



**GENERAL ASSEMBLY
AND SUPPORTING FUNCTIONS**

HOUSE OF REPRESENTATIVES

FOUR YEARS ENDED JUNE 30, 2003

**From The Office Of State Auditor
Claire McCaskill**

**Report No. 2004-45
June 3, 2004**

www.auditor.mo.gov

AUDIT REPORT



Office Of
Missouri State Auditor
Claire McCaskill

June 2004

The following report is our review of the General Assembly and Supporting Functions - House of Representatives.

The Missouri State Auditor's Office has a constitutional responsibility to audit the General Assembly and periodically conducts audits of the House of Representatives.

In February 2003, the House Committee on Administration and Accounts unanimously passed a resolution authorizing the Chief Clerk to solicit bids for financial and compliance, economy and efficiency, and performance audit services for the period July 1, 1999 to December 31, 2002. The House subsequently issued a request for proposals (RFP) for these audit services and in May 2003 accepted a proposal from a private auditing firm. According to House officials, this audit was ordered because of the change in House leadership which occurred in January 2003.

Notice of the RFP's issuance was not widely distributed. The Chief Clerk indicated the RFP was advertised on the House website and several auditing firms were directly notified of the RFP. However, that official did not maintain documentation of which firms were contacted. Of the two auditing firms that submitted proposals in March 2003, neither proposal met the requirements of the RFP in certain respects. For example, neither proposal initially received specifically included economy and efficiency objectives and one of the proposals did not submit a firm, fixed price, both requirements of the RFP. Despite this, the House entered into further negotiations with both firms for the audit services. The proposal ultimately accepted did not include specific economy and efficiency objectives/procedures and the audit fee agreed to was based on a cost range rather than a firm, fixed price.

The House was billed the total costs of the audit, \$56,035, in June 2003, at the conclusion of fieldwork. Even though the RFP specified that payment of the audit costs would not be due until after completion of the final audit report, the House had a check cut in late June 2003 and released it to the auditing firm in September 2003, prior to the delivery of the final audit report in November 2003. The audit invoice did not detail the hours worked or rates charged to the House for the audit, and the House paid this invoice without requiring additional documentation supporting the amount billed.

The costs incurred for this audit were not necessary. In March 2003, our office offered to work with the House leadership to address their audit needs and reduce audit costs; however, no request was made to our office for these audit services.

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YELLOW SHEET

Various concerns were noted regarding House personnel policies and related matters.

The House does not require its employees to work a minimum of 40 hours per week as is required of employees of most other state agencies. The minimum number of work hours per month is calculated by multiplying seven times the number of working days in the month. As a result, House employees are only required to work a 35-hour work week. Additionally, House policy provides that its employees earn ten hours of annual leave benefits per month during the first five years of service. After five years, the employees earn annual leave at a rate of fourteen hours per month. This policy provides annual leave benefits that are more generous than what is allowed to most other state employees and results in increased costs to the state.

A past House policy allowed employees to earn 16 hours of sick leave per month, rather than the 10 hours per month earned by most state employees and authorized by law. In June 1994, the House revised its sick leave policy, reducing the amount of sick leave earned by its employees to 10 hours per month. However, the House has continued to certify excess accumulated sick leave balances for terminating employees who earned sick leave at the higher rate prior to the 1994 policy change. Unused accumulated sick leave is counted as creditable service by the state employee retirement system. This situation has resulted in the payment of retirement benefits to some retired employees in excess of amounts authorized by state law. A similar condition was reported in a previous audit of the House.

The House provides compensatory time benefits to most full-time administrative staff, including employees in professional and high level administrative and supervisory positions. Employees in comparable positions at most other state agencies are not provided these benefits. At June 30, 2003, approximately 3,165 hours of unused compensatory time had been earned by director level staff or staff in high level administrative and supervisory positions. House policy states that unused compensatory time earned will not be paid and will be lost if not used by the employee by December 31 of each year; however, in January 2002, the House implemented a shared leave policy which allows unused compensatory time to be donated to a pool for future use by any House employee who meets the shared leave policy usage criteria. It appears any compensatory time lost by high level employees at the end of a calendar year was donated to the shared leave pool and represents a future potential liability and cost to the state.

The House allows the sale of specified used office equipment (computers, printers, scanners, etc.) to departing representatives at amounts significantly below the original cost. A similar practice had been discontinued at the time of the last audit; however, this practice was resumed based on a policy change approved in April 2002. During the year ended June 30, 2003, the House sold fixed asset items with an original acquisition cost of \$219,849 to outgoing House members for \$15,873. The auditors recommended the House consider disposing of all used or surplus property items through State Surplus Property.

The audit also includes some matters related to the House's lack of a written procurement policy, some expenditures, and fixed asset records and procedures, which the House should consider and take appropriate corrective action.

