



Claire McCaskill

Missouri State Auditor

July 2005

City of Houstonia, Missouri

Year Ended December 31, 2004



Office Of The
State Auditor Of Missouri
Claire McCaskill

July 2005

The following problems were discovered as a result of an audit conducted by our office of the City of Houstonia, Missouri.

Numerous recording, depositing, disbursing, and reporting errors were made and not detected in the city's accounting records during 2004. It appears the board's failure to adequately review the monthly financial statement and/or bank reconciliations contributed to these conditions. At December 31, 2004, the city's bank accounts and fund ledgers were in disagreement and the fund ledgers' and checkbook registers' balances were incorrect.

The city does not have a formal bidding policy. The decision of whether to solicit bids is made on an item-by-item basis. Only one bid was obtained for repair of the city well and chlorination control costing \$11,179. Also, bids were either not solicited or bid documentation was not retained for a mower totaling \$1,450, sewer line installation totaling \$1,020, or for various maintenance and repair services totaling over \$12,000. Additionally, the city did not always have formal written agreements with companies or individuals providing services to the city.

Of disbursements tested, vendor invoices or other supporting documentation were not properly obtained and/or retained for purchases totaling over \$1,400 in fiscal year 2004. The board does not review and approve invoices or other supporting documentation before payment is made. Although the minutes document a general reference that the financial report/disbursements are approved, a listing of all disbursements is not prepared to accompany the minutes. Also, the city has not established adequate procedures to ensure duplicate payments are not made, as invoices are not always marked paid.

The city does not periodically perform a formal review of the adequacy and reasonableness of its water and sewer rates. There is no documentation to support how the water and sewer fees were calculated or how much money is necessary to meet future repairs and replacement costs.

Also included in the report are recommendations related to accounting procedures, budgeting, planning and financial reporting, minutes, meetings, and city ordinances, payroll and personnel matters, and capital asset records.

All reports are available on our website: www.auditor.mo.gov

YELLOW SHEET

CITY OF HOUSTONIA

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STATE AUDITOR'S REPORT



CLAIRE C. McCASKILL
Missouri State Auditor

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

The State Auditor was petitioned under Section 29.230, RSMo, to audit the city of Houstonia, Missouri. The scope of our audit of the city included, but was not necessarily limited to, the year ended December 31, 2004. The objectives of this audit were to:

1. Perform procedures to evaluate the petitioners' concerns.
2. Review internal controls over significant management and financial functions.
3. Review compliance with certain legal provisions.

To accomplish these objectives, we reviewed minutes of meetings, written policies, financial records, and other pertinent documents; interviewed various personnel of the city, as well as certain external parties; and tested selected transactions. Our methodology included, but was not necessarily limited to, the following:

1. We obtained an understanding of petitioner concerns and performed various procedures to determine their validity and significance.
2. We obtained an understanding of internal controls significant to the audit objectives and considered whether specific controls have been properly designed and placed in operation. However, providing an opinion on internal controls was not an objective of our audit and accordingly, we do not express such an opinion.
3. We obtained an understanding of legal provisions significant to the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contract, grant agreement, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting significant instances of noncompliance with the provisions. However, providing an opinion on compliance with those provisions

was not an objective of our audit and accordingly, we do not express such an opinion.

Our audit was conducted in accordance with applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such procedures as we considered necessary in the circumstances.

The accompanying History, 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 the audit of the city.

The accompanying Management Advisory Report presents our findings arising from our audit of the city of Houstonia, Missouri.

A handwritten signature in black ink that reads "Claire McCaskill". The signature is written in a cursive, flowing style.

Claire McCaskill
State Auditor

April 13, 2005 (fieldwork completion date)

The following auditors participated in the preparation of this report:

Director of Audits: Thomas J. Kremer, CPA
Audit Manager: Toni M. Crabtree, CPA
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MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

CITY OF HOUSTONIA
MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

1. Accounting Controls and Procedures
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The city needs to improve its accounting controls and procedures. The City Clerk's records contained many errors which were not detected and/or corrected, which resulted in inaccurate and incomplete financial reports. In addition, the petty cash fund is not operated on a imprest basis and bond coverage is not adequate.

