



Office of Missouri State Auditor
Nicole Galloway, CPA

FOLLOW-UP REPORT ON AUDIT FINDINGS

City of St. Louis
Recorder of Deeds and Vital Records Registrar

Report No. 2016-095
September 2016

auditor.mo.gov

City of St. Louis Recorder of Deeds and Vital Records Registrar
Follow-Up Report on Audit Findings
Table of Contents

State Auditor's Letter 2

Status of Findings*

1. Construction Contracts3
2. Nepotism.....4
3. Records Preservation Account Compliance.....5
4. Receipt Controls8
5. Bank Account Controls.....9
6. Escrow Liability..... 11

*Includes selected findings



NICOLE GALLOWAY, CPA **Missouri State Auditor**

To the Honorable Jeremiah W. (Jay) Nixon, Governor
and
Honorable Sharon Quigley Carpenter, Recorder of Deeds and Vital Records Registrar
City of St. Louis, Missouri

We have conducted follow-up work on certain audit report findings contained in Report No. 2016-004, *City of St. Louis Recorder of Deeds and Vital Records Registrar* (rated as Poor), issued in January 2016, pursuant to the Auditor's Follow-Up Team to Effect Recommendations (AFTER) program. The objectives of the AFTER program are to:

1. Identify audit report findings that require immediate management attention and any other findings for which follow up is considered necessary at this time, and inform the Governor and the Recorder about the follow-up review on those findings.
2. Identify and provide status information for each recommendation reviewed. The status of each recommendation reviewed will be one of the following:
 - Implemented: Auditee fully implemented the recommendation, either as described in the report or in a manner that resolved the underlying issue.
 - In Progress: Auditee has specific plans to begin, or has begun, to implement and intends to fully implement the recommendation.
 - Partially Implemented: Auditee implemented the recommendation in part, but is not making efforts to fully implement it.
 - Not implemented: Auditee has not implemented the recommendation and has no specific plans to implement the recommendation.

Our methodology included working with the Recorder, prior to completion of the audit report, to develop a timeline for the implementation of corrective action related to the audit recommendations. As part of the AFTER work conducted, we held discussions with the Recorder's Office staff and other city personnel, reviewed supporting documentation provided by the Recorder's Office and the City of St. Louis Comptroller's Office, and held a meeting with the Recorder and several of her staff. This report is a summary of the results of this follow-up work, which was substantially completed by August 2016.

A handwritten signature in black ink that reads "Nicole R. Galloway".

Nicole R. Galloway, CPA
State Auditor

City of St. Louis Recorder of Deeds and Vital Records Registrar

Follow-Up Report on Audit Findings

Status of Findings

1. Construction Contracts Construction contract procurement and construction project policies and procedures needed improvement. The City of St. Louis Recorder of Deeds and Vital Records Registrar (Recorder) had not ensured required competitive procurement procedures were followed during the development of several construction contracts and the contracts were awarded to related party vendors. In addition, the Recorder allowed excessive change orders on one project.
- 1.1 Contracts for renovation services Recorder Carpenter's Office authorized contracts for several construction projects although the Recorder was aware that each contract was issued to a company that either employed or was owned by the former Deputy Recorder's son. The former Deputy Recorder's conflict of interest, along with her level of responsibility for and involvement in the projects were not consistent with good management practices. Recorder Carpenter's Office did not properly solicit bids for a renovation project. Although two bids were received for the project, advertising for bids was not conducted as required by state law. Recorder Carpenter accepted the low bid submitted by the former Deputy Recorder's son.

Recommendation

Properly bid all contracts and services in accordance with state law. In addition, refrain from entering into business transactions with related parties unless the transactions are bid in compliance with state law and the procurement process is conducted by an individual or entity not under the supervision of the Recorder's Office. Bids should be critically reviewed to ensure fair and open competition is achieved.

Status

Implemented

The Recorder implemented a Renovation/Construction Policy, dated August 5, 2015, and a Procurement Policy, dated April 19, 2016. The policies address bidding requirements including advertising and selection of the vendor. These policies, if properly followed, should ensure proper procurement practices and should allow for fair and open competition. The Recorder started 3 renovation projects in late 2014 or early 2015 that were in construction during the year ended June 30, 2016. The Recorder's staff indicate the projects have been fully supervised by the city's Board of Public Service (BPS) and the BPS obtained bids as needed on the projects. We met with the President of the BPS who indicated the Recorder's Office has complied with BPS policies and procedures and the BPS has no concerns with procurement practices on the recent projects. In addition, we reviewed selected expenditures dated between February and May 2016, including 3 expenditures that required bidding. All 3 expenditures were bid and advertising was conducted when required. The BPS handled the bidding process for one of these items and purchase of another item came through a state contract.



