

Office of Missouri State Auditor

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FOLLOW-UP REPORT ON AUDIT FINDINGS

City of Joplin

Report No. 2016-037
June 2016

auditor.mo.gov

City of Joplin
Follow-Up Report on Audit Findings
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NICOLE GALLOWAY, CPA
Missouri State Auditor

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

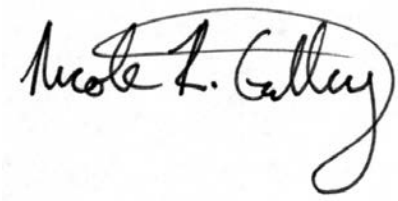
We have conducted follow-up work on certain audit report findings contained in Report No. 2015-060, *City of Joplin* (rated as Poor), issued in August 2015, pursuant to the Auditor's Follow-Up Team to Effect Recommendations (AFTER) program. The objectives of the AFTER program are to:

1. Identify audit report findings that require immediate management attention and any other findings for which follow up is considered necessary at this time, and inform the city about the follow-up review on those findings.

2. Identify and provide status information for each recommendation reviewed. The status of each recommendation reviewed will be one of the following:

    - Implemented: Auditee fully implemented the recommendation, either as described in the report or in a manner that resolved the underlying issue.
    - In Progress: Auditee has specific plans to begin, or has begun, to implement and intends to fully implement the recommendation.
    - Partially Implemented: Auditee implemented the recommendation in part, but is not making efforts to fully implement it.
    - Not Implemented: Auditee has not implemented the recommendation and has no specific plans to implement the recommendation.

Our methodology included working with the city, prior to completion of the audit report, to develop a timeline for the implementation of corrective action related to the audit recommendations. As part of the AFTER work conducted, we reviewed the city's audit recommendations and progress updates, which were developed in response to our audit report and are available on the city's website. We also met with city officials, and reviewed documents provided to us. Those documents included meeting minutes and notices, contracts, bid and request for proposal documentation, expenditure reports, accounting system reports, disaster recovery reimbursement claims, disaster recovery insurance claims, special tax bills and refunds, new and updated policies, and overhead cost allocations. This report is a summary of the results of this follow-up work, which was substantially completed during March 2016.



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State Auditor

1. Master Developer

The city did not ensure the selection process for the master developer was handled by persons independent and free of bias; and documentation supporting the selection of the master developer, Wallace Bajjali Development Partners, L.P. (Wallace Bajjali), was insufficient to support the city's decision. The predevelopment agreement was written to benefit Wallace Bajjali and did not adequately protect the city; and Wallace Bajjali failed to comply with several contractual requirements and obligations. Some pursuit costs were erroneously reimbursed to Wallace Bajjali; many pursuit cost invoices submitted for reimbursement by Wallace Bajjali were inappropriate; and various other concerns related to pursuit costs were identified. Some of the provisions of the land assemblage agreement were unclear, and some amounts paid to Wallace Bajjali for transfer fees were questionable or excessive.

As of January 26, 2015, the city had paid Wallace Bajjali $1 million in pursuit costs and $475,500 in land assemblage fees, and no redevelopment had occurred, more than 2 1/2 years after the effective date of the predevelopment agreement.

1.1 Selection process

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

Independence and conflicts of interest

Wallace Bajjali may have benefited from favorable treatment during the RFP and qualifications preparation and evaluation process. Some of the RFP requirements and terminology may have been favorably written for Wallace Bajjali. In addition, the city did not take sufficient actions to eliminate potential conflicts of interest before awarding the master developer contract.

Evaluation

The city did not ensure documentation prepared by the ITF evaluators was sufficient to support the points awarded to each respondent. The ITF did not retain or provide comments or notes explaining the basis for rankings of each respondent, and there were significant point differences between respondents. Also, the dates the evaluator scorecards were prepared by evaluators and dates reference checks were completed were not documented to support the timing of events and decisions made.

Recommendation

The City Council ensure future evaluation committees are independent and free of potential conflicts of interest before awarding contracts, and prepare adequate documentation to support the points awarded to respondents.

Status

In Progress

No task forces or other outside evaluation committees have been utilized to evaluate and award contracts, and no significant or unusual contracts, such as this one, have been awarded since August 2015.

Only city personnel have been utilized to evaluate and select vendors for city procurements since August 2015. In those instances, adequate documentation was prepared and retained to support points awarded to respondents. The city has conflict of interest policies that apply to all boards and commissions; however, it has not established any specific procedures related to outside evaluation committees to ensure those members are independent and free of potential conflicts of interest.

The City Council indicated it did not foresee a need for outside evaluation committees; however, if an outside evaluation committee is utilized in the future, it will develop policies and procedures to ensure those members are independent and free of potential conflicts of interest.

1.2 Predevelopment and land assemblage agreements

The city and the Joplin Redevelopment Corporation (JRC) entered into a predevelopment agreement on July 2, 2012, and a land assemblage agreement on August 20, 2012, with Wallace Bajjali.

Predevelopment agreement -

Termination clause and deadline requirements

Terms of the predevelopment agreement termination clause provided for excessive contract termination fees and unfairly benefited the master developer. The predevelopment agreement did not adequately provide the city a means to terminate the agreement without significant penalties. Additionally, the agreement did not adequately protect the city by providing project/accomplishment deadlines regarding redevelopment or include liquidated damages provisions for lack of performance.

Owner's representation and development fees

Some fees in the predevelopment agreement were questionable because it appears no new services were being provided for the fees. The predevelopment agreement required the city to pay an owner's representative fee for construction management services of 2.25 percent of project costs on all projects, but city officials could not explain what the fee represented or the scope of services they would receive in return. Additionally, the agreement provided for the city to pay a development fee of 5.75 percent of project costs of any project undertaken within the redevelopment area included in the master plan, however, the agreement already included predevelopment expenses in development of a master plan.

