

**Performance Audit
Independence Avenue Community
Improvement District Should Improve
Accountability and Transparency**

April 2017



16-2016

Office of the City Auditor

City of Kansas City, Missouri

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HEART OF THE NATION



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April 26, 2017

Honorable Mayor and Members of the City Council:

This audit of the Independence Avenue Community Improvement District (IACID) focuses on the district's transparency and accountability. During our audit selection process for fiscal year 2017, the City Auditor's Office received a number of suggestions from the public expressing concern about the administration, transparency, and accountability of the Independence Avenue Community Improvement District.

The IACID should improve its accountability and transparency to the public and property owners in the district. The IACID has not established an internal control structure to protect its more than \$730,000 in annual sales and use tax revenues. In our review of payments and reimbursements, we identified a number of problems. Payments and reimbursements were not always supported by appropriate documentation, incompatible duties were not segregated, and checks were not signed by two individuals as required by board resolution.

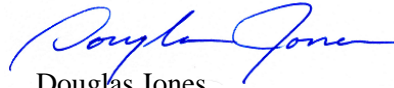
The IACID has not acted transparently, despite being a political subdivision of the state funded primarily through sales and use taxes collected from the public. Some board resolutions are not reflected in board minutes. Meeting minutes record that individuals who were not board members, made and seconded motions during board meetings. The IACID has not established and maintained a consistent board meeting schedule. And, the IACID's website has limited and sometimes inaccurate information.

It is unclear who is representing the interests of the IACID. Overlaps in the governance and management structures of the IACID and its managing agency have made conflicts of interest inevitable. But IACID bylaws and board resolution requirements to mitigate these conflicts were not followed.

IACID did not submit a slate of successor director nominations to the mayor and council for approval as terms expired. And, a provision in the IACID bylaws is inconsistent with state requirements regarding the approval of the district's annual budget.

We make recommendations to improve accountability by hiring qualified professionals to provide audit services and help the IACID establish an effective internal controls system. We also make recommendations to improve transparency by maintaining thorough and accurate minutes and records; following statutory, petition, bylaw, and resolution requirements; establishing a regular meeting schedule; and expanding and improving the accuracy of information on the IACID website.

The draft report was made available to IACID board on March 31, 2017, for review and comment. The IACID response is appended. We would like to thank the Independence Avenue Community Improvement District, and other members of the Independence Avenue and greater Kansas City community for their assistance and cooperation during this audit. The audit team for this project was Joan Pu and Nancy Hunt.



Douglas Jones
City Auditor

Independence Avenue Community Improvement District Should Improve Accountability and Transparency

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Introduction

Objectives

We conducted this audit of the Independence Avenue Community Improvement District (IACID) under the authority of Section 3-62(a) of the Code of Ordinances, which authorizes the city auditor to audit any community improvement district (CID) established by the city pursuant to the Community Improvement District Act.

A performance audit provides “findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria. Performance audits provide objective analysis to assist management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.”¹

This report is designed to answer the following question:

- Is the administration of the Independence Avenue Community Improvement District transparent and accountable to the public?

This audit was initiated in response to audit suggestions submitted by members of the public.

Scope and Methodology

Our review focuses on the accountability and transparency of the Independence Avenue Community Improvement District. Our audit methods included:

- Reviewing the State of Missouri’s Community Improvement District Act to identify legal requirements for community improvement districts.

¹ Comptroller General of the United States, *Government Auditing Standards* (Washington, DC: U.S. Government Printing Office, 2011), p. 17.

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- Reviewing IACID's petition and bylaws to identify the rules set by the IACID for its operation and management.
- Reviewing IACID board meeting minutes and resolutions to identify board actions and decision processes.
- Interviewing IACID board of directors, the district manager, and staff to understand how the IACID operates; how the board of directors functions, monitors the management service agreement, and evaluates the IACID's performance; and how information about the IACID is shared with the public.
- Interviewing residents of neighborhoods surrounding the IACID and representatives of community development organizations in the area to understand their concerns about the IACID.
- Reviewing the management service agreement between the IACID and the Northeast Kansas City Chamber of Commerce to understand its scope of services.
- Reviewing and evaluating IACID policies and practices and comparing them with recommended practices to identify gaps in internal controls.
- Evaluating the content on the IACID website to determine the accuracy, completeness, and timeliness of the information and IACID transparency to the public.
- Reviewing IACID accounting information, focusing on January and April 2016, to determine whether expenses were supported by adequate documentation.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the 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 a reasonable basis for our findings and conclusions based on our audit objectives. No information was omitted from this report because it was deemed privileged or confidential.

Background

A community improvement district (CID) may be organized as a not-for-profit corporation or a political subdivision of the state of Missouri. The Independence Avenue Community Improvement District (IACID) is a political subdivision, which has the power to obtain funding through real property assessments and sales and use taxes within the IACID's boundaries.

