rental of the Clasbey Center each year; however, this benefit is not addressed in the personnel policies.
- When employees are called back to work during the weekend because of an emergency, they are paid an extra dollar an hour (weekend differential payment). In 2012, weekend differential payments were paid for 1,056 hours. This practice is not addressed in the personnel policies.

The Board should ensure its personnel policies are followed or amend the policies as necessary to help ensure employees are treated fairly and equitably.

Recommendations

The Board of Aldermen:

- 6.1 Develop procedures to ensure applicable taxable benefits are reported on employee W-2 forms.
- 6.2 Discontinue longevity payments to employees.
- 6.3 Ensure elected officials are properly identified as exempt from unemployment claims. Unemployment claims should be reviewed and addressed on a timely basis.
- 6.4 Ensure compliance with personnel policies and amend policies as needed.

Auditee's Response

The Board of Aldermen provided the following written responses:

- 6.1 *The City is in the process of codification including updating the Personnel Manual. As part of this process, the City Council will review employee benefits. The City will develop procedures to ensure applicable taxable benefits are reported on employee W-2 forms.*
- 6.2 *The City is in the process of updating the Personnel Manual. The City Council will request a legal opinion from the City Attorney on this issue and review the longevity program.*
- 6.3 *The City is aware that elected officials are exempt from unemployment. The situation has been corrected. Unemployment claims are reviewed and addressed on a regular basis. Newly elected officials are categorized as exempt in the payroll software.*
- 6.4 *The City is in the process of codification including updating the Personnel Manual. The employee job descriptions are also being*



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reviewed and updated to match actual job responsibilities. Part of this process will be ensuring compliance with personnel policies and updating the policies as needed.

7. Closed Meetings

Weaknesses were noted in closed meeting policies and procedures.

7.1 Notices/agendas

The Board uses the same statement in each meeting notice/agenda to indicate the potential for a closed meeting, instead of citing the specific exception as the reason for a closed meeting, when applicable. The city combines its meeting notices and related agendas in one document. The statement indicates "The Board of Alderman may enter into closed executive session . . . regarding personnel, the lease or sale of real estate, or legal or privileged matters"

Section 610.022, RSMo, provides that a public governmental body planning to hold a closed meeting should follow the notice procedures for an open meeting and include there will be a closed meeting and cite the specific provision of the law that allows the meeting to be closed. A statement that includes potential issues that may be discussed in a closed meeting appears to circumvent the intent of state law.

7.2 Allowable topics

The Board discussed some items in closed meetings that are not allowed by state law. For example, in closed meetings the Board discussed issues including the employee chain of command, police involvement with the Missouri Uniformed Law Enforcement System, bidding the city attorney position, and suspending the recycling program.

Section 610.021, RSMo, allows the Board to discuss certain subjects in closed meetings, including litigation, real estate transactions, sealed bids, specific personnel matters, and confidential or privileged communications with auditors. The Board should restrict the discussion in closed meetings to specific topics listed in Chapter 610, RSMo.

7.3 Specific reason

The Board sometimes discussed issues other than the specific reason cited in the open minutes for going into a closed meeting. For example, in several closed meetings the Board discussed legal matters; however, the open minutes cited personnel issues as the specific reason for going into closed session.

Section 610.022, RSMo, requires a closed meeting, record, or vote be held only for the specific reasons announced publicly at an open session. This section also provides that public governmental bodies shall not discuss any other business during the meeting that differs from the specific reasons used to justify such meeting, record, or vote.



Recommendations

The Board of Aldermen:

- 7.1 Ensure meeting notices/agendas state the specific reasons for going into a closed meeting.
- 7.2 Ensure issues discussed in closed meetings are allowed by state law.
- 7.3 Limit issues discussed in closed meetings to only those specific reasons cited for closing the meeting.

