



# Thomas A. Schweich

Missouri State Auditor

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## City of Howardville



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October 2011  
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<http://auditor.mo.gov>



**Thomas A. Schweich**  
Missouri State Auditor

# CITIZENS SUMMARY

## Findings in the audit of the City of Howardville

<p><b>Building Lease</b></p>	<p>The city leases the Public Safety and Service Building from the non-profit Howardville Development Corporation (HDC). At the time the city entered into the lease, the HDC Board of Directors consisted of the then mayor and two aldermen, and these individuals continue to serve on the HDC Board. Since the inception of the lease in 2006, the city has paid approximately \$10,000 to the HDC for building operation and maintenance and there is no evidence any of these monies have been used for this purpose. Under the terms of the lease, the HDC is responsible for insurance on the building and is responsible for maintenance and utilities to the extent the HDC has funds available. The city has paid all insurance, maintenance, and utilities since April 2008, and the HDC has not provided financial information, as required, to enable the city to determine if HDC funds are available. The city deeded the land on which this building is located to the HDC for \$10 and, even though the city will pay the full cost of the building, the city does not get ownership of the building at the end of the lease. In addition, the lease agreement does not contain a clause to allow the city to cancel the lease, which may violate state law prohibiting long-term debt without voter approval.</p>
<p><b>Accounting Controls and Procedures</b></p>	<p>Accounting duties are not adequately segregated, and accountability over city receipts and deposits is inadequate. The city does not always abide by its dual signature requirement on city checks, and formal bank reconciliations are not performed. Several checks were filled out and signed but not distributed or processed by the bank, some voided checks were still on hand and only marked "void" in pencil, and the city does not account for the numerical sequence of checks. The city did not properly retain some records, and officials authorized to sign checks were not bonded, exposing the city to risk of loss.</p>
<p><b>Accounting Records and Financial Reporting</b></p>	<p>Some accounting records are not accurate and are not reviewed by the Board of Aldermen or other city employees. The city does not prepare budgets for any city funds, publish semi-annual financial statements, submit annual financial reports to the State Auditor's office, or obtain annual audits of its sewer system, all of which are required by state law.</p>
<p><b>Payroll and Related Matters</b></p>	<p>Timesheets were not always signed by employees or reviewed or signed by supervisors. The city does not maintain records of vacation and sick time earned and taken, and it appears the former city clerk was paid for unused leave which did not comply with city policies. Personnel files are not maintained or are incomplete for some employees. The city classifies some maintenance workers as independent contractors rather than employees, but it does not maintain adequate justification for this classification. The city advanced former Alderwoman Johnson her October 2009 compensation resulting in her being overpaid \$75.</p>
<p><b>Disbursement and Related Matters</b></p>	<p>The city did not solicit and/or advertise for bids, as required by its procurement policy, and disbursed monies to charitable organizations without receiving adequate documentation of the services provided. The city has no written agreement with its bank and has not solicited proposals for banking services. The city does not always prepare or retain monthly disbursement lists, and for 60 percent of the disbursements reviewed the city could not locate invoices or other supporting documentation. The city paid invoices without requiring proof</p>

of receipt of goods or services, did not mark invoices as paid, and paid over \$300 in interest and fees because a payment was late.

Sewer and Sanitation Services	The city has no written agreement with the public water supply district regarding the collection of sewer and sanitation fees. The city does not maintain separate accounting records for each individual sewer and sanitation customer and does not have procedures to bill delinquent accounts, assess delinquent penalties, or shutoff service for nonpayment.
Restricted Monies	Monies restricted for certain use, including motor-vehicle, law enforcement training, and State Emergency Management Agency monies, were deposited in the General Fund and not tracked separately. Therefore, the city could not determine the amount of monies in the General Fund required by law to be restricted for specific purposes. In December 2009, the city transferred over \$10,000 in sewer fees to the General Fund to cover general operating costs, but sewer fees are restricted for operation of the sewer system and cannot be used for general city operations.
Meeting Minutes and Ordinances	Meeting minutes were not maintained in an orderly manner or a centralized location and could not be readily located. Open meeting minutes do not document the reason for closing a meeting, the law allowing the meeting to be closed, or evidence of votes taken. Ordinances are not complete, up-to-date and maintained in an organized manner, and the city has not adopted ordinances establishing the compensation for city officials and employees.
Capital Assets and Vehicle Use	The city does not maintain records for its capital assets, did not carry insurance on some city assets, does not tag assets for identification, and does not conduct annual physical inventories of its assets. The city does not maintain fuel and usage logs for its two city-owned vehicles and does not reconcile fuel use to fuel purchases to ensure the vehicles and city-purchased fuel are used appropriately.

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

American Recovery and Reinvestment Act 2009 (Federal Stimulus)	The City of Howardville did not receive any federal stimulus monies during the audited time period.
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\*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.

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# THOMAS A. SCHWEICH

## Missouri State Auditor

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

The State Auditor was petitioned under Section 29.230, RSMo, to audit the City of Howardville. We have audited certain operations of the city in fulfillment of our duties. The scope of our audit included, but was not necessarily limited to, the 2 years ended June 30, 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, grant agreement, 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 finding(s) arising from our audit of the City of Howardville.

