

**OFFICES OF THE
STATE AUDITOR OF MISSOURI
JEFFERSON CITY**

**OFFICE OF COLLECTOR OF REVENUE
CITY OF ST. LOUIS, MISSOURI
YEAR ENDED MARCH 1, 1987**

MARGARET KELLY, CPA



OFFICE OF COLLECTOR OF REVENUE
CITY OF ST. LOUIS, MISSOURI

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STATE AUDITOR OF MISSOURI

JEFFERSON CITY, MISSOURI 65102

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STATE AUDITOR

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Ronald A. Leggett
Collector of Revenue
City of St. Louis, Missouri 63103

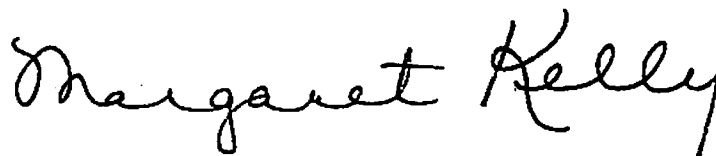
The State Auditor was petitioned under Section 29.230, RSMo 1986, to perform an audit of the city of St. Louis, Missouri. Accordingly, we have conducted an audit of the Office of Collector of Revenue, city of St. Louis, for the year ended March 1, 1987. The purposes of our examination were to:

1. Study and evaluate the Collector of Revenue's system of internal controls.
2. Perform a limited review of certain management practices to determine the efficiency and effectiveness of those practices.
3. Review probable compliance with certain constitutional provisions, statutes, administrative rules, attorney general's opinions, and city ordinances as we deemed necessary or appropriate.
4. Perform a limited review of the integrity and completeness of the Collector of Revenue's financial reporting system.
5. Perform procedures deemed necessary to evaluate petitioner concerns.

Our examination was made in accordance with generally accepted government auditing standards and included such procedures as we considered necessary in the circumstances. In this regard, we reviewed the Collector of Revenue's financial records, payroll procedures and documents, expenditures, contractual agreements, and other pertinent procedures and documents; interviewed personnel of the Office of Collector of Revenue; and compiled the information in the appendices from the records and reports of the Collector of Revenue. The data presented in the appendices were obtained from the Collector's accounting system. However, they were not verified by us via additional audit procedures and, therefore, we express no opinion on them.

The accompanying History and Organization is presented for informational purposes. The background information was obtained from office management and was not subject to the audit procedures applied by us in our examination.

Our comments on management practices and related areas are presented in the accompanying Management Advisory Report.

A handwritten signature in cursive script that reads "Margaret Kelly". The signature is written in dark ink and is positioned to the right of the typed name.

Margaret Kelly, CPA
State Auditor

October 8, 1987

HISTORY AND ORGANIZATION

OFFICE OF COLLECTOR OF REVENUE
CITY OF ST. LOUIS, MISSOURI
HISTORY AND ORGANIZATION

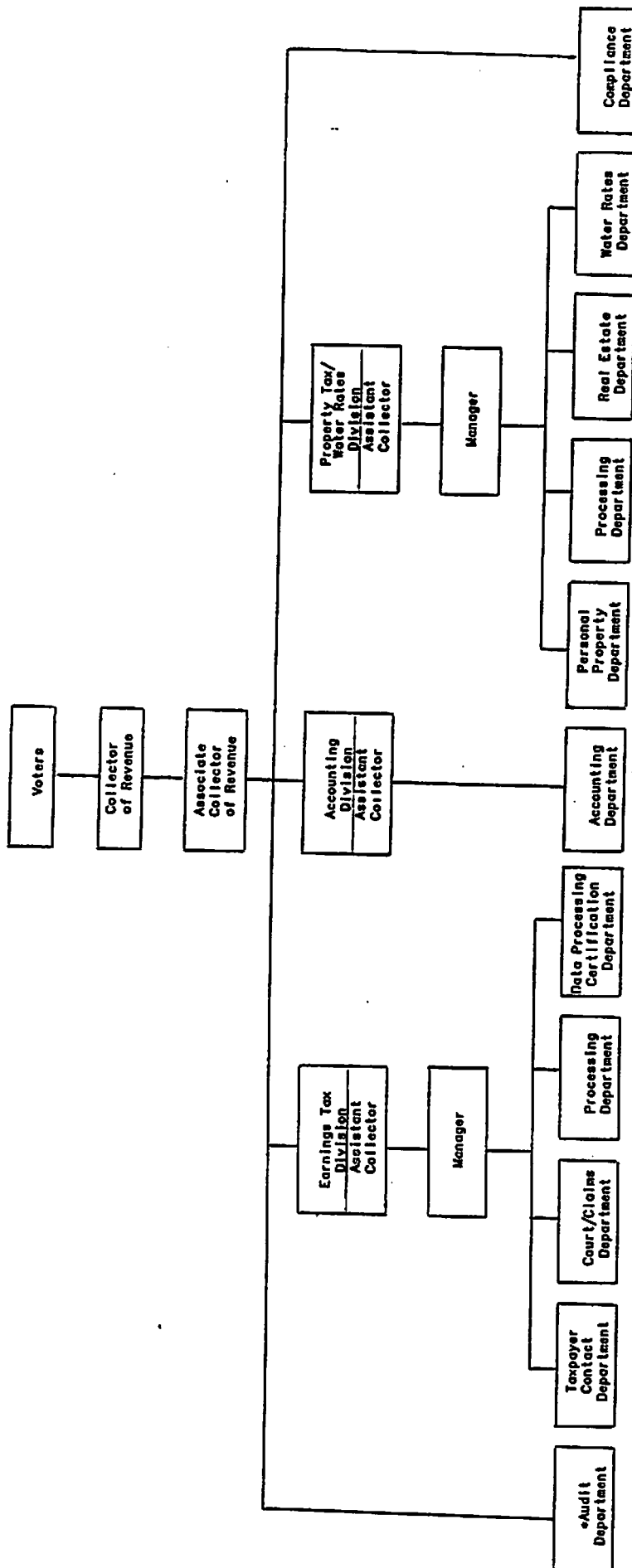
The Office of Collector of Revenue is an elective office established under the provisions of Section 52.010, RSMo 1986, and Article XV, Sections 19 and 20, St. Louis City Charter. Ronald A. Leggett currently serves as the Collector of Revenue for the city of St. Louis. He has served in that capacity since his initial gubernatorial appointment in February 1977. He was subsequently elected to his position in November 1978, and reelected in November 1982 and 1986.

The Office of Collector of Revenue is responsible for the collection of real estate and personal property taxes and motor vehicle license taxes. In addition, the office collects city earnings tax and employment tax and receives miscellaneous taxes, payments, and fees associated with city water bill collections. At March 1, 1987, key office personnel were as follows:

Melvin A. Nienhaus, Associate Collector
LaVern G. Kleine, Administrative Assistant
Sandra J. LaPlant, Accounting Division Supervisor
Georgia P. Luchtefeld, Property Tax/Water Rates
Division Supervisor
Robert E. Evans, Earnings Tax/Employment
Tax Division Supervisor

At March 1, 1987, the Collector of Revenue employed approximately 141 full-time employees.

OFFICE OF COLLECTOR OF REVENUE
CITY OF ST. LOUIS, MISSOURI
ORGANIZATION CHART
MARCH 1, 1987



* Department not functional at March 1, 1987.

MANAGEMENT ADVISORY REPORT

OFFICE OF COLLECTOR OF REVENUE
CITY OF ST. LOUIS, MISSOURI
SUMMARY OF FINDINGS

1. Collector of Revenue's Banking Practices (pages 11-13)

The amount of collateral securities pledged by one of the Collector's depository banks was insufficient by approximately \$5,106,000 during January 1987. This situation could have been prevented if a formal banking agreement, requiring the Collector to authorize all pledged security additions and releases, existed. It was also noted collateral securities held by one depository bank were not deposited with a disinterested banking institution. Further, the Collector does not competitively bid for banking services.

2. Budgetary Practices (pages 13-15)

The annual budget prepared by the Collector's office presents an unrealistic projection of departmental expenditures. A comparison revealed actual expenditures exceeded budgeted expenditures by \$47,236 with no explanation for the budget overage. It was also determined the expenditure allocation plan, used to distribute revenues to the appropriate taxing authorities, is not evaluated for reasonableness and current applicability.

3. Investments (pages 15-17)

The Collector's established system for recording investment transactions does not provide an adequate control environment. Additionally, the Collector's current investment portfolio does not reflect full consideration of available investment vehicles designed to maximize interest while ensuring statutory compliance. For example, if half of the available funds had been invested in U. S. Treasury bills an additional \$73,000 of interest income could have been earned in fiscal year 1987.

4. Collector's Commissions and Compensation (pages 17-18)

During the year ended March 1, 1987, the Collector of Revenue received \$333 in excess compensation. He also inappropriately withheld a 2 percent commission on unclaimed tax sale proceeds. An additional problem relating to \$100,000 in 1986 excess commissions being set aside for future capital improvements was also noted.

5. Protested Taxes (pages 18-20)

The Collector has not complied with state statutes regarding the refund of protested taxes and the distribution of interest earned on protested tax accounts.