Auditee's Response

The Board of Aldermen provided the following written responses:

- 7.1 *The City Council will review the current notice on all agendas regarding the potential for a closed session. A legal opinion on the issue will be requested from the City Attorney. The City Council will follow the legal opinion regarding future agenda postings and ensure the notices list the specific reasons if there will be a closed session.*
- 7.2 *The City Council agrees with the recommendation. The City Attorney will assist in ensuring the issues discussed in closed session are allowed by State Law.*
- 7.3 *The City Council agrees that compliance to the Sunshine Law is of vital importance. The City will limit conversations to the specific reason(s) documented for any closed meeting.*

8. Computer Controls

The city has not established adequate computer system controls. In addition, there is no contingency plan to restore important systems in the event of a disaster or system failure, and backup data is not stored off site. As a result, city records are not adequately protected and are susceptible to damage or theft.

The city relies on purchased computer software for significant activities, including, but not limited to, recording/processing general ledger entries, revenues and expenditures, utility billings and collections, and payroll transactions.

8.1 User identifications and passwords

The city has not adequately restricted access to the computer software system. Separate user identifications and passwords are not required to log onto the system. City hall employees share one user identification/password. Also, passwords are not required to be changed periodically. The lack of an effective system of user identifications and passwords may allow unauthorized access and/or changes to the system and records.



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User identifications and passwords are an effective, simple control to provide protection against improper access to computer systems and data. Passwords should be unique and confidential, changed periodically to reduce the risk of unauthorized use, and used to restrict an individual's access to only those computer systems and data files needed to accomplish assigned jobs.

8.2 Security controls

The city has not implemented security controls to lock computers after a certain period of inactivity. As a result, unauthorized individuals could access an unattended computer and have unrestricted access to programs and data files. To help protect computer records, security controls should be implemented to lock computers after a certain period of inactivity.

8.3 Contingency plan and data backup

City computerized records are at risk of loss due to equipment failure or other electronic or physical disaster. The city has not developed a formal, written contingency plan for resuming normal business operations and recovering computer systems and data in the event of a disaster or other disruptive event. In addition, the city does not store backup data at a secure off-site location or periodically test the backup data to ensure essential information can be restored and used. The failure to store backup data at a secure off-site location results in backup data being susceptible to the same damage as the computer system.

A formal, written contingency plan should be prepared, and periodically tested and updated to address actions needed to restore computer systems in case of a disaster or extraordinary situations. In addition, storing backup data in a secure off-site location would provide increased assurance city electronic records could be recreated if necessary, and periodic testing of backup data helps ensure it is reliable.

Recommendations

The Board of Aldermen:

- 8.1 Require unique user identifications and passwords for all employees with access to the computer system, and require passwords be kept confidential and changed periodically.
- 8.2 Establish security controls to lock computers after a certain period of inactivity.
- 8.3 Develop a formal, written contingency plan that is periodically tested, evaluated, and updated as needed. The Board should also require backup data be stored in a secure off-site location, and tested on a periodic basis.



Auditee's Response

The Board of Aldermen provided the following written responses:

- 8.1 *The City has implemented that all computers require unique user identifications and passwords. The passwords are kept confidential and required by the network to be changed periodically.*
- 8.2 *The City has implemented security controls to lock computers after a certain period of inactivity.*
- 8.3 *The City is in the process of developing a written contingency plan, which will be periodically tested, evaluated, and updated as needed. The City has obtained a lockbox from the bank. The city's backup files, which are on an external hard drive, were taken to the off-site lockbox after fiscal year 2013 was closed out in October 2013. The city will periodically update and test the backup files.*

9. Capital Assets

The city does not maintain complete and detailed records of all capital assets, including land, buildings, vehicles, equipment, furniture, and infrastructure (e.g. roads, street lights, storm sewers, etc.), The city also does not tag or otherwise identify capital assets as property of the city, or perform an annual physical inventory of city property.

The city's audited financial statements for the year ended September 30, 2012, values city property at approximately \$28.6 million (\$17 million after depreciation), and the city insurance coverage for capital assets totaled approximately \$15 million.

Adequate capital asset records are necessary to secure better internal control over city property; properly report city property in audited financial statements; safeguard assets against loss, theft, or misuse; and provide a basis for determining proper insurance coverage. Capital asset records should be maintained on a perpetual basis, accounting for property acquisitions and dispositions as they occur, and include a detailed description of the assets such as acquisition costs, descriptions, make and model numbers, and asset identification numbers; the physical location of the assets; and the date and method of disposition of the assets. All capital assets should be identified with a tag or other similar device, and the city should conduct annual physical inventories and compare the results to detailed property records.