GENERAL ASSEMBLY AND SUPPORTING FUNCTIONS
HOUSE OF REPRESENTATIVES

TABLE OF CONTENTS

	<u>Page</u>
STATE AUDITOR'S REPORT	1-3
MANAGEMENT ADVISORY REPORT - STATE AUDITOR'S FINDINGS.....	4-15
 <u>Number</u>	 <u>Description</u>
1.	Procurement of Audit Services5
2.	Personnel Matters.....8
3.	Expenditures11
4.	Fixed Assets13
FOLLOW-UP ON PRIOR AUDIT FINDINGS	16-18
HISTORY, ORGANIZATION, AND STATISTICAL INFORMATION.....	19-25
 <u>Appendix</u>	
A	Comparative Statement of Receipts, Disbursements, and Changes in Cash and Investments, House of Representatives Revolving Fund, Years Ended June 30, 2003, 2002, 2001, and 200023
B	Statement of Appropriations and Expenditures, Year Ended June 30, 200324
C	Comparative Statement of Expenditures (From Appropriations), Years Ended June 30, 2003, 2002, 2001, and 2000.....25

STATE AUDITOR'S REPORT



CLAIRE C. McCASKILL
Missouri State Auditor

Members of the House of Representatives
Jefferson City, MO 65102

We have audited the House of Representatives (the House). The scope of this audit included, but was not necessarily limited to, the years ended June 30, 2003, 2002, 2001, and 2000. The objectives of this audit were to:

1. Review internal controls over significant management and financial functions.
2. Evaluate the efficiency and effectiveness of certain management practices, policies, and operations.
3. Review certain expenditures made by the House.
4. Determine the extent to which audit recommendations included in our prior audit were implemented.

Our methodology to accomplish these objectives included reviewing minutes of meetings, written policies, financial records, and other pertinent documents, interviewing various personnel of the House, and testing selected transactions. In addition, the firm of Mayer Hoffmann McCann P.C., Certified Public Accountants (CPAs) had been engaged to perform a financial audit of the House for the period from July 1, 2002 through December 31, 2002, and the years ended June 30, 2002, 2001, and 2000. To minimize any duplication of effort, we reviewed the reports and substantiating working papers of this CPA firm.

In addition, 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. We also performed tests of certain controls to obtain evidence regarding the effectiveness of their design and operation. However, providing an opinion on internal controls was not an objective of our audit and accordingly, we do not express such an opinion.

We also 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 House's management and was not subjected to the procedures applied in the audit of the House.

The accompanying Management Advisory Report presents our findings arising from our audit of the House of Representatives.

A handwritten signature in black ink, reading "Claire McCaskill". The signature is fluid and cursive, with the first name "Claire" written in a larger, more prominent script than the last name "McCaskill".

Claire McCaskill
State Auditor

December 31, 2003 (fieldwork completion date)

The following auditors participated in the preparation of this report:

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MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

GENERAL ASSEMBLY AND SUPPORTING FUNCTIONS
HOUSE OF REPRESENTATIVES
MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

1.	Procurement of Audit Services
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In February 2003, the House Committee on Administration and Accounts unanimously passed a resolution authorizing the Chief Clerk to solicit bids for financial and compliance, economy and efficiency, and performance audit services for the period from July 1, 1999 to December 31, 2002. Shortly thereafter, the House issued a request for proposals (RFP) for these audit services. The House subsequently accepted a proposal from a private auditing firm in May 2003. According to House officials, this audit was ordered because of the change in House leadership which occurred in January 2003. A review of the House's procurement of these services and the subsequent handling of this contract disclosed the following concerns:

- A. Notice of the RFP's issuance was not widely distributed. The Chief Clerk indicated the RFP was advertised on the House web site and several auditing firms were directly notified of the RFP. However, that official did not maintain documentation of which firms were contacted.

To help ensure an adequate competitive procurement situation is created and ensure all interested parties are given an opportunity to participate, the House should ensure the notices of any RFPs or other large purchases are widely distributed. In addition, adequate documentation of any firms/vendors contacted should be maintained.

- B. Two auditing firms submitted proposals in March 2003. In comparing the proposals to the RFP, we noted neither proposal met the requirements of the RFP in certain respects. For example, the RFP required the audit to include economy and efficiency objectives as well as financial and compliance objectives. In addition, the RFP required the contractor to be paid based on a firm, fixed total price. However, neither proposal initially received specifically included economy and efficiency objectives, and one of the proposals did not submit a firm, fixed bid price, but a cost range depending on the number of hours charged to the audit by the professional staff.

Although neither proposal was fully responsive to the requirements of the RFP, the House entered into subsequent negotiations with both firms to obtain revised services and at a lower cost. To obtain audit services at a lower cost, in these negotiations the House requested revised bids for agreed upon procedures which excluded financial audit services for some of the House appropriations and included expanded testing of certain financial transactions and compliance with House policies. The proposal ultimately accepted still did not include specific

economy and efficiency objectives/procedures and the audit fee agreed to was based on a cost range rather than a firm, fixed price.

To ensure purchasing decisions are based on bids/proposals which contain comparable services and pricing structures, the House should require any bids/proposals received to be fully responsive to RFP requirements.

- C. The Chief Clerk and Chairman of the Committee on Administration and Accounts evaluated the proposals considered, and prepared and signed a bid tabulation form which was used in selecting the firm awarded the audit contract. The bid tabulation form documented three criteria in which the bid evaluation was based; however, there was no documentation explaining how the specific point values were determined for the proposals considered.

Adequate documentation supporting the evaluation of bids/proposals should be prepared and maintained to provide assurance the purchase was handled properly and the bid/proposal selected was the lowest and best.