One individual served as the City Clerk/City Treasurer for several months in 2004, while the City Collector served as City Clerk/City Treasurer in April 2004 and from October through December 2004. A new City Clerk was appointed in January 2005.

- A. The City Clerk is responsible for all record-keeping duties of the city, including duties which would normally be performed by a City Treasurer. The duties include billing utility (water, sewer, and trash) fees, monitoring delinquent utility accounts, receiving and depositing monies, maintaining payroll records, recording receipts and disbursements, preparing and distributing checks, and preparing monthly financial reports and bank reconciliations. No personnel independent of the cash custody and record-keeping functions provide adequate supervision or review of the work performed by the City Clerk.

Attorney General's Opinion No. 24, 1955 to Dodds, concluded that in a fourth-class city, the holding of the positions of City Clerk, City Treasurer, and City Collector, or any two of these offices, by the same person at the same time would be incompatible. Holding two of these offices does not allow the separation of duties necessary for a proper evaluation and review of financial transactions. The current procedures jeopardize the system of independent checks and balances intended by state law. If segregating these offices is not possible, at a minimum, procedures for adequate independent reviews should be established. The errors noted below may have been detected and corrected on a timely basis if an independent review had been performed.

- B. Numerous recording, depositing, disbursing, and reporting errors were made and not detected in the city's accounting records during 2004. It appears the board's failure to adequately review the monthly financial statement and/or bank reconciliations contributed to these conditions.

As a result, at December 31, 2004, the city's bank accounts and fund ledgers were in disagreement and the balances for the fund ledgers and checkbook registers were incorrect. Also, inaccurate financial statements and utility records were prepared during 2004.

The accounting records are manually prepared and include a checkbook register for each of the city's two bank accounts; a ledger for each city fund listing the individual receipts and disbursements for that fund; monthly financial statements listing the beginning and ending balance for each fund, with the receipts and disbursements for each fund; individual ledgers for each utility customer which lists monthly water usage and the amounts billed and paid for water, sewer, and garbage services; and billing statements for the utility services.

Errors identified in the accounting records include:

- Deposits were not always recorded in the checkbook registers.
- A balance in the checkbook registers was not always maintained.
- Deposits were not always recorded in the fund ledgers and/or recorded in the wrong fund ledger.
- Monies were not always recorded on deposit slips when deposited.
- Interest earned was not always properly allocated to the various funds.
- Numerous mathematical errors were made in the checkbook registers, fund ledgers, and utility records.
- Disbursements were not always correctly recorded in the fund ledgers.
- Disbursements were not always made by check.
- Monthly reconciliations of the bank balances to the accounting records were not performed in October through December 2004.
- A chart, which identifies usage and amount due by 1,000 gallons of water, was not used to calculate utility statements.
- Late charges were not consistently applied to overdue utility accounts.
- Payments for penalties and overpayments were not always recorded on the customer's utility record.

The city's monthly financial reports were not always complete or accurate because of the errors in the accounting records. Therefore, we reconciled the bank accounts to the accounting records at December 31, 2004 and made corrections as needed to the schedule presented in the History, Organization, and Statistical Information section of this report. Complete and accurate financial reports are necessary for the board to make informed decisions and provides a basis for monitoring financial activity.

All bank accounts should be reconciled to the accounting records on a monthly basis. A proper reconciliation helps ensure receipts and disbursements are properly handled and recorded, and that bank and book errors will be detected and corrected in a timely manner. All disbursements of city funds should be made by check and all monies received should be deposited in a city bank account and recorded in the city's accounting records. Additionally, using a chart which identifies the amount due per 1,000 gallons of water would help ensure customer's utility statements are mathematically correct and the citizens are properly billed.

- C. Receipts were not deposited intact or on a timely basis and cannot be readily reconciled to the daily receipt listing. Monies are generally deposited once a week. In addition, city officials indicated that varying amounts of cash are withheld from deposits and used as a petty cash/change fund. For example, from January 24 through February 10, 2005 receipts totaling \$2,134 were received for the General Fund; however, the deposit on February 10 totaled \$2,046. The remainder, \$88 was apparently withheld from the deposit for petty cash.