A similar condition was noted in the independent auditor's report of the city's financial statements for the year ended September 30, 2012.

Recommendation

The Board of Aldermen ensure complete and detailed capital asset records are maintained, assets are tagged for identification, and annual physical inventories are performed and compared to detailed records.



Auditee's Response

The Board of Aldermen provided the following written response:

The City purchased Fixed Asset software from Incode to collect the capital asset records electronically. The departments have begun the process of updating the detailed records and tagging assets for identification. Once complete, these physical inventories will be recorded into the Fixed Asset software on a regular basis. Regular inventories will be performed and compared to the electronic records.

10. Tickets

Procedures are not adequate to account for traffic tickets or collect unpaid parking tickets.

10.1 Ticket accountability

The police department does not account for the ultimate disposition of traffic tickets. As a result, there is less assurance all traffic tickets are accounted for properly.

The police department issues traffic tickets, which are sent through the City Attorney to the Andrew County Associate Circuit Division for processing. The police department maintains a record of traffic ticket books assigned to and traffic tickets issued by police officers; however, the disposition of traffic tickets is not documented.

Without a proper accounting for the ultimate disposition of tickets, the police department cannot be assured all tickets issued are properly submitted to the court for processing.

10.2 Unpaid parking tickets

The city has not developed adequate procedures for collecting unpaid parking tickets, and does not determine the number and amount of unpaid parking tickets each month. We determined that as of August 2013, there were 17 unpaid parking tickets, totaling \$850, that were more than 7 days delinquent.

In October 2011, the Board adopted Ordinance 2541 and the city began issuing parking tickets in January 2012. The ordinance provides that a fine of \$25 be imposed on any vehicle parked in unauthorized areas. The fine doubles if the violation continues for more than 7 days.

The police department enters parking tickets into a spreadsheet sorted by ticket number and includes the date issued, the license plate number, and the offense committed. This spreadsheet is provided to the city, which collects the fines. City personnel indicated summonses and/or warrants have not been issued for unpaid parking tickets. To increase revenue and deter citizens from disregarding parking tickets in the future, the city should institute procedures to collect amounts owed for parking tickets.



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

Recommendations

The Board of Aldermen:

- 10.1 Ensure the police department properly accounts for the ultimate disposition of all tickets issued.
- 10.2 Establish procedures to collect unpaid parking fines.

Auditee's Response

The Board of Aldermen provided the following written responses:

- 10.1 *The Police Department, along with the City Attorney, has reviewed the current procedures in regards to accounting for tickets issued. A log of dispositions will be obtained from the Andrew County Associate Circuit Court, which will then be correlated with officer ticket logs. Also, the City Attorney will create a monthly spreadsheet to account for all other dispositions not recorded by the Court, such as dismissals and nolle prosequi charges.*
- 10.2 *The City Council recognizes the importance of accountability on tickets. The current procedures have already been discontinued. Parking tickets will be processed in the same manner as all other municipal ordinance violations through the Associate Circuit Court of Andrew County, Municipal Division.*

City of Savannah

Organization and Statistical Information

The City of Savannah is located in Andrew County. The city was incorporated in 1851 and is currently a fourth-class city. The city employed 24 full-time employees and 8 part-time employees on September 30, 2012.

City operations include law enforcement services, fire services, utilities (water/sewer/trash), street maintenance, planning and zoning, building inspections, recreational facilities (parks/pool/golf course/sports complex), and cemetery maintenance.

Mayor and Board of Aldermen

The city government consists of a mayor and four-member board of aldermen. The members are elected for 2-year terms. The mayor is elected for a 4-year term, presides over the board of aldermen, and votes only in the case of a tie. The Mayor and Board of Aldermen at September 30, 2012, are identified below. The Mayor is paid \$200 per month and Board of Aldermen members are paid \$50 for each regular meeting attended, plus \$25 for each special meeting or work session. The compensation of these officials is established by ordinance.

Dave Ingersoll, Mayor
Don Dillman, Alderman, East Ward
John Parker, Alderman, East Ward
Joy Thompson, Alderwoman, West Ward
Vernon Townsend, Alderman, West Ward