



# Thomas A. Schweich

Missouri State Auditor

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## City of Hume

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June 2012  
Report No. 2012-47



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<http://auditor.mo.gov>



**Thomas A. Schweich**  
Missouri State Auditor

# CITIZENS SUMMARY

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## Findings in the audit of the City of Hume

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### Accounting Controls and Procedures

The City Clerk's duties are not adequately segregated, and the Board of Aldermen does not adequately review or supervise the City Clerk's work. The City Clerk bills and records all utility fees; receives and deposits monies; prepares checks, monthly financial reports and bank reconciliations; posts entries to the accounting system; and maintains payroll records. Proper segregation or oversight is necessary to help ensure all transactions are accounted for properly and assets are adequately safeguarded. The method of payment is not consistently recorded on manual receipt slips, the numerical sequence of computerized transaction numbers are not accounted for properly, and the composition of receipts is not reconciled to the composition of deposits. Checks are not issued in numerical order, and the numerical sequence of check numbers is not accounted for properly. The Mayor and one Alderman are authorized signatories on the city bank accounts, but are not bonded; and the monthly reports reviewed by the Board of Aldermen do not contain sufficient information to properly monitor the city's financial activities and condition.

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### Utility System

The city lacked adequate documentation of water and sewer utility rate reviews. In November 2011, the Missouri Department of Natural Resources issued a warning letter requiring the city to make facility improvements. Without documentation of utility rate reviews, the city cannot demonstrate whether utility rates charged will support the costs of providing the utility services, including any improvements needed. Approximately 50 sewer customers may have been underbilled at least once between July and November 2011, and the sewer rates charged are not consistent with city ordinance. The City Clerk is authorized to make adjustments to water and sewer accounts with no independent review or approval, which increases the risk of theft, loss, or misuse. The city should reconcile the total gallons of water billed to customers to gallons of water purchased by the city and investigate large discrepancies.

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### Budgets, Financial Reporting, and Audits

Annual budgets do not contain all elements required by state law, and the Board of Aldermen did not prepare budget amendments to prevent disbursements from exceeding budgeted amounts in the Sewer Fund and the Water Fund in 2011. The city has not submitted an annual financial report to the State Auditor's office since 2008 as required by state law. For the 3 years ended December 31, 2011, the city did not obtain an annual audit of the water and sewer system as required by state law and bond agreements.

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Disbursements

The city has no formal bidding policy, and bids are not always solicited and documentation of bids is not always maintained. The city also has no formal written agreement for ditch cleaning and culvert installation services. The Board of Aldermen approved and paid a Christmas bonus of \$250 to each of the city's two employees in December 2011 which violates the Missouri Constitution's prohibition of additional compensation for services previously rendered.

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

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American Recovery and  
Reinvestment Act  
(Federal Stimulus)

The City of Hume did not receive any federal stimulus monies during the audited time period.

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

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

**All reports are available on our website: <http://auditor.mo.gov>**

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# City of Hume

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# THOMAS A. SCHWEICH

## Missouri State Auditor

To the Honorable Mayor  
and  
Members of the Board of Aldermen  
Hume, Missouri

The State Auditor was petitioned under Section 29.230, RSMo, to audit the City of Hume. We have audited certain operations of the city in fulfillment of our duties. The city engaged Bruce Culley, Certified Public Accountant (CPA), to audit the city's financial statements for the 3 years ended December 31, 2011. We did not review the report or substantiating working papers of the CPA firm since the audit had not been completed. The scope of our audit included, but was not necessarily limited to, the year ended December 31, 2011. The objectives of our audit were to:

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

Our methodology included reviewing minutes of meetings, written policies and procedures, financial records, and other pertinent documents; interviewing various personnel of the city, as well as certain external parties; and testing selected transactions. We obtained an understanding of internal controls that are significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contract or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

We conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis.

The accompanying Organization and Statistical Information is presented for informational purposes. This information was obtained from the city's management and was not subjected to the procedures applied in our audit of the city.

For the areas audited, we identified (1) deficiencies in internal controls, (2) noncompliance with legal provisions, and (3) the need for improvement in management practices and procedures. The accompanying Management Advisory Report presents our findings arising from our audit of the City of Hume.

A handwritten signature in black ink that reads "Thomas A. Schweich". The signature is written in a cursive style with a large, sweeping initial 'T'.