- D. The payment of the audit costs was not in accordance with the requirements of the RFP and the House did not require adequate documentation to support the amount billed.

The House was billed the total costs of the audit, \$56,035, in June 2003, at the conclusion of fieldwork. Even though the RFP specified that payment of the audit costs would not be due until after completion of the final audit report, the House had a check cut in late June 2003 and released it to the auditing firm in September 2003, prior to the delivery of the final audit report. The final audit report was not completed and submitted to the House until November 2003. In addition, as discussed above, the firm awarded the audit contract agreed to provide the services within a cost range (\$50,900 to \$61,170) based on the hours charged to the audit by its professional staff. The audit bill represented the mid-point of the range and the invoice did not detail the hours worked or rates charged to the House for the audit. The House paid this invoice without requiring additional documentation supporting the amount billed.

The House should ensure payment for services is made in accordance with the RFP and/or after the services have been completed. In addition, adequate documentation should be required to support the amounts billed.

It should be noted the costs incurred for this audit were not necessary. The Missouri State Auditor's Office has a constitutional responsibility to audit the General Assembly and periodically conducts audits of the House. In March 2003, we offered to work with the House leadership to meet their needs and reduce audit costs; however, no request was made to our office for these audit services.

WE RECOMMEND the House of Representatives ensure the procurement and subsequent handling of auditing and other professional services contracts are administered in an appropriate manner. This would include ensuring:

- A. The notice of an RFP's issuance is widely distributed to the extent practical. In addition, adequate documentation of any firms/vendors contacted should be maintained.
- B. Proposals considered for selection meet the requirements or specifications included in the RFP.
- C. Adequate documentation is maintained explaining how the specific point values or other determinations are made in evaluating the proposals being considered.
- D. Payment for services is made in accordance with the RFP and/or after the services have been completed. In addition, adequate documentation should be required to support the amounts billed.

AUDITEE'S RESPONSE

- A. *The House of Representatives believed obtaining an independent audit was necessary and appropriate. The House made the independent auditing firm's report and all work papers available to the State Auditor's Office, which resulted in significant time- and cost-savings to the state in that the Auditor's Office could rely upon the work already performed by the independent auditing firm, which they did. This was also not the first time the House has solicited an independent audit. In 1997, the General Assembly solicited proposals from independent auditing firms to conduct an audit of itself.*

The RFP notice was advertised on the House website, and accounting firms from different regions of the state were personally contacted. The RFP was, therefore, widely advertised in the most cost-efficient, practical manner possible. This advertising effort yielded twice as many responses as a recent RFP for auditing services advertised by the Office of Administration on behalf of the General Assembly.

- B. *The House of Representatives felt both proposals were responsive to its RFP. Instead of eliminating one proposal or the other on a technicality, the House achieved a better result by continued negotiations with both firms for more service at minimum cost.*
- C. *The bid evaluation form was used to award a contract to one of the two proposals submitted based on cost, experience and expertise, and MBE/WBE status. The point value allotted to each firm was determined relative and in comparison to the other firm. Thus, an elaborate point value system was viewed as unnecessary.*
- D. *Although printed copies of the final audit report were not received until early November 2003, payment for the audit services was made in accordance with the RFP and after the audit report had been presented by the auditing firm in September 2003.*

AUDITOR'S COMMENT

- A. Despite House management's response to the contrary, we stand by our position that the audit services procured by the House were not necessary, and did not result in cost savings.
- C. We are not suggesting that an elaborate point system be developed, but that adequate documentation be maintained to support or explain how specific point values are determined in evaluating proposals.

2. Personnel Matters

Attorney General's Opinion No. 46, 1980 to Bradford, concluded legislative employees are exempt from the requirements of Section 36.350, RSMo 2000, regarding hours of work, sick and annual leave accruals, and other personnel matters. However, our review of House personnel policies and other related matters disclosed the following concerns:

- A. The House does not require its employees to work a minimum of 40 hours per week as is required of employees of most other state agencies. The House handbook defines the standard workweek for House employees as a five-day week, but specifies that flexibility is allowed in employees' work schedules provided the employee meets the minimum hours required for the month. The minimum number of hours is not defined in the handbook; however, based on discussions with Human Resources staff and reviews of employee timesheets, the minimum number of work hours per month is calculated by multiplying seven times the number of working days in the month. As a result, House employees are only required to work a 35-hour work week.

Pay for other state employees is generally based on an eight hour day/forty hour week. It appears inequitable for employees of the House to be required to work fewer hours per week than is required of most other state employees.

- B. House policy provides that its employees earn ten hours of annual leave benefits per month during the first five years of service. After five years, the employees earn annual leave at a rate of fourteen hours per month. This policy provides annual leave benefits that are more generous than what is allowed to most other state employees. Most state employees earn ten hours of annual leave benefits per month during the first ten years of service, with that rate increasing to twelve hours per month after ten years of service. Those employees earn annual leave at a rate of fourteen hours per month only after fifteen years of state service.

There appears to be no basis for the House to provide annual leave benefits to its employees that are more generous than those provided to most other state employees. In addition, the additional annual leave benefits provided to House employees results in increased costs to the state.