Compliance with agreement

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

Pursuit costs

The city paid Wallace Bajjali $790,453 in reimbursement of pursuit costs, although Wallace Bajjali did not meet the contractual requirements regarding completion of a master plan. In addition, the city paid Wallace Bajjali $209,547 for pursuit costs incurred prior to entering into the pre-development agreement. Documentation of these pursuit costs was not submitted to the city until 21 days after the required deadline. The Finance Department erroneously reimbursed Wallace Bajjali $33,170 related to the creation and production of the master developer RFP response. Many invoices submitted to the city for reimbursement were inappropriate and did not meet the criteria of pursuit costs. The documentation submitted for reimbursement of many pursuit costs was not adequate and did not meet various contractual requirements. The city paid $1 million in reimbursement of pursuit costs in 4 payments, none of which were brought before the Council for discussion prior to payment. In addition, the Finance Department paid the $1 million of pursuit costs to a third party without obtaining formal authorization.

Land assemblage agreement

The agreement required the JRC to represent to the master developer any litigation or administrative proceedings that would materially and adversely affect the ability of the JRC to perform any of its contractual obligations, but it did not require the master developer to do the same. In addition, some of the transfer fees paid by the JRC to Wallace Bajjali were questionable or excessive.

Recommendation

The City Council ensure all major contracts include appropriate deadlines and liquidated damages, are properly monitored, and properly safeguard city interests. The Council should recover questionable amounts paid to Wallace Bajjali.

Status

In Progress

The Council has not entered into any significant or unusual contracts, such as this one, since August 2015. The City Attorney indicated there have not been any formal changes regarding the contract review process, but all departments, as a matter of protocol, are to give the City Attorney's office ample time to review contracts that need to be approved by the City Council or by staff, and have done so since August 2015.

In May 2015, the Circuit Court of Jasper County awarded the city a $1.475 million default judgement against Wallace Bajjali. The judgement consisted

of $1 million in pursuit costs and $475,000 in land assemblage fees. Since August 2015, the judge in the case has denied Wallace Bajjalli's motion for a new trial. Wallace Bajjalli filed a subsequent motion to set aside the default judgement. The motion was set to be heard March 16, 2016, but was continued to November 2, 2016.

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

The JRC failed to perform due diligence by use of independent appraisals and consideration of previous real estate transactions when purchasing multiple properties for redevelopment. Several transactions represented actual, or at the very least, an appearance of conflicts of interest. The JRC entered into multiple agreements to sell property to Wallace Bajjali and its affiliates, who failed to meet contractual obligations.

2.1 Properties purchased by the JRC

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

Properties purchased from real estate development company

Sixteen of the 36 properties were purchased from a real estate development company that had purchased the 16 properties from the original landowners, and then sold the properties to the JRC, in most cases for a substantially higher price, a short time later. Councilmember Woolston was aware of the properties the JRC was considering buying for redevelopment and may have used this information for personal gain. Councilmember Woolston signed the real estate sales contracts as the broker on these 16 properties.

The JRC obtained independent appraisals on only 5 of these 16 properties prior to purchase, and failed to document its reasons for purchasing these 5 properties for approximately $360,000 more than the appraised values. In addition, the appraisals were obtained after the properties were already under contract. A bank performed in-house evaluations for the remaining 11 properties. The JRC failed to document its reasons for purchasing these properties for approximately $315,000 more than the amounts documented on these in-house evaluations.

Properties purchased from original owners

The JRC purchased 20 of the 36 properties from the original landowners, but failed to obtain independent appraisals for 14 of these properties. A bank prepared in-house evaluations for 8 of the 14 properties, and the JRC documented assessed values from a local government website for the other 6 properties.

Recommendation

The City Council ensure independent appraisals are obtained and adequately research previous real estate transactions for all future real estate purchases. The Council should also ensure the JRC documents its reasons for disparities between appraised values and purchase prices of real estate.

Status

In Progress

The city and JRC have made no purchases since August 2015 and have no future plans to purchase real estate for redevelopment purposes.

The City Attorney provided the following comments:

The JRC was originally organized as a Chapter 353 Redevelopment Corporation, and until the Wallace Bajjali contract with the city, operated as such. With the Wallace Bajjali contract, the JRC was to serve as the "land bank," to hold real estate until the Wallace Bajjali projects were to be developed. The JRC still holds a substantial amount of property. Some of the property is in the process of being sold. Other property is adjacent to the library site and will be ripe for future commercial development. The JRC is exploring options for its other properties. At this point, I do not believe that there are any plans to purchase any properties. Rather, the goal is to sell property for redevelopment purposes.

2.2 Conflicts of interest

Some activities involving Councilmember Woolston created actual, or at the very least, an appearance of conflicts of interest. Councilmember Woolston signed the real estate sales contracts as the broker on properties purchased by the real estate development company, and commissions were paid to the realtor/broker firm for which he worked. In addition, Woolston was a member of the CART, which held numerous meetings to discuss potential redevelopment areas and presented a report to the Council regarding the proposed redevelopment area. Councilmember Woolston did not abstain from voting (or disclose his business relationship with the developer) on an ordinance approving a tax increment financing redevelopment plan involving a developer with whom he co-owned a local realty company.

Recommendation

The City Council more closely examine transactions to identify and avoid apparent and actual conflicts of interest, and prohibit the use of city authority for private purposes. City officials should ensure strict compliance with state law and city charter and ordinances when conducting city business. The city should further investigate whether Councilmember Woolston's actions represent conflicts of interest and cooperate with any law enforcement agency's investigation into the matter.

Status

Implemented

Based upon our review of Council minutes and city contracts, no apparent or actual conflicts of interest have occurred since August 2015. The City Attorney has provided the Council with an annual primer on conflict of interest rules and will update staff and Council on conflicts of interest and ethical rules of conduct in April 2016, and annually thereafter.