Thomas A. Schweich  
State Auditor

The following auditors participated in the preparation of this report:

Deputy State Auditor: Harry J. Otto, CPA  
Director of Audits: Regina Pruitt, CPA  
Audit Manager: Kim Spraggs, CPA  
In-Charge Auditor: Joyce Thomson

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# City of Hume

## Management Advisory Report

### State Auditor's Findings

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#### **1. Accounting Controls and Procedures**

Numerous weaknesses were identified in the city's accounting controls and procedures.

##### 1.1 Segregation of duties

The duties of the City Clerk are not adequately segregated, and the Board of Aldermen does not provide adequate supervision or review of the work performed by the City Clerk. The City Clerk is responsible for all record-keeping duties of the city including billing and recording utility fees; receiving and depositing monies; preparing checks, monthly financial reports, and bank reconciliations; posting entries to the accounting system; and maintaining payroll records. The city's independent audits for 2007 and 2008 also noted inadequate segregation of duties.

Proper segregation of duties helps ensure transactions are accounted for properly and assets are adequately safeguarded. If proper segregation of duties cannot be achieved, at a minimum, periodic supervisory or independent reviews of the records should be performed and documented.

##### 1.2 Receipt procedures

Receipt procedures are not sufficient and do not provide assurance all monies collected are accounted for properly. All receipts are entered into the city computer system. The City Clerk also issues manual receipt slips for cash receipts and water deposits and enters those receipts into the computer system.

- The numerical sequence of transaction numbers assigned to receipts by the computer system is not accounted for properly. Our review of collection reports noted several missing transaction numbers. The City Clerk was unable to determine why some transaction numbers were not accounted for on reports generated from the system.
- The composition of receipts is not reconciled to the composition of deposits. Although the City Clerk indicated she enters the method of payment (cash, check, or money order) into the computer system for each receipt, the deposit report generated from the computer system does not include the composition of receipts.
- The method of payment (cash, check, or money order) is not consistently or accurately indicated on manual receipt slips; and the manual receipt slips are generic rather than official prenumbered receipt slips. In addition, there are no procedures to ensure all manual receipts are properly entered into the computer system.

To ensure all monies received are properly accounted for and deposited, the numerical sequence of transaction numbers should be accounted for



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Management Advisory Report - State Auditor's Findings

properly, the method of payment should be accurately recorded for each receipt, official prenumbered receipt slips should be used for manual receipts and reconciled to the computer system, and the composition of receipts should be reconciled to the composition of deposits.

### 1.3 Accounting for checks

Checks are not issued in numerical order. The numerical sequence of check numbers is not accounted for and reasons for checks written out of sequence are not documented. The City Clerk explained this problem is due to the number of checks needed at a given time and number of blank checks included on each page of checks run through the printer. We observed some unused single checks.

To ensure all disbursements are accounted for properly and to reduce the risk of misuse of monies, checks should be issued in numerical sequence and the numerical sequence of check numbers accounted for properly.

### 1.4 Bond coverage

Although the Mayor and one Alderman are authorized signatures on the city bank accounts, they are not covered by a bond. Failure to properly bond individuals who have access to funds exposes the city to risk of loss.

### 1.5 Board reports

The monthly reports provided to the Board of Aldermen are not adequate to properly monitor the financial activities and financial condition of city funds. The monthly reports do not include cash balances of each fund or adequate information supporting transfers. To effectively monitor financial activities and the financial condition of city funds, the Board must receive complete monthly reports containing a full and detailed account of transfers and beginning and ending balances.

## Recommendations

The Board of Aldermen:

- 1.1 Segregate accounting duties to the extent possible. If proper segregation of duties cannot be achieved, an independent review of the work performed is necessary.
- 1.2 Ensure the numerical sequence of transaction numbers are accounted for properly, the method of payment is accurately recorded for each receipt, official prenumbered receipt slips are used for manual receipts and reconciled to the computer system, and the composition of receipts is reconciled to the composition of deposits.
- 1.3 Ensure checks are issued in numerical sequence and account for the numerical sequence of check numbers.
- 1.4 Maintain bond coverage for all officials with access to city assets.



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Management Advisory Report - State Auditor's Findings

- 1.5 Ensure monthly reports received include the financial activities, reasons for fund transfers, cash balances, and the financial condition of all city funds.