To adequately safeguard receipts and reduce the risk of loss, theft or misuse of funds, all deposits should be made intact daily or when accumulated receipts exceed of \$100. Additionally, the recorded receipts should be reconciled to the composition of deposits.

- D. The petty cash fund is not operated on a imprest basis and is also used as a change fund. The fund is not reviewed by a person independent of the accounting process. As noted above, varying amounts of cash are withheld from deposits as needed to replenish the balance.

The petty cash fund should be operated on an imprest basis, meaning that cash and the invoices should always total the established balance, and checks issued to replenish the fund should equal the amount of invoices. Periodically, the fund should be counted and reconciled to the imprest balance by an independent person to ensure the funds are being accounted for properly, to detect errors, and to prevent these monies from being misused. If a change fund is needed, it should be established and maintained at a constant amount.

- E. Bond coverage for city officials is not adequate. Only the City Clerk and City Collector are bonded. However, the mayor and one alderman are authorized to sign checks. The failure to bond all persons with access to assets exposes the city for risk of loss.

WE RECOMMEND the Board of Aldermen:

- A. Consider appointing separate individuals to the positions of City Clerk and City Treasurer. If this is not possible, at a minimum, procedures for an adequate independent review of the record keeping functions should be established.

- B. Require the City Clerk to reconcile all bank accounts to the accounting records on a monthly basis and retain the documentation. The board should also ensure all disbursements are made by check, all monies received are deposited and recorded in the city's accounting record, and the financial reports are complete, accurate, and provide sufficient information to monitor financial activity. Additionally, the board should consider using a chart, which identifies the amount due per 1,000 gallons of water, when preparing utility statements.
- C. Ensure all receipts are deposited intact daily or when accumulated receipts exceed \$100. The recorded receipts should be reconciled to the composition of deposits.
- D. Establish an imprest amount for the petty cash fund and ensure the fund is periodically counted and reconciled to the imprest balance by an independent person. If a change fund is needed, it should be established and maintained at a constant amount.
- E. Obtain adequate bond coverage for all persons with access to city funds.

AUDITEE'S RESPONSE

A,D

&E. We agree. We plan to implement these recommendations.

B&C. We agree. These recommendations have been implemented.

2.	Budgeting, Planning, and Financial Reporting
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Significant weaknesses were identified in the city's budgeting, planning, and financial reporting. Budgets are not prepared as required by state law, an annual maintenance plan for city streets is not prepared, and the city's financial report for the year ended December 31, 2004 was not prepared and submitted to the State Auditor's Office.

- A. The city does not prepare and adopt annual budgets in accordance with state law. Section 67.010, RSMo, requires the preparation of an annual budget which represents a complete financial plan for the ensuing year.

A complete and well-planned budget, in addition to meeting statutory requirements, can serve as a useful management tool by establishing specific costs and revenue expectations for each area of city operations. A budget can also provide a means to effectively monitor actual costs by periodically comparing budgeted amounts to actual expenditures. A complete budget should include separate revenue and expenditure estimations by fund, and include the beginning available resources and reasonable estimates of ending available resources. The budget should also include a budget message and comparisons of actual or estimated revenues and expenditures for the two preceding years.

- B. The city does not prepare an annual maintenance plan for city streets. In 2004, the city spent over \$34,000 for street maintenance and repair.

A formal maintenance plan should be prepared in conjunction with the annual fiscal budget and include a description of the roads to be worked on, the type of work to be performed, an estimate of the quantity and cost of materials to be needed, and other relevant information. The plan should be included in the budget message and be approved by the council. In addition, a public hearing should be held to obtain input from city residents.

- C. The city did not prepare and submit an annual financial report to the State Auditor's Office for the year ended December 31, 2004, as required by state law. The financial report for the year ended December 31, 2003 was filed with the State Auditor's Office in May 2004. The city's financial report is due by April 30, each year.

Section 105.145, RSMo, requires political subdivisions to file an annual report of the financial transactions of the political subdivision with the State Auditor's Office. The board should ensure annual financial reports submitted to the State Auditor's Office accurately and completely reflect the financial activity and balances of the various city funds.