Independence Avenue Community Improvement District

The Independence Avenue Community Improvement District was established in 2013 to provide safety and security, public area maintenance, and marketing services for the benefit of district members.² The City Council approved the IACID as a perpetual political subdivision of the state. The IACID is comprised of individual parcels generally along Independence Avenue between The Paseo on the west and Ewing Avenue on the east. There are 232 parcels between the district's east and west boundaries, with 134 parcels included within the IACID boundaries. The IACID currently collects one percent sales and use taxes from customers of businesses within the boundaries of the IACID and an annual \$300 per parcel special assessment from real property owners in the district, excluding non-profit organizations.

IACID Revenues and Expenditures

The IACID began receiving sales and use taxes and real property assessment monies at the end of 2013. Annual revenues exceed \$750,000 and are projected to grow to almost \$850,000 in fiscal year 2018. IACID projected a budget deficit in fiscal year 2017 and a balanced budget in fiscal year 2018.³

Sales tax, the IACID's primary source of funding, represents about 95 percent of the total district revenues. Major IACID expenses include payroll, contract payments for security personnel, and the administrative fee paid to the Northeast Kansas City Chamber of Commerce. (See Exhibit 1.)

² *Petition to Establish the Independence Avenue Community Improvement District and Authorize Special Assessment*, Exhibit C, November 29, 2012.

³ The IACID's fiscal year is the same as the city's, May 1 through April 30.

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Exhibit 1: Independence Avenue CID Revenues and Expenses (Fiscal Years 2014 - 2018)

	FY2014 Actual ⁴	FY2015 Actual	FY2016 Actual	FY2017 Budgeted	FY2018 Budgeted
Revenue					
Sales Tax	\$ 297,600	\$ 758,873	\$ 738,743	\$ 731,000	\$ 759,800
Use Tax	777	2,427	3,058	2,400	12,000
Special Assessment	33,060	33,532	34,323	34,000	34,323
Other Revenue	3,612	1,530	7,853	10,000	40,416
Total Revenue	\$ 335,048	\$ 796,363	\$ 783,977	\$ 777,400	\$ 846,539
Expense					
Administration Fees (Chamber contract)	\$ 40,538	\$ 128,891	\$ 139,702	\$ 138,132	\$ 145,102
Payroll Expense & Benefits	6,745	94,492	185,233	293,200	273,143
Safety & Security Ambassadors	28,461	107,039	117,979	180,000	180,000
Professional Training		6,433	669	6,600	3,600
Local Meetings	156	1,160	1,940	3,000	1,200
Supplies & Equipment	4,439	13,176	42,276	84,600	40,800
Vehicle Expense	1,256	4,991	5,241	6,660	8,550
Advertising/Marketing	1,759	9,961	23,622	50,000	30,000
Legal Fees	23,725	7,514	10,982	30,000	10,000
Consulting	535		3,400	2,400	1,200
Accounting	425	355	1,356	2,400	2,400
Audit				2,500	2,500
Liability Insurance	3,200	4,070	4,262	6,000	7,800
Depreciation Expense	2,268	7,353	9,309	12,000	17,520
Office Supplies	475	610	2,398	1,200	-
Telephone	100	1,192	4,058	4,560	2,400
Storefront Improvement Rebate			27,966	14,250	36,000
Boulevard Improvements				45,750	15,000
Bank service charges	67	186			300
Computer Repairs		60	164	600	600
Computer Software		595	810	1,000	300
Interest Expense		98	122		240
Memberships		250	445	1,200	900
Miscellaneous		20	526	1,200	
Parking			81	240	240
Postage & Delivery		184	196	3,200	600
State Sales Tax-Purchases	88	287			
Mortgage Interest					11,344
Software for Telephones		27	1,600	2,400	1,200
IT Consultation & Service			897	1,600	1,200
Payroll Service Fee	260	1,580	1,843	2,000	3,100
Other Professional Services			180		180
Donations and Sponsorships			3,560		3,500
Fee for Service Expense			3,000		
Fundraising Expenses		129			
International Marketplace			612		
Contract Labor-Misc.	60	400	365		3,000
Urban Ambassadors	2,192	22,625	6,080		
Workforce Development				5,000	6,000
Board expense					600
Credit Card Fees					120
Repairs & Maintenance (purchased bldg.)					6,000
Security system monthly fees					900
Utilities					12,000
Rent				24,000	
MARC Recycle Expense					17,000
Total Expense	\$ 116,747	\$ 413,679	\$ 600,873	\$ 925,692	\$ 846,539
Net Income	\$ 218,301	\$ 382,684	\$ 183,104	\$ (148,292)	0

Sources: IACID, "IACID Profit and Loss May 2013 – April 2014," "IACID Profit and Loss May 2014 – April 2015," "IACID Profit and Loss May 2015 – April 2016," "IACID Profit and Loss Budget Overview May 2016 – April 2017," and "IACID Profit and Loss Budget Overview May 2017 – April 2018."

⁴ The IACID began receiving sales and use taxes in December 2013.

Agreement with Northeast Kansas City Chamber of Commerce

The IACID signed a management service agreement with the Northeast Kansas City Chamber of Commerce (managing agency) in August 2013. The scope of services that the managing agency contracted to perform on behalf of the CID includes management, advocacy, administration, audit, procurement, accounting, and support services. The IACID agreed to pay the managing agency 15 percent of its revenues from special assessment and sales tax collections. The fee was increased to 18 percent in April 2015. In addition, the IACID agreed to reimburse the managing agency for eligible out-of-pocket expenses.