An additional report, No. 2011-39, *Thirty-Fourth Judicial Circuit, City of Howardville Municipal Division* was issued in August 2011.



Thomas A. Schweich  
State Auditor

The following auditors participated in the preparation of this report:

Director of Audits:	Alice M. Fast, CPA, CGFM, CIA
Audit Manager:	Mark Ruether, CPA
In-Charge Auditor:	Heather R. Stiles, MBA, CPA
Audit Staff:	Janielle Robinett

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# City of Howardville

## Management Advisory Report

### State Auditor's Findings

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#### **1. Building Lease**

Significant concerns were noted regarding the lease of the Public Safety and Service Building, which currently houses all city offices. The Public Safety and Service Building was constructed in 2005 and is owned by the Howardville Development Corporation (HDC). The HDC was organized as a nonprofit corporation in June 2003, primarily for the purpose of improving conditions of public facilities of Howardville; however, as of August 30, 2011, the HDC had not participated in any other projects. In 2004 and 2005, 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. The city owned the land on which the building is located, and in March 2005, the city deeded the land to the HDC for \$10.

In August 2005, the city entered into a 25-year lease agreement with the HDC. The lease agreement is structured to ensure lease payments are sufficient to repay amounts borrowed from the USDA and additional amounts to cover building operation and maintenance costs. The city makes monthly payments of \$500, or \$6,000 annually, which consist of \$3,612 in loan payments to the USDA, \$720 to two reserve accounts held by the HDC as required by loan provisions, and the remainder (\$1,668) to the HDC for building operation and maintenance and other HDC operating costs.

The HDC Board of Directors consists of Clennon Farr, the former Mayor, and Tommie Fountain and Mary Johnson, two former Aldermen, who held their city offices and positions on the HDC Board when the HDC was organized, the building lease was executed, and the city moved into the building. These three individuals served as the president, vice-president, and secretary of the HDC while also serving the city in their elected positions.

##### **1.1 Building operating costs**

Since the inception of the lease in 2006, the city has paid approximately \$10,000 to the HDC for building operation and maintenance, and there is no evidence any of these monies have been used for the intended purpose. The lease agreement requires the HDC to provide property insurance coverage on the building; however, the city provides all insurance coverage for the building. Additionally, the lease indicates the HDC is responsible for maintaining the premises and providing utilities to the extent funds are available in the HDC Operations and Maintenance Account. According to city personnel, all utilities and building maintenance and repair costs have been paid by the city since April 2008.

In addition, the city has not obtained financial information from the HDC, even though the lease agreement allows 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.



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To ensure the HDC is meeting its financial obligations to the city, the city should require the HDC submit periodic financial information. HDC financial information would allow the city to determine if funds are available in the HDC Operations and Maintenance Account to pay for building operating and utility costs and appropriate funds have been set aside in the reserve accounts required by the loan agreement.

## 1.2 Building ownership

The lease agreement does not provide for transfer of ownership of the building to the city upon payoff of the loan. The lease agreement requires the city to pay all loan principal and interest; however, the building will remain the property of HDC. As a result, the city will have used public funds of approximately \$90,000 to fully pay for this asset but will have failed to obtain ownership. Typically, a municipality entering into a lease associated with financing a purchase would obtain ownership when all payments under the lease are complete.

## 1.3 Nonappropriation clause

The lease agreement does 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.

Article VI, Section 26(a), Missouri Constitution, requires a public vote before cities may become indebted in an amount exceeding in any year the income and revenue provided for such year plus any unencumbered balances from previous years. Since this issue was not put to a public vote, it appears the Board of Aldermen may have exceeded its authority when it entered into the lease agreement with the HDC.

## Recommendations

The City of Howardville Board of Aldermen:

- 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.
- 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.

## Auditee's Response

*The Board of Aldermen provided the following written response:*

*We agree with these recommendations and will work with the HDC to determine whether the HDC should be responsible for the payment of certain costs related to the city hall building, as well as obtaining periodic financial information from the HDC. We will also work with the HDC to*





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*ensure the city will obtain ownership of the building and to add a nonappropriation clause to the lease.*

## 2. Accounting Controls and Procedures

Accounting controls and procedures utilized by the city need improvement.

### 2.1 Segregation of duties

The Board of Aldermen has not established adequate segregation of duties or supervisory review over the accounting functions performed by the City Clerk. The City Clerk is responsible for most record keeping duties including duties which would normally be performed by a city treasurer. These duties include receiving, recording, and depositing monies; preparing invoices for payment; preparing checks; and performing bank reconciliations. Additionally, the City Clerk provides one of the two required signatures on checks.

Proper segregation of duties helps ensure all transactions are accounted for properly and assets are adequately safeguarded. Attorney General's Opinion No. 24, 1955 to Dodds, concluded that in a fourth-class city, the holding of the positions of the city clerk, city treasurer, and city collector, or any two of these offices, by the same person at the same time would be incompatible. The current procedures jeopardize the system of independent checks and balances intended by state law. If proper segregation of duties is not possible, a timely supervisory review of the work performed is necessary.