On August 21, 2015, the Council requested a hearing to be held on September 14, 2015, to determine if the information contained in the State Auditor's report and the City of Joplin investigative report rose to the level of ethical violations committed by former Councilmember Woolston. A settlement offer was made by Woolston on Sunday, September 13, 2015, and a telephone vote of Councilmembers was taken on whether to accept the offer of Woolston's resignation in exchange for releasing a statement that Woolston had not been found to have benefited financially on sales of property later sold for city projects. Councilmember Woolston resigned from the Council on September 14, 2015. At its September 21, 2015, meeting, the Council ratified the vote to accept his resignation.

2.3 Sale of properties purchased by the JRC

The JRC entered into contracts to sell 31 of the 36 properties it purchased for redevelopment to Wallace Bajjali and its partners; however, Wallace Bajjali and its partners failed to meet the contractual obligations related to 29 of the properties.

Contracts and extensions

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

J-HAP properties

The JRC sold 5 properties (which were selected and recommended for purchase by Wallace Bajjali) at a loss of $19,766, when Wallace Bajjali subsequently decided not to purchase and redevelop the properties.

Recommendation

The City Council ensure compliance with future agreements, and consider not entering into such agreements when the buyer does not have financing in place.

Status

In Progress

The JRC and city plan to sell these properties in the future. The JRC and city plan to evaluate and review each future agreement thoroughly and monitor the agreements for compliance.

3.1 Disaster Recovery - Reimbursement claims

The city Finance Department had not filed reimbursement claims timely for approximately $10.9 million in disaster recovery grant funds. As of May 2015, the Finance Director indicated she had not completed or filed reimbursement claim forms for at least $6.6 million of Federal Emergency Management Assistance (FEMA) and $2.7 million of the state's portion of

Community Development Block Grant (CDBG) funds for completed projects. In addition to the $9.3 million, the Finance Department had not allocated city labor and equipment expenses, totaling $1,646,000, incurred during the time period immediately following the tornado, to the applicable FEMA projects and requested reimbursement.

Recommendation

The City Council consider hiring additional staff or reassigning duties of existing staff, and ensure procedures are in place to request reimbursements timely.

Status

Implemented

The city did not hire additional staff or reassign duties of existing staff. However, as of March 12, 2016, the Finance Director had prepared and submitted all claims for reimbursement to FEMA for completed projects and the city's labor and equipment expenses totaling $7,745,769 and donated resources totaling $555,725. No further reimbursement claims for completed FEMA projects are expected. The city received $2,636,867 in September 2015, for the state's portion of CDBG funds for completed projects. The city has requested, but not yet received $63,546 of CDBG funds for completed projects.

On January 5, 2016, the city filed an extension with FEMA for 4 projects not started that are expected to be completed by September 2019. As of March 22, 2016, the city had not received notification from FEMA regarding approval of the extension.

3.2 Disaster Recovery - Insurance proceeds

The Finance Department had not timely submitted supporting documentation to the city's insurance company to claim additional proceeds. The insurance company's statement of loss indicated at least $934,243 had been placed on hold until projects were completed and supporting documentation was submitted by the city for the repair and replacement of damaged city buildings, infrastructure, equipment, vehicles, and other personal property. This amount represents the difference between the actual cash value and the replacement cost for buildings and property damaged by the tornado. City records indicated the city had spent $1,006,559 for the repair and replacement of some buildings and property since 2012, with replacement of the last fire station in early 2014.

Recommendation

The City Council ensure documentation for insurance claims is submitted timely.

Status

Implemented

The Finance Department submitted documentation to the city's insurance company and received proceeds based upon replacement cost totaling $836,734 in December 2015. No further insurance proceeds are expected.

3.3 Disaster Recovery - Duplication of benefits

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

Demolition

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

Debris removal

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

Recommendation

The City Council establish plans to address the potential duplication of benefits caused by the collection of both special tax bills and federal assistance for demolition costs. The Council should also actively pursue collection of duplication of benefits from property owners and their insurance carriers related to debris removal, and work with FEMA to resolve any duplication of benefits.

Status

In Progress

The Finance Department is currently in the process of reviewing special tax bills sent to property owners for demolition costs also reimbursed to the city through the FEMA, SEMA, and CDBG grants to determine if the city received a duplication of benefits. The Finance Director indicated she plans to issue refund checks to property owners in April 2016 for any duplication of benefits the city received.

As of March 15, 2016, the city has worked with insurance carriers and property owners to determine that a duplication of benefits occurred related to debris removal totaling $640,102 to 348 property owners and their insurance companies. The city has collected approximately 90 percent of this amount ($577,007). The Finance Director indicated collection of some of the remaining amount may require legal action.

4. Sunshine Law Issues

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

4.1 Closed sessions

Minutes were not prepared for 10 of 24 closed sessions held from the date of the tornado (May 22, 2011) through the year ended October 31, 2013. City officials improved procedures and maintained minutes for 24 of 25 closed sessions held during the period November 1, 2013, through February 28, 2015. In addition, some issues discussed in closed meetings were not allowable under the Sunshine Law.

Recommendation

The City Council ensure closed session minutes are maintained for all closed meetings and only allowable subjects are discussed.

Status

Implemented

Minutes were prepared for the 3 closed sessions held since August 2015, and issues discussed were allowable under the Sunshine Law.

4.2 Council work sessions

The Council did not prepare meeting minutes for Council work sessions. Work sessions were held on a fairly regular basis, with 10 held during the year ended October 31, 2014.

Recommendation

The City Council ensure all city business is conducted in compliance with the Sunshine Law, and meeting minutes are maintained.

Status

Implemented

Minutes were prepared for the 3 Council work sessions held since August 2015. However, the minutes are not subsequently reviewed and approved at the next Council meeting.