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Findings and Recommendations

Summary

The IACID does not have the internal control structure needed to protect public monies from loss, misuse, or errors. We identified inappropriate payments and reimbursements, noncompliance with controls over checks, and lack of segregation of duties. Hiring independent qualified professionals knowledgeable in government accounting and auditing to conduct annual financial audits and work with the IACID to establish an effective internal control structure should help protect public monies.

The IACID board appeared to have not complied with some Missouri Sunshine Law and the Community Improvement District Act requirements. Although board members, officers, and/or employees of the IACID and its managing agency overlap, actions required to mitigate conflicts of interest were not followed. The IACID did not submit a slate of successor directors to the city or adopt its budget in a timely manner. In addition, information on the IACID website was not always complete or accurate. The IACID could improve its transparency by complying with legal requirements; increasing the accessibility of its board meeting information; and improving the content, accuracy, and completeness of the information on its website.

Weak Internal Controls Put Public Monies at Risk

The IACID does not have the internal control structure needed to protect public monies from loss, misuse, or errors. We identified inappropriate payments and reimbursements, noncompliance with controls over checks, and a lack of segregation of duties. Despite including audit services in the management services agreement, a financial audit of the IACID has not been performed.

Inappropriate Payments and Reimbursements Made

The IACID paid for items and services without supporting documentation or with inadequate documentation and made some errors in payments. In addition, the IACID paid for services and items its managing agency was contractually required to provide.

Payments and reimbursements were made without adequate documentation. We reviewed the IACID’s documentation and found payments made without any or with inadequate documentation. Many of the undocumented payments and reimbursements were made on the direction and authority of the IACID board chair/district manager, including reimbursements to herself. Inadequately documented payments include:

- The acceptance of a copy of the managing agency’s handwritten check register with “CID” written next to some entries;
- An \$800 check written out to “Cash,” without any supporting document except a handwritten note of “Landscapers” on the check stub;
- A vendor invoice to the managing agency with “CID” written next to some entries;
- Invoices from the managing agency listing only expense categories and amounts without identifying who provided the service or what merchandise was purchased; and
- Credit and debit card charges without a receipt detailing what was purchased.

The IACID did not always have supporting documentation when paying invoices. Accurate and sufficient documentation provides evidence of the merchandise purchased or services provided. Requesting adequate supporting documents for payment or reimbursement is an internal control that ensures the IACID is safeguarding public assets, by reducing the risk of loss and misuse.

Some reimbursement and payments contained errors. The IACID paid twice for some items, reimbursed more than the receipt amount, and paid for an invoice billed to an organization other than the IACID.

IACID paid for services and items that the managing agency was contractually required to provide. In the IACID’s contract with the managing agency, the managing agency is required to provide office supplies and bookkeeping services for the IACID. We found, however, that the IACID paid for some office supplies and bookkeeping services.

Check Controls Not Followed

Although IACID checks are supposed to be signed by two people, none of the checks we reviewed had two signatures. IACID board resolution 2013-11 requires that “All Account(s) checks shall be signed by both the

Chairman and Treasurer.”⁵ Only one individual signed the checks we reviewed. By requiring two signatures, an organization verifies that both signers agree that the payment is proper and accurate. Requiring two signatures on checks also reduces the likelihood of loss and misuse.

The IACID re-issued checks when prior checks were not cashed, but did not stop payments on the earlier checks. Stopping payment prevents an organization from losing money if the original check is later presented for payment. Controls over signatures and reissued checks are basic internal controls that help to reduce the risk of loss and misuse.

Lack of Segregation of Duties Puts Monies at Risk

The IACID has established only limited segregation of duties over financial activities, which increases the risk that a person may be able to commit and conceal a financial irregularity. The CID board chair/district manager receives and reviews invoices and receipts; receives and reviews credit card, debit card, and bank statements; and writes, signs, and sends out checks. While we did not identify fraud in the payments we reviewed, the IACID board chair/district manager has the access to commit and conceal an irregularity. The concentration of authority in a single individual and her ties to the managing agency contributed to the IACID’s payment errors. Segregation of duties reduces the risk that unintentional errors or fraud can go undetected. Segregation of duties also protects employees by preventing unwarranted suspicion of honest employees if irregularities occur.

Independent Auditor and Internal Control Expertise Needed

Current IACID management and staff supplied under the contract with the managing agency have not demonstrated they have the ability to manage the financial operations of a political subdivision of the state receiving public sales tax dollars. In our review of expenses, we found problems, errors, and control issues in almost 40 percent of the expense records we reviewed. These problems represented over \$20,000 or about 18 percent of the IACID’s total expenses for the period we reviewed. We also identified over \$17,000 in expense issues outside of the reviewed months as we were reviewing or looking for other documents.