City of St. Louis Recorder of Deeds and Vital Records Registrar
Follow-up Report on Audit Findings
Status of Findings

1.2 Change orders

The former Deputy Recorder and the BPS authorized change orders that increased a 2013 renovation project cost by a substantial amount. The change orders significantly expanded the scope of the project and significantly modified the original design. It appeared the original design was not adequate to ensure the project addressed all work needed or desired by the Recorder.

Recommendation

Ensure the scope of contracted services is properly developed before accepting bids or awarding contracts and give consideration to conducting bidding for separate project services when substantial project changes are needed.

Status

Implemented

The Recorder implemented a Renovation/Construction Policy, dated August 5, 2015, that addresses construction project planning and monitoring. The policy, if followed, should ensure proper development of each project's scope by the Recorder's Office, in cooperation with BPS staff, and should minimize the occurrence of change orders. The Recorder started 3 renovation projects in late 2014 or early 2015 that were in construction during the year ended June 30, 2016. The Recorder's staff indicate the projects have been fully supervised by the city's BPS and they are not aware of any substantial change orders for these projects. We met with the President of the BPS, who indicated the Recorder's Office has complied with BPS policies and procedures and the BPS had no concerns with the design scope or change orders associated with the projects.

2. Nepotism

Recorder Carpenter, hired her great nephew to work as a temporary contractor. Between June 2010 and January 2012, Recorder Carpenter paid her great nephew \$12,255 to perform document archival services.

Effective July 14, 2014, Recorder Carpenter resigned from office as required by the Missouri Constitution after the nepotism concerns were raised and made public. Recorder Carpenter indicated she misinterpreted the legal requirements related to hiring relatives when she hired her great nephew.

Recommendation

The Recorder consult legal counsel regarding matters of legal interpretation and ensure compliance with the Missouri Constitution related to hiring relatives.

Status

Implemented

The Recorder and her staff indicated there are no employees in the Recorder's Office who are related to Recorder Carpenter. The Recorder sought legal counsel from the City Attorney's Office regarding the nepotism



City of St. Louis Recorder of Deeds and Vital Records Registrar
Follow-up Report on Audit Findings
Status of Findings

concern prior to her resignation and additional need for legal counsel on this matter has not been necessary.

3. Records Preservation
Account Compliance

The Recorder's Office had not complied with numerous legal requirements related to the Records Preservation Account.

3.1 Restricted revenues

The Recorder had not established adequate procedures to ensure expenditure of restricted monies occurred for only statutorily allowed purposes. The Recorder's Office commingled fees assessed for record storage, microfilming, and preservation, and for technology in a ledger with other monies collected rather than accounting for this money in separate funds. Adequate accounting records were not maintained to ensure the sources and uses of funds were accounted for separately and; therefore, there was little assurance each source had been properly spent for its specifically allowable purpose.

Recommendation

Establish separate funds or a separate accounting of the Records Preservation Account monies.

Status

In Progress

The Recorder began allocating deposits on October 13, 2015, between Records Preservation, Technology, and Miscellaneous Funds. The October 12, 2015, cash balance of \$339,389 was applied to the Miscellaneous Fund and was not allocated to the Preservation or Technology Funds. The Recorder also has not started allocating expenditures between the funds. All expenditures since October 12, 2015, have been paid out of the Miscellaneous Fund and the Recorder's staff indicated they will begin allocating expenditures when the Miscellaneous Fund is depleted.

3.2 Unallowable
expenditures

Some expenditures authorized from the Records Preservation Account were clearly not in compliance with state law and others were authorized without sufficient documentation to determine compliance. The Recorder had not obtained legal opinions related to allowable expenditures of the monies maintained in the Records Preservation Account.

Recorder Carpenter authorized expenditures totaling \$3,761 between August 2009 and June 2015, that were not allowable uses of the Records Preservation Account. Recorder Carpenter also authorized travel and conference expenditures totaling \$7,393 during the 2 fiscal years ended June 30, 2015, without sufficient documentation to show compliance.