4.3 Agendas

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

Recommendation

The City Council ensure meeting notices are given for all Council meetings.

Status

In Progress

Notice was given for all Council meetings held at city hall since August 2015. However, notice was not given when a telephone vote was conducted by the City Attorney and Council on September 13, 2015. The telephone vote was taken on whether to (1) accept Councilmember Woolston's settlement offer/resignation and (2) reimburse Councilmember Woolston for legal fees incurred. Councilmember Woolston resigned from the Council on September 14, 2015. The City Attorney indicated each Councilmember was polled separately and a conference call was not conducted. The City

Attorney subsequently documented the discussion of the acceptance of Woolston's settlement as an emergency situation. Section 610.015, RSMo, requires a quorum of the members be physically present at the meeting location before any other members are allowed to participate by telephone when a roll call vote is necessary due to an emergency.

5.1 Procurement Procedures and Contracts - Professional services

The city and the JRC did not solicit proposals for several professional services. In addition, the city and the JRC did not always enter into or update contracts for professional services or ensure invoices were adequately detailed.

Recommendation

The City Council and the JRC solicit proposals for professional services, enter into or update written contracts for professional services, ensure contracts contain provisions to adequately monitor services received, and require submission of adequately detailed invoices prior to payment.

Status

In Progress

The city solicited proposals for some professional services, including lobbying services; third party administrator claim services for property, liability, and workers compensation; tree inventory; and Convention and Visitors Bureau website development and photography services. However, the city still has not solicited proposals for other professional services such as development and hosting of the geographic information system website, legal services related to litigation and liability claims, legal services related to collective bargaining, investment consulting services, pension accounting services, and legal services related to franchise taxes. The Finance Director indicated the city plans to address the solicitation of proposals for these professional services in the near future. The city entered into or updated most of the contracts where proposals were solicited; however, the city did not enter into or update its contract for lobbying services.

5.2 Procurement Procedures and Contracts - Bidding

The city did not always follow its own bid policy for goods and services or retain adequate documentation for selecting other than the low bid. In addition, a signed written contract with effective dates of service was not maintained for landfill fees for debris removal, and the city signed a contract with a vendor for print media buyer services before bids were accepted by the Council.

Recommendation

The City Council ensure bids are solicited for all applicable purchases in accordance with city policy, maintain documentation of decisions made, and ensure bids are opened and evaluated prior to the signing of related contracts. The Council should also ensure all contracts are signed and include effective starting dates.

Status

Partially Implemented

The city bid some goods and services, including trees for Landreth Park, undercover vehicle leases, body worn cameras and video file maintenance for the Police Department, zoning code updates, printing of the Convention and Visitors Bureau visitors guide, golf course chemicals, and city hall south wall exterior maintenance.

However, the City Council did not follow the city's Charter when bidding a golf course equipment lease. The golf course equipment cost $140,594 ($150,594 less the value of trade in of $10,000) and the related operating lease was obtained for $160,670 at an interest rate of 4.9 percent. The lease agreement requires 60 monthly payments of $2,326 and a balloon payment of $21,089 at the end of the lease. Also, the Council and City Manager did not follow the advice of the City Attorney and Finance Director regarding the procurement of the golf course equipment.

The City Attorney indicated in an email to the City Manager that the agreement with the vendor for the purchase and financing of the golf course equipment "is extremely one-sided against us. Your rush to get this done has prevented us from our normal agreement negotiations." In another email, the City Attorney expressed additional concerns regarding the city's failure to use a competitive bid process as required by city Charter, Section 4.04-Competititive bidding. The Finance Director summarized financial concerns in a memo to the City Manager regarding discrepancies in the interest rate being offered, unreasonable clauses and required payments contained in the lease agreement (if the city returns the equipment), the negative unrestricted net asset balance of the Golf Course Fund, and the lack of an increase in season pass fees to cover the additional costs of the proposed lease. The Finance Director also recommended the city consider a lease-purchase option rather than an operating lease to enable the city to obtain a lower interest rate and own the equipment at the end of the lease.

The City Manager indicated to us and in communications to the City Council he believed a recent golf course rate increase would cover the monthly cost of the lease, and the use of a cooperative agreement provided the equipment to the city at a reasonable cost and was in compliance with the city's bid policy, and recommended the equipment be purchased on an emergency basis. Our review of the cooperative agreement indicated 8 vendors (including the one chosen by the city) were evaluated and awarded bids to provide this type of equipment. Three of these vendors scored higher than the vendor selected by the city, and the cooperative agreement did not include provisions for financing. Further, no competitive bidding of the related financing occurred.

5.4 Procurement Procedures and Contracts - Change orders

Significant improvement was needed in the city's handling of change orders. The city did not have a formal written change order policy, and neither the City Manager nor the Council approved change orders for significant amounts or changes in scope of services. The Public Works Department poorly planned projects, resulting in significant change orders, and did not competitively bid significant changes to construction projects, when appropriate. In addition, documentation was not obtained to support some amounts included in the change orders. Further, some of the change orders for a city street resurfacing project were for items not originally included or planned for in the initial bid and some were unrelated to street resurfacing. The Public Works Director also did not retain documentation of his approval of some change orders, and some work was completed before a notice to proceed with work was approved.

Recommendation

The City Council monitor change orders, give consideration to bidding when substantial project changes are needed, and ensure change orders are adequately supported by documentation, approved, and work is not performed prior to approval of change orders or notices to proceed with work. The Council should enter into written contracts for services provided.