The IACID is primarily supported by the one percent sales taxes paid by customers of the businesses located within the IACID boundaries. These taxes are public monies. Although the IACID receives more than \$730,000 annually from the public, it has not had an audit of its financial statements despite the inclusion of audit services in its contract with the

⁵ IACID, *Resolution 2013-11*, Section 3, April 1, 2013.

managing agency. We looked at expenses for two months out of the three years the CID has been in existence and found a significant number of issues. It is likely that there are more issues in the months we did not review and it would be beneficial to the IACID to hire a certified public accountant to conduct an annual financial audit, review all prior payments and reimbursements to ensure they are adequately supported and appropriate, and identify improper payments so the IACID can seek recovery.

In order to adequately safeguard public monies, the IACID Board should engage a qualified certified public accountant (CPA) knowledgeable in the principles of government accounting and auditing to conduct an annual financial audit, review all prior payments and reimbursements for adequate documentation and compliance with contracts, and identify improper payments for which the IACID should seek recovery.

The IACID has a duty to the public to strengthen its internal control structure to ensure it is using public funds appropriately. Having a qualified professional review IACID's internal control structure and recommend ways to strengthen it will help ensure IACID uses public funds appropriately.

To ensure public monies are protected, the IACID Board should engage a qualified professional knowledgeable in internal controls and separate from the CPA engaged to conduct the annual financial audit to recommend improvements to the IACID internal control structure and processes for board adoption.

Use of Public Tax Monies Requires Transparency

The IACID board appeared to have not complied with all Sunshine Law and Community Improvement District Act requirements. Actions required to mitigate conflicts of interest were not followed. The IACID did not submit a slate of successor directors or adopt its budget in a timely manner. The IACID website contains limited and some inaccurate information.

IACID Should Comply with Established Requirements

The IACID board does not appear to have consistently complied with Sunshine Law and Community Improvement District Act requirements. Some IACID board resolutions were not reflected in board meeting minutes. IACID records do not identify board members with enough

precision to determine who the board members are and ensure only board members are making and seconding resolutions and voting at board meetings. The IACID board held a meeting in apparent violation of the Sunshine Law.

Board resolutions were not reflected in meeting minutes. Missouri state statutes require that all official acts of the board be by written resolution approved by the board.⁶ Missouri Sunshine Law requires that a journal or minutes of open and closed meetings be taken and retained by the public governmental body, including a record of any votes taken at such meeting.⁷ It also requires that all votes be recorded.⁸ Many of the board resolutions of the IACID, however, were not reflected in the board meeting minutes.

We reviewed board meeting minutes and resolutions between April 2013 and April 2016. We were not able to find any record describing, discussing, or voting on the following resolutions in the meeting minutes:

- Ratifying all lawful actions taken by or on behalf of the IACID prior to its formation, Resolution 2013-03,
- Authorizing the district manager to enter into an engagement letter with Husch Blackwell law firm, Resolution 2013-08,
- Approving FY2015 budget, Resolution 2014-01,
- Appointing board officers, Resolution 2014-02,
- Approving a \$300 per lot special assessment for 2014, Resolution 2014-03, and
- Nominating and ratifying acts of interim director, Resolution 2015-06.

Board meeting minutes are an important form of recordkeeping for the IACID. They provide an official record of board actions, elections of board directors and officers, and reports from committees and staff. Resolutions approved by the board at board meetings should be clearly described along with descriptions of votes, recusals from discussion, and abstentions from voting. Anyone reading an organization's minutes should be able to easily understand, at a minimum, what actions were taken and how the actions were approved.

⁶ *CID Act*, RSMo Section 67.1451.8.

⁷ *Missouri Sunshine Law*, RSMo Section 610.020.7.

⁸ *Missouri Sunshine Law*, RSMo Section 610.015.

In order to comply with Sunshine Law requirements and increase transparency, the IACID Board should ensure board minutes reflect all resolutions and actions taken by the board, including a record of the board members' votes.

It is not clear who the IACID board members are. The Sunshine Law requires that minutes include the members present, members absent, and a record of votes taken.⁹ The minutes and other official reports and documents submitted for the IACID do not consistently identify who the board members are. As a result, individuals who are not board members have made and seconded motions during board meetings. Because only voice votes are recorded in the board minutes, we could not determine whether non-board members also voted on board decisions.

To ensure that only board members make and second motions and vote, the IACID Board should clearly identify the individual members of the board, record the members present and not present in the board meeting minutes, and only accept motions, seconds to motions, and votes from board members.

Board meeting may have violated the Sunshine Law. The board notice for at least one IACID board meeting did not correctly identify the meeting location. The IACID is required to provide twenty-four hours' notice to the public of the time, date, and place of each meeting, and its tentative agenda, in a manner reasonably calculated to advise the public of the matters to be considered.¹⁰

We identified this non-compliance issue subsequent to the March 16, 2017, meeting after reviewing the posted notice for the meeting at the IACID's principal office. On March 22, 2017, we notified the IACID board of this non-compliance issue so that appropriate corrective action could be taken. On March 27, 2017, the IACID board held another meeting covering the March 16 agenda items but listing the correct meeting location. The IACID board chair/district manager reported they have corrected their agenda template to reflect the correct address for future meetings.

Conflicts of Interest Mitigation Requirements Not Met

Some members of the IACID board also serve the managing agency, which results in conflicts of interest. Requirements established to mitigate conflicts of interest, were not followed.