In addition, Recorder Carpenter authorized construction expenditures that were only partially statutorily compliant or were not sufficiently documented to demonstrate compliance. Some construction expenses, such



City of St. Louis Recorder of Deeds and Vital Records Registrar
Follow-up Report on Audit Findings
Status of Findings

as new flooring and painting, seemed to be general upgrades to the office unrelated to technology or storage and archival of records.

Recommendation

Expend the Records Preservation Account monies in accordance with state law.

Status

In Progress

The Recorder's staff indicated the Recorder has requested funding through the City of St. Louis for legal counsel to obtain a legal opinion regarding allowable expenditures from the Records Preservation Account but the request was not approved. The Recorder indicated she also inquired about an opinion being issued by legal counsel at a district-level meeting of the Recorders' Association of Missouri (the Association) on June 9, 2016. The Recorder has no documentation of this conversation and there has not been a formal request or other written communication regarding the question of a legal opinion by the Association.

We reviewed selected expenditures dated between February and May 2016. Most of the test items seemed to be statutorily compliant; however, the expenditure documentation did not include indications of which allowable purpose the expenditure related to. It was not clear how some purchases, including several construction expenditures complied with statutory requirements until we asked the Recorder's staff about them and received additional information.

3.3 Annual budgets

The Recorder's Office had not prepared budgets for the Records Preservation Account for the fiscal years ended June 30, 2015, and June 30, 2014. Recorder Carpenter indicated that the account had not been budgeted through the city's Board of Estimate and Apportionment because doing so would reduce the Recorder's General Fund appropriation from the city and result in the office paying for items from the Records Preservation Account that are now paid from the General Fund. However, Recorder Carpenter had also not developed an internal working budget.

Recommendation

Ensure an annual budget is prepared for the Records Preservation Account.

Status

In Progress

The Recorder's Office is in the process of implementing this recommendation and the staff indicated they intend to fully comply with statutory requirements as prior year budget data becomes available. We reviewed a fiscal year 2017 budget the Recorder's Office prepared for the Records Preservation Account. The budget reflects the July 1, 2016, beginning cash balance of each source of revenue/fund and the bank account as a whole, projected total receipts, and projected expenditures by object.



City of St. Louis Recorder of Deeds and Vital Records Registrar
Follow-up Report on Audit Findings
Status of Findings

Additional details are needed to ensure the budget reflects receipt or disbursement activity and available cash balances of each revenue source/fund (Records Preservation, Technology, and Miscellaneous). Those details include allocation of estimated revenue by source/fund, allocation of estimated expenditures by source/fund, and estimated ending cash balance of each fund. Also, comparative budget and actual information from prior years is required by law.

3.4 Procurements and bidding

The Recorder's written procurement policy had not ensured compliance with state law. The policy established bidding requirements for document archival or technology purposes; but did not include advertising requirements or bid requirements for general purpose purchases. As a result, some purchases were not bid or advertised in compliance with state law. In addition to bidding concerns addressed elsewhere in our report, we identified other purchases totaling \$31,500 that the Recorder had not properly bid or advertised.

Recommendation

Develop and adhere to a procurement policy that properly reflects statutory requirements and addresses all procurement aspects of contracts and purchasing.

Status

Implemented

The Recorder implemented a Renovation/Construction Policy, dated August 5, 2015, and a Procurement Policy, dated April 19, 2016. These policies address compliance with statutory requirements related to procurement and define specific procedures for completing purchases. We reviewed 15 expenditures dated between February and May 2016. The Recorder's staff or BPS staff bid 7 of the expenditures or obtained price quotes as required by either state law or the Recorder's current policy, and 2 purchases were made from state contracts. The other 6 expenditures did not require obtaining bids or price quotes.

3.5 IRS reporting

The Recorder had not ensured payments to individuals were properly reported to the Internal Revenue Service (IRS) when required. Payments to one individual during 2014 totaling \$5,946 were not reported to the IRS on a 1099-MISC form as required.

Recommendation

Ensure 1099-MISC forms are issued when required.

Status

Implemented

In May 2015, the Recorder began making payments to the contracted employees through the City of St. Louis Comptroller's Office. The Recorder reimburses the city from the Records Preservation Account for the payroll expense and the Comptroller's Office is responsible for issuing applicable



City of St. Louis Recorder of Deeds and Vital Records Registrar
Follow-up Report on Audit Findings
Status of Findings

W-2 or 1099 forms. The Recorder's staff were not aware of any additional vendor payments that would require issuance of a 1099 form. We contacted a representative of the Comptroller's Office and confirmed that Recorder's Office contracted employees are now paid through the Comptroller's Office and the W-2 or 1099 forms are issued by the Comptroller when necessary. The Recorder's staff have contacted the city's personnel section to determine how the 2014 earnings should be reported.

