



Thomas A. Schweich
Missouri State Auditor

FOLLOW-UP REPORT ON AUDIT FINDINGS

City of Howardville



May 2012

Report No. 2012-35

<http://auditor.mo.gov>

City of Howardville

Follow-Up Report on Audit Findings

Table of Contents

State Auditor's Letter	2
------------------------	---

Status of Findings

1.	Building Lease	3
2.1	Segregation of Duties	4
2.2	Receipt and Deposit Procedures	4
2.4	Bank Reconciliations	5
3.1	Accounting Records.....	5
5.1	Bidding	6
5.4	Disbursement Approval Process and Missing Invoices	6
6.	Sewer and Sanitation Services	6
7.1	Tracking and Recording Restricted Monies	8
8.	Meeting Minutes and Ordinances	8



THOMAS A. SCHWEICH

Missouri State Auditor

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

We have conducted follow-up work pursuant to the Auditor's Follow-Up Team to Effect Recommendations (AFTER) program on certain audit report findings contained in Report No. 2011-90, *City of Howardville*, issued in October 2011. 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 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 indicates that it will not do so.

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 supporting documentation provided by the city and held discussions with city officials. Documentation included financial reports, various accounting records, bank statements, invoices, written contracts, and meeting minutes. This report is a summary of the results of this follow-up work, which was substantially completed during April 2012.

Thomas A. Schweich
State Auditor

City of Howardville

Follow-Up Report on Prior Audit Findings

Status of Findings

- | | |
|------------------------------|--|
| 1. Building Lease | <p>Significant concerns were noted regarding the lease of the Public Safety and Service Building, which houses all city offices. The building was constructed in 2005 and is owned by the Howardville Development Corporation (HDC), a nonprofit corporation formed primarily for the purpose of improving conditions of public facilities of Howardville. The HDC secured financing for the building, consisting of \$172,000 in grants and \$51,600 in loans from the United States Department of Agriculture (USDA), Rural Development.</p> <p>In August 2005, the city entered into a 25-year lease agreement with the HDC. The lease agreement was structured to ensure lease payments were sufficient to repay amounts borrowed from the USDA and additional amounts to cover building operation and maintenance costs.</p> |
| 1.1 Building Operating Costs | <p>Since 2006, the city had paid approximately \$10,000 to the HDC for building operation and maintenance, and there was no evidence any of these monies were used for the intended purpose. The lease agreement required the HDC to provide property insurance coverage on the building; however, the city provided all insurance coverage for the building. Additionally, the lease required the HDC to maintain the premises and provide utilities to the extent funds were available in the HDC Operations and Maintenance Account. According to city personnel, all utilities and building maintenance and repair costs had been paid by the city since April 2008.</p> <p>The city did not obtain financial information from the HDC, even though the lease agreement allowed for the city to request and receive HDC financial statements. City personnel indicated requests for such information were made but the requested information was not provided.</p> |
| 1.2 Building Ownership | <p>The lease agreement did not provide for transfer of ownership of the building to the city upon payoff of the loan. The lease agreement required the city to pay all loan principal and interest; however, the building would remain the property of HDC.</p> |
| 1.3 Nonappropriation Clause | <p>The lease agreement did not contain a "walk away" or nonappropriation clause which would allow the city to cancel its lease with the HDC. As a result, the city may have incurred long-term debt without voter approval.</p> |
| Recommendations | <p>The Board of Aldermen:</p> <p>1.1 Request and obtain financial information from the HDC and ensure the HDC provides insurance on the building, pays building utility and maintenance costs, and sets aside the required loan reserve amounts as required by the lease agreement.</p> |



City of Howardville
Follow-up Report on Prior Audit Findings
Status of Findings

- 1.2 Work with the HDC to amend the lease agreement to provide the city with ownership interest upon the payoff of the building loan.
- 1.3 Work with the HDC to amend the lease agreement to provide for a nonappropriation cancellation clause.

Status

In Progress

The city has established a separate nonprofit corporation which will be run by the Board of Aldermen. The city is in the process of transferring the loan and building ownership to this city-run nonprofit corporation. However, the city continues to pay insurance, utility, and maintenance costs, and city officials indicated recent requests to receive HDC financial information have not been successful.

2.1 Segregation of Duties

The Board of Aldermen had not established adequate segregation of duties or supervisory review over the accounting functions performed by the City Clerk. The City Clerk was responsible for most record keeping duties including duties which would normally be performed by a city treasurer.

Recommendation

The Board of Aldermen segregate the City Clerk's accounting duties and consider appointing a city treasurer. If proper segregation of duties cannot be achieved, timely independent reviews of the accounting records should be performed and documented.

Status

Implemented

The city has appointed the Court Clerk as the City Treasurer, and city officials indicated accounting duties have been segregated between the City Clerk and the City Treasurer.

2.2 Receipt and Deposit Procedures

Receipt slips were not issued timely for some monies received. In addition, receipts were not always deposited intact in a timely manner. Checks were not always restrictively endorsed immediately upon receipt.

Receipt slips were sometimes used as notations to support payments made to vendors. As a result, the city did not account for the numerical sequence of receipt slips. In addition, the original copy of voided receipt slips was not always retained.