⁹ *Missouri Sunshine Law*, RSMo Section 610.020.7.

¹⁰ *Missouri Sunshine Law*, RSMo Section 610.020.1.

Overlaps in governance and management cause conflicts of interest.

The governance and management structure of the IACID and its managing agency have individuals who serve both organizations as board members, officers, and/or employees. A conflict of interest arises when a person has real, potential, or perceived competing interests resulting in the individual being in a position to benefit from the circumstances, or an organization not being able to achieve a result which would be in its best interests, or both.¹¹ The IACID board chair/district manager is employed by the managing agency.¹² This arrangement establishes a potential conflict of interest. The IACID treasurer was also the board chair of the managing agency.¹³ Because the IACID board chair/district manager and the treasurer have significant roles in both entities, it can be perceived that they may not always be representing the IACID's interests when conducting IACID business.

At the April 9, 2015, IACID board meeting, the IACID board chair/district manager requested a 20 percent increase in the fee paid by the IACID to the managing agency. The IACID treasurer who was the managing agency's board chair made the motion to approve the increase, which the IACID board approved.¹⁴ According to the April 15, 2015 board minutes of the managing agency, the managing agency had not requested the fee increase.¹⁵ It is not clear whose interest the IACID board chair/district manager was representing in initiating the fee increase. The IACID board chair/district manager has a personal financial interest in the managing agency since she is a paid employee of the managing agency.

Given the inherent conflicts of interest of the IACID board chair/district manager and the treasurer, board members should have a greater awareness of their responsibility to protect the public monies paid to the IACID. The IACID board has the fiduciary duty to manage public funds to benefit the IACID. While the IACID and the managing agency are interested in improving the Independence Avenue area, the IACID and the managing agency are separate entities and their interests will not always align, since any money paid to the managing agency results in fewer resources available for IACID activities.

¹¹ International Labor Office, Office Guideline. Conflicts of Interest, 2009.

¹² The IACID board chair/district manager is employed by the managing agency and donates her time as the IACID board chair/district manager.

¹³ In October 2016, the IACID treasurer became an Ex Officio member of the managing agency's board.

¹⁴ IACID Board Minutes for the meeting April 9, 2015, the IACID board chair/district manager "requested an increase in the percentage of revenue charged to the CID on behalf of the Chamber."

¹⁵ Managing agency's Board Minutes for the meeting April 15, 2015, the board approved the item of "acceptance of the 3% CID administrative increase."

Some IACID board members did not follow conflict of interest requirements. According to the IACID’s bylaws, “No officer, agent or employee of the District shall have or shall require [sic] any interest, direct or in indirect, in any project which the District is promoting, or in any contract or proposed contract for materials or services in any lease, mortgage, sale, or contract or any nature whatsoever relating to any such project or the District without forthwith making written disclosure to the District of the nature and extent of his interest, and such disclosure shall be entered in writing upon the minute book of the District.”¹⁶ Although the roles held by the IACID board chair/district manager and IACID treasurer and their roles in the managing agency make conflicts of interest inevitable, the IACID’s minute book does not reflect that individual members formally disclosed the nature and extent of their interests as required by IACID bylaws.

In order to be transparent to the public and mitigate actual and perceived conflicts of interest, the IACID Board should ensure IACID officers, agents, and employees follow the IACID’s bylaws by providing a written disclosure of the nature and extent of their interest related to IACID contracts or other services.

The IACID board chair/district manager has not complied with IACID board resolution 2015-05. According to the resolution, the board chair/district manager “recuses herself from all matters relating to the managing agency.” Board minutes do not clearly reflect that the IACID board chair/district manager recused herself on all matters relating to the managing agency.

To mitigate conflicts of interest, the IACID Board should ensure the board chair/district manager complies with resolution 2015-05 by clearly recusing herself from all matters related to the managing agency.

IACID Did Not Appear to Comply with Some Other Legal Requirements

It appears that the IACID board may not have complied with the legal requirements regarding successor directors. The IACID bylaws appear to be inconsistent with the Missouri state statute budget approval date.

IACID did not submit a slate of successor directors to the mayor as directors’ terms expired. Successor directors of the IACID require mayoral appointment with the consent of the City Council from a slate

¹⁶ *Independence Avenue Community Improvement District Bylaws of the District*, Article XI Conflict of Interest, adopted April 1, 2013.

submitted by the IACID Board.¹⁷ The IACID, however, did not submit names of successor directors to the mayor when three initial directors' terms expired in March 2015.

Mayoral appointment and council approval of successor directors is the only mechanism the city has to hold CIDs accountable. Although the IACID's petition allows its board of directors to serve until a successor is appointed, this provision is to avoid disruption of the IACID's leadership and operation under unperceived or uncontrollable circumstances. Missouri statutes do not preclude an existing member from being nominated to remain as a board member, however those existing members would still need to be approved through the process defined in the IACID's petition and bylaws.

Members of the public have expressed their concerns to the City Auditor's Office about the administration, transparency, and accountability of the IACID. Some IACID board directors believe the businesses within the district are the sole constituency to which the board is responsible. Mayoral appointment of successor directors every two years gives the city's elected officials a chance to scrutinize a CID's board of directors and ensure the CID is accountable and transparent to the public.

