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Missouri State Auditor

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# Fortieth Judicial Circuit

## City of Neosho Municipal Division

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**Susan Montee, JD, CPA**  
Missouri State Auditor

## YELLOW SHEET

### Findings in the audit of the Fortieth Judicial Circuit, City of Neosho Municipal Division

#### Accounting Controls and Procedures

Accounting duties are not adequately segregated. In addition, the municipal division's bank accounts require two signatures on each check; however, the Court Clerk uses the Municipal Judge's signature stamp on some checks. The Court Clerk also uses the Municipal Judge's signature stamp on some court dockets after case dispositions are recorded. The Municipal Judge does not document her review and approval of the use of the signature stamp by the Court Clerk. Bank reconciliations for the municipal division accounts are not always performed in a timely manner. In addition, the Court Clerk did not retain monthly lists of outstanding checks and liabilities to fully document the monthly bank reconciliations. The municipal division also maintains an unidentified balance in an old inactive bank account. The Court Clerk makes numerous adjustments to her bank reconciliations due to credit card transactions, and she has not investigated the differences and made the appropriate corrections to the accounting records in a timely manner. Credit card processing expenses totaling \$648 were paid from the municipal division bank accounts on June 30, 2010, and have not been reimbursed by the city. Also, the Court Clerk, Deputy Court Clerk, and Municipal Judge are not bonded.

#### Liabilities

The Court Clerk does not review liabilities to ensure monies on hand are disposed of in a timely manner.

#### Traffic Ticket Accountability

Neither the city Police Department nor the municipal division adequately account for the numerical sequence and ultimate disposition of traffic tickets issued.

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**SUSAN MONTEE, JD, CPA**  
**Missouri State Auditor**

Presiding Judge  
Fortieth Judicial Circuit  
and  
Municipal Judge  
Neosho, Missouri

We have audited certain operations of the City of Neosho Municipal Division of the Fortieth Judicial Circuit. The scope of our audit included, but was not necessarily limited to, the year ended September 30, 2009. The objectives of our audit were to:

1. Evaluate the municipal division's internal controls over significant financial functions such as receipts.
2. Evaluate the municipal division's compliance with certain legal provisions.

Our methodology included reviewing written policies and procedures, financial records, and other pertinent documents; interviewing various personnel of the municipal division, as well as certain external parties; and testing selected transactions.

We obtained an understanding of internal controls that are significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. However, providing an opinion on the effectiveness of internal controls was not an objective of our audit and accordingly, we do not express such an opinion.

We obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. Abuse, which refers to behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary given the facts and circumstances, does not necessarily involve noncompliance with legal provisions. Because the determination of abuse is subjective, our audit is not required to provide reasonable assurance of detecting abuse.

We conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis.

The accompanying Organization and Statistical Information is presented for informational purposes. This information was obtained from the municipal division's management and was not subjected to the procedures applied in our audit of the division.

The accompanying Management Advisory Report presents our findings arising from our audit of the City of Neosho Municipal Division of the Fortieth Judicial Circuit.

A petition audit of the City of Neosho, fulfilling our obligations under Section 29.230, RSMo, is still in process, and any additional findings and recommendations will be included in the subsequent report.



Susan Montee, JD, CPA  
State Auditor

The following auditors participated in the preparation of this report:

Director of Audits:	Alice M. Fast, CPA, CGFM, CIA
Audit Manager:	Pamela Allison Tillery, CPA
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Audit Staff:	Michelle Crawford, M. Acct.

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# Fortieth Judicial Circuit

## City of Neosho Municipal Division

### Management Advisory Report - State Auditor's Findings

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#### **1. Accounting Controls and Procedures**

Accounting duties are not adequately segregated and there is a lack of oversight by the Municipal Judge. Controls and procedures over the Municipal Judge's signature stamp, bank reconciliations and bank accounts, and credit card receipts need improvement. In addition, the Court Clerk, Deputy Court Clerk, and Municipal Judge are not bonded.

##### 1.1 Segregation of duties

Accounting duties are not adequately segregated. The duties of receiving and recording monies, preparing deposits and checks, and reconciling the municipal division's two bank accounts are performed by the Court Clerk. Neither the Municipal Judge nor other personnel independent of the cash custody and recordkeeping functions provide adequate supervision or a review of the work performed by the Court Clerk.

To safeguard against possible loss or misuse of funds, internal controls should provide reasonable assurance all transactions are accounted for properly and assets are adequately safeguarded. At a minimum, there should be a documented independent review of the municipal division records.