4. Receipt Controls

We identified several weaknesses in the receipting controls and procedures in the Recorder's Office.

4.1 Timely transmittals

Cash, check, and money orders received were not transmitted to the City Treasurer timely. During the fiscal year ended June 30, 2015, daily transmittals averaged approximately \$13,800; however, the monies were transmitted 3 days after receipt to accommodate settlement of credit card transactions. Receipts were balanced to revenue reports on a daily basis and then held in the cashier's safe until transmitted to the city.

Recommendation

Transmit cash, check, and money order receipts to the city, separate from the credit card collections, each day as they are received.

Status

Implemented

The Recorder's staff indicated they began transmitting cash and check receipts each morning on the day following collection as of July 21, 2015. We reviewed the Friday, July 22, 2016, collections, which agreed to the Monday, July 25, 2016, transmittal to the City Treasurer. Beginning in May 2015, the Recorder's staff began retaining credit card settlements in the Credit Card Clearing bank account until the end of the month. After all monthly charge payments have settled, the monthly collected total is remitted to the City Treasurer by check. We reviewed credit card collections and distributions to the City Treasurer for the months of March and June 2016 and noted no problems.

4.2 Mail receipts

The Recorder's Office controls over mail receipts did not segregate receiving and processing functions, and independent reviews were not performed. The front office staff prepared a mail log for the Land Department, but the Archives, Vital Records, and Marriage departments prepared their own mail logs. In addition, although copies of the customer receipts were retained by the cashier, copies of the receipts were not attached to the logs by the departments nor were the receipt transaction numbers recorded on the logs. As a result, there was less ability to verify the proper disposition of the receipts.

Recommendation

Require an independent person prepare an initial record of monies received in the mail. Record receipt transaction numbers on the log or attach



City of St. Louis Recorder of Deeds and Vital Records Registrar
Follow-up Report on Audit Findings
Status of Findings

duplicate copies of customer receipts to the log. Require periodic, independent reviews of the mail logs and disposition of receipts received in the mail.

Status

Implemented

Monies received in the mail are recorded on logs for each department by front office staff who are independent of the departments. The logs, documents to be recorded, and payments received are then forwarded to the appropriate department. After the mail has been processed, the logs, original documents with associated receipt slips, and rejected documents with the original payment are returned to the front office staff. The front office staff review the logs and returned documentation to ensure a receipt slip or the original payment is attached to each original document. The front office staff record the receipt numbers or amount of payment rejected on the log. We reviewed mail logs for the Land, Archives, Vital Records, and Marriage departments prepared during the week of May 16 through May 20, 2016. Our review indicated the office implemented these procedures.

4.3 Voided transactions

Voided system transactions did not require supervisory approval, were not periodically reviewed by an independent person or supervisor, and were not adequately documented. Documentation of the reasons for voiding transactions was inconsistent, and voided monetary transactions were not referenced to replacement transaction numbers when possible.

Recommendation

Ensure adequate documentation is maintained to support all voided transactions and ensure an independent review and approval of these transactions is performed and documented.

Status

Implemented

Officials from the Recorder's Office indicated a standard voided transaction report was developed by the software vendor. The Deputy Recorder documents her reviews of the daily, weekly, and monthly reports printed by the cashier's office. Reasons for voiding monetary transactions are documented in the system including references to the replacement transactions, if applicable. Copies of the voided and replacement receipt slips are printed and filed with the voided transaction reports. We reviewed copies of voided reports printed from the Recorder's system for March 2016 and observed notations explaining why the transactions were voided and indications of review by the Deputy Recorder.

5. Bank Account Controls Controls and procedures related to the Recorder's Records Preservation and Credit Card Clearing bank accounts needed improvement.



City of St. Louis Recorder of Deeds and Vital Records Registrar
Follow-up Report on Audit Findings
Status of Findings

5.1 Records Preservation
Account bank
reconciliations

Complete and accurate bank reconciliations were not prepared for the Records Preservation Account and adequate supervisory reviews of the reconciliations were not performed.

Recommendation

Ensure supervisory reviews of the Records Preservation Account bank reconciliations, accounting records, and bank records are performed and documented.

Status

Implemented

The Deputy Recorder now performs and documents reviews of the bank statements and bank reconciliations. We reviewed bank reconciliations for the Records Preservation Account from November 2015 and May 2016 and observed indications of the Deputy Recorder's review.