Status

Partially Implemented

The Council is in the process of adopting a change order policy. However, the policy grants the City Manager sole authority to approve or deny amendments or change orders to contracts regardless of the dollar amount. The City Manager indicated expenditures are limited to the amount approved in the annual budget. Significant dollar amounts of change orders and changes in scope of projects will not be brought before Council until the end of the year. The policy only requires the City Manager to prepare an annual summary report to Council of contracted work detailing explanations of significant contract amendments and/or change orders. The policy does not address giving consideration to rebidding when substantial project changes are needed. The policy also provides for the City Manager to establish and/or amend internal operating procedures for the proper documentation of all contract amendments and change orders; however, no changes to internal operating procedures have been made. The City Manager indicated he plans to review and implement internal operating procedures during April 2016.

5.5 Procurement Procedures and Contracts - Chamber of Commerce

The city did not properly monitor its contract with the Joplin Area Chamber of Commerce and provided the chamber comparably more funding than some other cities. During the year ended October 31, 2014, the city paid the chamber $342,645. In addition, the city did not ensure compliance with the terms of the contract. The city did not ensure the chamber's independent audit reports were filed with the city as required, review documentation to ensure amounts requested for reimbursement were accurate prior to

payment, and did not obtain/require supporting documentation such as phone or mileage logs of invoices. The city reimbursed the chamber for several expenses that were either incurred by the chamber without prior knowledge of the city or were questionable.

Recommendation

The City Council monitor the contract for compliance and reconsider the amount of funding provided to the chamber. The Finance Department should also ensure adequately detailed invoices are obtained and reviewed to support payments to the chamber.

Status

In Progress

In November 2015, the Council entered into a written contract with the Joplin Area Chamber of Commerce, which reduced the funding to $270,000 for the year ending October 31, 2016. The new contract indicates that if the independent audit report is requested by the city, the chamber will provide a copy. The Finance Director requested and received the chamber's independent audit report for the 2 years ended March 31, 2015. However, the city did not ensure compliance with other terms of the contract. For example, invoices received from the chamber did not contain adequate detail, amounts charged to the city were inconsistent, and some documentation (such as phone and mileage logs or invoices), were not obtained. Also, the city did not ensure chamber invoices provided adequate details for the city to determine what budget line item the expenses pertained to or how the expenses related to economic development. The Finance Director indicated she plans to require adequately detailed invoices and request the chamber allocate the expenses to the appropriate budget line item and detail how the expenses relate to economic development.

5.7 Procurement Procedures and Contracts - Library district

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

Recommendation

The City Council enter into a written contract with the Library District.

Status

In Progress

The city has not entered into a written contract with the Library District. The Finance Director indicated the city plans to enter into a written contract with the Library District prior to completion of the new library that is currently under construction.

6.1 Joe Becker Baseball Stadium - Lack of independent study

The city entered into an agreement with an independent professional baseball organization committing the city to major renovation/construction

of a city-owned baseball stadium without a feasibility study of independent professional baseball in Joplin.

Recommendation

The City Council obtain feasibility studies of future city projects, as needed.

Status

In Progress

The city has not entered into any new city projects that would require a feasibility study since August 2015. The city still plans to develop a policy regarding new major projects.

The city renegotiated its existing lease agreement with the independent professional baseball organization in January 2016, but did not obtain a study on the continued viability of the baseball team and stadium. In a memo dated November 2015 to the City Manager and Council, the Finance Director reported the baseball organization was currently showing total revenues of $799,599 and expenditures of $922,331, resulting in an annual loss of $122,732. The memo also indicated operating costs incurred by the of the city were approximately $317,500 (including the debt payment) or $123,800 above operating costs in the years prior to the renovation. The new 5 year agreement provides for the baseball organization to pay yearly rent of $75,000 (decreased from $150,000 annually), reimburse annual utility costs to the city based upon attendance (these costs were previously paid by the city), and to maintain the premises at its own expense during May 1 to September 30 of each year (the city was previously responsible for a percentage of total operating and maintenance costs). City officials believe the new agreement will provide the city a net savings for the overall operations related to the stadium.

7.1 Disbursements and Payroll - Manual and system generated checks

The city had not established policies for the use of manual checks; however, the Finance Director indicated manual checks should only be issued in the case of an emergency. We identified several manual checks that did not meet the emergency criteria. The city had not limited access to the signature plate used on system generated checks or to the manual and system generated check stock. The city also had not adequately limited who had the authority to sign manual checks. The Finance Department's Senior Accountant did not account for the numerical sequence of system generated and manual checks during his review of the bank reconciliation, and the Accounts Payable Clerk did not account for the numerical sequence of manual checks upon preparation of the manual check log. Further, the check signing machine had the capability to count the number of times a signature was applied; however, the Finance Director indicated this information was not used to reconcile system generated checks issued to the system generated check stock used. In addition, the Finance Department shredded all voided checks.

Recommendation

The City Council establish policies regarding the use of manual checks; limit access to the signature plate and check stock; and limit the number of individuals with signature authority on manual checks. The Council should also ensure the Finance Department accounts for the numerical sequence of checks issued and defaces and retains all voided checks.

Status

In Progress

The city has not established a policy for the use of manual checks. Seven manual checks totaling $4,761 were issued in December 2015, and January and February 2016, and some of the checks issued did not meet the emergency criteria. These checks included those issued for meal costs. Access to the signature plate and check stock has been limited to the Finance Director and Assistant Finance Director. The Senior Accountant, who prepares the bank reconciliation, no longer has the authority to sign manual checks. The numerical sequence of system generated checks and manual checks is currently being accounted for. The count of the number of times a signature is applied by the check signing machine is still not used to reconcile to system generated checks issued and the related check stock used. The Finance Director indicated the Finance Department plans to implement a laser printer to generate checks this summer that will no longer require the check signing machine. The Finance Department was still shredding all voided checks as of March 1, 2016, and a documented review of the voided check report was not performed; however, this practice was discontinued in March 2016, and voided checks are currently being retained.

7.2 Disbursements and Payroll - Purchase orders

Purchase orders were sometimes approved or prepared after the date of the corresponding invoices. In addition, purchases at 2 local stores where the city had charge accounts were made prior to the preparation of the purchase order requisition. The city's purchasing policy required preparation of purchase requisitions and approval of purchase orders by the applicable employees prior to purchase for all disbursements.