- C. The House is certifying excessive accumulated sick leave balances to the state retirement system for many of its employees when they retire from state employment. A similar condition was reported in a previous audit of the House (three years ended June 30, 1993), and we had recommended the House certify accumulated sick leave balances to the retirement system in accordance with state law.

The excess sick leave balances exist due to a past House policy which allowed employees to earn 16 hours of sick leave per month, rather than the 10 hours per month earned by most state employees. In June 1994, the House revised its sick leave policy, reducing the amount of sick leave earned by its employees to 10 hours per month. However, the House did not adjust recorded employee sick leave balances to reduce the balances by the amount of sick leave earned at the higher rate, and it has continued to certify excess accumulated sick leave balances for terminating employees who earned sick leave at the higher rate prior to the 1994 policy change.

Unused accumulated sick leave is counted as creditable service by the state employee retirement system. Section 104.601, RSMo 2003 Cumulative Supplement, states that for the purpose of computing years of creditable service, the rate of accrual of sick leave shall be no greater than ten hours per month.

During the four years ended June 30, 2003, the House certified sick leave balances of twenty five retiring employees to the state retirement system. Twenty three of these employees worked for the House prior to June 1994. As a result, the balances certified for these employees included some sick leave accrued at the 16 hour per month rate in effect prior to June 1994. We noted the balances certified for two of the retiring employees exceeded the statutory maximum that could have been earned by these employees during their state employment (at the rate of 10 hours per month) by a total of 764 hours. Despite this, these excessive balances were used by the state retirement system to calculate creditable service and retirement benefit payments.

This situation has resulted in the House certifying excessive accumulated sick leave balances to the state retirement system and the payment of retirement benefits to some retired employees in excess of amounts authorized by state law.

- D. The House provides compensatory time benefits to most full-time administrative staff, including employees in professional and high level administrative and supervisory positions. House policy specifies that full-time House employees, with the exception of legislator assistants, are eligible for compensatory time when an employee has worked hours in excess of eight times the number of working days in a month. Any compensatory time is earned at straight-time. Although director level and other top administrative and supervisory personnel at the House are allowed to earn and accrue compensatory time benefits, employees

in comparable positions at most other state agencies are not provided these benefits.

At June 30, 2003, the House employees had accumulated approximately 8,400 hours of unused compensatory time. Approximately 38 percent of these hours, or 3,165 hours, had been earned by director level staff or staff in high level administrative and supervisory positions. In addition, these high level employees accounted for 33 percent of total hours earned and 18 percent of total hours used during the year ended June 30, 2003.

House policy states that unused compensatory time earned will not be paid and will be lost if not used by the employee by December 31 of each year. It appears a substantial amount of the compensatory time earned by high level employees is not used and is lost due to this policy. However, it should be noted the House implemented a shared leave policy in January 2002 which allows unused compensatory time to be donated to a pool for future use by any House employee who meets the shared leave policy usage criteria. It appears any compensatory time lost by high level employees at the end of a calendar year (since the shared leave program was implemented) was donated to the shared leave pool and represents a future potential liability and cost to the state.

The state's SAM II System has time and leave tracking capabilities. The House may want to consider using these subsystems to help address the applicable conditions reported above.

WE RECOMMEND the House of Representatives:

- A. Require its employees work 40 hours per week as is required of most other state employees.
- B. Reduce the annual leave benefits provided to its employees to an amount equal to those provided to most other state employees. The House should consider using the SAM II system's leave tracking capabilities to help address this recommendation.
- C. Ensure the accumulated sick leave balances certified to the state retirement system for retiring employees is reported on a 10-hour per month accrual basis as required by law. This will require the accumulated sick leave balances to be adjusted for any sick leave earned at the 16-hour per month rate. The House should consider using the SAM II system's leave tracking capabilities to help address the applicable part(s) of this recommendation.
- D. Review its current compensatory time policy and consider restricting the amount of compensatory time benefits earned by professional and high level administrative or supervisory employees.

AUDITEE'S RESPONSE

- A. *For years, the House of Representatives has allowed its hours of work policy to be flexible in not requiring a strict, 40-hour workweek due to the unique workload demands of the legislative session on its employees. Since compensatory time is not awarded to many House employees, a lower hourly workweek requirement allows employees to offset some of the extra hours worked during the session in the interim. Nevertheless, the House Administration and Accounts Committee will take this policy up for reconsideration in light of this recommendation.*
- B. *For years, the House of Representatives has allowed its employees to accrue annual leave at the higher state rate with less years of state service due to the nature of session-driven work and the high staff turnover caused by 2-year election cycles. The House Administration and Accounts Committee will take the employee annual leave accrual policy up for reconsideration in light of this recommendation.*
- C. *Section 104.601 states that "the employing agency shall not certify unused sick leave unless such unused sick leave could have been used by the member for sickness or injury." The House has not certified more unused sick leave for its retiring employees than they could have used for sickness or injury under House policy.*

The House of Representatives does not calculate the amount of state retirement benefits for former employees. The House simply certifies unused sick leave to the Missouri State Employees' Retirement System in the amount earned by its employees according to House policy. Prior to 1994, House policy allowed for the accrual of 16 hours of sick leave per month for its employees. Since that time, the House has limited sick leave accrual to ten hours per month, but it continues to honor employee sick leave accrued under its prior policy.