6. Confirmation of Delinquent Tax Property (pages 20-21)

All land parcels sold because of delinquent property taxes are not confirmed by an interested party in a timely manner. This allows the purchaser of the property to indefinitely defer the payment of associated property taxes. The recorded tax liability at March 1, 1987, was \$22,034.

7. Distribution of Excess Commissions and Interest Income (pages 21-23)

The Collector's method of distributing excess commissions and interest revenue does not comply with Section 82.660, RSMo 1986.

8. Fidelity Bond Coverage (pages 23-24)

Based on noted cash balances and average daily receipts, current bonding levels of the Collector of Revenue and key cash-handling personnel do not appear adequate.

9. Earnings Tax (pages 24-25)

Efforts to pursue the collection of earnings tax from promoters and booking agents has been inhibited. In addition, current procedures to ensure the completeness and accuracy of submitted earnings taxes are not adequate.

10. Controls over Cash Receipts and Bank Accounts (pages 25-28)

Several improvements could be made to strengthen cash internal controls. Weaknesses noted in this area include inadequate segregation of the accounting and custodial duties, unsecured access to blank negotiable instruments, and inadequate controls over processing nonsufficient funds checks. We also noted problems relating to unaddressed cash shortages of \$3,850 and the method of reporting interest income. Four noninterest-bearing checking accounts were also identified.

11. Controls over Purchasing and Disbursements (pages 28-32)

The established control system over purchasing does not provide adequate segregation of duties. Additionally, the Collector has not formalized bidding procedures, resulting in several questionable expenditures totaling \$17,996. The Collector's method of awarding the annual audit contract was also found to be deficient.

12. Payroll and Personnel Controls and Procedures (pages 32-34)

The Collector has not formalized a personnel policy manual. Problems were also noted relating to the Collector's method of recording compensatory time earned and the informal policy for allowing select employees to use sick leave in amounts exceeding the available leave balance.

13. Fixed Asset Controls (pages 34-36)

Property control listings are generally incomplete and, for those items recorded, the listing does not include all the necessary information.

14. Maintenance and Service Agreements (page 37)

Updated copies of agreements relating to office equipment service and maintenance are not requested and filed by the Collector.

OFFICE OF COLLECTOR OF REVENUE
CITY OF ST. LOUIS, MISSOURI
MANAGEMENT ADVISORY REPORT

As part of our examination of the Office of Collector of Revenue, city of St. Louis, for the year ended March 1, 1987, we studied and evaluated the internal accounting control system to the extent needed to evaluate the system as required by generally accepted government auditing standards. For the purpose of this report, we have classified the significant internal accounting controls as cash, payroll, revenues, and expenditures. Our study included each of these control categories. Since the purpose of our study and evaluation was to determine the nature, timing, and extent of our audit procedures, it was more limited than would be needed to express an opinion on the internal accounting control system taken as a whole.

It is management's responsibility to establish and maintain the internal control system. In so doing, management assesses and weighs the expected benefits and related costs of control procedures. The system should provide reasonable, but not absolute, assurance that assets are safeguarded against loss, and that transactions are carried out as authorized by management and are recorded in a manner that will permit the subsequent preparation of reliable and proper financial reports.

Because of the inherent limitations in any internal control system, errors or irregularities may still occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation was made for the limited purpose described in the first paragraph and, thus, might not disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the internal accounting control system of the city taken as a whole. However, our study and evaluation disclosed certain conditions that we believe are material weaknesses and these findings are presented in this report.

We reviewed probable compliance with certain constitutional provisions, statutes, ordinances, and attorney general's opinions as we deemed necessary or appropriate. This review was not intended to provide assurance of full compliance with all regulatory provisions and, thus, did not include all regulatory provisions which may apply. However, our review disclosed certain conditions that may represent noncompliance and these findings are presented in this report.

During our examination, we identified certain management practices which we believe could be improved. Our examination was not designed or intended to be a detailed study of every system, procedure, and transaction. Accordingly, the findings presented in this report should not be considered as all inclusive of areas where improvements may be needed.

The State Auditor was petitioned under Section 29.230, RSMo 1986, to audit the city of St. Louis. We included those procedures necessary in our judgment to evaluate the petitioner concerns and those concerns requiring corrective action are addressed in this report.

The period of examination for the purposes stated above included, but was not limited to the period covered by the financial statements for the year ended March 1, 1987.

1. Collector of Revenue's Banking Practices

During the year ended March 1, 1987, the Collector of Revenue used the financial services of eight banks. Demand accounts were held at three institutions while the remaining banks were investment custodians. Our review of controls and procedures relating to banking practices revealed the following:

- A. At March 1, 1987, the Collector of Revenue did not have formal written agreements with depositary banks. Without such agreements, the Collector of Revenue has no assurance that account balances are being properly monitored for deposits in excess of Federal Deposit Insurance Corporation (FDIC) coverage. Additionally, the Collector of Revenue has no currently available method to evaluate the adequacy or quality of banking services received.

At January 12, 1987, the amount of collateral securities pledged by one of the Collector's depositary banks was insufficient by approximately \$5,106,000. The unsecured balance occurred during the peak tax collection period and apparently resulted from the depositary bank misinforming its holding company of the date to release securities pledged. Had a formal banking agreement existed, requiring the Collector to authorize all additions and releases of pledged securities, this situation could have been prevented. Instead, the \$5,106,000 in unsecured deposits risked nonrecovery in the event of a bank failure.

Section 110.020, RSMo 1986, provides that the value of securities pledged shall at all times be not less than 100 percent of the actual amount on deposit, less the amount insured by the FDIC. Entering into a formal banking agreement that addresses the monitoring of account balances for adequate collateralization, bank fees for provided services, and interest rates to be paid on invested funds, would provide additional assurance that the Collector's official funds are fully protected and are being used in the most effective manner available.

- B. Collateral securities held by one of the Collector of Revenue's depositary banks are not deposited with a disinterested banking institution. Our review of pledged securities revealed the collateral is held by the depositary bank's trust and safekeeping department. As a result, assurance that deposited funds are fully protected against loss is decreased.

Section 110.010(2), RSMo 1986, requires that securities be deposited with a disinterested banking institution.

- C. The Collector of Revenue does not competitively bid for banking services. At March 1, 1987, the Collector's primary depositary bank

required "compensating" account balances to be maintained. This balance, which is computed using an intricate formula, reflects deposits which must be held, at a minimum, to compensate for the bank's cost of providing collateralization and various other banking services. In the event the Collector's average balance does not meet the minimum required level, a service charge is incurred. Examples of charges associated with banking services, which are a factor of the computed balance, include a \$20 monthly account maintenance fee, a \$15 minimum monthly fee for account transfers, and a \$300 per incident fee for automatic investment transactions. During the year ended March 1, 1987, the Collector of Revenue forfeited approximately \$6,400 in interest earnings as a result of deposited funds not sufficiently meeting the required minimum, or "compensating" balance. In addition, the Collector received no interest on the computed minimum balance.

When questioned about their method of paying for banking services, the Collector's accounting personnel indicated that the compensating balance method was not understandable. In fact, they had requested on several occasions for the bank to explain in detail how the intricate formula was applied. Collector's office personnel were unaware that their banking services during the year ended March 1, 1987, had resulted in interest forfeiture totaling \$6,400.

As evidenced above, the Collector is currently unable to monitor the costs associated with banking services received. Because the services were not competitively bid, the Collector has not availed himself of other options available in the banking industry. For example, it is possible to pay for banking services on a charge per service provided basis. By placing his banking needs out on competitive bid, the Collector could possibly attain better financial bargaining power and could better assure himself that banking costs are monitored in a manner which effects the most efficient use of official funds.

WE RECOMMEND the Collector of Revenue:

- A. Enter into formal written banking agreements addressing bank fees and interest rates on invested funds and requiring depository banks to pledge sufficient collateral securities at all times.
- B. Require banks to deposit securities pledged with a disinterested holding party.
- C. Bid out banking services.

AUDITEE'S RESPONSE

We concur on all items.

- A. The Collector of Revenue will enter into formal written banking agreements upon completing a review of bank bid proposals received from the Director of Finance in Jefferson City, among others, this will provide the most favorable bank fees and interest rates and require pledging of sufficient collateral.

- B. The Collector of Revenue's office will sign collateral agreements with each bank holding Collector funds requiring deposit of securities pledged with a disinterested holding party.
- C. The Collector of Revenue has requested and received specifications and bid proposals for bank services from the Director of Finance in Jefferson City and discussions have been held with three of the "Big 8" accounting firms. We are making an analysis of these proposals. The Accounting Department will make modifications to suit the proposals to the Collector of Revenue's office.

2. Budgetary Practices

- A. The annual budgetary document prepared by the Collector's office presents an unrealistic projection of departmental expenditures. According to accounting personnel, the annual budget has always been prepared but has not been used as a tool for monitoring total office or departmental expenditures for some time. In fact, although the budget details projected expenditures for each department, department supervisors are never consulted during the budget formulation process and, in fact, never receive a copy of the final document.