### 2.2 Receipt and deposit procedures

Accountability over city receipts and deposits is inadequate.

- Receipt slips are not issued timely for some monies received. In addition, receipts are not always deposited intact in a timely manner. For example, five property tax distributions received from the County Collector totaling \$5,519 for the months of August to December 2010, were not recorded or deposited until December 14, 2010.
- Receipt slips are sometimes used as notations to support payments made to vendors. As a result, the city does not account for the numerical sequence of receipt slips.
- While the method of payment received is generally documented on receipt slips, the composition (total cash and checks) recorded on receipt slips is not reconciled to the composition of bank deposits.
- The original copy of voided receipt slips is not always retained.
- Checks are not always restrictively endorsed immediately upon receipt.



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Without proper receipt procedures, there is little assurance all receipts are properly recorded and deposited.

### 2.3 Dual signatures

The city issued several checks with only one signature of either the Mayor or former City Clerk although dual signatures are required by the banking agreement. Dual signatures help provide assurance that checks represent payment for legitimate city disbursements.

### 2.4 Bank reconciliations

Formal bank reconciliations are not performed. The city has four checking accounts which totaled approximately \$225,000 at June 30, 2011. In addition, some receipts are not recorded at all in the check register and some disbursements are not recorded accurately in the check register. As a result, accurate cash balances are not maintained by the city.

The city has contracted with a CPA firm to prepare certain accounting records, and the CPA firm indicated it performs monthly bank reconciliations; however, these reconciliations are not provided to the city, and our review noted certain errors on the CPA's bank reconciliations (See MAR finding number 3).

Maintaining accurate book balances and recording receipts and disbursements promptly to the check register or other control ledger are necessary to allow proper reconciliation between book and bank balances. Complete and accurate bank reconciliations are necessary to ensure accounting records are in agreement with the bank, and errors or discrepancies are detected and corrected timely.

### 2.5 Voided checks

Our review noted ten city checks totaling \$2,633 filled out and signed by the former City Clerk but not distributed or processed by the bank, and three checks totaling \$791 canceled only by "VOID" written in pencil. It is unclear whether the city made appropriate adjustments to the accounting records to indicate whether these checks were voided or considered outstanding checks, or if there is some plausible explanation for these checks to be on hand.

To ensure accounting records are accurate and to reduce the risk of unauthorized transactions, the city should ensure all voided checks are properly defaced and maintained, and the accounting records are properly adjusted.

### 2.6 Numerical sequence of checks

The city does not always issue checks in numerical sequence and does not account for their numerical sequence. For example, the city issued check numbers 7571 through 7573 prior to issuing check numbers 7532 to 7570. To account for all disbursements, the numerical sequence of checks issued should be accounted for properly and any skipped checks should be voided.



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## 2.7 Record retention

Some city records were not properly retained. The city could not provide original invoices or other supporting documentation for several city disbursements (see MAR finding number 5). In addition, some deposit slip copies were not retained, and several monthly bank statements could not be located. Proper record retention is necessary to ensure the propriety of all financial transactions.

## 2.8 Bonding

The Mayor and Alderman serving as Mayor Pro Tem are authorized to sign checks but are not bonded. Failure to properly bond individuals who have access to funds exposes the city to risk of loss.

## Recommendations

The City of Howardville Board of Aldermen:

- 2.1 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.
- 2.2 Ensure official pre-numbered receipt slips are issued timely for all monies received in numerical sequence, monies are 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.
- 2.3 Ensure dual signatures are on all checks.
- 2.4 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.
- 2.5 Establish procedures to properly deface and retain all voided checks. The city should investigate the un-negotiated checks and dispose of or void as appropriate.
- 2.6 Issue checks in numerical sequence and account for the numerical sequence of checks.
- 2.7 Ensure city records are properly retained.
- 2.8 Maintain bond coverage for all officials with access to city assets.

## Auditee's Response

*The Board of Aldermen provided the following written response:*

*We agree with these recommendations. We will consider appointing a city treasurer to provide proper segregation of duties and monthly bank*



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*reconciliations. Receipt and deposit recommendations have already been implemented, and all applicable records are now being maintained. Checks are now issued in numerical sequence, require two signatures, and are properly voided when necessary. We will follow up on the 10 checks filled out but not distributed. We will consider bonding all city officials who are authorized to sign checks.*

### 3. Accounting Records and Financial Reporting

Significant improvement is needed in the preparation of accounting records and financial reporting practices.

#### 3.1 Accounting records

Some accounting records maintained by the city accountant are not accurate. In addition, the accounting records are not reviewed by the Board of Aldermen or other city employees for errors or omissions. The city contracts with an accountant to maintain the city general ledger and to prepare monthly and annual financial statements. At the end of each month, the City Clerk submits copies of all checks issued, receipt slips issued, and bank statements received to the accountant for preparation of the general ledgers and financial statements.