Recommendation

The City Council ensure purchase orders, including those for local store charge accounts, are prepared and approved in accordance with city policy.

Status

Partially Implemented

Despite the existing purchasing policy, purchase orders continue to be approved or prepared after the date of the corresponding invoice. Purchases at 2 local stores where the city has charge accounts continue to be made prior to the preparation of the purchase order requisition. However, the City Manager indicated the Finance Department plans to conduct training for both employees and supervisors on how to best use the city purchasing software to ensure that purchase orders are entered prior to receiving invoices. The City Manager also indicated the city is making improvements

to its notification system to alert departments when the purchasing policy is not being followed.

7.4 Disbursements and Payroll - Questionable disbursements

Several purchases were identified that did not seem reasonable and/or a benefit to the city. Food purchases were sometimes made without documentation of the business purpose or the persons in attendance as required by city policy. The city provided meals for all Council meetings and work sessions held, spending $12,401 for these meals during the year ended October 31, 2014. The city spent approximately $16,500 for an employee appreciation banquet during the year ended October 31, 2014, and the Human Resource Specialist could not recall or provide documentation of the winners of the prizes or a list of banquet attendees. The city spent $4,584 for the 2014 Christmas dinner attended by city employees and retirees and their families. It was questionable why the city spent approximately $3,500 to send the former City Manager and 2 city employees to Tuscaloosa, Alabama, for 3 days to observe and discuss Tuscaloosa's recovery from an EF-4 tornado. No documentation was retained to support the benefits received from this trip, and some costs of the trip were excessive.

Recommendation

The City Council ensure purchases are reasonable and prudent uses of public funds. The Council should also develop comprehensive policies regarding city food purchases that establish specific guidelines regarding what is proper and allowable along with documentation requirements.

Status

Partially Implemented

Food purchases reviewed documented the business purpose as required by city policy. The city continues to provide meals for all Council meetings and work sessions held. In addition to the approximate 15 meals previously provided, meals are now provided for all department heads that attend the meetings and work sessions. The city spent $3,268 in January and February 2016, in comparison to $983 spent in January and February 2015, for these meetings. The city spent $13,900 for the employee appreciation banquet held during the year ended October 31, 2015. Documentation was provided of the winners of prizes, and a list of employees who planned to attend the banquet was prepared. The city spent $4,606 for the 2015 Christmas dinner attended by city employees and retirees and their families. A comprehensive policy regarding food purchases has not been established. The Finance Director indicated she plans to establish a comprehensive policy regarding food purchases in the future. Our review of city purchases since August 2015, identified a questionable October 2015 purchase of a drone with a video camera, costing $1,407, for the Parks and Recreation Department's use. The purchase requisition was unclear and only described this purchase as a "camera" and did not describe it as a drone with a video camera, and the

need or purpose for the purchase of the drone was not documented or approved prior to purchase.

7.6 Disbursements and Payroll - Segregation of payroll duties	Payroll duties were not adequately segregated. The Payroll Clerk was responsible for entering information from timesheets into the electronic payroll system, verifying the information, and submitting the information for preparation of payroll disbursements. The Payroll Clerk processed her own and her husband's payroll information, and a documented supervisory review of the related payroll records was not performed.
Recommendation	The City Council segregate payroll duties to the extent possible and implement appropriate reviews and monitoring procedures.
Status	**In Progress** Payroll duties have not been segregated, and the Assistant Finance Director only performs a documented supervisory review of individual payroll records of the Payroll Clerk and her husband. The Finance Director indicated she performs an overall review of payroll reports and records; however, this review is not documented. The Finance Director indicated she will document her review of these records in the future.
8.1 Overhead Cost Allocations and Restricted Funds- Overhead cost allocations	The Finance Department used several different calculations to allocate overhead costs (including payroll) to various city funds, some calculations used were questionable, and explanations of the variances in calculations and amounts allocated to city funds/departments was not documented.
Recommendation	The City Council allocate overhead costs to city funds based on specific criteria and retain documentation to support the allocations.
Status	**In Progress** No changes to the allocation of overhead costs have been made. The Finance Director indicated she plans to address this recommendation in August 2016 and implement changes at the beginning of the fiscal year ended October 31, 2017.
9.1 Fuel and Vehicle Use and Vehicle Allowances - Fuel, vehicle, and equipment use and security	The city did not have adequate procedures to review and evaluate the reasonableness of vehicle and equipment usage and did not reconcile fuel usage to billings, and access to the city's public works facility and the unleaded fuel pumps was not adequately restricted.

Recommendation

The City Council establish adequate records and procedures to effectively monitor vehicle, equipment, and fuel use, restrict access to the fueling center and public works facility, and periodically review access reports for propriety.

Status

Partially Implemented

Fuel usage reports generated from the automated fuel system are still not reconciled to fuel purchases. In addition, odometer readings are still not accurately entered into the fuel pump by city employees at the public works facility. We noted 32 instances in January 2016, where an odometer reading of 0 through 10 was entered. Access to the unleaded fuel pumps and the public works facility is still not adequately restricted. At least 372 employees (only 16 fewer than during the audit) had access to the unleaded fuel pumps, through use of the key fobs at the time of our review in March 2016. In addition, access was gained to the public works facility after hours and on the weekends 287 times during the month of January 2016. A report of who gained access to the fuel pumps and public works facility has been prepared, but not reviewed. The Public Works Department has drafted policies regarding tracking fuel usage and key fobs; however, the policies do not address reconciling fuel usage to billings, restricting access to the fueling center and public works facility, or periodically reviewing access reports. The policy also allows employees to use each other's key fobs. The City Manager indicated significant improvements to the draft policy are planned and for new procedures to be implemented by June 2016.