- D. *The House Administration and Accounts Committee will take the employee compensatory time policy up for reconsideration in light of this recommendation.*

AUDITOR'S COMMENT

- C. We have discussed this matter with retirement system officials and will provide a copy of the audit report to that agency for its review and consideration.

3. Expenditures

- A. The House manages its own purchasing functions. Section 34.010, RSMo 2000, exempts legislative departments from the procurement and bidding requirements which apply to most state agencies. However, the House has not established a written procurement policy to ensure purchases are made in accordance with management's intentions and the economical use of state resources.

In addition, while it appears the House generally attempts to procure items competitively through bidding or obtaining quotes, adequate documentation is not always maintained of the bids received or the efforts made at competitive procurement. For example, during fiscal year 2001 the House purchased 120 laptop computers for \$214,800 to replace those in the House chamber. We were told these computers were purchased through competitive procedures, including internet shopping. However, there was no documentation maintained to support the procurement process. In another example, the House procured a computer system maintenance contract totaling \$8,500. The documentation for this procurement was an internal memo stating that the vendor selected was the only local vendor and the vendor's hourly rate was less than the statewide contract vendor. However, the House did not document which vendors were contacted regarding this purchase, the vendors' price quotes, or a reference to the statewide contract number that was used as a comparison.

Formal procurement and bidding procedures for major purchases provide a framework for economical management of state resources and help ensure fair value is received by contracting with bidders offering the best service and quality for the lowest cost. Competitive bidding also helps ensure all parties are given an equal opportunity to participate in House business.

A written procurement policy would clarify the House's intentions and provide employees with purchasing guidelines to follow. Various bidding approaches are appropriate, based on dollar amount and type of purchase. Whichever approach is used, complete documentation of the procurement process should be maintained, including all bids received and reasons noted why a bid was selected.

- B. Procedures do not appear adequate to ensure disbursements are made in accordance with predetermined contract terms. In fiscal year 2003, we noted the House ordered and paid for a large quantity of paper at a cost of \$20,769. According to the payment documentation, the cost of the paper was \$19.96 per 1,000 sheets; however, the bid documentation related to this contract indicated the vendor had agreed to provide paper at a cost of \$10.30 per 1,000 sheets. When we brought this matter to the attention of House officials, they could not explain this discrepancy. According to those officials, the vendor was subsequently contacted and has agreed to reimburse approximately \$9,600 to the House for the amount of the overcharge.

Care should be taken to ensure any payments made for goods or services are in accordance with the terms of the contract or bid award.

- C. We noted some expenditures involving services contracts in which the purchasing documents did not adequately specify the services being provided or where the purchasing documents were not prepared on a timely basis. In fiscal year 2001, the House procured computer programming services totaling \$5,600 from a statewide contract vendor; however, the purchasing documents did not specify the

services to be provided nor was a copy of the statewide contract retained. In addition, we noted the House subsequently procured additional computer programming services from the same vendor; however, the invoice for these services was dated ten days prior to the issuance of the purchase order.

Purchasing documents should clearly specify the services to be provided and be prepared prior to the delivery of the services.

WE RECOMMEND the House of Representatives:

- A. Develop a written procurement policy detailing bidding requirements. In addition, complete documentation of the procurement process should be maintained.
- B. Ensure payments made for goods or services are in accordance with the terms of the contract or bid award.
- C. Ensure purchasing documents clearly specify the services to be provided. In addition, the House should ensure the purchasing documents are prepared prior to the delivery of the services.

AUDITEE'S RESPONSE

- A. *The House of Representatives has improved its competitive bidding procurement practice and documentation of purchases. The House agrees with this recommendation and will review and adopt a written procurement policy.*
- B. *The House of Representatives agrees with this recommendation and will continue to monitor and improve its payment system.*
- C. *The House of Representatives has improved its purchasing documentation and agrees with this recommendation.*

4. Fixed Assets

According to the House fixed asset records, the House owned approximately \$5 million in furniture and equipment items at June 30, 2003. Our review of the House's fixed asset records and procedures indicated the following:

- A. Fixed asset duties are not adequately segregated. The property control clerk performs the receiving, recording, and physical inventory counts of fixed asset items. To ensure fixed asset records are accurate and to safeguard assets from theft or misuse, physical inventory counts should be performed by someone independent of the custodial and record keeping functions.

- B. Changes in the beginning and ending balances on the property records provided by the House do not reconcile to reports of additions and deletions. We attempted to perform this reconciliation for the four years of the audit period; however, we were not able to produce a balanced reconciliation. House officials could not explain these differences; however, they believed problems with conversion to a new fixed asset recordkeeping system contributed to the differences.

Year-end fixed asset balances should be periodically reconciled, accounting for all additions and dispositions, to ensure fixed asset records are accurate and fixed asset transactions have been accounted for properly.

- C. Additions to the fixed asset records are not periodically reconciled to the appropriate expenditure object codes. Reconciliations of fixed asset additions and expenditures are necessary to ensure property items purchased are properly recorded and controlled.
- D. The House allows the sale of some assets to departing representatives at amounts significantly below the original cost. A similar condition was reported in a previous audit of the House (three years ended June 30, 1993), and we had recommended the House consider turning all used/surplus property items over to State Surplus Property. This recommendation had been implemented at the time of the last audit; however, this practice was resumed pursuant a policy change approved in April 2002.