To comply with its petition and bylaws and to strengthen accountability, the IACID Board should submit to the city a slate of successor directors for appointment as directors' terms expire.

Bylaws regarding budget approval are inconsistent with state statute. The IACID's bylaw regarding the budget approval date is inconsistent with the provision in the state statute. Missouri statute requires that the CID board hold an annual meeting and adopt an annual budget no later than thirty days prior to the first day of each fiscal year.¹⁸ The IACID's bylaws, however, state that the board shall adopt a budget not later than the first day of each fiscal year.¹⁹ The IACID adopted its fiscal year 2015 budget on July 3, 2014 over two months after the fiscal year began. Although the IACID's budgets for fiscal years 2016 and 2017 were adopted earlier, both were adopted after the statutory deadline. A budget is one of the most important financial tools for an organization as it acts as a roadmap for the organization's operation in the upcoming year. Preparing and approving the annual budget before

¹⁷ *CID Act*, RSMo Section 67.1451; and *Petition to Establish the Independence Avenue Community Improvement District and Authorize Special Assessment*, November 29, 2012, Section V(B)5.

¹⁸ *CID Act*, RSMo Section 67.1471.3.

¹⁹ *Independence Avenue Community Improvement District Bylaws of the District*, Article VII.

the fiscal year begins helps an organization set priorities, control its finances, and guide its work for the upcoming year.

To ensure the IACID complies with state law, the IACID Board should revise its bylaws to be consistent with RSMo Section 67.1471.3 and approve its annual budget no later than 30 days before the first day of a fiscal year.

Improving Website Content Would Promote Transparency

The accessibility and transparency of board meetings and IACID operations could be improved. Establishing a regular meeting schedule and posting it on the IACID's website would give property owners in the IACID and the public an easy way to access information on upcoming meetings. Ensuring that website content is complete and accurate and adding the IACID's budgets, annual reports, and other IACID reports to its website would strengthen transparency.

The IACID board changed its meeting frequency but did not always hold meetings on the scheduled dates. IACID bylaws require the board to hold regular meetings. Although the board decided to meet monthly in 2013, it did not. The board then decided to meet twice a year, but it met three times in 2014. In 2015, the board changed its meeting frequency to a quarterly meeting on the first Thursday of the month, however, it met five times, all of which were on the second Thursday of the month. The board began meeting more frequently in 2016, but meeting minutes do not indicate the change of the meeting frequency.

Because the IACID is a public body, all of its meetings are open to the public.²⁰ Property owners in the district and the public are less likely to attend meetings that do not occur regularly and do not follow an established schedule, especially when meeting notices are only required to be posted 24 hours in advance. Establishing a regular meeting schedule and posting it on the website, would improve transparency and provide district property owners and the public an easy way to access information about upcoming meetings.

To improve transparency and keep IACID property owners and the public informed of meetings and meeting changes, the IACID Board should establish a regular meeting schedule, post it on the IACID's website, and post changes to upcoming meetings as changes are known.

²⁰ *Missouri Sunshine Law*, RSMo Section 610.020.

Information on IACID's website is limited and some is inaccurate.

Not all board meeting information on the IACID website is complete. Some of the IACID board meetings were not listed on the website, some meetings only have agenda information or meeting minutes, and one meeting had neither. In addition, information on the website about the board of directors was inaccurate. The website listed six board directors but the petition and bylaws only authorize five directors.

The IACID's annual reports and budgets are not posted on the website. Making these and other IACID documents easily accessible and available can help district property owners and the public understand the IACID's finances and operations. Making information available on the website can make IACID's operations more transparent, however, this information should be complete and accurate.

To improve transparency and website content, the IACID Board should ensure information posted on the IACID website is accurate and complete, and add IACID reports including, but not limited to annual reports and budgets, to the website.

Recommendations

1. The IACID Board should engage a qualified certified public accountant (CPA) knowledgeable in the principles of government accounting and auditing to conduct an annual financial audit, review all prior payments and reimbursements for adequate documentation and compliance with contracts, and identify improper payments for which the IACID should seek recovery.
2. The IACID Board should engage a qualified professional knowledgeable in internal controls and separate from the CPA engaged to conduct the annual financial audit to recommend improvements to the IACID's internal control structure and processes for board adoption.
3. The IACID Board should ensure board minutes reflect all resolutions and actions taken by the board, including a record of the board members' votes.

Independence Avenue Community Improvement District Should Improve Accountability and Transparency

4. The IACID Board should identify the individual members of the board, record the members present and not present in the board meeting minutes, and only accept motions, seconds to motions, and votes from board members.
5. The IACID Board should ensure IACID officers, agents, and employees follow the IACID's bylaws by providing a written disclosure of the nature and extent of their interest related to IACID contracts or other services.
6. The IACID Board should ensure the board chair/district manager complies with resolution 2015-05 by clearly recusing herself from all matters related to the managing agency.
7. The IACID Board should submit to the city a slate of successor directors for appointment as directors' terms expire.
8. The IACID Board should revise its bylaws to be consistent with RSMo Section 67.1471.3 and approve its annual budget no later than 30 days before the first day of a fiscal year.
9. The IACD Board should establish a regular meeting schedule, post it on the IACID website, and post changes to upcoming meetings as changes are known.
10. The IACD Board should ensure information posted on the IACID website is accurate and complete, and add IACID reports including, but not limited to annual reports and budgets, to the website.