WE RECOMMEND the Board of Aldermen:

- A. Prepare annual budgets in accordance with state law and make periodic comparisons between budgeted and actual revenues and expenditures.
- B. Prepare an annual road maintenance plan as a part of the budget.
- C. Submit complete and accurate annual financial reports to the State Auditor's Office as required by state law.

AUDITEE'S RESPONSE

A&B. We agree. We plan to implement these recommendations.

C. We agree. We plan to complete the report as soon as possible.

3. Minutes, Meetings, and Ordinances

Numerous problems were noted with the city's procedures for conducting and documenting board meetings, providing public access to records, and establishing and maintaining ordinance records.

- A. Board minutes are not signed to attest to their completeness and accuracy. The board minutes should be signed by the Mayor and City Clerk upon approval to provide an independent attestation that the minutes are a correct record of the matters discussed and actions taken during the board meetings.
- B. Although city officials indicated that a tentative agenda is prepared and posted for each board meeting, many meeting agendas were not retained during the year ending December 31, 2004. In addition, the agendas retained did not always clearly indicate issues to be discussed at the board meetings. For example, the agenda for the August 2004 meeting did not indicate the appointment of a new mayor was scheduled; however, the board appointed a new mayor during the meeting. Also, during the January 2005 meeting, a lead ban ordinance was approved; however, the vote on this ordinance was not included on the tentative agenda for this meeting.

Section 610.020, RSMo, requires a tentative agenda and a meeting notice be posted for all open meetings of a public governmental body. The city should ensure that agendas are retained to document compliance with state law. In addition, the agendas should include sufficient detail about the issues to be discussed.

- C. Board minutes did not always include sufficient detail of matters discussed and action taken. For example, bid information is not always documented. In addition, the minutes do not always indicate that ordinances are introduced as a bill and read twice before approval.

Section 610.020, RSMo, requires minutes of meetings be taken and retained by all governmental bodies and to include the date, time, place, members present, members absent, and a record of votes taken. Minutes serve as the only official permanent record of decisions made by the board. Therefore, it is necessary the minutes be prepared to clearly document all business conducted.

- D. The city showed no evidence on how the following subjects would allow for a closed meeting: discussions about city insurance, approving the mayor to co-sign checks, cost of business licenses, purchase of a new pump, and which employee would purchase office supplies. Also, open meeting minutes did not document the related vote to close the meeting and the specific reason for closing the meeting. In addition, decisions made in closed meetings are not recorded in the regular minutes or otherwise publicly posted.

Section 610.021, RSMo, allows the board to close meetings to the extent the meetings relate to specified subjects, including litigation, real estate transactions, and personnel issues and requires certain matters discussed in closed meetings to be made public upon final disposition. Section 610.022, RSMo, requires a closed meeting, records, or vote be held only for the specific reasons announced publicly at an open session. In addition, public governmental bodies should not discuss

any other business during the closed meeting that differs from the specific reasons used to justify such meeting, record, or vote.

The board should close meetings only for the specific topics allowed by state law and ensure the discussion is restricted to the specified topic(s). Also, the board should ensure the final disposition of certain matters discussed at closed meetings should be made public, as applicable.

- E. The city does not have a formal policy regarding public access to city records. A formal policy would establish guidelines for the city to make the records available to the public. This policy should identify a person to contact, provide an address to mail such requests, and establish a cost for providing copies of public records.

Section 610.023, RSMo, lists requirements for making city records available to the public. Section 610.026, RSMo, allows the city to charge fees for copying public records, not to exceed the city's actual cost of document search and duplication.

- F. The city ordinances do not appear complete and up-to-date. Additionally, the city has not adopted ordinances needed to govern the city.

- 1. Many of the city ordinances appear old and outdated. In addition, the summary listing of ordinances passed and rescinded is not complete. For example, although the city no longer has police officers or a municipal court, the ordinances related to these functions have not been rescinded. Also, some ordinance numbers are missing from the summary list of ordinances, and older ordinances relating to water and sewer rates are not identified as repealed and replaced.