A comparison of selected budgeted expenditures to actual expenditures for the year ended March 1, 1987, illustrates the significant budgetary deficiencies:

Expenditure Category	Budgeted Expenditures	Actual Expenditures	Actual Expenditures (Over) Under Budget	
			Amount	Percentage
Salaries	\$ 1,950,000	2,104,946	(154,946)	(8)%
Printing and stationery	88,000	120,031	(32,031)	(36)
Audit expense	8,000	17,184	(9,184)	(115)
Telephone expense	34,000	18,600	15,400	45

Total expenditures for the year ended March 1, 1987, were \$3,159,117, exceeding total budgeted expenditures by \$47,236. Since the Collector had not compared budgeted and actual expenditures, no explanation was offered for the budget overage.

When properly prepared, a budget provides an excellent monitoring tool. This tool can be especially vital to the Collector since, by statute, he is responsible for financing his office operations from current tax year collections. Although the preparation of a budget is not required, the Collector apparently recognized the benefits of preparing a budget. However, in its current capacity, the budget document represents a waste of employee time to prepare and provides no realistic basis for monitoring and controlling expenditures. To properly plan for and control expenditures, an annual budget, based on a reasonable estimate of necessary costs, should be prepared. Procedures should be implemented to distribute the budget to all responsible parties and periodically compare budgeted amounts to actual expenditures, with any necessary corrective measures being taken.

- B. The Collector of Revenue's expenditure allocation plan is not evaluated for reasonableness on a timely basis. The current expenditure allocation plan assigns most common costs to the various tax collection divisions as follows: Earnings tax, 53 percent; property tax, 33 percent; and water commissions, 14 percent. Those costs judgmentally determined to apply strictly to one division are charged in their entirety to that specific collection center. When initially questioned about the allocation basis, the Collector stated the ratios had been established several years ago and he believed the allocation rates were based on commission ratios relative to total collections. No source documentation was available to support this statement.

Cost-allocation ratios are used as a basis to assign office operational costs to the various revenue centers. In the event commissions exceed operating costs, the excess retained is distributed to the various taxing authorities. Because cost-allocation ratios directly affect the final distribution of excess commissions to the various taxing authorities, the failure to periodically evaluate the ratios for reasonableness can result in inequitable tax distributions. For example, during the year ended March 1, 1987, the entire cost charged by the Comptroller's office for central services provided during the year was allocated entirely to the Real Estate and Personal Property Tax Division. Although the central services provided by the Comptroller benefit all of the Collector's departments, the Collector charged the entire cost to the Real Estate and Personal Property Tax Division because the remaining divisions generate revenues entirely for the city. Allocating a portion of the Comptroller's charge would only result in an accounting transfer of costs. As a result of this reasoning, taxing authorities may not have received their entitled share of excess commissions.

To ensure proper revenue distribution, the allocation cost plan should be reevaluated for reasonableness and current applicability. Rates should be based on a measurement basis, such as revenues, number of employees, or personal service expense.

WE RECOMMEND the Collector of Revenue:

- A. Base annual budget estimates on historical experience plus any known changes so that expected expenditures are reasonably estimated. The budget document should also be used to monitor and control expenditures.
- B. Reevaluate the current cost-allocation plan and consider changing ratios to better reflect a proper distribution of tax revenues.

AUDITEE'S RESPONSE

We concur on all items.

- A. The budget for the Collector of Revenue's office is based on rate of collection and is mostly comprised of salaries, benefits, postage, and printing. The budget is being reviewed for reasonableness based on historical experience and expected changes. It will more closely monitor and control expenditures. (However, we were within 1.5 percent of budgeted expenditures.)
- B. The cost allocation for the 1987-1988 fiscal year was divided into property tax, earnings tax, and the water department based on the specific various percentages of revenue. Front office, accounting and compliance functions were divided amount all three revenue centers.

3. Investments

During the year ended March 1, 1987, the Collector of Revenue recorded investment purchases and redemptions totaling approximately \$62,640,000. Interest earnings on invested funds exceeded \$572,000. Our review of the established controls over investment transactions and the office's informal investment policy disclosed the following concerns:

- A. The Collector's established system for recording investment transactions does not provide adequate control over investment principal and income. The Collector's procedure for recording these transactions and monitoring investment balances and income involves documenting pertinent information on the back of an envelope. During the year ended March 1, 1987, we identified over fifty individual investment transactions, primarily relating to purchases, redemptions, and roll overs of certificates of deposit (CD). The majority of the funds invested were taxes paid under legal protest. The recorded information is organized in a manner which inhibits a complete reconciliation of investment balances and income and, therefore, significantly increases the risk for errors and possible loss of investment principal and income.

Further, it should be stressed that \$12,673,253, or 75 percent, of the March 1, 1987, investment balance was comprised of protested taxes invested and held in trust. The noted record-keeping weaknesses could result in a personal liability to the Collector if proper administrative care is not exercised and funds held in trust cannot be accounted for in full.

To ensure that all investment activity is accounted for properly, an investment control ledger, documenting the investment type, purchase date, redemption date, and the rate of return, should be maintained.

- B. The Collector of Revenue's current investment portfolio does not reflect full consideration of available investment vehicles designed to maximize interest earnings while ensuring compliance with state statutes.

During the year ended March 1, 1987, the Collector invested funds entirely in one savings account and various CDs. Because of the volume of transactions, investment earnings were approximately

\$572,000. However, noted interest rates did not exceed 7.45 percent during our review period. According to the investment clerk, prior to investing funds, a representative number of banks are contacted for CD interest rate quotes. The office considers CDs to be a safe, liquid investment. This reasoning holds true, given the parameters of adequate collateralization and investment maturity.

Although the Collector of Revenue is required under Section 95.530, RSMo 1986, to invest funds only "... in interest-bearing obligations guaranteed as to both principal and interest by the United States, bonds of the state of Missouri or city of St. Louis, or time certificates of deposit . . .", the Collector should explore all available investment opportunities. For example, based on our calculations, had the Collector of Revenue invested half of the funds in U. S. Government Treasury bills rather than CDs, an additional \$73,000 in interest earnings could have been earned over the year ending March 1, 1987. Our calculations were based on a comparison of CD interest rates and U. S. Treasury bill yields while taking into consideration an average invested balance. It should be noted that U. S. Treasury bills are fully guaranteed by the U. S. government and are highly liquid. Because they are bought and sold on the open market, however, it is necessary to closely monitor effective yields.

Because interest earnings are a component of collections and directly impact on revenue distributions to the city and various political subdivisions, the Collector should attempt to maximize all revenue sources, given the legal restrictions on investment vehicles.

WE RECOMMEND the Collector of Revenue:

- A. Establish and maintain an investment control ledger that clearly indicates beginning and ending balances and transactions during the year. Investment type, purchase date, maturity date, and interest rate should also be documented.
- B. Explore all legally available investment options in an effort to maximize interest earnings.

AUDITEE'S RESPONSE

We concur on all items.

- A. All investments are recorded in a control ledger by name of bank, type of fund, purchase date, maturity date, rate of interest, amount of interest earned, and renewal date. This will permit a review of beginning and ending balances of all transactions. We expect to computerize this function in the near future.
- B. Section 95.530, RSMo 1986, sets out the kinds of investments in which the city of St. Louis, acting through the Mayor, Comptroller, and City Treasurer, may select, not the kinds of investments for the Collector. There is no such similar statute which specifically lists the kinds of investments which county collectors may select.

Part of the explanation for the lack of a comparable list of approved investments concerns the governmental scheme for county offices, and the unique situation of the city of St. Louis. In most "counties" in Missouri, the County Collector is directed to deposit the funds in the depository selected by the County Court or commissioners. Since there is no normal County Court or commissioners applicable to the city of St. Louis, the Collector is statutorily left to his own devices and initiative to determine the most appropriate locations for the funds. Depositing them in local savings or banking institutions in CDs is in keeping with the investment policies of Missouri state and local government agencies to invest in Missouri depositories, who then lend the money to Missouri residents, allowing a piggy-back investment policy for the benefit of local and state residents.

However, investment procedures will be changed to the extent, that in the future when an investment is due or new funds are available, interest rates on both CDs and treasury bills will be requested, and a decision will be made at that time.

4. Collector's Commissions and Compensation

- A. During the year ended March 1, 1987, the Collector of Revenue received \$333 in excess compensation. As provided by state statute and city of St. Louis code provisions, the Collector is to receive \$53,500 in annual compensation. Through the process of allocating the annual sum over the twenty-six pay periods, a calculation error was made, resulting in the overpayment. Effective March 15, 1987, the error was corrected to properly reflect the appropriate sum.
- B. For the period July 1985 through April 1987 the Collector of Revenue inappropriately withheld \$10,502 in commissions. The error, which appears to have been a clerical oversight, resulted from applying a 2 percent commission rate to unclaimed proceeds relating to delinquent land tax sales. Because the Collector has consistently remitted excess commissions to the taxing authorities, the error had no effect on taxing authority distributions. In the event office operating expenses would result in no excess commissions being available for distribution, however, taxing authorities would not receive their entitled revenues.

Section 92.840(4), RSMo 1986, does not provide for a commission on the proceeds in excess of taxes on delinquent land tax sales.