Our review noted errors on the December 31, 2010, balance sheet prepared by the accountant. The balance sheet included the following over (under) statements of various city bank accounts:

General Fund Account <sup>1</sup>	\$ (3,632)
Special Account <sup>2</sup>	5,546
CDBG Account	44
Municipal Court Account	(3,469)
Savings Account <sup>2</sup>	5,424
Sewer Account	(14,195)
DNR Grant Account <sup>3</sup>	(172,000)

<sup>1</sup> The outstanding check list included \$1,616 in checks which cleared in 2009 and seven voided checks totaling \$2,016.

<sup>2</sup> These accounts were closed in July 2010.

<sup>3</sup> This account was opened in December 2010, but was not included on the balance sheet.

The city does not maintain any records summarizing receipt slips and checks issued or any account balance information beyond copies of bank statements. City employees and officials rely on the accountant to prepare accurate financial statements but have no procedures to reconcile the statements to receipts and disbursements processed by the city.



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Accurate financial information is necessary to provide the Board of Aldermen with sufficient information to make informed decisions and to provide residents with reliable information about city finances.

### 3.2 Budgets

The city does not prepare annual budgets for any of the city funds. Section 67.080, RSMo, provides that no expenditure of public monies shall be made unless it is authorized in a budget. Additionally, Section 67.010, RSMo, requires the preparation of an annual budget which shall represent a complete financial plan for the ensuing budget year and also sets specific guidelines for the format.

A complete and well-planned budget, in addition to meeting statutory requirements, can serve as a useful management tool by establishing specific financial expectations for each area of city operations and provide a means to effectively monitor actual costs by periodically comparing budgeted to actual disbursements. The budget should also include a budget message and comparison of actual receipts and disbursements for the 2 preceding years.

### 3.3 Published financial statements

The city does not publish semiannual financial statements in accordance with state law. Section 79.160, RSMo, requires the Board of Aldermen to prepare and publish semiannually, a full and detailed account of the receipts, disbursements, and indebtedness of the city.

### 3.4 Financial reporting

The city does not submit annual financial reports to the State Auditor's office. Section 105.145, RSMo, requires each political subdivisions 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.

### 3.5 Audits

The city has not obtained annual audits of its sewer system as required by state law. Section 250.150, RSMo, requires the city obtain annual audits of the sewer system and the cost be paid from revenues received from the system.

## Recommendations

The City of Howardville Board of Aldermen:

- 3.1 Adopt procedures to review and ensure the accuracy of the financial records prepared by the accountant.
- 3.2 Prepare annual budgets which include all information required by state law.
- 3.3 Publish semiannual financial statements as required by state law.



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3.4 Submit an annual financial report to the State Auditor's office as required by state law.

3.5 Obtain annual audits of the sewer system as required by state law.

## Auditee's Response

*The Board of Aldermen provided the following written response:*

*We agree with these recommendations and plan to implement them. We will consider appointing a city treasurer to prepare the required accounting records. If a treasurer cannot be appointed, we will work with the accounting firm to ensure accurate records are prepared. We are already working on a city budget.*

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## 4. Payroll and Related Matters

Several concerns were noted regarding payroll policies and procedures.

### 4.1 Timesheets

Timesheets were not signed by some employees and were not always reviewed or signed by a supervisor to ensure their accuracy. In addition, some time records were not accurate or complete. For example, some timesheets included the time the employees checked in but not when they checked out.

The lack of adequate review procedures increases the potential for errors to go undetected. Time records are necessary to document hours worked, substantiate payroll disbursements, and provide the city with a method to monitor hours worked and leave taken. In addition, timesheets should be signed by the employee and the employee's supervisor to indicate their agreement to the actual time reported each week and to ensure the accuracy of time worked and leave taken.

### 4.2 Leave records

Records of vacation and sick leave earned and used are not maintained for city employees, and the former city clerk received payments for unused leave which were not adequately documented and do not appear to comply with city leave policies. The former city clerk was paid for 2 weeks of vacation in 2009. The city could not locate any leave records to support this payment, and the city leave policy does not address whether leave earned can be paid out. City policy states employees earn 1 week of vacation per year and 1 day of sick leave per month of employment with the city.

Adequate leave records and strict compliance with leave policies are necessary to ensure employees are treated equitably and are properly compensated.

### 4.3 Personnel files

Personnel files are not maintained for some city employees and some personnel files were incomplete. Some files did not contain documentation



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of the authorization for the hiring of the employee, the pay rate at which the employee was hired, and any subsequent changes in pay rate. Personnel files for all employees are necessary to provide documentation of personnel actions and to provide readily accessible work histories.

#### 4.4 Employment classification

The city did not adequately document why some maintenance workers are classified as independent contractors instead of city employees. In addition, the city failed to withhold and report payroll and income taxes on payments to these maintenance workers and compensation paid to the Board of Aldermen. These payments were reported by the city to the Internal Revenue Service (IRS) on 1099 forms.

The city considers individuals hired for maintenance purposes to be independent contractors; however, these individuals submit weekly timesheets, are paid weekly, and utilize equipment owned by the city, so it appears these individuals should be considered city employees. In addition, city officials indicated these maintenance workers do not own or work for companies that are in the business of providing maintenance services.