5.2 Records Preservation
Account expenditure
controls

The Recorder's expenditure policy was incomplete. The policy did not contain instructions for numerous basic procedures including requirements for: procurement of general purchases unrelated to technology or archival supplies, advertisement for bids, documentation of bidding and price quoting, supporting invoices, supervisory approval, and indication of receipt of items purchased. Lack of complete policies contributed to incomplete documentation of the office's procurements including information necessary to ensure all payments represent valid and appropriate purchases.

Recommendation

Improve expenditure policies, controls, and procedures of the Records Preservation Account, including required documentation, supervisory approval, and indication of receipt of goods to ensure all payments made represent valid and appropriate purchases.

Status

Partially Implemented

The Recorder implemented a Procurement Policy, dated April 19, 2016, that is applicable to all expenditures. The policy includes requirements for purchase approvals, price quotes, bids, use of other governments' contracts, advertisement of purchases, bid evaluations, vendor selections, and single source purchases. The policy also states that original paperwork for all purchases will be retained but does not detail requirements for some atypical expenditures such as travel and meeting or conference costs. The policy does not require documentation of the receipt of goods or services.

We reviewed 15 expenditures dated between February and May 2016. Procedures for retaining original documentation of purchase invoices and supplying approvals appeared to be improved. The purchases we reviewed complied with policy requirements for supporting documentation, bidding, and advertising. A supervisor approved most purchases; however, we



City of St. Louis Recorder of Deeds and Vital Records Registrar
Follow-up Report on Audit Findings
Status of Findings

identified 2 expenditures without supervisory approval. In addition, our review indicated receipt of goods or services is seldom documented by the Recorder's staff.

5.3 Credit Card Clearing Account balance

The Credit Card Clearing Account balance was not adequately monitored and exceeded current needs. As of June 30, 2015, the account had a cash balance of approximately \$20,000. No summary records were maintained to track the balance due to the city or ensure the remaining cash balance agreed to the accumulated total of the customer convenience fees less banking fees and administrative expenses.

Recommendation

Prepare a monthly list of the Credit Card Clearing Account liabilities including undistributed customer convenience fees and compare to the reconciled bank balances. Any differences should be promptly investigated and resolved. In addition, the cash balance in excess of current needs should be transmitted to the City Treasurer.

Status

Implemented

The Recorder established a Credit Card Residual Funds Disposition Policy in July 2015. We reviewed the residual balance transfers performed by the Recorder's staff in July 2015 and July 2016. Although the staff did not calculate the transfer amounts as specified in the policy, establishment of the policy and completion of the transfers demonstrate the Recorder's intent to fully implement the recommendation. Because all credit card collections are remitted to the city monthly, the only monies remaining in the account are credit card convenience fees.

6. Escrow Liability

The Recorder's records of monies held in escrow were not reconciled to the city's general ledger records or balances and, as a result, errors and other unidentified differences remained undetected. Deposits and uses by participating customers totaled approximately \$1.9 million during the year ended June 30, 2015, and approximately \$1.8 million during the year ended June 30, 2014. The city's liability balance exceeded the Recorder's liability balance by approximately \$38,000.

Recommendation

The Recorder reconcile escrow account balances to the city's liability account monthly. Any differences should be investigated and resolved.

Status

In Progress

We reviewed reconciliation documentation prepared by the Recorder's staff for April and May 2016 and scanned records of reconciliations for other months. Our review identified as of August 2016, the Recorder's staff had completed monthly reconciliations through May 2016, and the unreconciled balance totaled \$65,725. The staff continued to work on subsequent



City of St. Louis Recorder of Deeds and Vital Records Registrar
Follow-up Report on Audit Findings
Status of Findings

reconciliations with a goal of determining the unidentified balance held in the city's general ledger. However, the unidentified balance has fluctuated each month. The Recorder's staff indicated they are still trying to resolve the differences and other reconciling items are occurring but they are not easily identifiable. As a result, the Recorder requested funding from the city to hire a consultant to work on the reconciliation with the office but the funding was not approved. The Recorder has also requested assistance from the Comptroller's internal audit staff but has not received that assistance. The Recorder's staff appears to be committed to continuing to work on the reconciliation until the unidentified amount becomes stable. At that time they indicated they will provide instructions to the City Comptroller regarding a transfer of the excess funds from the City's Title Fee Deposits Account.