- C. During the year ended March 2, 1986, the Collector inappropriately set aside approximately \$100,000 in excess commissions to be used for future capital additions. During the year ended March 1, 1987, \$32,715 of the amount was refunded and subsequently distributed to the taxing authorities. The remaining \$67,285 was apparently used to partially finance major remodeling of the Collector's offices and purchase new furnishings. There was no financial presentation of the transaction in the Collector's independently prepared audit report.

Section 82.660, RSMo 1986, requires that all collections in excess of current year expenses be paid to the appropriate taxing authorities. In addition to statutory noncompliance, the Collector's procedure to withhold tax revenues resulted in the delay of revenue turnover to taxing authorities.

Section 82.660, RSMo 1986, clearly allows for all operating expenses to be paid prior to the turnover of excess commissions. However, all expenses incurred should be paid with current tax year commissions.

WE RECOMMEND the Collector of Revenue:

- A. Ensure the repayment of the \$333, either through personal reimbursement or future pay period adjustments.
- B. Discontinue withholding a 2 percent commission on unclaimed proceeds from delinquent land tax sales.
- C. Comply with Section 82.660, RSMo 1986, and remit to taxing authorities all fees collected in excess of current year expenses.

AUDITEE'S RESPONSE

We concur on all items.

- A. Overpayment was based on miscalculation on Senate Bill No. 601 by city Payroll Section. It was recovered through pay period adjustments in 1987.
- B. While there is no provision for the payment of commissions to or by the Collector of Revenue for the distribution of unclaimed, surplus funds, it should be pointed out that Section 92.840(4), RSMo 1986, applies to the duty of the Sheriff to distribute excess or surplus funds, and not the Collector of Revenue. The Collector of Revenue is the collector for the taxing authorities, and is the administrative agency for determining what portion of the surplus funds goes to each of the several taxing authorities entitled to ultimately receive the surplus funds. However, since the results will be the same ultimately, the commissions are no longer taken on these unclaimed, surplus proceeds from delinquent land tax sales. It should be noted that one-half million dollars of these funds were languishing in the Comptroller's office because no one knew what to do with them. Upon the advice of the Collector of Revenue, a large distribution was made and it is now done on an annual basis.
- C. Capital addition funds are no longer held by the Collector of Revenue. This was based on the requirements of a previous Comptroller for remodeling expenses payable to the city.

5. Protested Taxes

As allowed by Section 139.031, RSMo 1986, any taxpayer may protest all or any part of taxes assessed against him. Taxes paid under protest are required to be separately invested by the Collector of Revenue until the case has been settled by the State Tax Commission. Our review of the

Collector of Revenue's protested tax account and related procedures brought to our attention the following:

- A. The Collector of Revenue is not in compliance with state statutes applying to the refund of protested taxes.

Upon disposition of a protested case, the State Tax Commission may order all or any part of the protested amount to be refunded to the taxpayer or may authorize the Collector to distribute such taxes to the various taxing authorities. In the event a refund order is issued, Section 139.031.7, RSMo 1986, states that the taxpayer shall receive the interest earned on the invested refundable amount. According to the Collector of Revenue, the taxpayer receives interest on refunded accounts only on request. We were unable to quantify the amount of interest withheld from entitled taxpayers. However, the statutes clearly state the Collector's responsibility to release to entitled taxpayers both the refundable taxes and the portion of interest earned thereon.

- B. The Collector of Revenue is not in compliance with state statutes regarding the distribution of interest earned on protested tax accounts. The Collector of Revenue annually distributes all interest earned on unsettled protest accounts, net of any refunded interest, to the various taxing authorities. Because of the volume of protested accounts, the Collector considers this is the most expedient way of processing interest income and further makes the interest revenue available to the taxing authorities in a more timely manner. However, state statutes do not authorize the distribution of interest until the case is settled. Section 139.031.7, RSMo 1986, states "... If the Collector is ordered to release and disburse ... taxes paid under protest ..., such taxes shall be disbursed along with the proportional amount of interest earned on the investment" The Collector's current interest distribution method appears to be in violation of state statutes, and, as a result, the various taxing authorities received excess distributions during the year ended March 1, 1987.

WE RECOMMEND the Collector of Revenue comply with Section 139.031, RSMo 1986, regarding future distributions of interest earnings to entitled taxpayers and the various taxing authorities.

AUDITEE'S RESPONSE

We concur.

Prior to 1983, Section 139.031(5), RSMo 1986, provided that "No taxpayer shall receive any interest on any money paid in by him . . . under protest." Any interest earned on any protested taxes paid prior to 1983 could not be paid to the taxpayer. However, court decisions ruled that interest was payable if requested by the protesting taxpayer. In past years, it was not uncommon for the State Tax Commission to be two or three years in making decisions on real estate and personal property tax appeals. For the time covered by the State Auditor's audit some of the interest earned on protested tax payments may well have been from years prior to the 1983 amendments. As for the tax years

post-1983, the State Auditor's observations are accurate. Because we are now virtually up-to-date, interest is paid along with all refunds.

In addition, due to the volume of protests, namely 860 protests filed with the State Tax Commission in 1988, it is an impossible task to segregate interest earned on each protest, settled or unsettled. We have utilized tax year averages for interest determination with no problems. The Collector of Revenue has never been in a position where current interest revenue was less than had to be distributed.

6. Confirmation of Delinquent Tax Property

Sections 92.700 through 92.920, RSMo 1986, establish the procedure for collecting delinquent and back taxes in the city of St. Louis. Under these sections, the Collector of Revenue is to initiate and obtain judgment in the Circuit Court for back taxes plus interest and the associated costs of collection. After a two-year redemption period, the judgment can be executed by the Sheriff's sale of the delinquent land parcels. Following the tax sale, the Sheriff is required to report the sale to the Circuit Court for its approval and confirmation. If the court confirms that adequate consideration has been paid on parcels sold, the Sheriff then delivers a deed to the purchaser and the court orders the sale proceeds to be distributed in a manner that satisfies all back taxes and related interest, fees, and penalties.

The Circuit Court has apparently taken the position that purchasers of delinquent tax property should activate the confirmation process noted above. If these steps are not taken, however, title to the real estate never transfers and current real estate taxes accumulate on the parcel with no associated responsible paying party. According to the Collector, a number of land sales remain unconfirmed for several years. Our review of documented unconfirmed tax sale real estate revealed twenty-three such parcels. The delinquent tax amount associated with these parcels was \$14,381 and when interest, fees, and penalties were included, the tax liability totaled \$22,034.

In the event land purchasers do not begin the confirmation process, it appears the Collector of Revenue would be considered an interested party in the sale confirmation process. This is based on the premise that the Collector is an interested party in initiating and obtaining the court's judgment to execute the sale of delinquent tax property to satisfy outstanding tax liabilities. To ensure that the sales are promptly confirmed following the Sheriff's sale and that associated taxes are collected in a complete and timely manner, the Collector should consider himself an interested party and initiate the confirmation process.

WE RECOMMEND the Collector of Revenue take action to obtain the Circuit Court's confirmation of all land tax sales when the purchaser fails to do so.

AUDITEE'S RESPONSE

There is a strong doubt whether the Collector of Revenue is an "interested party" within the meaning of Section 92.840, RSMo 1986, entitling him to initiate

the confirmation process. The judicial decisions have clearly identified "interested parties" as the purchaser at the tax sale, the record owner of the property at the time of sale, and any person holding a deed of trust on the property at the time of sale. However, in light of Section 92.845, RSMo 1986, it is probable that the Collector of Revenue would not be deemed an "interested party" by the courts. Section 92.845, RSMo 1986, provides that "The Collector or any interest person . . . may appeal from the judgment confirming or disapproving the sheriff's sale and the distribution made thereafter . . ." Section 92.840, RSMo 1986, provides that ". . . the court shall, upon its own motion or upon motion of any interested party, set the cause down for hearing to confirm the foreclosure sale thereof . . ." Because the Collector is listed separately from any "interested person" in Section 92.845, RSMo 1986, the courts would probably rule that the Collector of Revenue is not included in the phrase "interested person" in Section 92.840, RSMo 1986.

In view of the fact that there have been in excess of 20,000 parcels of property processed through the land tax suit procedures, and only 23 remain unconfirmed, speaks well for the procedures adopted by the Collector of Revenue's office of expediting confirmations by purchasers at sheriff's sales.

However, those twenty-three parcels are still in a "state of limbo" and we see everything to gain and nothing to lose in putting the matter before the Circuit Court. We will begin proceedings in the near future.

7. Distribution of Excess Commissions and Interest Income

- A. The Collector of Revenue's method for distributing excess commissions and interest income does not comply with Section 82.660, RSMo 1986.

As a basis for funding office operations, the Collector is authorized to collect a fee, or commission. From the commissions retained, all salaries and office expenses are paid. Any residual commissions are considered excess and due to the various taxing authorities. Interest income is derived from revenues generated by the investment of operating funds and protested tax accounts.