Since ordinances represent legislation passed by the board to govern the city and its residents, it is important that they be maintained in a complete, well-organized, and up-to-date manner. An index of all ordinances passed and repealed by the city could help keep track of additions and changes made to city ordinances. A complete set of the original signed ordinances should be maintained at city hall.

- 2. Ordinances have not been adopted which are needed to govern the city. For example, the city does not have ordinances regarding personnel policies and procedures such as hiring practices or employee benefits. Also, the city allows some customers who live outside the city limits to receive water and sewer services for an additional monthly fee. But this practice has not been adopted by ordinance.

The city's policies, procedures, and practices should be set forth in the ordinances to give the taxpayers information on how the city is to be governed.

- G. The board does not hold public hearings on the city's proposed property tax rate and the rate is not set by ordinance. Rather, the city periodically holds an election to increase its tax rate. However, it appears this election provides for the maximum rate the city can levy.

Section 67.110.2, RSMo, requires each governing body to hold at least one public hearing prior to approval of the proposed tax rates at which citizens may be heard. This section also provides guidance on what information is to be included at the public hearing. Sections 94.190.3 and 94.210, RSMo, require the property tax rate be set annually by ordinance.

WE RECOMMEND the Board of Aldermen:

- A. Ensure the board minutes are signed by the Mayor and the City Clerk to attest to their completeness and accuracy.
- B. Ensure tentative agendas of all board meetings are posted and retained. In addition, the agendas should include sufficient detail about the issues to be discussed.
- C. Ensure minutes clearly document all business conducted.
- D. Ensure that only items allowed by state law are discussed in closed meetings. The board should also ensure minutes state the specific reasons for going into a closed meeting and that only the items specified are discussed in the closed meeting. Also, the board should ensure the final disposition of certain matters discussed at closed meetings is made public.
- E. Develop written policies regarding procedures to obtain access to, or copies of, public city records.
- F. Ensure a complete and up-to-date set of codified ordinances is maintained. This would include passing new ordinances where appropriate and required.
- G. Hold a public hearing on the proposed property tax rate and set the rate by ordinance, as required by state law.

AUDITEE'S RESPONSE

A-C. We agree. These recommendations have been implemented.

D-G. We agree. We plan to implement these recommendations.

The city does not have a formal bidding policy and formal written agreements were not prepared for some services. Also, vendor invoices or other supporting documentation were not obtained/retained for some disbursements and the board does not review and approve disbursements before payment is made. In addition, adequate procedures were not in place to prevent duplicate payments.

- A. The city does not have a formal bidding policy. As a result, the decision of whether to solicit bids for a particular purchase is made on an item-by-item basis. For example, only one bid was obtained for large purchases such as for repair of the city well and chlorination control costing \$11,179 and property and liability insurance costing \$3,815. Also, bids were either not solicited or bid documentation was not retained for a mower totaling \$1,450, for installing a sewer line totaling \$1,020, for a water heater and chemical feed pump totaling \$939, or for various maintenance and repair services totaling over \$12,000. Additionally, requests for proposals were not prepared for the city's legal services, which totaled over \$800 in 2004.

Formal bidding procedures for major purchases provide a framework for economical management of city resources and help ensure the city receives fair value by contracting with the lowest and best bidders. Competitive bidding helps ensure all parties are given an opportunity to participate in the city's business. A formal policy could include when various approaches for bidding, such as the requirement to advertise for sealed bids, are appropriate. Whichever approach is used, complete documentation should be maintained of all bids received and reasons why the bid was selected.

- B. The city did not always have formal written agreements with companies or individuals providing services to the city, such as the various maintenance and repair services and legal services mentioned above.

The city should obtain formal written agreements, as needed, which specify the services to be rendered and the manner and amount of compensation to be paid. Furthermore, Section 432.070, RSMo, requires contracts for political subdivisions to be in writing.

- C. For disbursements tested, vendor invoices or other supporting documentation were not properly obtained and/or retained for disbursements totaling over \$1,400 in fiscal year 2004. We contacted some vendors and determined these disbursements included the purchase of equipment parts, office supplies, rock, and labor on repairs.

All disbursements should be supported by paid receipts and/or vendor provided invoices to ensure the obligations were actually incurred and the disbursements

represent appropriate uses of public funds. The board should ensure adequate documentation is available prior to approval of the payment.