Appendix A

Independence Avenue Community Improvement District Board of Directors' Response

Independence Avenue Community Improvement District Should Improve Accountability and Transparency



RECEIVED

APR 21 2017

CITY AUDITOR'S OFFICE

Date: April 21, 2017
To: Douglas Jones, City Auditor
From: The Board of Directors of the Independence Avenue Community Improvement District
Subject: Response to Performance Audit: *Independence Avenue Community Improvement District Should Improve Accountability and Transparency*

1. *The IACID Board should engage a qualified certified public accountant (CPA) knowledgeable in the principles of government accounting and auditing to conduct an annual financial audit, review all prior payments and reimbursements for adequate documentation and compliance with contracts, and identify improper payments for which the IACID should seek recovery.*

Agree.

The IACID Board authorized an audit in May 2016. This audit has been postponed until after the City Audit was completed, in order to benefit from the recommendations of the City Audit team. The scheduled audit will be conducted beginning with the engagement of a qualified CPA by May 31st, 2017.

2. *The IACID Board should engage a qualified professional knowledgeable in internal controls and separate from the CPA engaged to conduct the annual financial audit to recommend improvements to the IACID's internal control structure and processes for board adoption*

Agree.

The IACID Board will contract with a qualified professional by May 31st, 2017 to review our financial policies and recommend improvements to our financial controls and processes.

3. *The IACID Board should ensure board minutes reflect all resolutions and actions taken by*

INDEPENDENCE AVENUE COMMUNITY IMPROVEMENT DISTRICT
6400 INDEPENDENCE AVENUE • SUITE 103 • KANSAS CITY, MISSOURI 64125
OFFICE - 816.215.6813 • FAX - 816.231.2101
INDIEAVECID@GMAIL.COM • WWW.INDIEAVECID.COM

the board, including a record of the board members' votes.

Agree.

The IACID Board will ensure our board minutes record all resolutions and actions taken by the Board and record the vote counts for and against each item. In order to assure this, a template for our minutes has been prepared for future use. A copy of this template is enclosed with this response.

4. The IACID Board should identify the individual members of the board, record the members present and not present in the board meeting minutes, and only accept motions, seconds to motions, and votes from board members.

Agree.

The IACID Board meeting minutes will identify the individual members present and not present, and will ensure that our minutes accurately reflect that motions, seconds, and votes are only accepted from Board members.

5. The IACID Board should ensure IACID officers, agents, and employees follow the IACID's bylaws by providing a written disclosure of the nature and extent of their interest related to IACID contracts or other services.

Agree.

The IACID Board will ensure that all officers, agents, and employees provide a written disclosure of the nature and extent of their interest related to IACID contracts or other services in accordance with the IACID by-laws.

6. The IACID Board should ensure the district manager complies with resolution 2015-05 by clearly recusing herself from all matters related to the managing agency.

Agree.

The IACID Board will ensure that our minutes accurately reflect the district manager's recusal of herself in all matters related to the managing agency.

7. The IACID Board should submit to the city a slate of successor directors for appointment as directors' terms expire.

Agree.

The IACID Board will submit a slate of successor directors for appointment to the city as

directors' terms expire.

- 8. The IACID Board should revise its bylaws to be consistent with RSMo. Section 67.1471.3 and approve its annual budget no later than 30 days before the first day of a fiscal year.**

Agree.

The IACID Board will revise its bylaws as requested.

- 9. The IACID Board should establish a regular meeting schedule, post it on the IACID website, and post changes to upcoming meetings as changes are known.**

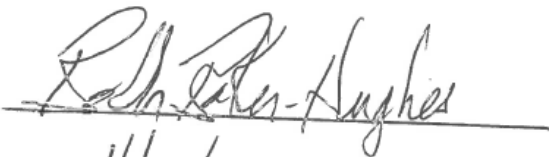
Agree.

The IACID Board will ensure that a regular meeting schedule is established and posted on the IACID website, and will post changes to upcoming meetings as changes are known.

- 10. The IACID Board should ensure information posted on the IACID website is accurate and complete, and add IACID reports including, but not limited to annual reports and budgets, to the website.**

Agree.

The IACID Board will ensure that the IACID website provides accurate and complete information and will post IACID reports including but not limited to annual reports and budgets.


4/21/2017

Instructions: Blue highlights are instructions, yellow text that must be reviewed. Use the Agenda for each meeting to document that all issues from the Agenda are included here. Check all highlighted spots to ensure that all information is correct. DO NOT CLEAR the highlighting until each spot is correct. Delete blue instructions after all work is finished. Note that Resolutions and Actions by the Board are printed in bold print.