Section 105.300, RSMo, defines an elected or appointed officer or employee of a political subdivision as an employee for Social Security and Medicare tax purposes. For employees, the IRS requires employers to report compensation on W-2 forms and withhold and remit income and payroll taxes. Similarly, Chapter 143, RSMo, includes requirements for reporting wages and withholding state income taxes. State and federal laws require employers to pay the employer's share of Social Security and Medicare on the compensation paid to employees.

#### 4.5 Advance

In September 2009, the city advanced former Alderwoman Johnson her monthly compensation for October 2009, without documentation of board approval. She also received her regular compensation in October 2009. As a result, she was overpaid \$75. There is no record Alderwoman Johnson repaid the advance to the city, or that the city withheld this amount from future payments. The city did not enter into a written agreement with the Alderwoman for the repayment of this advance.

Loans or advances of public funds are prohibited by Article VI, Section 23, Missouri Constitution, which states no city shall lend its credit or grant public money or thing of value to or in aid of any individual.

### Recommendations

The City of Howardville Board of Aldermen:

- 4.1 Ensure timesheets are prepared by all employees, properly signed and approved, and reviewed for accuracy.



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- 4.2 Ensure adequate leave records are maintained for all employees and are periodically reviewed to ensure compliance with city leave policies. In addition, leave payments should not be made unless allowed by city policy.
- 4.3 Ensure complete personnel files are maintained for all employees.
- 4.4 Ensure all persons hired by the city are clearly documented as employees or contract employees in compliance with IRS rules and regulations. In addition, the Board should ensure all compensation paid to board members and all employees is subject to income and payroll taxes and properly reported on W-2 forms.
- 4.5 Discontinue the practice of making pay advances to employees or officials and require repayment of the advance made to the Alderwoman.

## Auditee's Response

*The Board of Aldermen provided the following written response:*

*We agree with these recommendations and plan to implement them.*

## 5. Disbursements and Related Matters

Concerns were noted related to bidding, approval of payments, and other items related to city disbursements.

### 5.1 Bidding

Although the city has a procurement policy which requires 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.

In addition to complying with the city ordinance, competitive bidding helps ensure all parties are given an equal opportunity to participate in city business. Complete documentation of all bids and proposals received and reasons why a bid or proposal was selected helps ensure the city pays a reasonable amount for all major purchases.

### 5.2 Donations

In September 2009, the city disbursed \$300 to a local non-profit organization and \$300 to a local church as donations for volunteer services provided to the city during an ice storm. While the board approved these payments, the city had no documentation of the services provided by these organizations. These disbursements were from federal monies received from the State Emergency Management Agency (SEMA).

Donations of public funds are prohibited by Article VI, Section 25, Missouri Constitution. To ensure city funds are spent properly, all payments for





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services should be supported by original invoices or other documentation of services provided to the city.

### 5.3 Banking services

The city has not solicited proposals from various banking institutions for the deposit of city monies and does not have a written agreement with its depository bank. The city was charged account maintenance fees totaling \$1,700 during the year ended June 30, 2011. Periodically soliciting proposals for banking services helps ensure banking services received, as well as the costs for these services, are reasonable and competitive. Further, written contracts are necessary to document all related fees for services and to prevent misunderstandings. Section 432.070, RSMo, requires contracts of political subdivisions to be in writing.

### 5.4 Approval process and missing invoices

Monthly disbursement lists are not always prepared and are not retained with meeting minutes or compared to supporting invoices. City procedures require 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 include a statement that disbursements are approved, disbursement lists are not included with meeting minutes to document specific disbursements approved by the Board of Aldermen.

For 32 of 53 disbursements reviewed (60 percent), the city was unable to locate invoices or other supporting documentation. These 32 disbursements were for various supplies and services totaling approximately \$17,500. By not comparing the disbursement lists to invoices, there is less assurance the city has retained adequate supporting documentation for each disbursement.

A complete and accurate list of disbursements approved by the board and retained with meeting minutes, along with invoices or other supporting documentation, reduces the possibility of unauthorized payments and helps ensure disbursements represent appropriate uses of public funds.

### 5.5 Receipt of goods or services

The city does not require documentation of receipt of goods or services prior to payment of invoices. In addition, our review noted several invoices were not marked paid or otherwise canceled upon payment. Canceling invoices and other supporting documentation reduces the likelihood of duplicate payments, and requiring acknowledgement of receipt of goods or services prior to payment helps ensure the city actually received all items.

### 5.6 Late payments

The city does not always pay invoices timely. For example, the city incurred \$321 in interest and late payment fees associated with financing a lawnmower because the final payment was not made timely. Procedures should be in place to ensure bills are paid timely to avoid late charges and interest.