- D. The board does not review and approve invoices or other supporting documentation before payment is made. When an invoice/supporting documentation is received, the City Clerk prepares the check, the check is signed by the Mayor and a council member, and the City Clerk mails the check. Then, each month the board is given a financial report with a total amount expended for the month, which is approved by the board. However, as discussed in MAR finding number 1, the monthly financial report is not always accurate and complete.

Although the minutes document a general reference that the financial report/disbursements are approved, a listing of all disbursements is not prepared to accompany the minutes. In addition, invoices/supporting documentation are not provided to the board for their review; however, they are available upon request.

To adequately document the board's review and approval of all disbursements, a detailed list of checks should be prepared, signed or initialed by the aldermen to denote their approval, and retained with the official minutes. In addition, supporting documentation should be reviewed by the board or someone independent of the disbursement process before payment is made. Failure to properly review all invoices and supporting documentation, and to document authorizations, increases the possibility of inappropriate disbursements occurring.

- E. The city has not established adequate procedures to ensure duplicate payments are not made. Invoices are not always marked paid. On June 7, 2004, a check, totaling \$126, was written for supplies and 3 days later a second check was issued for the same purchase. To help prevent duplicate payments in the future, invoices should be marked paid after payment.

WE RECOMMEND the Board of Aldermen:

- A. Establish formal bidding policies and procedures, with provisions for documentation of the justification for selecting and rejecting bids or proposals.
- B. Obtain formal written agreements for services which specify the services to be rendered and the manner and amount of compensation to be paid, as applicable.
- C. Obtain and retain adequate supporting documentation, including invoices, for all disbursements made.
- D. Ensure the approval of all disbursements is adequately documented by including a listing of all approved disbursements in the board minutes. In addition, the board

should review and approve the disbursement of city funds prior to the disbursement being made.

- E. Require invoices to be marked paid after the payment.

AUDITEE'S RESPONSE

A&B. We agree. We plan to implement these recommendations.

C-E. We agree. These recommendations have been implemented.

5. Payroll and Personnel Matters

Employee compensation and the term of office for the City Clerk is not set by ordinance. In addition, the city does not withhold all applicable taxes on employee compensation, the allocation of the City Clerk's wages to the various city funds is not supported by documentation, and personnel files are not maintained for city employees.

- A. The city has not established an ordinance for employee compensation or the term of office for the City Clerk. The last ordinance approved by the board for employee compensation was in April 1991 and this ordinance does not reflect the current positions and wages for city employees. Section 79.270, RSMo, provides that city officials and employee salaries be set by ordinance and Section 79.320, RSMo, requires the City Clerk's duties and term of office be established by ordinance.

Establishing ordinances to set compensation rates and terms of office, in addition to meeting statutory requirements, document the approved amounts to be paid and eliminates misunderstandings regarding the amount of pay each city official and employee receives. Also, Section 79.270, RSMo, provides that "...the salary of an officer shall not be changed during the time for which he was elected or appointed." Thus, the term of office is significant in determining when pay increases are allowable under state law.

- B. Except for the City Clerk's compensation, the city did not withhold federal or state income taxes from compensation paid to the city employees. Furthermore, the city did not have employee withholding forms (W-4) on file for any city employee.

The Internal Revenue Service (IRS) requires employers to withhold and remit federal income taxes and ensure a form W-4 is completed by each employee. If an employee does not submit a W-4 then the city is to withhold federal taxes based upon a single person with no withholding. Similarly, Chapter 143, RSMo, includes requirements for reporting wages and withholding state income taxes.

- C. The method of allocating the City Clerk's wage expenses to the city's funds is not supported by documentation. The City Clerk's wages are allocated 40 percent to the General Fund, 29 percent to both the Water Fund and Sewer Fund, and 2 percent to the Garbage Fund. But, there is no documentation to support how these percentages were determined.

The funds of the city are established as separate accounting entities to account for specific activities of the city. Reflecting expenses in the proper fund is necessary to accurately determine the results of operations and/or specific activities; thus, enabling the city to establish the level of taxation and/or user fees necessary to meet operating costs.