As with excess commissions, all interest earnings are payable to the taxing authorities. The Collector currently distributes excess commissions and interest income based on the ratio of prior year tax levies to the total to be distributed. However, Section 82.660, RSMo 1986, states that fees and revenues remaining after all costs have been covered are to be distributed based on the ratio of current tax year distributions to total distributions. As a result of the Collector's failure to comply with the stated distribution method, taxing authorities did not receive their appropriate shares of excess commissions and interest income. The following table illustrates the significance of the dollar amounts:

Taxing Authority	Actual Distributions over (under) Proper Distribution		
	Excess Commissions	Interest Income	Total
City of St. Louis	\$ 16,137	25,171	41,308
State blind pension	286	446	732
School district	(19,475)	(30,378)	(49,853)
Junior college district	2,325	3,627	5,952
Zoological and museum district	(675)	(1,052)	(1,727)
Metropolitan sewer district	932	1,454	2,386
Sheltered workshop district	471	735	1,206

As evidenced above, an error in the application of distribution ratios can impact the operations of political subdivisions. To avoid any future disputes in distributed revenues, the Collector should adhere to Section 82.660, RSMo 1986.

- B. The Collector of Revenue's method to distribute excess commissions and miscellaneous revenue is not specifically allowed by state statutes. Currently, any commissions remaining after all operating expenses have been met and all miscellaneous revenues, which primarily consist of interest earnings, are distributed to all taxing authorities. These include the state of Missouri, schools, zoological and museum district, library, the city of St. Louis, and several other political subdivisions. Regarding the distribution of excess commissions and other revenues, Section 82.660, RSMo 1986, states that any fees or revenues remaining after all expenses have been paid shall be paid to the state, city, and school.

Based on an interpretation of current statutory guidelines, the Collector of Revenue has not conformed with Section 82.660, RSMo 1986, in his distribution method. However, it appears that the Collector's distribution method is the most equitable and additional statutory guidance is needed.

Excess commissions and miscellaneous revenues totaled \$3,297,000 and \$846,000 respectively, for the year ended March 1, 1987. The significance of these amounts indicate that the current phrasing of statute references should be evaluated and revised as necessary.

WE RECOMMEND the Collector of Revenue:

- A. Comply with Section 82.660, RSMo 1986, and distribute excess commissions and interest revenue on the basis of current year distribution ratios.
- B. Seek legal counsel to address the appropriate method for distributing excess commissions and miscellaneous revenues to the taxing authorities.

AUDITEE'S RESPONSE

- A. Excess commissions and interest revenues are distributed on the current tax year rate, which is actually the year next preceding, as required by statute.
- B. The State Auditor is correct in one observation, that is that there is no authority, in the statute cited by the auditor, for distribution of any excess funds attributable to the taxing districts other than the state, the city, and the schools. The Collector of Revenue for the city of St. Louis collects property taxes for the state blind pension, the city of St. Louis, the St. Louis public schools, the junior college district, the museum-zoo cultural district, the metropolitan sewer district, the sheltered workshop, and the public library. It would be nice to have the legislature modify the language of the existing statute to make it clear that all of the taxing districts, for which the Collector of Revenue distributes funds, are to receive their proportionate share of the surplus funds at the same time as the state, the city, and the schools. This has apparently just been overlooked over the years and we will ask the legislature to indicate modern intent in replacing the old section. This will also align equitability and practicality with legality.

8. Fidelity Bond Coverage

Based on noted cash balances and average daily receipts, current bonding levels of the Collector of Revenue and key cash-handling personnel do not appear adequate.

During the year ended March 1, 1987, the Collector of Revenue recorded \$240,183,510 in gross revenues. Average daily deposits approximate \$100,000 and, during peak tax collection periods, can approach \$15,000,000. Current bonding levels are as follows:

<u>Title</u>	<u>Bond Coverage</u>
Collector of Revenue	\$750,000
Collector of Revenue employees	50,000 each

Since bond coverage is limited to the above stated sums, the effect of a significant loss of funds could create a large personal liability for the Collector of Revenue and a significant loss for the political subdivisions.

The Collector of Revenue has not failed to comply with statutory bonding provisions. Section 52.020, RSMo 1986, states the collector shall give bond in a sum equal to the largest total collections, plus 10 percent, made during any one month of the year preceding his election; no collector shall be required to give bond in excess of \$750,000. As noted above, the Collector has posted a \$750,000 bond. However, the statutory provision noted above does not appear limiting in nature. Considering the Collector's fiduciary responsibility for tax revenues, it appears the current bond coverage should be evaluated. To limit potential liability, bond coverage should be commensurate with collections and average cash balances.

WE RECOMMEND the Collector of Revenue evaluate the adequacy of his official bond and those of key cash-handling personnel. Coverage should be modified as necessary to protect tax collections.

AUDITEE'S RESPONSE

We concur. We had always considered the Collector of Revenue's \$750,000 bond to be the limit, however unrealistic. There is no statutory mention for employees. Therefore, the Collector of Revenue has reviewed the fidelity bond coverage and will increase the amount of the Collector of Revenue's bond and the amount of the employee bond to a more realistic amount.

9. Earnings Tax

As provided by Section 92.110, RSMo 1986, the city of St. Louis is authorized to levy and collect an earnings tax on all compensation earned by city residents and nonresidents performing work within the city limits. Similarly, a tax liability is imposed on the earnings of city-based businesses. The tax is levied at 1 percent of individual gross earnings and business net profits. Our review of the Collector's collection efforts indicated the following weaknesses:

- A. Efforts to pursue the collection of earnings tax from promoters and booking agents are not successful. Section 5.22.150, City of St. Louis Revised Code of Ordinances, states that any person acting as a booking agent or promoter to arrange for the appearance of entertainers, athletic events, or theatrical performances within the city shall withhold and pay over to the Collector 1 percent of the gross proceeds. According to the Collector, it has been virtually impossible to locate agents and promoters and/or enforce payment of the imposed tax. Problems arise, according to the Collector's office, because performance revenues are typically channeled through indistinguishable post office boxes, inhibiting the identification of the liable taxpayer. In addition to the above-mentioned problem, noted correspondence between the Collector's office and the city counselor's office revealed that the ordinance in its current format is not workable but no solutions have been provided that would ensure payment of all applicable taxes. As a result of these unsettled issues, the city has forfeited an unknown amount of revenue.
- B. Current procedures performed to ensure the completeness and accuracy of submitted earnings taxes are not adequate. Section 5.22.100, City of St. Louis Revised Code of Ordinances, authorizes the Collector of Revenue to examine the records of any business or individual taxpayer to verify the accuracy of the tax return made. Section 92.190, RSMo 1986, however, prohibits the Collector from requesting copies of federal or state income tax returns as a basis for evaluating the reasonableness of the tax submitted.

According to the earnings tax processing supervisor, the current audit function performed merely involves a cursory review of submitted returns for mathematical accuracy and reasonableness. In-house detailed reviews are not conducted although occasionally an

independent audit firm is hired to review submitted tax returns of larger companies.

Earnings tax revenues generated during the year ended March 1, 1987, totaled approximately \$80,837,000. Although not quantifiable, if a more stringent audit function were implemented, the potential for increased city revenues would be enhanced.

WE RECOMMEND the Collector of Revenue:

- A. Coordinate efforts with other city officials to develop specific and enforceable procedures for collecting earnings taxes from promoters and booking agents.
- B. Evaluate the need to implement more stringent audit procedures in an effort to ensure the completeness and accuracy of reported earnings taxes.

AUDITEE'S RESPONSE

- A. We concur. Earnings tax collections from promoters and booking agents have not been pursued due to problems in identifying the agents and the possibility of discouraging entertainers from appearing in St. Louis. This is as much a policy decision of several city administrations, as a collection matter. We will once again pursue this with the proper officials, exercising persistence with patience.
- B. Audit procedures entailing detailed review of business returns were initiated in late 1986 by two staff members. They specifically audit business returns for items such as deductions taken for foreign investments, contributions, federal and state taxes, carry-overs from previous tax years, and other discrepancies. Contracted audits were not revenue productive.

Due to the volume of tax returns received each April, we postponed detailed auditing of complicated returns until such time as qualified personnel were available for in-depth auditing. Within the last year, two full-time and one part-time accountants have been hired to enhance this function. (The latter is a retired IRS agent.) With this increase in staff in the audit area, we presently review all returns in their entirety as received.

10. Controls over Cash Receipts and Bank Accounts

- A. Controls over cash receipts could be improved in the following areas:
 - 1) One of the appointed check signers is also responsible for preparing the bank reconciliation. This weakness increases the risk of misused funds going undetected.

Adequate segregation of duties is necessary to provide reasonable assurance that all transactions are accounted for properly and assets are adequately safeguarded. This could

be achieved by designating an individual whose signature is not authorized on the checking account to receive the bank statements and perform the bank reconciliations. If adequate segregation of duties cannot be implemented, then at a minimum, a review should be made and documented by the Collector.

- 2) Blank negotiable instruments are not consistently secured. In our review of cash disbursements, we discovered twenty-two blank checks relating to the earnings tax, escrow, and general checking accounts. Apparently, the checks were intended to be voided and defaced. However, they were overlooked in the voiding process.