Independence Avenue Community Improvement District

Board of Directors

Regular/Special Meeting <Regular unless otherwise directed>

<insert date here>

A regular meeting of the Board of Directors of the Independence Avenue Community Improvement District (CID) was held at the IACID office at 2657 Independence Avenue on <insert date here>. All of the directors having duly received notice of the time, place and purpose of the meeting and consenting to the transaction of any and all business which may come before the meeting, in accordance with the bylaws of the corporation.

Attendance was as follows:

Directors:

Chairman Bobbi Baker: <insert present, absent, or present via conference call>

Vice Chair Dr. Elaine Joslyn: <insert present, absent, or present via conference call>

Secretary Bill Dana: <insert present, absent, or present via conference call>

Treasurer Jon Henderson: <insert present, absent, or present via conference call>

Member-At-Large Charlie Passantino: <insert present, absent, or present via conference call>

A quorum was/was not present.

Note: if a quorum is not present, the meeting is not properly constituted and must be adjourned.

Also in attendance:

Sergeant at Arms Joe Mika: <insert present, absent, or present via conference call>

<insert here other attendees at the beginning of the meeting. Also note in the minutes when/if anyone arrives or leaves during the meeting.>

CALL TO ORDER:

Bobbi Baker called the meeting to order at <insert time>.

APPROVAL OF MINUTES

The minutes of the <insert date> meeting were reviewed.

Upon a motion by <insert name>, seconded by <insert name>, the minutes were approved with/with no corrections by a vote of xx Aye, xx Nay.

FINANCIAL REPORTS

Treasurer Jon Henderson presented the following reports:

- Balance Sheet as of <insert date>
- Profit and Loss as of <insert date>
- <insert other as required>

Upon a motion by <insert name>, seconded by <insert name>, the financial reports were approved with/with no corrections by a vote of xx Aye, xx Nay.

ACTION ITEMS/RESOLUTIONS

<Insert name> read the Resolutions.

SAMPLE ONLY- use resolution text as supplied by attorneys, such as Resolution 2017-01: RESOLUTION OF THE INDEPENDENCE AVENUE COMMUNITY IMPROVEMENT DISTRICT ("DISTRICT") APPROVING THE BUDGET FOR FISCAL YEAR 2017/2018.

Only if appropriate: In accordance with Resolution 2015-05, the Chair recused herself from discussion and voting on the Resolution.

Upon a motion by <Insert name>, seconded by <Insert name>, the Board approved the Resolution by a vote of xx Aye, xx Nay.

Insert text of additional Resolutions and Action Items, including motions and vote counts for each item. Don't batch multiple items.

New Business

<insert new business>

Old Business

<insert old business>

For New/Old Business: Per instructions from the attorney for the IACID, Charles Renner of Husch Blackwell, minutes should include decisions made by the Board but not a transcript of everything said at the meeting. Be certain to record actions

Upon a motion by <Insert name>, seconded by <Insert name>, the meeting was

adjourned by a **vote of xx Aye, xx Nay.**

William M. Dana, Jr.
Secretary for Independence Ave. CID
Central Bank of Kansas City

Instructions: Blue highlights are instructions, yellow text that must be reviewed. Check all highlighted spots to ensure that all information is correct. DO NOT CLEAR the highlighting until each spot is correct. Delete blue instructions after all work is finished.

AGENDA

Meeting of the Board of Directors ("Board") of
The Independence Avenue Community Improvement District ("District")

Date: <insert here> Time: <insert here>
Place: 2657 Independence Avenue, Kansas City, MO

- I. CALL TO ORDER
- II. APPROVAL OF MINUTES
- III. FINANCIAL REPORT
 - Balance Sheet
 - P & L YTD
 - <insert other items as requested>
- V. ACTION/RESOLUTION ITEMS
 - <insert description of resolutions as received from attys>
 - <insert description of action items >
- VI. NEW BUSINESS
 - <insert list of new business as requested>
- VII. OLD BUSINESS
 - <insert list of old business as requested>
- VIII. ADJOURNMENT

Closed Session- Legal Issue(s) may be discussed in closed session. Pursuant to the following subsections of Section 610.021 of the Revised Statutes of Missouri, there may be a closed session to discuss:

- a. Legal matters, litigation, or privileged communications with attorneys, pursuant to subsection 1;
- b. Real estate, pursuant to subsection 2;
- c. Personnel, pursuant to subsection 3 and 13; and/or
- d. Sealed bids or proposals, pursuant to subsection 12.

The agenda must be prepared and posted a minimum of 24 hours before the meeting. Contact Bobbi a week in advance for items to include, and send her a copy for approval. After approval, delete these instructions and email copies of the Agenda, Unapproved Minutes of the last meeting, Financial reports, and Resolution texts or other materials as requested to our

attorney's office and all Board Members at the following addresses. Check immediately for bounced emails and resend with correct addresses.

Bill Dana <bdana@centralbankkc.com>, drejoslyn <drejoslyn@kc.rr.com>, charlie@passantinobros.com, "Joseph P. Mika" <mikapropllc@aol.com>, "Charles.renner@huschblackwell.com" <charles.renner@huschblackwell.com>, chris.kline@huschblackwell.com, Jon Henderson <jonhenderson@gmail.com>, Bobbi Baker <indieavecid@gmail.com>, <eschwallergoebel@gmail.com>