- D. Personnel files are not maintained for city employees. Personnel files should be maintained for each employee to provide documentation of personnel actions and to provide readily accessible work histories. In addition, personnel files should contain documentation of the board's authorization for the hiring of that employee, the pay rate at which the employee was hired, and any subsequent changes in pay rate.

WE RECOMMEND the Board of Aldermen:

- A. Establish the compensation of city officers and employees by ordinance. In addition, the duties and term of office for the City Clerk should be set by ordinance.
- B. Ensure payroll taxes are properly withheld and remitted for all wages paid and that all individuals receiving wages from the city have a properly completed W-4 on file.
- C. Ensure the City Clerk's wage expenses are properly allocated to the various funds and are supported by adequate documentation.
- D. Ensure complete personnel files are maintained for all city employees which include authorization for the employee's hiring, the initial pay rate and any subsequent increases, and any other personnel actions.

AUDITEE'S RESPONSE

A&C. We agree. We plan to implement these recommendations.

B&D. We agree. These recommendations have been implemented.

6.

Water and Sewer Rates

The city does not periodically perform a formal review of the adequacy and reasonableness of its water and sewer rates. There is no documentation to support how

the water and sewer fees were calculated or how much money is necessary to meet future repair and replacement costs. The Water Fund financial records show a loss of almost \$3,800 for 2004, while the Sewer Fund records show a profit of over \$8,700.

Water and sewer fees are user charges which should cover the costs of providing the related service and maintaining the system, but the rates should not be set at a level which results in an excessive fund balance. The city should perform and document a detailed review of its water and sewer costs, including depreciation, and establish rates to cover the total costs of operations without generating excessive profits.

WE RECOMMEND the Board of Aldermen periodically review water and sewer rates to ensure sufficient revenues are generated to adequately maintain the systems without generating excessive profits.

AUDITEE'S RESPONSE

We agree. We plan to look into this situation.

7. Capital Asset Records

The city has not prepared and maintained permanent, detailed property records for its capital assets, including land, buildings, equipment, and furniture. In addition, property is not tagged for specific identification and an annual physical inventory of the property is not performed.

Property records for capital assets are necessary to ensure accountability for all items purchased and owned and for determining the proper amounts of insurance coverage. To develop appropriate records and procedures for capital assets, the city needs to undertake a comprehensive review of all property owned by the city. Assets should be counted, tagged for specific identification, and recorded by description and serial number in a detailed property ledger at historical cost or estimated historical cost if the original cost is not available. The city should properly record all capital asset transactions, and ensure the accuracy of the recorded capital assets. Periodically, the city should take physical counts of its assets and compare to the detailed records.

WE RECOMMEND the Board of Aldermen maintain records for capital assets that include all pertinent information for each asset, such as tag number, description, cost, acquisition date, location, and subsequent disposition. In addition, annual physical inventories should be performed and compared to the detailed records.

AUDITEE'S RESPONSE

We agree. We plan to implement this recommendation.

HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

CITY OF HOUSTONIA, MISSOURI
HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

The city of Houstonia is located in Pettis County. The city was incorporated in 1879 and is currently a fourth class city. The population of the city in 2000 was 275.

The city government consists of a mayor and four-member board of aldermen. The members are elected for two-year terms. The mayor is elected for a four-year term, presides over the board of aldermen, and votes only in the case of a tie. The Mayor, Board of Aldermen, and other officials during the year ended December 31, 2004, are identified below. The Mayor and Board of Aldermen do not receive compensation.