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## Recommendations

The City of Howardville Board of Aldermen:

- 5.1 Ensure bids are solicited for all applicable purchases in accordance with city ordinances and sufficient documentation is maintained.
- 5.2 Refrain from donating city funds or ensure adequate documentation is retained to ensure the city receives actual goods or services in return for the donation.
- 5.3 Solicit proposals for banking services on a periodic basis.
- 5.4 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.
- 5.5 Ensure all paid invoices are marked as such to prevent reuse and require documentation of receipt of goods and/or services prior to payment of invoices.
- 5.6 Implement procedures to ensure bills are paid timely.

## Auditee's Response

*The Board of Aldermen provided the following written response:*

*We agree with these recommendations and plan to implement them. We will consider amending city policy to require bids on purchases which exceed a minimum dollar amount. We have been in contact with the bank to determine if certain fees can be waived or reduced. We are signing and approving all invoices prior to payment, and all bills have been paid in a timely manner.*

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## 6. Sewer and Sanitation Services

There are significant weaknesses in controls and procedures related to sewer and sanitation services. As a result of these weaknesses, there is less assurance all utility services are billed properly and all utility monies are accounted for properly.

The city has an arrangement with the local public water supply district to bill and collect city sewer fees for all properties connected to the city sewer system, and sanitation fees for all properties located within the city. The water district issues monthly checks to the city for sewer and sanitation fees collected and provides a monthly list of individuals who paid the applicable city fees. The city pays a monthly fee of \$110 for these services. The water district bills approximately 100 sewer and sanitation customers.

### 6.1 Written contract

The city does not have a written contract with the public water supply district regarding the collection of sewer and sanitation fees. As a result,



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there appears to be a lack of understanding of the duties of each party. For example, city officials indicated delinquent billings and cancellation of service is the district's responsibility, while district officials indicated this is the city's responsibility.

Written contracts are necessary to define the services and compensation to be provided by each party and to prevent misunderstandings. Section 432.070, RSMo, requires contracts of political subdivisions to be in writing.

## 6.2 Fee collections

The city does 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 are delinquent. In addition, the city does not have policies or procedures requiring customers to establish sewer or sanitation accounts with the city. Services are automatically added to properties when the district connects water service to properties in the city limits.

The only record maintained by the city is the monthly collection list provided by the district which lists each individual who has made a sewer or sanitation payment. However, it appears the city does not review these listings for mathematical accuracy or duplicate payments. Our review of collection lists for the months of November and December 2010 noted some customer names were listed multiple times, which would appear to indicate fees were collected for more than 1 month, but the lists do not contain sufficient detail to indicate to which month(s) the payments apply.

Detailed records of customer accounts and payments are necessary to ensure the city is receiving the proper amount of sewer and sanitation fees and to ensure there is proper follow up on delinquent accounts.

## 6.3 Delinquent billing and shutoff procedures

The city does not have procedures to bill delinquent accounts, assess delinquent penalties, or shutoff or discontinue service for nonpayment of sewer and sanitation fees. District officials indicated water service is shutoff for nonpayment of district water fees; however, neither the city nor the district bill or pursue collection of delinquent city sewer fees nor initiate sewer shutoff procedures. In addition, neither the city nor the district bill delinquent sanitation fees or initiate procedures to discontinue trash pickup for nonpayment of fees.

The lack of billing delinquent accounts, assessing delinquent penalties, or initiating shutoff procedures for nonpayment allows customers to receive services without paying and may result in a loss of revenue to the city.



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## Recommendations

The City of Howardville Board of Aldermen:

- 6.1 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.
- 6.2 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.
- 6.3 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.

## Auditee's Response

*The Board of Aldermen provided the following written response:*

*We agree and will contact the water district to enter into a written contract. We will also work with the district to ensure all customers are properly billed and collected, delinquent accounts are properly monitored, and shutoff procedures are implemented.*

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## 7. Restricted Monies

The city has not established adequate procedures to ensure restricted monies are recorded appropriately and disbursed only for intended purposes. Some transfers of restricted monies between city funds did not appear appropriate and were not adequately documented.

### 7.1 Tracking and recording restricted monies

The city is not properly tracking and recording 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 are 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 cannot determine at a point in time what portion of the General Fund represents restricted street, training, or grant monies.

Article IV, Section 30, Missouri Constitution, requires motor vehicle-related receipts apportioned by the state of Missouri be disbursed for street related purposes only. Section 488.5336, RSMo, requires law enforcement training fees to be used only for the training of law enforcement officers. The grant



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agreement with SEMA provides restrictions for the use of these funds. Separate accounting of restricted monies is necessary to ensure compliance with state law and grant requirements.

## 7.2 Transfers

In December 2009, the city transferred approximately \$10,850 of restricted sewer fees from the Sewer Fund to the General Fund. According to the Mayor, this transfer was made to cover general operating costs because the balance of the General Fund was low; however, sewer fees are restricted for operation of the city sewer system and cannot be used for general city operations. In addition, there was no documentation of board approval to transfer these funds.

Receipts of the Sewer Fund represent user fees restricted for the operation of the sewer system. The lack of board approval and adequate documentation for this transfer lessens assurance that these restricted monies were appropriately spent for sewer operating costs and not to subsidize general operations of the city.