Blank negotiable instruments could represent a significant loss of official funds if taken and misappropriately used. All blank checks should be adequately stored with accessibility limited.

- B. Controls over the nonsufficient funds (NSF) account are inadequate. As checks are dishonored and returned to the Collector for payment, debtors are notified in writing of their overdraft. Within ten days, debtors are required to redeem the check in cash. Because of the ongoing nature of this problem, the Collector's office has established a special NSF account expressly for the handling of dishonored checks. Our review of this account revealed:

- 1) As debtors redeem bad checks, the cash accumulates until it is deposited by the fund custodian. Based on results of our cash count, it does not appear that cash is deposited in a timely manner. On the date of the cash reconciliation, we counted \$7,982. The last bank deposit date was six days prior and the amount deposited was \$17,597.

To assure the proper handling of monies, cash receipts should be deposited daily or when cash on hand exceeds \$100.

- 2) During our NSF fund cash count, we identified two personal checks totaling \$250 cashed by the fund custodian. Allowing the fund custodian to cash personal checks increases the risk of unaccountable funds. Further, official monies should not be used as an employee check-cashing fund.

The Collector should strongly consider his statutory responsibility to collect and account for all taxes charged to him. Controls should be established which minimize the risk of stolen or otherwise unaccountable funds.

- C. During peak tax collection periods, the Collector contracts with area banks to set up off-site collection centers. These areas are staffed by Collector's office temporary personnel. Our review of these operations and related controls revealed that cash shortages go virtually unaddressed by office administration.

A scan of cash disbursements identified approximately \$3,850 in checks written to correct collection bank shortages. According to the Collector of Revenue, collection banks account for approximately \$5,000,000 in tax revenues. Based on this amount, a \$3,850 cash shortage did not appear unreasonable to him. As a result, there is little corrective action taken against employees suspected to be responsible for the shortages. Such a lax policy appears to condone "insignificant" cash shortages and when corrective action is not taken, there is no incentive for employees to properly account for all monies received.

- D. The Collector of Revenue currently maintains four noninterest bearing checking accounts. Balances in two of the accounts were \$117,339 and \$212,364, respectively, at February 28, 1987.

Noninterest-bearing accounts result in the forfeiture of significant revenues. In the Collector's case, revenue forfeiture directly affects the distribution of earnings and collections to the taxing authorities. All official monies should be deposited in investment vehicles that provide for a fair rate of interest earnings.

- E. Interest income for the year ended March 1, 1987, was misstated in the Collector's annual settlement report and resulted in understated revenues of \$2,570. Audit procedures performed to reconcile identified interest income to the annual settlement report revealed the need for a number of adjustments. Total adjustments aggregated \$28,239 and included the following:

- 1) Eight thousand eight hundred dollars in proceeds related to the sale of a vehicle were included as interest income.
- 2) Four thousand nine hundred forty-three dollars in bank service charges were netted against interest earnings.
- 3) Four thousand fifty-six dollars in interest earnings had not been recorded.

Incomplete presentation of interest income results in misstated financial statements and further, discounts the overall reliability of the statements as a whole. All earnings should be recorded and presented at their proper sum. Any necessary adjustments should be made separately and clearly identified to provide accurate financial information to users of the information.

WE RECOMMEND the Collector of Revenue:

- A.1. Adequately segregate the cash handling and bank reconciliation preparation functions.
2. Ensure blank checks are adequately secured. Voided checks should be properly defaced prior to filing.
- B.1. Deposit bad check recovery fees on a daily basis or when cash on hand accumulates to \$100.

2. Discontinue the policy of employee check-cashing from official funds.
- C. Improve cash controls over tax collections at off-site collection banks.
- D. Place all official funds in interest-bearing accounts.
- E. Fairly present interest income in the annual settlement report.

AUDITEE'S RESPONSE

We concur on all items.

- A.1. All bank reconciliations are now prepared by the Accounting Department and reviewed by the Collector of Revenue. Cash handling is also now segregated.
2. Blank checks are now secured in locked cabinets. Voided checks are defaced by removing the signature portion of check.
- B.1. Daily deposits are being made on bad check recovery fees or more often if \$100 maximum is achieved.
2. Employee checks are no longer cashed from official funds.
- C. Collections at the off-site collection sites will be monitored on a daily basis. Each cashier will be given a thorough training period prior to being sent to the site and will be responsible for shortages.
- D. Efforts will continue to place all official funds in interest-bearing accounts. This will not always be possible due to the type of account, outstanding checks, etc. With formalized bidding for bank services we should approach 100 percent.
- E. All earned interest is recorded in the ledger and is reported in each fiscal year's annual settlement report.

11. Controls over Purchasing and Disbursements

Our review of the Collector of Revenue's control system over purchasing and disbursements revealed the following weaknesses:

- A. Functions relating to the purchase of goods are not adequately segregated. One individual is responsible for preparing purchase orders, receiving goods, preparing payment vouchers, and signing the check for payment. Although the check is prepared independently and dual signatures are required on all checks, when one individual is primarily responsible for most purchasing functions, the risk of unauthorized purchases is significantly enhanced.

To better ensure that all purchases are properly authorized and received for official use, the duties of purchase authorization,

receipt of goods, and payment authorization should be adequately segregated.

- B. Because bidding procedures have not been formalized, the Collector's office does not always obtain competitive bids when purchasing goods or services. Examples of major purchases made during the year ended March 1, 1987, without evidence of competitive bidding included:

- 1) The purchase of envelopes and forms on two separate occasions for \$2,075 and \$1,498, respectively;
- 2) Janitorial services totaling \$1,211; and
- 3) Crime and vehicle insurance coverage costing \$2,588 and \$2,124, respectively.

During initial audit work, we were informed bids were solicited on the purchase of "large" items. However, there was no formal policy documenting specific bidding procedures, required documentation, or dollar guidelines for cut-off determination. In fact, in those instances where there was indication bids had been taken, no supporting documentation had been retained.

Because he is a separately elected official, the Collector is not required to follow city purchasing guidelines. However, to ensure that goods and services are purchased at the lowest and best price available, formalized procurement procedures are necessary.

- C. Various control weaknesses were noted in the procedures surrounding the approval and processing of cash disbursements as follows:

- 1) Invoices are not consistently marked to indicate goods or services were received prior to payment preparation. In our test of twenty cash disbursements, 75 percent of the items reviewed did not provide evidence goods or services had been received. Without such an indication, the Collector's office has no assurance that it is paying only for goods and services actually received.
- 2) Relating to expenditures from the office account, invoices are not effectively canceled upon payment. Although our review of cash disbursements did not reveal any instances of duplicate payments being made, properly defacing invoices upon payment significantly decreases the risk of such an occurrence.
- 3) The facsimile signature stamp used to process earnings tax refunds is not registered with the Secretary of State as required by law. Sections 105.273 through 105.278, RSMo 1986, cited as the "Uniform Facsimile Signature of Public Officials Law", public officials are required to register signature stamps with the secretary of state. Doing so

provides legal recourse in the event the signature stamp is used with the intent to defraud.

D. Our review of office operating expenditures revealed approximately \$8,500 in disbursements deemed unnecessary, unreasonable, or otherwise questionable. Examples of specific questioned costs included the following:

- 1) The Collector provided annual parking allowances to three management personnel at a cost of \$4,860. The Collector indicated that parking spaces had been provided to three associate collector positions for several years and that based on the insignificance of the associated cost, they were justifiable. However, Internal Revenue Code, Section 161.1, defines gross income to include income realized in any form, whether in money, property, or services. The Collector is at liberty to provide parking allowances to selected employees. However, providing these allowances is not a necessary business cost, and it appears that the additional benefits provided could be taxable to the select employees.
- 2) Approximately \$656 in apparent lobbying expenses were incurred. Although no supporting documentation was available, the Collector stated the above-stated costs were associated with undefined political lobbying activities. Such expenditures, when not specifically related to official responsibilities, result in lost revenues to taxing authorities and furthermore, are not an appropriate use of taxpayer monies.
- 3) Various used car guides and approximately twenty-seven magazine subscriptions totaling approximately \$900 were purchased during the year ended March 1, 1987. Although the Collector stated such materials were necessary for efficient customer service, the volume purchased does not appear necessary.
- 4) Several expenditures were made during the year ended March 1, 1987, without proper supporting documentation. Examples of cash disbursements made without a vendor invoice or other evidence of a purchase agreement included liquor purchases totaling \$205 and expense reimbursements totaling \$1,647. Adequate supporting documentation should be required prior to payment processing to ensure that the expense is proper, value has been received, and the amount paid is accurate.

Under Section 82.660, RSMo 1986, the Collector of Revenue is held accountable for ensuring that all disbursements are proper and any fees remaining after payment of reasonable operating costs are remitted to the taxing authorities. In light of this requirement, the Collector should reevaluate his expenditure criteria in terms of reasonableness and necessity.