Mayor and Board of Aldermen	Dates of Service During the Year Ended December 31, 2004	
Roger Hall, Mayor (1)	August 2004 to December 2004	
Roberta Nelson, Mayor (2)	April 2004 to July 2004	
Eva Nell Bratton, Mayor	January 2004 to March 2004	
Brenda Cramer, Alderwoman	January 2004 to December 2004	
Leveta Hopkins, Alderwoman (3)	January 2004 to December 2004	
Melvin Cramer, Alderman (4)	April 2004 to December 2004	
Eva Nell Bratton, Alderwoman (5)	April 2004 to December 2004	
Roberta Nelson, Alderwoman	January 2004 to March 2004	
Tresa Killion, Alderwoman	January 2004 to March 2004	
Other Principal Officials	Dates of Service During the Year Ended December 31, 2004	Compensation Paid for the Year Ended December 31, 2004
Alma Sevier, City Collector (6)	April 2004 – December 2004	\$ 5,328
Wilma McFail, City Clerk and City Collector	January 2004 – March 2004	2,376
Jessica Bales, City Clerk	May to August 2004	3,199

- (1) Mr. Hall was appointed Mayor in August 2004. Mr. Wallace Smiley was elected Mayor in April 2005.
- (2) Ms. Roberta Nelson was elected Mayor in April 2004 and resigned in July 2004.
- (3) Ms. Courtney March was elected in April 2005.
- (4) Ms. Allison Tuggle was elected in June 2005.

- (5) Mr. Randy Werneke was elected in April 2005.
- (6) Ms. Sevier served as City Clerk and City Collector in April 2004 and from September to December 2004. She resigned in January 2005 and Ms. Allison Tuggle was appointed City Collector. Ms. Reeca Arnold was elected City Collector in April 2005. Ms. Gayla Stuerke was appointed City Clerk in January 2005.

In addition to the officials identified above, the city employed two part-time employees on December 31, 2004.

Assessed valuations and tax rates for 2004 were as follows:

ASSESSED VALUATIONS

Real estate	\$ 601,792
Personal property	<u>309,453</u>
Total	<u><u>\$ 911,245</u></u>

TAX RATE(S) PER \$100 ASSESSED VALUATION

	Rate
General Fund	\$ <u>1.00</u>

The city receives a portion (based on population) of a county-wide sales tax. The sales tax is to be used for street, sewer, water and storm water projects. The tax rate is \$.005 per \$1 of retail sales. This county-wide sales tax will expire in 2010.

A summary of the city's financial activity for the year ended December 31, 2004 follows.

RECEIPTS	Water						Total
	General Fund	Street Fund	Water Fund	Sewer Fund	Garbage Fund	Deposit Fund	
Property taxes	\$ 6,567	0	0	0	0	0	6,567
County sales tax	0	42,448	0	0	0	0	42,448
Motor fuel and motor vehicle taxes	0	11,445	0	0	0	0	11,445
Utility franchise taxes	10,160	0	0	0	0	0	10,160
Licenses, permits, and other taxes	24	0	0	0	0	0	24
Interest	327	134	341	345	65	0	1,212
Water, sewer, and trash collections	0	0	23,936	15,851	9,813	0	49,600
Water deposits	0	0	0	0	0	500	500
Insurance proceeds	0	0	9,524	0	0	0	9,524
Other	653	17	0	0	0	0	670
Total Receipts	17,731	54,044	33,801	16,196	9,878	500	132,150
DISBURSEMENTS							
Salaries and fringe benefits	6,668	643	6,041	3,958	250	0	17,560
Insurance and bonds	1,022	974	1,265	1,265	20	0	4,546
Telephone	531	0	0	0	0	0	531
Utilities	2,342	3,537	1,641	248	0	0	7,768
Trash service	0	0	0	0	9,800	0	9,800
Advertising	205	14	134	14	14	0	381
Postage	290	67	262	150	33	0	802
Bond payments - water	0	0	9,830	0	0	0	9,830
Maintenance and repairs	0	0	16,684	1,349	62	0	18,095
Supplies	1,086	185	694	108	29	0	2,102
Contract labor	584	34,375	391	38	0	0	35,388
Primacy fees	0	0	198	0	0	0	198
Water deposit refund	0	0	0	0	0	104	104
Other	2,013	1,876	444	319	91	96	4,839
Total Disbursements	14,741	41,671	37,584	7,449	10,299	200	111,944
Receipts Over (under) Disbursements	2,990	12,373	(3,783)	8,747	(421)	300	20,206
Cash Balance, January 1	38,629	8,641	29,065	24,100	3,797	1,400	105,632
Cash Balance, December 31	\$ 41,619	21,014	25,282	32,847	3,376	1,700	125,838