## Recommendations

The City of Howardville Board of Aldermen:

- 7.1 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.
- 7.2 Ensure sewer funds are used for their intended purposes. In addition, the board should ensure authorizations for and approval of transfers between funds is obtained and clearly documented and should consider repaying the monies transferred improperly into the General Fund.

## Auditee's Response

*The Board of Aldermen provided the following written response:*

*We agree and will ensure restricted monies are accounted for separately. We will follow up on the transfer to the Sewer Fund; however, it appears that certain expenses incurred in the General Fund are for sewer purposes, and we will determine which expenses should be allocated to the Sewer Fund.*

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## 8. Meeting Minutes and Ordinances

Several concerns were noted with meeting minutes and Sunshine Law compliance. The city does not maintain a complete set of ordinances, and the compensation of elected and appointed officials is not established by ordinance.

### 8.1 Meeting minutes

Several concerns were identified regarding meeting minutes.



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- Minutes are not maintained in an orderly manner or in a centralized location. Some minutes were maintained in a handwritten journal, some minutes were maintained electronically, and some minutes were located on loose paper in a file cabinet. In addition, minutes are not signed by any city official. As a result, personnel had difficulty locating some minutes, and it is unclear whether some minutes were officially approved by the board.
- Open meeting minutes do not document reasons for closing the meeting or the specific section of law that allows 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.

The Sunshine Law, Chapter 610, RSMo, requires governmental bodies to prepare and maintain minutes of open and closed meetings, and requires records of votes, including roll call votes before closing a meeting. Additionally, the Sunshine Law requires open minutes to document the reason for closing a meeting and limits discussions in closed meetings to only those specifically allowed by law. The lack of complete minutes filed in an orderly manner lessens assurance that the city has complied with the Sunshine Law.

## 8.2 Ordinances

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

Since ordinances represent legislation which has been passed by the board to govern the city and its residents, it is important ordinances be maintained in a complete and up-to-date manner. The lack of an ordinance index makes it difficult for the city to determine which ordinances are active or have been rescinded.

## 8.3 Officials' compensation

The city has not adopted ordinances to establish the compensation paid to city officials and employees. While the city has adopted general ordinances for elected and appointed officials that state the "Board of Aldermen shall fix compensation by ordinance," the ordinances do not address the specific compensation to be paid.



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Section 79.270, RSMo, provides the compensation of city officials and employees be set by ordinance. Establishing an ordinance to set the compensation rates, in addition to meeting statutory requirements, documents the approved amounts to be paid and eliminates misunderstandings. Also, Section 79.270, RSMo, states "... the salary of an officer shall not be changed during the time for which he was elected or appointed."

## Recommendations

The City of Howardville Board of Aldermen:

- 8.1 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.
- 8.2 Update ordinances, ensure a complete set of ordinances is maintained, and prepare an index of all city ordinances passed and rescinded.
- 8.3 Establish the compensation of all city officials and employees by ordinance in accordance with state law.

## Auditee's Response

*The Board of Aldermen provided the following written response:*

*We agree with these recommendations. Meeting minutes have already been improved and are properly prepared and retained. We will consider updating all city ordinances and preparing an ordinance for city officials' compensation.*

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## 9. Capital Assets and Vehicle Use

The city does not maintain records of capital assets or vehicle use.

### 9.1 Capital asset records

The city does not maintain records for its capital assets, including land, buildings, infrastructure, equipment, and other property. The city's property insurance policy did not include a city vehicle and some land owned by the city. Also, property is not tagged for specific identification, and annual physical inventories are not performed.

Along with providing a basis for obtaining proper insurance coverage, adequate capital asset records and procedures are necessary to secure better internal controls and safeguard city assets that are susceptible to loss, theft, or misuse. A detailed capital asset list should include all pertinent information for each asset, including description, cost, acquisition date, identification number, and location; date and method of disposition; and accumulated depreciation, if applicable.



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## 9.2 Fuel and usage logs

Fuel and usage logs are not maintained for the two city vehicles, and fuel use is not reconciled to fuel purchases. Fuel charges for fiscal year 2011 totaled approximately \$2,000. Fuel and usage logs are necessary to document the appropriate use of vehicles and to support fuel charges. The logs should include sufficient documentation to determine reasonableness of miles driven and allow reconciliation of fuel use to fuel purchases.

## Recommendations

The City of Howardville Board of Aldermen:

- 9.1 Ensure adequate capital asset records are maintained, assets are tagged as owned by the city, annual physical inventories are performed, and records are periodically compared to the city's insurance coverage.
- 9.2 Require fuel and usage logs be maintained for all city-owned vehicles. The logs should be reviewed to ensure vehicle use is reasonable and to reconcile fuel use to fuel purchases.

## Auditee's Response

*The Board of Aldermen provided the following written response:*

*We agree and plan to implement these recommendations.*



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# City of Howardville

## Organization and Statistical Information

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The City of Howardville is located in New Madrid County. The city was incorporated in 1962 and is currently a fourth-class city. The city employed 2 full-time employees and 2 part-time employee on June 30, 2011.

City operations include law enforcement services, utilities (sewer and sanitation), street maintenance, park services, and volunteer fire services.