While the method of payment received was generally documented on receipt slips, the composition (total cash and checks) recorded on receipt slips was not reconciled to the composition of bank deposits.

Recommendation

The Board of Aldermen ensure official pre-numbered receipt slips are issued timely for all monies received in numerical sequence, monies are



City of Howardville
Follow-up Report on Prior Audit Findings
Status of Findings

deposited in a timely manner, checks and money orders are restrictively endorsed immediately upon receipt, and the composition of receipts is reconciled to the composition of bank deposits. Additionally, the city should retain the original copies of voided receipt slips.

Status

Implemented

Based on conversations with city officials and a scan of receipt slips and deposits for March 2012, it appears pre-numbered receipt slips are issued for all monies received and receipt slips are no longer used as notations to support vendor payments. Receipt slip numbers are recorded on applicable deposit slips and the method of payment is recorded on receipt slips. The original copies of voided receipt slips are properly defaced and retained. Deposits for March 2012 appeared timely.

2.4 Bank Reconciliations

Formal bank reconciliations were not performed for the city's four checking accounts. In addition, some receipts were not recorded in the check register and some disbursements were not recorded accurately in the check register. As a result, accurate cash balances were not maintained by the city.

Recommendation

The Board of Aldermen maintain accurate cash balances in the check registers or on a cash control ledger, and ensure monthly bank reconciliations are prepared for all city accounts.

Status

Implemented

The city maintains balances for all checking accounts and prepares monthly bank reconciliations.

3.1 Accounting Records

Some accounting records maintained by the city accountant were not accurate. In addition, the accounting records were not reviewed by the Board of Aldermen or other city employees for errors or omissions. Our review noted numerous and significant errors on the December 31, 2010, balance sheet prepared by the accountant.

Recommendation

The Board of Aldermen adopt procedures to review and ensure the accuracy of the financial records prepared by the accountant.

Status

In progress

The city has not changed procedures regarding the preparation of the accounting records by the accountant, and the Board of Aldermen does not review the records prepared by the accountant; however, a City Treasurer has been appointed, and the City Clerk and City Treasurer are training to prepare and maintain all city accounting records.



City of Howardville
Follow-up Report on Prior Audit Findings
Status of Findings

5.1 Bidding

Although the city had a procurement policy which required city officials to solicit bids for all items or services when possible and advertise for bids for items or services costing more than \$5,000, the city did not solicit bids, advertise for bids, retain sufficient bid documentation, or document sole source procurement for most purchases.

Recommendation

The Board of Aldermen ensure bids are solicited for all applicable purchases in accordance with city ordinances and sufficient documentation is maintained.

Status

In progress

City officials indicated no purchases over \$5,000 have been made since the audit but they intend to follow city bidding procedures for future purchases. Our scan of city records subsequent to the audit noted no purchases over \$5,000.

5.4 Disbursement Approval Process and Missing Invoices

Monthly disbursement lists were not always prepared and were not retained with meeting minutes or compared to supporting invoices. City procedures required the City Clerk to prepare a list of disbursements and present the list and supporting invoices at the monthly meetings for board approval. Lists for several months during 2010 could not be located. While meeting minutes included a statement that disbursements were approved, disbursement lists were not included with meeting minutes to document specific disbursements approved by the Board of Aldermen.

For 32 of 53 disbursements reviewed (60 percent) during the audit, the city was unable to locate invoices or other supporting documentation. These 32 disbursements were for various supplies and services totaling approximately \$17,500.

Recommendation

The Board of Aldermen ensure complete disbursement lists are prepared, approved, and retained with meeting minutes. The lists should be compared to invoices to ensure supporting documentation is obtained and retained for all disbursements.

Status

Implemented

Disbursement lists are prepared and filed with the monthly meeting minutes. Invoices are filed monthly to correspond with the disbursement lists, and board members initial the invoices to denote their approval.

6. Sewer and Sanitation Services

Significant weaknesses existed in the controls and procedures related to sewer and sanitation services. The city had an arrangement with the local public water supply district to bill and collect city sewer fees for all



City of Howardville
Follow-up Report on Prior Audit Findings
Status of Findings

properties connected to the city sewer system, and sanitation fees for all properties located within the city.

6.1 Written Contract

The city did not have a written contract with the public water supply district for the collection of sewer and sanitation fees. As a result, there appeared to be a lack of understanding of the duties of each party.

Recommendation

The Board of Aldermen enter into a written agreement with the public water supply district for the collection of sewer and sanitation fees which defines the responsibilities of each party and the compensation to be paid for services provided.

Status

In progress

A written contract with the public water supply district has been drafted but has not been approved or signed.

6.2 Fee Collections

The city did not maintain separate accounting records for each individual sewer and sanitation customer, making it difficult to track payments received from each customer or to determine customers who were delinquent. In addition, the city did not have policies or procedures requiring customers to establish sewer or sanitation accounts with the city. Services were automatically added to properties when the public water supply district connected water service to properties in the city limits.