E. Procedures used to procure annual audit services did not result in a quality audit in accordance with generally accepted auditing standards (GAAS). Our review of the audit bid file applicable to the audit for the year ended March 2, 1986, revealed the following:

- 1) No bid specifications outlining audit requirements were prepared. Apparently, the prior accounting manager telephoned a selective number of auditing firms and verbally communicated upcoming audit needs.
- 2) Four bid proposals were received. A low bid of \$7,500 was submitted by two firms. One proposal consisted of a one page summary which proposed to "... audit receipts and disbursements and prepare financial statements." The second proposal consisted of a lengthy proposal which provided professional references, auditor qualifications, and a commitment to audit in accordance with GAAS.
- 3) The firm that presented the one page summary bid proposal was selected to perform the annual audit. According to the Collector, the bid was awarded strictly on the basis that the firm had done the audit for at least five years previous. No other evaluative techniques were employed in the selection process.

In addition to the weaknesses we observed in the audit selection process, our review of the audit report and related audit working papers revealed significant quality deficiencies. For example, the audit did not include a study of the internal control system as required by GAAS and contained no documented audit procedures to be performed. The report basically consisted of a restatement of the Collector of Revenue's annual settlement.

To ensure that the annual audit provides a useful and reliable document, performed in accordance with GAAS, it is necessary for the Collector to implement specific bid specifications that will result in quality services being received.

WE RECOMMEND the Collector of Revenue:

- A. Adequately segregate functions relating to the purchase and receipt of goods.
- B. Implement formal bidding procedures that address specific dollar criteria as well as required documentation.
- C. Ensure:
 - 1) The receipt of goods or services is noted on an invoice before it is paid.
 - 2) Invoices are effectively canceled upon payment.

- 3) The facsimile signature stamp is registered with the secretary of state as required by Sections 105.273 through 105.278, RSMo 1986.
- D. Limit general operating expenditures to those items expressly for the operation of his office. We also recommend proper supporting documentation be retained for all expenditures made.
- E. Implement specific bid specifications for the procurement of audit services.

AUDITEE'S RESPONSE

We concur on all items.

- A. The segregation of duties relative to the purchase and receipt of goods has been divided among several individuals. Authorization is by the Collector of Revenue, ordering by the front office, receiving by both front office and accounting, payment by Accounting Section.
- B. Formal bidding procedures are being utilized on all items expected to cost \$500 or more.
- C.1. All goods and services received by the Accounting Department are being checked before they are authorized for payment with notations on the invoices.
 2. All invoices authorized are canceled upon payment.
 3. The facsimile signature stamp was registered January 27, 1988, with the Secretary of State.
- D. All general operating expenditures will be only for items expressly for the operation of the Collector of Revenue's office. Any question as to advisability must be resolved by the Collector of Revenue. All expenditures incurred receive a purchase order number and voucher to be retained in the Accounting Department. Complete supporting documentation will be kept on nonpurchase order items.
- E. Specific bid specifications were sent to twelve major auditing firms for 1987-1988 fiscal year and reviewed by the Collector of Revenue and Mr. Ed Reck, Audit Executive of the Comptroller's office before the audit was awarded.

12. Payroll and Personnel Controls and Procedures

Our review of payroll and personnel controls and procedures revealed the following areas needing improvement:

- A. The Collector of Revenue has not formalized a comprehensive manual of personnel policies. A written handbook documenting established leave policies, job requirements and qualifications, criteria for employee evaluation, and other standard operating procedures is necessary to ensure office policies are fairly and consistently applied among all employees.

- B. Personnel files maintained for each employee do not contain documentation of the Collector's authorization for the hiring or termination of that employee, the wage rate at which the employee is hired, nor any subsequent changes in pay rate. Independent, written authorization of all payroll and personnel changes is necessary to better ensure that no unauthorized transactions occur.
- C. Procedures to account for compensatory time granted do not provide an adequate control environment. During the peak tax collection period, cashiers may be required to work in excess of the thirty-five hour established work week. For each hour worked in excess of thirty-five, the head cashier may authorize and grant one hour of compensatory time. Records of compensatory time granted and used are not maintained by the payroll accounting clerk. Instead, the head cashier is responsible for monitoring compensatory time earned and taken. Recording procedures consist of making informal entries on a personal desk calendar. This process increases the risk for excessive compensatory time taken to go unnoticed. Further, since the centralized timekeeper does not receive documentation of the hours granted or taken, it is impossible to accurately account for all hours worked.

To maintain proper internal controls and to establish consistency in reporting, compensatory time records should be maintained by the centralized timekeeper.

- D. Our review of sick leave records maintained for each employee revealed a number of instances where the amount of sick leave taken exceeded the available leave balance. In all but two cases, we determined that the employees paycheck amount had been properly decreased for the associated excessive leave taken. However, in the two instances noted, employees terminated employment with negative sick leave balances. Final pay amounts did not reflect an adjustment for the excessive sick leave taken. The number of hours associated with these two cases totaled 248 and resulted in the Collector of Revenue paying approximately \$2,123 in excessive compensation. When discussed with the Collector, he stated both individuals in question had terminated employment because of severe health problems and he had overlooked the policy of deducting the excessive leave amounts from their final paychecks. There was no written authorization to support this change in application of the established policy.

A leave policy which provides allowances for select employees to excessively use leave benefits while being compensated for a full pay period, reduces the amount of funds distributed to political subdivisions as excess commissions. In addition, preferential employee treatment could result in discriminatory action against the Collector of Revenue. All leave taken in excess of amounts earned should be appropriately reflected as leave without pay.

The Collector of Revenue's total payroll expense was approximately \$2,531,000 for the year ended March 1, 1987, and represented over 80

percent of total office expenditures. Without proper administrative and accounting controls over these transactions, the Collector of Revenue cannot be assured that these expenditures are valid and proper.

WE RECOMMEND the Collector of Revenue:

- A. Formalize a written personnel policy manual addressing such issues as leave policies, operating procedures, job requirements, and minimum qualifications.
- B. Maintain complete personnel files for all employees that include authorization by the Collector of Revenue as to the hiring of each employee as well as the current approved salary rate.
- C. Assign compensatory time accounting functions to the centralized timekeeper.
- D. Properly reflect all leave benefits taken in excess of available balances as leave without pay.

AUDITEE'S RESPONSE

We concur on all items.

- A. The Collector of Revenue will formalize personnel policies with a manual addressing qualifications rating, job descriptions, leave, etc. This will be relatively easy as we try to parallel city civil service policies.
- B. Complete personnel files are maintained on each employee and hiring authorization and salary rate (and changes thereto) are now included—all approved by the Collector of Revenue.
- C. A timekeeper has been assigned to keep all the records of vacation, sick, and compensatory time.
- D. No leave in excess of available balances will be given, unless it is leave without pay.

13. Fixed Asset Controls

As a separately elected official, the Collector of Revenue does not use the city's centralized fixed asset accounting system. Our review of the Collector's independently established fixed asset controls revealed the following concerns:

- A. Property control records are generally incomplete. We were unable to trace approximately \$700 in equipment purchases made during the year ended March 1, 1987, to the fixed asset control listing. Additionally, it was discovered that none of the Collector's three official vehicles had been properly included on the control listing.

Incomplete listings increase the risk that misplaced or stolen assets will go unnoticed.

- B. For those items recorded, the property control listing does not include all the necessary information, such as a property control identification number, acquisition date, and original cost. Nonexpendable assets owned by the Collector's office should be recorded at actual or estimated historical cost. Sufficient information to properly identify and locate specific items should be given.
- C. Because the property control listing does not include assigned costs for each recorded item, there is no available means to reconcile asset balances from period to period. This weakness negates any assurances that the maintained listing is either complete or accurate.
- D. The Collector has not established a policy to distinguish between expendable and nonexpendable property items. According to office personnel items judgmentally determined as "mechanical" are generally included on the property listing. To afford uniform asset controls, a specific dollar cut off should be established for the inclusion of nonexpendable items on the property control listing.
- E. The date and means of property dispositions are not recorded on the property control listing and independent, written authorization is not obtained for all property disposals.
- F. Property items are not numbered and tagged as a means of identifying the property.
- G. A periodic inventory of all Collector of Revenue official property is not conducted. We were unable to trace four of twelve property items tested to the control listing. Periodic inventory procedures would help to identify these types of exceptions and identify possible misplaced or stolen assets.

Adequate fixed asset records are necessary to secure better internal control over and to safeguard these assets as well as providing a basis for determining proper insurance coverage.

WE RECOMMEND the adoption of the following procedures to improve the Collector of Revenue's fixed asset controls.

- A. Implement procedures to ensure all fixed asset purchases are properly documented in the inventory records.
- B. The fixed asset records be kept on a current basis with the following information for each item.
 - 1) Identification number;
 - 2) Description of the item to include name, make, model, and serial number, where appropriate;
 - 3) Physical location in sufficient detail to readily locate the item;
 - 4) Date of acquisition;
 - 5) Original cost or estimated historical cost; and

- 6) Date and method of disposition.
- C. Include cost values in the listing and annually reconcile beginning and ending fixed asset balances.
- D. Establish specific criteria to ensure all nonexpendable property items are included on the listing.
- E. Require administrative authorization for disposals and develop a standard format for reporting and recording asset dispositions.
- F. Properly number, tag, or otherwise identify all official property.
- G. Perform annual inventories, investigating any missing or incorrectly recorded items.