### Mayor and Board of Aldermen

The city government consists of a mayor and a 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 June 30, 2011, are identified below. The mayor is paid \$300 per month and Board of Aldermen members \$75 per month. The compensation of these officials is not established by ordinance.

Jessie Newson, Mayor  
Jim Daniel, Alderman  
Georgia Kirby, Alderwoman  
Keith Word, Alderman  
Curtis Williams, Alderman

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

The City of Howardville did not receive any federal stimulus monies during the 2 years ended June 30, 2011.

### Financial Activity

A summary of the city's unaudited financial activity, as prepared by the city's CPA firm with some adjustments, for the 2 years ended June 30, 2011, follows:



City of Howardville  
Organization and Statistical Information

City of Howardville  
Schedule of Receipts, Disbursements, and Changes in Cash Balances  
Year Ended June 30, 2011

	General Fund	Sewer Fund	CDBG Fund	DNR Block Grant Fund	Total
<b>RECEIPTS</b>					
Property taxes	\$ 11,462	0	0	0	11,462
Sales taxes	36,082	0	0	0	36,082
Franchise taxes	15,745	0	0	0	15,745
Motor fuel and vehicle fees	13,132	0	0	0	13,132
Fines	35,277	0	0	0	35,277
Trash, licenses, and fees	14,369	0	0	0	14,369
Sewer fees	1,148	16,998	0	0	18,146
Grants	0	0	43,675	197,000	240,675
Rental income	8,568	0	0	0	8,568
Interest	1	0	0	0	1
Miscellaneous	11,811	4,613	0	0	16,424
Transfers in	13,346	0	100	0	13,446
<b>Total Receipts</b>	<b>160,941</b>	<b>21,611</b>	<b>43,775</b>	<b>197,000</b>	<b>423,327</b>
<b>DISBURSEMENTS</b>					
Wages & payroll taxes	56,744	1,920	0	0	58,664
Insurance	5,258	0	0	0	5,258
Operations	20,630	1,255	0	0	21,885
Professional services	12,958	0	0	0	12,958
Utilities	27,559	815	0	0	28,374
Debt service	2,499	0	0	0	2,499
Bank charges	1,695	337	184	51	2,267
Grants	0	0	43,675	25,000	68,675
Miscellaneous	6,605	170	0	0	6,775
Transfers out	5,857	3,413	0	0	9,270
<b>Total Disbursements</b>	<b>139,805</b>	<b>7,910</b>	<b>43,859</b>	<b>25,051</b>	<b>216,625</b>
<b>RECEIPTS OVER (UNDER)</b>					
DISBURSEMENTS	21,136	13,701	(84)	171,949	206,702
ADJUSTMENT*	(15,340)	(594)	0	0	(15,934)
CASH, JULY 1, 2010	27,788	33,885	100	0	61,773
CASH, JUNE 30, 2011	\$ 33,584	46,992	16	171,949	252,541

\* Unidentified difference between beginning and ending cash balances



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 Organization and Statistical Information

City of Howardville  
 Schedule of Receipts, Disbursements, and Changes in Cash Balances  
 Year Ended June 30, 2010

	General Fund	Sewer Fund	CDBG Fund	Total
<b>RECEIPTS</b>				
Property taxes	\$ 15,022	0	0	15,022
Sales taxes	26,399	0	0	26,399
Franchise taxes	13,812	0	0	13,812
Motor fuel and vehicle fees	12,824	0	0	12,824
Fines	16,621	0	0	16,621
Trash, licenses, and fees	13,734	0	0	13,734
Sewer fees	0	20,404	0	20,404
Grants	14,239	0	0	14,239
Rental income	11,424	0	0	11,424
Loan proceeds	21,000	0	0	21,000
Interest	3	0	0	3
Miscellaneous	11,368	0	0	11,368
Transfers in	34,433	0	0	34,433
<b>Total Receipts</b>	<b>190,879</b>	<b>20,404</b>	<b>0</b>	<b>211,283</b>
<b>DISBURSEMENTS</b>				
Wages & payroll taxes	64,793	1,920	0	66,713
Insurance	5,101	0	0	5,101
Operations	54,018	1,950	0	55,968
Professional services	7,343	0	0	7,343
Utilities	26,102	679	0	26,781
Debt service	9,726	0	0	9,726
Bank charges	1,306	46	0	1,352
Miscellaneous	8,112	0	0	8,112
Transfers out	25,172	10,846	0	36,018
<b>Total Disbursements</b>	<b>201,673</b>	<b>15,441</b>	<b>0</b>	<b>217,114</b>
<b>RECEIPTS OVER (UNDER)</b>				
DISBURSEMENTS	(10,794)	4,963	0	(5,831)
ADJUSTMENT*	3,632	0	0	3,632
CASH, JULY 1, 2009	34,950	28,922	100	63,972
CASH, JUNE 30, 2010	<u>\$ 27,788</u>	<u>33,885</u>	<u>100</u>	<u>61,773</u>

\*Unidentified difference between beginning and ending cash balances