According to current House policy, outgoing representatives may purchase specified equipment which was used in their offices (including computers, printers, scanners, palm pilots, copiers, and facsimile machines) that are at least three years old. Returning representatives and other House staff are not allowed to purchase equipment. We were told the sale prices represent fair market value, and are established by policy and approved by committee prior to offering the items for sale to the outgoing representatives. During the year ended June 30, 2003, the House sold fixed asset items with an original acquisition cost of \$219,849 to outgoing House members for \$15,873.

We continue to believe the House of Representatives should consider disposing of all used or surplus property through State Surplus Property. This procedure would allow the items to be used by other government agencies or, if sold, would provide more assurance that fair value is obtained and all parties are given an equal opportunity to acquire these assets.

The state's SAM II System has fixed asset accounting capabilities. The House should consider using this subsystem to help address the applicable conditions reported above.

WE RECOMMEND the House of Representatives:

- A. Ensure an individual who is independent of the fixed asset custodial and record keeping functions performs the physical inventory.
- B. Periodically reconcile changes in the beginning and ending fixed asset balances to reports of additions and deletions. The House should consider using the SAM II system's fixed asset accounting capabilities to help address this recommendation.
- C. Reconcile additions in the fixed asset records to appropriate expenditure object codes on a periodic basis. The House should consider using the SAM II system's fixed asset accounting capabilities to help address this recommendation.
- D. Consider disposing of all used or surplus property items through State Surplus Property.

AUDITEE'S RESPONSE

- A. *The House of Representatives goes above and beyond the normal state agency practice with regard to fixed asset tracking by tracking equipment with a value over \$250 and by performing fixed asset inventories three times each year. At least one of these inventories is currently completed by staff independent from the House Inventory Specialist. The House is considering ways to perform all inventories by independent staff without hiring additional employees to perform such inventories.*
- B. *The House of Representatives is currently undergoing a full reconciliation of beginning and ending fixed asset balances to reports of additions and deletions. The House will periodically perform such reconciliations and does utilize the SAMII system to do so.*
- C. *The House of Representatives agrees with this recommendation and will continue to improve the periodic additions reconciliation process.*
- D. *The House of Representatives currently utilizes State Surplus Property for the disposal of almost all of its property. In 2002, the House Accounts Committee changed House policy to allow non-returning House members to purchase electronic equipment that is 3-years-old or older in an effort to recoup more money for the state than can be recouped by State Surplus Property. The House Administration and Accounts Committee will take this policy up for reconsideration in light of this recommendation.*

FOLLOW-UP ON PRIOR AUDIT FINDINGS

GENERAL ASSEMBLY AND SUPPORTING FUNCTIONS
HOUSE OF REPRESENTATIVES
FOLLOW-UP ON PRIOR AUDIT FINDINGS

In accordance with *Government Auditing Standards*, this section reports the auditor's follow-up on action taken by the House of Representatives on findings in the Management Advisory Report (MAR) of our prior audit report issued for the three years ended June 30, 1999. Although the unimplemented recommendations are not repeated, the House of Representatives should consider implementing the recommendations.

1. Personnel Matters

- A. The House had established a policy requiring central staff employees to be evaluated periodically. However, the House had not conducted performance appraisals for its employees in accordance with this policy.
- B. The House did not have a policy regarding the employment and supervision of related parties. The audit disclosed a House employee directly supervised two close relatives.

Recommendation:

- A. Ensure written employee performance appraisals are prepared in accordance with House policy.
- B. Establish and adopt a written related party policy which restricts related employees from directly supervising each other and/or working with financial operations.

Status:

- A. Partially implemented. The House administration does not currently have a written policy regarding the preparation of employee performance appraisals and central staff employees were not formally appraised during much of the current audit period. However, beginning in calendar year 2003 most of these House employees were evaluated at least once during that year. Although not reported in the current MAR, the House should prepare a written policy requiring periodic performance appraisals of central staff employees.
- B. Partially implemented. During the fall of 2003, the House administration contracted for custodial services which eliminated the positions which had involved the direct supervision of relatives. Current House policy prohibits House staff from hiring related employees. However, a policy adopted by the House administration committee in April 2000 prohibiting the supervision of relatives has not been incorporated into the published House policy manual. Although not reported in the current MAR, the House should incorporate the

April 2000 policy prohibiting the supervision of relatives into the published House policy manual.

2. Expense Reimbursements

Expense reimbursements made to some representatives included certain items which may not have complied with House policy. The House's policy was not specific as to what could be reimbursed under incidental or miscellaneous expenses and did not limit the number or amount of additional memberships and subscriptions that would be reimbursed to a representative.

Recommendation:

The House of Representatives review its expense account reimbursement policy regarding incidental or miscellaneous expenses and consider revising the policy to clarify what expenses will or will not be reimbursed. While reviewing the policy, the House should consider revising the policy to limit the number or dollar amount of memberships and subscriptions that will be reimbursed to a representative.

Status:

Implemented.

HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

GENERAL ASSEMBLY AND SUPPORTING FUNCTIONS
HOUSE OF REPRESENTATIVES
HISTORY, ORGANIZATION, AND STATISTICAL INFORMATION

Legislative power in Missouri is vested by Article III, Section 1 of the 1945 Constitution in the General Assembly, more commonly known as the legislature. The legislature is composed of the Senate and the House of Representatives.