9.2 Fuel and Vehicle Use and Vehicle Allowances - Take home vehicles

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

Recommendation

The City Council review the necessity and cost effectiveness of allowing employees to take city vehicles home; establish adequate procedures for the justification, approval, and monitoring of take home vehicles; and ensure the city complies with Internal Revenue Service guidelines for reporting personal commuting mileage.

Status

Partially Implemented

The city has not completed a review of the necessity and cost effectiveness of allowing employees to take city vehicles home and has not established procedures for the justification, approval, and monitoring of take home vehicles. The Finance Director indicated she plans to review the cost effectiveness of take home vehicles when time allows. The City Manager has drafted an updated take home vehicle policy, which expands the

residency requirements for a take home vehicle from the previous 12-mile distance to a 20-mile distance from city hall, unless otherwise authorized by the employee's supervisor. The value of personal commuting mileage was not determined or reported on the Police and Fire Department employees' W-2 forms as compensation in 2015, and a review of the specific criteria required for not reporting has not been completed.

10.2 Cash Handling Controls and Procedures - Receipting, recording, depositing/transmitting and concessions

The Finance Department did not properly account for all receipt slip numbers issued by its accounting system, and the accounting system allowed the user to manually enter the date when a batch was opened. Various city departments issued generic manual receipt slips for some monies collected. The Health Department did not issue manual receipt slips for flu shots administered offsite. Manual receipt slips were issued in the building office of the Public Works Department when the Senior Clerk was absent; however, an independent person did not subsequently reconcile the manual receipt slips to the city's electronically generated receipt slips and the related transmittal to the Finance Department. Documentation was not always maintained to support the transmittal of city monies between city staff or to the Finance Department. The Parks and Recreation Department was not following the city's concessions inventory policy, which required a daily log of inventory of items sold and consumed to be maintained and for periodic surprise audits to be conducted.

Recommendation

The City Council account for the numerical sequence of receipt slip numbers, ensure monies are properly receipted and transmitted/deposited, and work with the city's software vendor to ensure dates batches are opened cannot be changed. The Council should ensure the Parks and Recreation Department follows the city's concessions inventory policy.

Status

Partially Implemented

The Finance Director indicated because of the magnitude of receipt slips issued and numerous cash collection points across the city is significant, the ability to properly account for all receipt slip numbers issued will require more time to implement. The Finance Department is currently working on reviewing the cash controls of the entire city. As previously indicated in the audit report, the Finance Director believes the cash receipt dates in the electronic software system are sufficiently protected and as a result, no changes have been made to the software. Various city departments continue to issue generic manual receipt slips for some monies collected. The Health Department still does not issue receipt slips for flu shots administered offsite. An independent person in the Public Works Department still does not perform a documented reconciliation of manual receipt slips to the city's electronically generated receipt slips and the related transmittal to the Finance Department. Documentation is still not always maintained to support the transmittal of city monies between city staff or to the Finance Department. The Parks and Recreation Department implemented a new

system to track concession inventory; however, inventory reports had not been generated or reviewed in compliance with city policy, and a periodic surprise audit has not been conducted.

11. Finance Department Controls and Procedures

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

11.1 Adjustments and write-offs

An independent review of adjustments posted to the sewer system was not performed or documented. The Finance Department was not adequately documenting adjustments and write-offs made in the billing system for special tax bills. Adjustment forms were not prepared for some write-offs and the reason for one write-off was not documented. Additionally, while the adjustment forms required two signatures of approval, several of the write-offs were approved with only one signature. A subsequent independent review of adjustments posted to the billing system for special tax bills was also not performed or documented.

Recommendation

The City Council ensure the authorization and reasons for any billing adjustments are adequately documented by the Finance Department and all adjustments posted to the billing system are independently reviewed and approved.

Status

In Progress

Authorization and reasons for billing adjustments are adequately documented, and an independent review of adjustment forms for the sewer system and special tax bills is performed and documented by the Finance Director and the Assistant Finance Director. However, a subsequent independent review of adjustments posted to the sewer and special tax billing systems has not been performed. The Finance Director indicated she plans to implement procedures for a review of adjustments posted to the sewer system and special tax bills in the future as time allows.

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

Late payment penalties were not assessed on delinquent sewer accounts in accordance with city ordinance. In addition, the Finance Department had not established procedures to periodically review delinquent sewer accounts of Finance Department employees or other key city officials. At the time of our review of delinquent sewer accounts in January 2015, an employee in the Finance Department had not made a payment on her sewer bills since July 2014, and had accumulated a delinquent balance of $486. The city also did not have a written policy for the write-off of uncollectible accounts receivable (sewer, special tax bills, and bus fares).

Recommendation

The City Council ensure penalties are assessed in accordance with city ordinance. The Council should also review past delinquent customer accounts and consider billing for the correct amount of penalties, if appropriate. Ensure an adequate review of delinquent sewer reports is

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

Status

Partially Implemented

The Finance Department conducted a review of fees charged in August 2015, and the Council adopted a new ordinance effective January 2016, which addressed the late payment penalties assessed. Late payment penalties are now assessed in accordance with city ordinance. The Assistant Finance Director indicated he reviews the delinquent sewer accounts of Finance Department employees; however, his review is not documented. In addition, a city employee, as noted in the audit report, is still not fully paying her sewer bills each month and continued to carry a delinquent balance from April 2015 to March 16, 2016, and had a delinquent sewer balance as high as $232 (equivalent to 4 months of regular monthly billing) in December 2015. The Finance Director indicated the city has not adopted an ordinance allowing for the review of delinquent sewer accounts of any city employees and key city officials. The city has not established a written policy for the write-off of uncollectible accounts receivable (sewer, special tax bills, and bus fares).