##### 1.2 Municipal Judge's signature stamp

The municipal division's bank accounts require two signatures on each check; however, the Court Clerk uses the Municipal Judge's signature stamp on some checks. The Court Clerk also uses the Municipal Judge's signature stamp on some court dockets after case dispositions are recorded. The Municipal Judge does not document her review and approval of the use of the signature stamp by the Court Clerk.

The Court Clerk's use of the Municipal Judge's signature stamp on checks, without a subsequent review and approval of the disbursement by the Municipal Judge, diminishes the control intended by dual signatures. In addition, to ensure the proper disposition of all cases has been entered in the municipal division records, the Municipal Judge should sign the docket or document her review and approval of the use of the signature stamp by the Court Clerk on the court dockets.

##### 1.3 Bank reconciliations and bank accounts

Bank reconciliations for the municipal division accounts are not always performed in a timely manner. The November and December 2009 bank reconciliations were not completed until March 2010. In addition, the Court Clerk did not retain monthly lists of outstanding checks and liabilities to fully document the monthly bank reconciliations. The municipal division also maintains an unidentified balance of \$325 in an old inactive bank account which has not been used since July 2008.

Timely preparation of complete monthly bank reconciliations (including documentation of outstanding checks and liabilities) is necessary to ensure the bank account is in agreement with the accounting records and to detect and correct errors. In addition, maintaining old inactive accounts increases the risk of theft or misuse of funds.



#### 1.4 Credit card receipt adjustments

The Court Clerk makes numerous adjustments to her bank reconciliations due to credit card transactions, and she has not investigated the differences and made the appropriate corrections to the accounting records in a timely manner. The Court Clerk does not reconcile credit card receipts to deposits into the municipal division's bank account and to receipts recorded in the computer system. As a result, some municipal division credit card receipts were deposited into the city's bank account instead of the municipal division's bank account, and some municipal division credit card receipts were not recorded in the municipal division's computer system.

The municipal division started accepting credit cards as a form of payment in August 2009. During our review of August and September 2009 credit card receipts, we identified credit card receipts totaling \$822 which were deposited into the city's bank account. The city reimbursed the municipal division \$688 in August and September 2009; however, the city had not reimbursed the municipal division for the remaining \$134 as of June 30, 2010. The municipal division made adjustments on each monthly bank reconciliation from September 2009, to June 2010, for these credit card receipts. In addition, a \$145 credit card receipt received on February 28, 2010, and deposited into the municipal division's bank account was not recorded in the municipal division's computer system as of June 30, 2010.

Bank reconciliation adjustments and differences should be investigated and corrected on a timely basis to ensure the accuracy of cash and liability balances. To ensure all credit card receipts have been properly deposited into the municipal division's bank account and recorded in the municipal division's computer system, the Court Clerk should reconcile all credit card receipts to municipal division deposits and the computer system, and correct any past errors.

#### 1.5 Credit card processing fees

Credit card processing expenses totaling \$648 were paid from the municipal division bank accounts on June 30, 2010, and have not been reimbursed by the city. The municipal division allows defendants to pay fines and costs using a credit card and charges those defendants \$4 for each transaction. The municipal division disburses the credit card transaction fees collected to the city each month. However, the actual expenses for use of the credit card machine are charged to the municipal division bank account instead of being paid by the city, and are not recorded in the municipal division accounting system as a disbursement. The municipal division should seek reimbursement from the city for the past credit card expenses, and discontinue paying these expenses from the municipal division bank account.



## 1.6 Bond coverage

The Court Clerk, Deputy Court Clerk, and Municipal Judge are not bonded. Proper bonding of persons with access to monies would better protect the municipal division from risk of loss.

## Recommendations

The City of Neosho Municipal Division:

- 1.1 Segregate accounting duties to the extent possible. If proper segregation is not possible, the Municipal Judge should ensure effective supervisory reviews are performed and documented.
- 1.2 Document the Judge's review and approval of the Court Clerk's use of the signature stamp on municipal division checks and court dockets.
- 1.3 Ensure complete monthly bank reconciliations are prepared in a timely manner, and monthly lists of outstanding checks and liabilities are retained. The Municipal Division should also dispose of all unidentified monies as provided by various statutory provisions, and close the old inactive bank account.
- 1.4 Investigate and resolve any adjustments and differences; reconcile credit card receipts to deposits and the computer system; and correct any past errors. The Municipal Division should also seek reimbursement from the city for credit card receipts.
- 1.5 Seek reimbursement from the city for the past credit card expenses, and discontinue paying these expenses from the municipal division bank account.
- 1.6 Request the city to obtain adequate bond coverage for the Court Clerk, Deputy Court Clerk, and Municipal Judge.