The House of Representatives consists of 163 members elected for two-year terms at each general election. A member generally may serve up to eight years as a representative based upon re-election. The House of Representatives convenes annually on the first Wednesday following the first Monday in January and adjourns on May 30 with no consideration of bills after 6:00 p.m. on the first Friday after the second Monday in May.

Each representative must be at least twenty-four years of age, a qualified voter of the state for two years, and of the district he/she represents for one year. The speaker of the House of Representatives is the presiding officer.

Representatives received salaries as follows:

<u>Positions</u>	<u>Year Ended June 30,</u>			
	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Speaker of the house	\$ 33,851	33,851	33,746	33,036
Speaker pro tem and floor leaders	32,851	32,851	32,746	32,036
All remaining representatives	31,351	31,351	31,246	30,536

Representatives were authorized to receive per diems and mileage reimbursement as follows:

<u>Effective Dates</u>	<u>Per Diem</u>	<u>Mileage Rate</u>
July 1, 1999 - June 30, 2001	\$68.00	
July 1, 2001 - June 30, 2002	72.00	
July 1, 2002 - June 30, 2003	75.20	
July 1, 1999 - June 30, 2000		\$0.280
July 1, 2000 - June 30, 2001		0.295
July 1, 2001 - June 30, 2002		0.315
July 1, 2002 - June 30, 2003		0.335

Members do not receive per diems or statutory mileage allowances during technical sessions; however, mileage expenses are reimbursed from the House of Representatives' contingency funds. Each member is also credited with \$800 a month (Effective July 1, 2002; previously \$1,000 a month) to cover the cost of office supplies, district staff

salaries, postage, mileage incurred and not paid for by statute, and other incidental expenses.

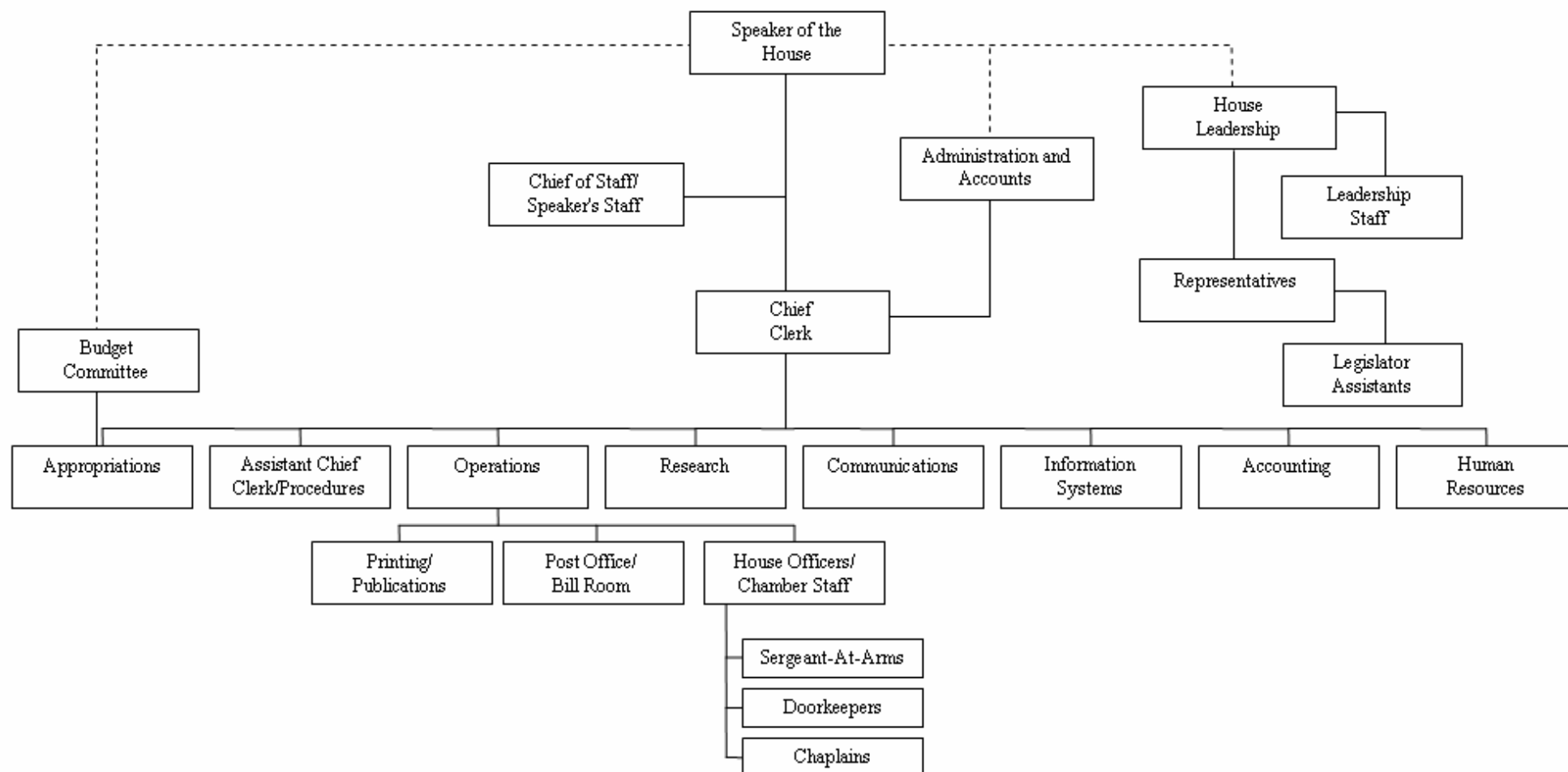
In 1973, the General Assembly was authorized full-time staffing as a result of a 1970 constitutional amendment creating annual legislative sessions.