11.3 Administrative fee on special tax bills

The city assessed the maximum administrative fee of $500 in addition to title search fees and advertising fees on special tax bills in possible violation of city ordinance. It was unclear why title search fees and advertising fees charged were not considered a part of the maximum administrative fee.

Recommendation

The City Council establish a schedule of fees charged, including defining the types and amounts of costs included in the $500 administrative fee.

Status

Implemented

The Finance Department conducted a review of fees charged on special tax bills in August 2015, which recommended a change of charges to the actual cost of demolition, legal publication fees, title search fees, and administration expenses. The city is currently not charging for any administrative expenses. The Finance Director indicated if administrative expenses are charged in the future, only actual administrative costs will be charged.

12. Financial Issues and Reporting

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

12.1 Health Self Insurance Fund (HSIF)

The city had not prepared adequate long-range plans for the Health Self Insurance Fund (HSIF), and the city had not formally projected whether fund assets along with revenues would be sufficient to cover fund expenses and the minimum reserve balance or if the city would need to subsidize the

HSIF fund with other city funds. In addition, the city had not utilized a third party administrator contract provision that allowed the city to conduct an audit of claims during the current calendar year or the immediately preceding calendar year.

Recommendation

The City Council closely monitor and take the necessary steps to fund the minimum reserve balance and improve the financial condition of the HSIF, and conduct periodic audits of claims as allowed by contract.

Status

Partially Implemented

The Finance Director indicated she contacted the HSIF consultant in October 2015, regarding preparing long-range plans for the HSIF, including projections of future revenues and costs and adequacy of the minimum reserve balance; however, this work has not been completed. She also indicated the timing of this work is dependent upon funding. In addition, the city has not conducted an audit of claims of the third party administrator.

12.2 Financial issues

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

Golf course subsidization

The city had historically operated its golf course at a loss, and as a result, the General Fund was required to subsidize course operations and activities. In addition, the city obtained a golf course study in 2008 that recommended rate increases of 3.33 to 6.25 percent annually; however, the city only increased rates in 2009.

Airport subsidization

The city had historically operated its airport at a loss, and the city had transferred $650,000 from the Transportation Sales Tax Fund to the Airport Fund in each of the last 4 years (2011 through 2014) to subsidize airport operations and activities. In addition, the city had reported an unrestricted deficit for the Airport Fund for the last 4 years.

Airport lease contracts and parking

The Airport Manager did not adequately monitor hangar lease contracts and had not updated some hangar lease and rental car company contracts. Hangar lease contracts did not provide for late payment penalties or eviction procedures for lack of payment. In addition, the Finance Department lacked adequate collection procedures for delinquent accounts, and the city did not charge for parking at the airport, a common revenue source for most airports.

Recommendation

The City Council closely monitor the ongoing financial condition of the Golf Course Fund and Airport Fund. Take the necessary steps to ensure timely collection of delinquent airport accounts and consider including contract provisions for late payment penalties and eviction procedures, and

charging for parking at the airport. Ensure airport contracts are updated periodically and signed by both parties.

Status

In Progress

During the year ended October 31, 2015, the city continued to operate its golf course at a loss, and the city subsidized course operations and activities from the General Fund. In addition, the city reported an unrestricted deficit for the golf course of $285,932. The golf course had revenues of $420,629 and expenditures of $674,891, resulting in an operating loss of $254,262 during the year ended October 31, 2015. Golf course rates were increased 14 to 36 percent in June 2015 and another 9 to 11 percent in January 2016.

During the year ended October 31, 2015, the city continued to operate its airport at a loss, and the city transferred $650,000 from the Transportation Sales Tax Fund to the Airport Fund to subsidize airport operations and activities. In addition, the city reported an unrestricted deficit for the Airport Fund of $905,105. The Airport Fund had revenues of $739,841 and expenditures of $2,193,837, resulting in an operating loss of $1,453,996 during the year ended October 31, 2015.

The Finance Director closely monitors and reports to Council the financial condition of these funds.

Hangar lease contracts have been updated and mailed to tenants, which provide for late payment penalties and eviction procedures; however, the contracts have not been signed by the tenants and returned to the airport/city. The Airport Manager is currently working with the rental car company to update its contract. As of March 14, 2016, 20 tenants had over a month's balance due and one tenant owed $4,565, equivalent to over 27 months of rent at $165 per month. The Finance Department has not established any new procedures for the collection of delinquent accounts, but plans to implement policies and procedures for the collection of these accounts in the future. City officials believe free parking attracts people from outside the region to fly in and out of Joplin, rather than using other area regional airports such as Springfield, Tulsa, or Northwest Arkansas. The officials further believe the benefit of free parking outweighs any potential revenue from charging for it.

12.3 Calculation of excess revenues

The city and the municipal division did not have procedures in place to identify traffic violation tickets and the associated fines and court costs collected. The city's fiscal year ended October 31, 2014 and 2013, audited financial reports were timely filed with the State Auditor's Office, and included an accounting of the percent. However, our review determined the reported percent was not accurate because it included both traffic and general ordinance violations.

Recommendation	The City Council accurately calculate the percent of annual general operating revenue from fines and court costs related to traffic violations as required by law.
Status	**In Progress** The Finance Director has implemented procedures to identify traffic violation tickets and the associated fines and court costs collected so that an annual calculation can be performed.

13. Internal Audit Function	The city did not have an internal audit function or similar alternative arrangements for audits of various processes. In addition, some recommendations made by the city's independent financial statement auditor for the year ended October 31, 2013, had not been implemented.
Recommendation	The City Council consider appointing an internal auditor or contracting with an independent audit firm to conduct audits of specific city operations and activities.
Status	**Not Implemented** City officials indicated given the financial constraints of the city, it has not been able to appoint an internal auditor and has not contracted with an independent audit firm to conduct audits of specific city operations and activities. The city also has not been able to utilize current city staff to audit specific city operations and activities.