## Auditee's Response

*The Municipal Judge and Court Clerk provided the following written responses:*

- 1.1 *The Municipal Judge will review each monthly reconciliation of the two bank accounts by the 15th of the following month.*
- 1.2 *The Municipal Judge will sign all documents and checks personally.*
- 1.3 *Monthly reconciliations will be completed by the 15th of the following month. All old accounts will be closed.*
- 1.4 *Reconciliation of credit card receipts to deposits are current and will be kept as so (by 15th of following month). Past errors are in*





*the process of resolution and should be cleared by September 15, 2010.*

1.5 *Reimbursement from city for credit card expenses and request for discontinuing paying these expenses from municipal division bank accounts have been requested.*

1.6 *Adequate bond coverage has been obtained.*

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## 2. Liabilities

The Court Clerk does not review liabilities to ensure monies on hand are disposed of in a timely manner. As noted above, the Court Clerk does not always retain a detailed list of liabilities. At our request, the Court Clerk printed a detailed list of liabilities as of June 30, 2010, which totaled \$8,722. Our review of 5 of the 65 cases included on the list, revealed that all 5 cases had been previously ordered to be applied to fines and costs or refunded to the defendant in 2008 and 2009, but no action was taken by the municipal division to disburse these monies.

To ensure outstanding balances are properly disposed in a timely manner, the liabilities list should be periodically reviewed.

## Recommendations

The City of Neosho Municipal Division review liabilities on hand in a timely manner and attempt to identify all closed cases with liabilities and disburse these amounts.

## Auditee's Response

*The Municipal Judge and Court Clerk provided the following written response:*

*The Municipal Judge and Court Clerk will check liabilities lists at the reconciliation meeting each month (by the 15th).*

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## 3. Traffic Ticket Accountability

Neither the city Police Department nor the municipal division adequately account for the numerical sequence and ultimate disposition of traffic tickets issued. The Police Department tracks the ticket book numbers assigned to each officer on a log and uses a computerized ticketing system. While the computer system has the capability to account for the numerical sequence of ticket numbers issued, the numerical sequence and disposition of tickets is not accounted for by the Police Department.

Without a proper accounting for the numerical sequence and ultimate disposition of tickets issued, the municipal division and the Police Department cannot be assured all tickets issued were properly submitted for processing.



Fortieth Judicial Circuit  
City of Neosho Municipal Division  
Management Advisory Report - State Auditor's Findings

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## Recommendations

The City of Neosho Municipal Division work with the Police Department to ensure the numerical sequence and ultimate disposition of all tickets issued are accounted for properly.

## Auditee's Response

*The Municipal Judge and Court Clerk provided the following written response:*

*The Court Clerk currently sends disposition lists to the Clerk at the Police Department at the end of each month. The Police Chief has assured that the disposition list will be checked against tickets issued and the Clerk at the Police Department will fax reconciliation confirmation to the Court Clerk by the 15th of the following month. Further, the Police Chief will pursue the purchase of software to connect the Police Department traffic ticket system to the court computer so that ticket reconciliation can be done by the Court Clerk as well.*

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# Fortieth Judicial Circuit

## City of Neosho Municipal Division

### Organization and Statistical Information

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The City of Neosho Municipal Division is in the Fortieth Judicial Circuit, which consists of McDonald and Newton Counties. The Honorable Timothy W. Perigo serves as Presiding Judge.

The municipal division is governed by Chapter 479, RSMo, and by Supreme Court Rule No. 37. Supreme Court Rule No. 37.49 provides that each municipal division may establish a violation bureau in which fines and costs are collected at times other than during court and transmitted to the city treasury.

#### Personnel

At September 30, 2009, the municipal division employees were as follows:

Title	Name
Municipal Judge	Patricia B. Loveland
Court Clerk	Vickie Smith (1)
Deputy Court Clerk	Ce'Nedra Holden

(1) Replaced Bill Savage as Court Clerk in August 2009.

#### Financial and Caseload Information

	Year Ended September 30, 2009
Receipts	\$452,000
Number of cases filed	3,264