The only record maintained by the city was the monthly collection list provided by the district which listed each individual who made a sewer or sanitation payment. However, it appeared the city did not review these lists for mathematical accuracy or duplicate payments, and our review noted various errors on these lists.

Recommendation

The Board of Aldermen maintain accounting records for each sewer and sanitation customer listing all amounts billed and collected. In addition, the city should develop procedures to ensure sewer and sanitation accounts are established for all customers, applicable fees are billed monthly, collections are accounted for properly, and account balances are monitored.

Status

In progress

The city has established separate accounts for each customer. City officials indicated each individual customer account is monitored to the extent possible, and the city is working with the public water supply district to ensure all collections are accurately reported to the city and all customer accounts have been properly established.



City of Howardville
Follow-up Report on Prior Audit Findings
Status of Findings

6.3 Delinquent Billing and
Shutoff Procedures

The city did not have procedures to bill delinquent accounts, assess delinquent penalties, or shutoff or discontinue service for nonpayment of sewer and sanitation fees. Public water supply district officials indicated water service was shutoff for nonpayment of district water fees; however, neither the city nor the district billed or pursued collection of delinquent city sewer fees nor initiated sewer shutoff procedures. In addition, neither the city nor the district billed delinquent sanitation fees or initiated procedures to discontinue trash pickup for nonpayment of fees.

Recommendation

The Board of Aldermen ensure delinquent sewer and sanitation fees are properly billed and monitored. In addition, the board should consider adopting policies to assess penalties and service discontinuation for customers with delinquent accounts.

Status

In progress

The city established separate accounts for each customer and is monitoring individual balances. Formal policies for delinquent penalties and service discontinuation have been discussed and the city plans to adopt an ordinance regarding these matters.

7.1 Tracking and Recording
Restricted Monies

The city did not properly track and record various restricted monies. For the year ended June 30, 2011, the city received approximately \$13,000 in state motor vehicle-related monies and \$600 in Law Enforcement Training monies. Additionally, approximately \$14,250 in disaster assistance monies from SEMA were distributed to the city in 2009. While these monies were restricted for specific purposes, they were deposited into the General Fund and the related disbursements or balances were not tracked separately. As a result, the city could not determine at a point in time what portion of the General Fund represents restricted street, training, or grant monies.

Recommendation

The Board of Aldermen determine the amount of restricted monies in the General Fund and establish separate funds or a separate accounting of these monies as required by state law and grant agreements.

Status

Partially implemented

The city has established separate receipt and disbursement categories for the restricted monies but has not attempted to identify the balances of restricted monies held in the General Fund.

8. Meeting Minutes and
Ordinances

Several concerns were noted with meeting minutes, Sunshine Law compliance, and city ordinances.

8.1 Meeting Minutes

Minutes were not maintained in an orderly manner or in a centralized location. Some minutes were maintained in a handwritten journal, some



City of Howardville
Follow-up Report on Prior Audit Findings
Status of Findings

minutes were maintained electronically, and some minutes were located on loose paper in a file cabinet. In addition, minutes were not signed by any city official. As a result, personnel had difficulty locating some minutes, and it was unclear whether some minutes were officially approved by the board.

Open meeting minutes did not document reasons for closing the meeting or the specific section of law that allowed for closed meetings. Minutes were not maintained for some closed meetings, and in one instance closed session discussions were documented as part of the open meeting minutes. There was no evidence votes were taken during open meetings to close certain meetings, nor was there evidence of votes taken for other various motions passed in open meetings.

Recommendation

The Board of Aldermen ensure meeting minutes are prepared, signed, and maintained in an orderly manner for all open and closed meetings, and the minutes include records of all votes taken. In addition, reasons for going into closed meetings should be documented in the open minutes.

Status

Implemented

Meeting minutes are typed and filed in a central location and signed by the preparer. While no closed meetings were held subsequent to our audit, city officials indicated this issue has been discussed with the City Attorney and they plan to follow applicable laws pertaining to closed meetings.

8.2 Ordinances

Ordinances were not complete, up-to-date, and maintained in an organized manner. While ordinances appeared to have been codified in the mid-1970s, the ordinances were maintained in a file folder and there was no official ordinance book. An index of all ordinances passed and rescinded by the city was not maintained, and some sections of the code could not be found.

Recommendation

The Board of Aldermen update ordinances, ensure a complete set of ordinances is maintained, and prepare an index of all city ordinances passed and rescinded.

Status

In progress

The city has prepared an official book of all known ordinances and an index of recently passed and rescinded ordinances. City officials indicated they are working with the City Attorney to codify and officially adopt a complete set of ordinances.

8.3 Officials' Compensation

The city had not adopted ordinances to establish the compensation paid to city officials and employees, as required by state law. While the city adopted general ordinances for elected and appointed officials that state the



City of Howardville
Follow-up Report on Prior Audit Findings
Status of Findings

Recommendation

"Board of Aldermen shall fix compensation by ordinance," the ordinances did not address the specific compensation to be paid

Status

The Board of Aldermen establish the compensation of all city officials and employees by ordinance in accordance with state law.

In progress

City officials indicated this matter has been discussed with the City Attorney and they are working on ordinances to establish the compensation of all elected and appointed officials.