In 1975, the positions of chief clerk and house administrator were merged into one position, which is currently filled by a full-time chief clerk. The House of Representatives is organized into eight divisions consisting of: appropriations, information systems, accounting, research, human resources, communications, operations, and assistant chief clerk/procedures.

The House of Representatives has approximately 137 full-time employees, 159 legislative assistants, and 54 part-time and session employees.

An organization chart follows.

GENERAL ASSEMBLY AND SUPPORTING FUNCTIONS
HOUSE OF REPRESENTATIVES
ORGANIZATION CHART
JUNE 30, 2003



Appendix A

GENERAL ASSEMBLY AND SUPPORTING FUNCTIONS
HOUSE OF REPRESENTATIVES
HOUSE OF REPRESENTATIVES REVOLVING FUND
COMPARATIVE STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH AND INVESTMENTS

	Year Ended June 30,			
	2003	2002	2001	2000
RECEIPTS				
Sales and service revenues	\$ 46,831	36,872	22,809	40,244
Refunds and reimbursements	0	0	0	2,518
Miscellaneous	0	0	850	1,121
Total Receipts	46,831	36,872	23,659	43,883
DISBURSEMENTS				
Expense and equipment	23,720	23,493	27,982	45,393
Total Disbursements	23,720	23,493	27,982	45,393
RECEIPTS OVER (UNDER) DISBURSEMENTS	23,111	13,379	(4,323)	(1,510)
TRANSFERS				
Transfers to General Revenue Fund - State	255	239	260	5,387
Total Transfers	255	239	260	5,387
RECEIPTS OVER (UNDER) DISBURSEMENTS AND TRANSFERS	22,856	13,140	(4,583)	(6,897)
CASH AND INVESTMENTS, JULY 1	13,221	81	4,664	11,561
CASH AND INVESTMENTS, JUNE 30	\$ 36,077	13,221	81	4,664

Appendix B

GENERAL ASSEMBLY AND SUPPORTING FUNCTIONS
HOUSE OF REPRESENTATIVES
STATEMENT OF APPROPRIATIONS AND EXPENDITURES
YEAR ENDED JUNE 30, 2003

	Appropriation Authority	Expenditures	Lapsed Balances *
GENERAL REVENUE FUND-STATE			
Representatives' expense vouchers	\$ 1,564,800	1,435,124	129,676
Leadership aides and secretaries	5,402,364	4,936,936	465,428
House research staff	974,189	891,883	82,306
Legislative committee operating expense	90,000	87,300	2,700
House staff	1,000,000	0	1,000,000
House staff	5,259,738	4,533,541	726,197
House appropriations staff	415,357	370,100	45,257
Representatives' salaries	5,117,283	5,035,914	81,369
Representatives' mileage	342,660	333,838	8,822
Representatives' per diem	1,083,950	931,978	151,972
Total General Revenue Fund-State	21,250,341	18,556,614	2,693,727
HOUSE OF REPRESENTATIVES REVOLVING FUND			
House Revolving Fund	45,000	23,720	21,280
Total All Funds	\$ 21,295,341	18,580,334	2,715,007

* The lapsed balances included the following withholdings made at the Governor's request:

General Revenue Fund-State:

Representatives' expense vouchers	\$ 46,944
Leadership aides and secretaries	412,071
House research staff	29,226
Legislative committee operating expense	2,700
House staff	407,792
House appropriations staff	12,461
Representatives' mileage	8,651
Representatives' per diem	32,519
Total	\$ 952,364

Appendix C

GENERAL ASSEMBLY AND SUPPORTING FUNCTIONS
HOUSE OF REPRESENTATIVES
COMPARATIVE STATEMENT OF EXPENDITURES (FROM APPROPRIATIONS)

	Year Ended June 30,			
	2003	2002	2001	2000
Salaries and wages	\$ 13,503,923	13,660,572	13,540,766	12,853,459
Travel	1,637,861	1,680,280	1,558,929	1,531,926
Communication services and supplies	443,377	515,455	484,351	543,256
Other supplies	1,064,430	1,059,305	1,139,718	1,039,727
Professional development	52,542	94,153	83,016	79,831
Professional services	1,045,788	967,217	1,038,296	1,025,893
Equipment	607,541	328,021	731,469	420,727
Property and improvements	57,961	13,331	30,100	32,943
Building and equipment leases	59,116	33,673	28,232	25,288
Miscellaneous	107,795	86,022	69,609	67,676
Total Expenditures	\$ <u>18,580,334</u>	<u>18,438,029</u>	<u>18,704,486</u>	<u>17,620,726</u>