## Auditee's Response

*The Board of Aldermen provided the following responses:*

1.1

*&1.5 Beginning for the month of April 2012, additional reports and statements are prepared, reviewed, and approved by the Board. In addition, the Board will establish procedures for an independent review of bank reconciliations.*

1.2 *Effective February 21, 2012, the composition of receipts was added to the utility payments edit report and reconciled to deposits. The Board will review and research the feasibility of purchasing the cash receipt module for the utility system and/or take further action to account for the numerical sequence of receipt slips. In addition, the electronic transaction number will be added to the manual receipt slips.*

1.3 *This recommendation will be implemented immediately.*

1.4 *The Board will check into the cost associated with this bond coverage.*

## 2. Utility System

There are significant weaknesses in city operations related to water and sewer services. As a result, there is less assurance utility rates are set at an appropriate level and properly billed, and monies are handled and accounted for properly. The city provides utility services to approximately 140 customers per month. During the year ended June 30, 2011, the city collected approximately \$83,400 and \$51,900 in water and sewer fees, respectively.

### 2.1 Utility rates

City officials indicated water and sewer rates are reviewed annually; however, documentation supporting rate decisions was not retained or it was not complete. City water rates have not changed for many years, but no documentation could be provided supporting these annual decisions. In addition, documentation retained to support the April 2011 sewer rate increase did not include any analysis of current and future costs of maintaining the sewer system. According to city officials, the sewer system is insufficient to handle city waste water and in November 2011 the Missouri Department of Natural Resources issued a warning letter requiring the city to make the needed facility improvements to meet operating permit requirements. Without maintaining sufficient documentation to support utility rate reviews and increases, the city cannot demonstrate whether utility rates charged to customers are set at a level consistent with the costs of providing the related services.



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Management Advisory Report - State Auditor's Findings

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Section 67.042, RSMo, provides that fees may be increased if supported by a statement of costs, which shows the increase is necessary to cover costs of providing the service. Utility rates should be set to cover the cost of providing the related services and maintain reserves adequate to sustain the system. The city should perform a detailed review of water and sewer costs, including depreciation and debt service costs, and set rates to cover the total cost of operation. Preparing a statement of costs would not only allow the city to determine the rates necessary to support current and future operations, but also provide documentation to customers of the rationale behind the rates.

## 2.2 Sewer fees

Sewer fees are not calculated in accordance with city ordinance or as intended by the Board of Aldermen. The Board does not review sewer fee calculations for accuracy, and as a result, some customers may have been underbilled for sewer services.

Monthly sewer fees are calculated based on customer water usage (gallons) for the corresponding month. Fees are calculated by the city utility system based on rates approved by the Board of Aldermen and programmed into the system by the City Clerk. However, our review of the rates programmed into the utility system when the Board approved new rates effective April 1, 2011, identified some sewer fee calculations were not consistent with the corresponding ordinance or instructions provided to the City Clerk by the Board of Aldermen.

Our analysis noted the questionable fee calculations affect all customers with water usage exceeding 5,000 gallons in a month. A review of July through November 2011 sewer billings noted approximately 50 customers may have been underbilled because their water usage exceeded 5,000 gallons during at least 1 month during the period.

The City Clerk indicated she attempted to program the sewer rates into the utility system based on instructions from the Board of Aldermen, but realized during the audit she had not programmed some of the rates as instructed. As a result, the City Clerk re-programmed those rates in January 2012. However, the rates currently programmed into the system are not consistent with the city ordinance. The City Clerk indicated the Board of Aldermen is currently reviewing this situation and considering revisions to the ordinance.

To ensure sewer fees are proper and calculated as provided by city ordinance, the ordinance should be revised to clearly document the intended method for calculating sewer fees. In addition, procedures should be established to periodically review rates programmed into the utility system for accuracy and compliance with the ordinance.



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## 2.3 Adjustments

Adjustments to customer water and sewer accounts are authorized by the City Clerk, who is also responsible for billings, collections, and posting adjustments to the utility system. There is no independent review and approval of these adjustments. Adjustments to customer accounts for the year ended December 31, 2011, decreased amounts owed by \$934.

An independent review of adjustments to customer accounts is necessary to ensure only the proper accounts and amounts are adjusted and to reduce the risk of theft, loss, or misuse.