AUDITEE'S RESPONSE

We concur on all items.

- A. All fixed assets purchased and held by the Collector of Revenue have been inventoried and updated records are now kept.
- B. The fixed asset records are now kept on a current basis with the following:
 - 1) Inventory identification numbers have been assigned to all assets.
 - 2) Descriptions, where appropriate, are kept on the inventory lists.
 - 3) Physical location is also kept on the inventory lists.
 - 4) All current acquisition dates are recorded on inventory lists.
 - 5) All current or historical estimated costs are documented on the inventory lists.
 - 6) Date and method of acquisition is shown on the inventory lists.
- C. Using cost values in the listing, we will annually reconcile beginning and ending fixed asset balances.
- D. All nonexpendable property items valued at \$100 or more are kept on inventory lists. This is a realistic valuation limit.
- E. Any and all dispositions of the Collector of Revenue's office will be approved by the Collector of Revenue and the uniform method and date of disposal reported and recorded.
- F. Identification numbers have been assigned to all official property.
- G. Inventories will be performed on the last day of the fiscal year by each department, coordinated by the Accounting Department and discrepancies as to missing or incorrectly recorded items investigated by the Compliance Department.

14. Maintenance and Service Agreements

During our review of office expenditures, we noted approximately \$2,000 in annual fees relating to office equipment service and maintenance. Copies of current contracts or agreements could not be located. According to office personnel, all of the agreements were continuing in nature and, therefore, updated agreement copies were never requested.

Updated written agreements are necessary to ensure that contractual parties understand agreement terms. Additionally, they provide legal recourse in the event the quality or costs of services are disputed.

WE RECOMMEND the Collector of Revenue obtain current written copies of all maintenance and service agreements.

AUDITEE'S RESPONSE

We concur. The Collector of Revenue now holds current written maintenance and service agreements on all such contracts.

APPENDICES

Appendix A

OFFICE OF COLLECTOR OF REVENUE
CITY OF ST. LOUIS, MISSOURI
STATEMENT OF REVENUES COLLECTED AND DISTRIBUTED
YEAR ENDED MARCH 1, 1987

(U N A U D I T E D)

	Real Estate and Personal Property Tax	City Earnings Tax	City Employment Tax	Water Division	Other Revenue	Total
GROSS REVENUES	\$ 122,829,541	80,838,930	10,182,107	25,471,745	863,187	240,183,510
Deductions:						
Refunds	-0-	1,440,733	91,824	-0-	-0-	1,532,557
Protest and duplicate payments	139,921	-0-	-0-	-0-	-0-	139,921
Sales tax remitted to state of Missouri	-0-	-0-	-0-	635,447	-0-	635,447
Dishonored check adjustments	368,628	-0-	-0-	-0-	-0-	368,628
Operating expenditures (Appendix B)	1,297,063	1,385,954	48,876	409,284	16,940	3,159,117
Total Deductions	1,805,612	2,826,687	141,700	1,044,731	16,940	5,835,670
Net Revenues	\$ 121,023,929	78,010,243	10,040,407	24,427,014	846,247	234,347,840
NET REVENUES DISTRIBUTED						
Treasurer, city of St. Louis	\$ 33,192,962	78,010,243	10,040,407	24,427,014	259,339	145,929,965
State of Missouri	593,413	-0-	-0-	-0-	4,631	598,044
Public school district	73,451,606	-0-	-0-	-0-	487,804	73,939,410
Junior college district	4,562,454	-0-	-0-	-0-	35,813	4,598,267
Zoo and museum district	3,650,247	-0-	-0-	-0-	24,699	3,674,946
Metropolitan Sewer District	3,513,793	-0-	-0-	-0-	26,243	3,540,036
Assessment Fund	586,372	-0-	-0-	-0-	-0-	586,372
Sheltered workshop	989,875	-0-	-0-	-0-	7,718	997,593
Special tax districts	461,480	-0-	-0-	-0-	-0-	461,480
Treasurer, city of St. Louis - vehicle tax commission	21,727	-0-	-0-	-0-	-0-	21,727
Total Revenues Distributed	\$ 121,023,929	78,010,243	10,040,407	24,427,014	846,247	234,347,840

Appendix B

OFFICE OF COLLECTOR OF REVENUE
CITY OF ST. LOUIS, MISSOURI
STATEMENT OF OPERATING EXPENDITURES
YEAR ENDED MARCH 1, 1987

(UNAUDITED)

	Revenue Division					Total Operating Expenditures
	Real Estate and Personal Property Tax	City Earnings Tax	City Employment Tax	Water Division	Other Revenue	
PERSONAL SERVICE						
Salaries	\$ 790,215	1,037,658	40,092	236,981	-0-	2,104,946
Social security coverage	56,230	73,817	2,808	16,763	-0-	149,616
Health and life insurance costs	57,907	90,195	2,808	24,567	-0-	175,477
Retirement contribution	33,424	49,512	4,170	14,180	-0-	101,286
Total Personal Service	937,776	1,251,182	49,876	292,491	-0-	2,531,325
EXPENSE AND EQUIPMENT						
Printing and paper supplies						
Binding	44,657	73,717	-0-	1,657	-0-	120,031
Postage	4,387	-0-	-0-	-0-	-0-	4,387
Telephone	109,423	30,845	-0-	104,991	-0-	245,259
Cleaning supplies	6,229	9,792	-0-	2,579	-0-	18,600
Advertising	5,227	8,033	-0-	2,122	-0-	15,382
Data processing expense	51,673	-0-	-0-	-0-	-0-	51,673
Other office expense	-0-	196	-0-	-0-	-0-	196
Legal fees	8,892	5,146	-0-	250	-0-	14,288
Audit fees	112	-0-	-0-	-0-	-0-	112
Insurance and bonding expense	7,770	8,364	-0-	1,050	-0-	17,184
Automobile expense and repair	1,668	2,688	-0-	710	-0-	5,064
Office equipment repair and maintenance	3,397	3,644	-0-	759	-0-	7,800
Capital additions	14,825	10,771	-0-	1,944	-0-	27,540
Allocated cost - Office of Comptroller	2,479	551	-0-	3,021	-0-	6,051
Miscellaneous	110,000	-0-	-0-	-0-	-0-	110,000
Prior year construction cost reimbursement	-0-	-0-	-0-	-0-	16,940	16,940
	(11,450)	(18,975)	-0-	(2,290)	-0-	(32,715)
Total Expense and Equipment	359,287	134,772	-0-	116,783	16,940	627,792
Total Operating Expenditures	\$ 1,297,063	1,385,954	49,876	409,284	16,940	3,159,117

Appendix C

OFFICE OF COLLECTOR OF REVENUE
CITY OF ST. LOUIS, MISSOURI
COMPARATIVE STATEMENT OF OPERATING EXPENDITURES

(UNAUDITED)

	Year Ended				
	March 1, 1987	March 2, 1986	March 3, 1985	March 4, 1984	March 5, 1983
PERSONAL SERVICE					
Salaries	\$ 2,104,946	1,986,138	1,899,072	2,022,695	1,974,262
Social security coverage	149,616	139,310	132,137	135,937	132,263
Health and life insurance costs	175,477	145,296	157,934	130,244	118,630
Retirement contribution	101,286	113,515	184,538	200,782	188,049
Total Personal Service	2,531,325	2,384,259	2,373,681	2,489,658	2,413,204
EXPENSE AND EQUIPMENT					
Printing and paper supplies	120,031	130,442	109,723	90,777	84,039
Binding	4,387	4,295	4,202	4,202	4,295
Postage	245,259	286,482	193,198	220,173	201,943
Telephone	18,600	31,706	27,476	37,020	16,026
Cleaning supplies	15,382	15,845	13,951	2,714	4,171
Advertising	51,673	(27,270) ^a	50,150	80,341	30,407
Data processing expense	198	1,074	815	1,159	1,173
Other office expense	14,288	22,584	18,461	17,463	18,752
Legal fees	112	1,592	298	-0-	-0-
Audit fees	17,184	8,500	8,000	8,815	8,000
Insurance and bonding expense	5,064	11,669	11,194	3,519	13,140
Automobile expense and repair	7,800	7,988	8,220	7,768	10,768
Office equipment repair and maintenance	27,540	27,312	26,374	17,675	19,270
Capital additions	6,051	-0-	31,197	22,851	-0-
Allocated cost - Office of Comptroller	110,000	100,000	100,000	105,720	-0-
Miscellaneous	16,940	53,150	16,594	6,280	9,311
Prior year construction cost reimbursement	(32,715) ^b	-0-	-0-	-0-	-0-
Total Expense and Equipment	627,792	675,369	619,853	626,477	421,295
Total Operating Expenditures	\$ 3,159,117	3,059,628	2,993,534	3,116,135	2,834,499

a. Advertising expenses are incurred as a result of publication notices related to delinquent tax property sales. Property purchasers are responsible for reimbursing the cost, subsequent to the Circuit Court approving the sale. Timing differences in reimbursement typically occur.

b. Relates to fiscal year 1986 withholdings of commissions, subsequently reimbursed in fiscal year 1987. (See Management Advisory Report No. 4.)

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