## 2.4 Water reconciliations

A reconciliation of the total gallons of water billed to customers to gallons of water purchased by the city is not performed. The city purchases an average of 620,000 gallons of water monthly from Public Wholesale Water Supply District No. 13, but does not calculate how many gallons of water are billed to customers monthly to ensure all water usage is appropriately billed. Our review of water purchases and billings for the month of May 2011 noted the city purchased 484,000 gallons of water and billed customers for 443,700 gallons, a difference of 40,300 gallons, or 8 percent.

Monthly reconciliations of gallons of water billed to gallons of water purchased are necessary to help detect significant water loss and ensure all water use is properly billed. According to the U.S. Environmental Protection Agency, the water industry goal for unaccounted for water is 10 percent or less.<sup>1</sup>

## Recommendations

The Board of Aldermen:

- 2.1 Review utility rates periodically to ensure receipts are sufficient to cover all costs of providing these services and maintain reserves adequate to sustain the system. In addition, the Board should maintain sufficient documentation supporting these reviews and any resulting rate increases.
- 2.2 Revise the sewer rate ordinance as necessary and establish procedures to periodically review rates programmed into the utility system for accuracy and compliance with the ordinance.
- 2.3 Ensure independent review and approval of all utility system adjustments.
- 2.4 Ensure gallons of water purchased is reconciled to gallons billed monthly and investigate any significant differences.

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<sup>1</sup> United States Environmental Protection Agency, "Using Water Efficiently: Ideas for Utilities," <<http://www.epa.gov/watersense/pubs/utilities.html>>, accessed on March 23, 2012.



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## Auditee's Response

*The Board of Aldermen provided the following responses:*

- 2.1 *The Board will continue to review the water and sewer rates annually and start clearly documenting the review.*
- 2.2 *The Board amended the sewer rate ordinance to clarify the current sewer rate calculation, effective May 2012.*
- 2.3 *The Board will be provided a monthly report detailing adjustments, effective May 2012.*
- 2.4 *The Board is in the process of documenting the reconciliation of meter readings to gallons billed and purchased monthly. The Board will include this reconciliation in the monthly board reports.*

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## 3. Budgets, Financial Reporting, and Audits

The city does not comply with state law regarding budgets, financial reporting, and audits.

### 3.1 Budget preparation

Annual budgets do not contain all elements required by state law. Budgets do not include a budget message, beginning and estimated ending resources, actual and budgeted amounts for the 2 preceding years, or amounts related to the debt of the city. The budgets only include projected receipts and disbursements for the coming year.

Section 67.010, RSMo, requires the budget present a complete financial plan for the ensuing budget year and outlines the various information to be included in the budget. A complete and well planned budget, in addition to meeting statutory requirements, can serve as a useful management tool establishing specific financial expectations for each area of city operations. It also assists in setting tax levies and utility rates and informing the public about city operations and current finances.

### 3.2 Excess disbursements and budget amendments

For the year ended December 31, 2011, actual disbursements exceeded budgeted amounts by approximately \$24,500 and \$18,000 in the Sewer Fund and Water Fund, respectively. Although the City Clerk began providing the Board of Aldermen a monthly report of budgeted and year-to-date actual receipts and disbursements in April 2011, budget amendments were not prepared when necessary. The city's most recent financial statement audit for the year ended December 31, 2008, also noted the failure to amend the budget.



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

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Section 67.040, RSMo, allows for budget increases, but only after the governing body officially adopts a resolution setting forth the facts and reasons. Section 67.080, RSMo, provides that no expenditure of public monies shall be made unless it is authorized in the budget.

### 3.3 Financial reporting

The city does not submit annual financial reports to the State Auditor's office. The most recent report filed was for the city's 2008 fiscal year. Section 105.145, RSMo, requires each political subdivision to file annual reports of its financial transactions. In addition, 15 CSR 40-3.030 requires the annual financial report to be filed within 4 months after the end of the political subdivision's fiscal year if an unaudited financial report is filed and within 6 months after the end of the political subdivision's fiscal year if an audit report prepared by a certified public accountant is filed.

### 3.4 Annual audits

Annual audits of the water and sewer system were not performed for the 3 years ended December 31, 2011. City officials indicated the audits had not been obtained because they had difficulties locating an auditor who could perform the audits on a timely basis and at a reasonable cost and they believed the audit performed by the State Auditor's office would satisfy audit requirements. In January 2012, the city contracted with a CPA firm to audit the city for the 3 years ended December 31, 2011. The City Clerk indicated the audit should be finalized in June 2012.

Section 250.150, RSMo, and bond agreements require the city to obtain annual audits of the combined water and sewer system. In addition to being required by state law and bond agreements, annual audits of city funds help ensure monies are properly handled and financial transactions are properly recorded.

## Recommendations

The Board of Aldermen:

- 3.1 Prepare annual budgets that contain all information as required by state law.
- 3.2 Ensure budget amendments are made when appropriate.
- 3.3 Submit an annual financial report to the State Auditor's office as required by state law.
- 3.4 Obtain annual audits of the water and sewer system as required.

## Auditee's Response

*The Board of Aldermen provided the following responses:*

- 3.1 *The Board will ensure future budgets include required information.*
- 3.2 *The Board will ensure budget amendments are prepared as needed.*



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Management Advisory Report - State Auditor's Findings

3.3 *Annual financial reports will be submitted to the State Auditor's office upon completion.*

3.4 *The city is currently obtaining a financial audit to be completed in June 2012.*

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## 4. Disbursements

Some items were not properly bid and employees were paid bonuses.

### 4.1 Bidding Policy and Procedures

The city does not have a formal bidding policy. City officials indicated they generally require bids for goods or services costing over \$500; however, some items and services were not bid and/or adequate documentation maintained.

While city officials indicated they solicited bids for road repair materials (\$9,268), a snow plow (\$5,352), and a security system (\$1,000) through telephone quotes or direct contact with vendors, they retained no documentation showing vendors contacted, prices quoted, and reasons for selecting the winning vendors. City officials did not obtain bids for ditch cleaning and culvert installation services costing \$2,075 during 2011. In addition, the same individual has performed these services for several years without any formal written agreements.

Formal bidding procedures for purchases provide a framework for economical management of city resources. Routine use of a competitive procurement process for major purchases ensures the city has made every effort to receive the best and lowest price and all interested parties are given an equal opportunity to participate in city business. Documentation of the various proposals received, and the selection process and criteria should be retained to demonstrate compliance with applicable laws or regulations and support decisions made. Further, written contracts are necessary to ensure all parties are aware of their duties and responsibilities and to prevent misunderstandings. Section 432.070, RSMo, requires contracts for political subdivisions to be in writing.

### 4.2 Bonuses

The Board of Aldermen approved and paid a Christmas bonus of \$250 to each of the city's two employees in December 2011.

The bonuses appear to represent additional compensation for services previously rendered and, as such, are in violation of Article III, Section 39, Missouri Constitution, and Attorney General's Opinion No. 72, 1955 to Pray, which states, ". . . a government agency deriving its power and authority from the constitution and laws of the state would be prohibited from granting extra compensation in the form of bonuses to public officers or servants after the service has been rendered."



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

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## Recommendations

The Board of Aldermen:

- 4.1 Establish formal bidding policies and procedures, including documentation requirements regarding the bids and quotes received and justification for the bid selected. In addition, the Board of Aldermen should enter into written agreements when appropriate.
- 4.2 Discontinue granting bonuses to employees.

## Auditee's Response

*The Board of Aldermen provided the following responses:*

- 4.1 *Effective April 2, 2012, the Board established a new purchasing policy to address bid and documentation requirements. In addition, the Board will prepare a standard agreement.*
- 4.2 *After receiving clarification of the Attorney General's Opinion and reviewing the Constitution, the Board decided Christmas bonuses will no longer be given.*

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# City of Hume

## Organization and Statistical Information

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The City of Hume is located in Bates County. The city was incorporated in 1881 and is currently a fourth-class city. The city employed one full-time employee and one part-time employee on December 31, 2011.

City operations include utility services (water and sewer), maintenance of streets, and the city park.

### Mayor and Board of Aldermen

The city government consists of a mayor and four-member board of aldermen. The members are elected for 2-year terms. The mayor is elected for a 2-year term, presides over the board of aldermen, and votes only in the case of a tie. The Mayor and Board of Aldermen, at December 31, 2011, are identified below. The Mayor and Board of Aldermen do not receive compensation.

Maxine Dixon, Mayor  
Cecil McKinley, Alderman  
Hannibal Hinton, Jr., Alderman  
Jeff Davidson, Alderman  
Keith Irwin, Alderman

### American Recovery and Reinvestment Act 2009 (Federal Stimulus)

The City of Hume did not receive any federal stimulus monies during the year ended December 31, 2011.