



Thomas A. Schweich
Missouri State Auditor

Fortieth Judicial Circuit

City of Lanagan Municipal Division

March 2011
Report No. 2011-12



<http://auditor.mo.gov>



Thomas A. Schweich
Missouri State Auditor

CITIZENS SUMMARY

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

Missing Funds

Municipal division receipts totaling at least \$521 were received but not deposited. In addition, certain records could not be located, and it is possible additional funds are missing. The Court Clerk quit in February 2010, and, in September, just after audit staff's initial visit, the City Clerk abruptly quit. The lack of adequate controls and oversight allowed missing funds to go undetected. The City of Lanagan Municipal Division and city officials should work with law enforcement regarding the missing funds and records.

Accounting Controls and Procedures

Significant weaknesses were identified with accounting controls and procedures which increases the risk of theft or misuse of funds. The Court Clerk received and deposited monies with no supervision or review. The municipal division did not account for the numerical sequence of receipt slips, receipt slips issued by the city were not reconciled to court receipt records, and monies collected by the city were not transmitted timely to the municipal division. Receipts were deposited approximately once a month.

Some records related to the receipt and disbursement of funds could not be located. Moreover, certain records regarding the disposition of some court cases could not be found. The municipal division lacked adequate procedures for collecting monies due on tickets and did not maintain adequate records of such monies due. It is possible the municipal division is owed thousands of dollars for unpaid tickets, and it should work to determine the amount owed and develop a collection plan. The Court Clerk did not prepare a monthly case list and file it with the city as required by statute, so the city could not effectively monitor the municipal division. The municipal division did not submit all fines and costs collected to the city as required by law; instead, the municipal division paid salaries and other expenses out of its bank account before remitting the balance to the city. In addition, some checks issued against the municipal division bank account had only one signature, but two signatures are required.

The municipal division should maintain backup copies of computer programs and data and store them at an offsite location to prevent the loss of accounting and other records. The Court Clerk and City Clerk were not bonded. Adequate bonding for employees who handle money is important, because the municipal division could be made whole by the bonding company if funds are mishandled.

Municipal Division Procedures

The municipal division needs to improve its procedures relating to case dispositions, license suspensions, and tickets. The municipal division failed to adequately document the disposition of, and maintain a docket or backer sheet for, each case as required by Missouri Supreme Court rule.

The prosecuting attorney did not sign all tickets processed by the municipal division, which is also required by rule. The police department and the municipal division do not adequately account for the numerical sequence of traffic tickets issued. As such, it is not possible to determine if all tickets issued are properly submitted for processing.

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

American Recovery and
Reinvestment Act 2009
(Federal Stimulus)

The Fortieth Judicial Circuit, City of Lanagan Municipal Division did not receive any federal stimulus monies during the audited time period.

*The rating(s) cover only audited areas and do not reflect an opinion on the overall operation of the entity. Within that context, the rating scale indicates the following:

- Excellent:** The audit results indicate this entity is very well managed. The report contains no findings. In addition, if applicable, prior recommendations have been implemented.
- Good:** The audit results indicate this entity is well managed. The report contains few findings, and the entity has indicated most or all recommendations have already been, or will be, implemented. In addition, if applicable, many of the prior recommendations have been implemented.
- Fair:** The audit results indicate this entity needs to improve operations in several areas. The report contains several findings, or one or more findings that require management's immediate attention, and/or the entity has indicated several recommendations will not be implemented. In addition, if applicable, several prior recommendations have not been implemented.
- Poor:** The audit results indicate this entity needs to significantly improve operations. The report contains numerous findings that require management's immediate attention, and/or the entity has indicated most recommendations will not be implemented. In addition, if applicable, most prior recommendations have not been implemented.

All reports are available on our website: <http://auditor.mo.gov>

Fortieth Judicial Circuit

City of Lanagan Municipal Division

Table of Contents

State Auditor's Report	2
------------------------	---

Management Advisory	
Report - State Auditor's	1. Missing Funds4
Findings	2. Accounting Controls and Procedures5
	3. Municipal Division Procedures9

Organization and Statistical	11
Information	



THOMAS A. SCHWEICH

Missouri State Auditor

Presiding Judge
Fortieth Judicial Circuit
and
Municipal Judge
Lanagan, Missouri

We have audited certain operations of the City of Lanagan Municipal Division of the Fortieth Judicial Circuit in fulfillment of our duties under Chapter 29, RSMo. The scope of our audit included, but was not necessarily limited to, the 2 years ended December 31, 2010. The objectives of our audit were to:

1. Evaluate the municipal division's internal controls over significant financial functions.
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. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

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

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

For the areas audited, we identified (1) deficiencies in internal controls, and (2) noncompliance with legal provisions. The accompanying Management Advisory Report presents our findings arising from our audit of the City of Lanagan Municipal Division of the Fortieth Judicial Circuit.

A petition audit of the City of Lanagan, 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.



Thomas A. Schweich
State Auditor

The following auditors participated in the preparation of this report:

Director of Audits:	Alice M. Fast, CPA, CGFM, CIA
Audit Manager:	Donna Christian, CPA, CGFM
In-Charge Auditor:	Candi Copley

Fortieth Judicial Circuit

City of Lanagan Municipal Division

Management Advisory Report - State Auditor's Findings

1. Missing Funds

Between July 1, 2009, and December 31, 2009, municipal division receipts totaling at least \$521 were received but not deposited. In addition, some essential records documenting amounts received and case dispositions could not be located by the municipal division (see finding number 2.4), and additional funds could be missing.

Five receipt slips were written by the former City Clerk for fines and costs totaling \$429, but there is no documentation these monies were turned over to the municipal division and the monies were not deposited.

<u>Receipt Date</u>	<u>Receipt Number</u>	<u>Amount</u>
September 15, 2009	4380	\$ 133
November 2, 2009	4404	30
November 3, 2009	4405	51
November 16, 2009	4408	123
December 14, 2009	4411	<u>92</u>
Total		<u>\$ 429</u>

Additionally, a \$92 money order dated July 17, 2009, received by the municipal division was not recorded as received, but was substituted into a deposit dated November 12, 2009, and recorded cash receipts totaling the same amount were not deposited.

The former City Clerk, Peggy Gilliam, abruptly terminated employment on Wednesday, September 22, 2010, after our initial visit to the city. The former Court Clerk, Christina Moon, terminated employment in February 2010.

The lack of adequate controls and the absence of proper oversight allowed missing funds to go undetected. Additionally, controls over the recording of fines and costs received by the city and subsequent transmittal to the municipal division are poor and contributed to the loss of court monies as further discussed throughout this report.

Recommendation

The City of Lanagan Municipal Division, along with city officials, work with law enforcement officials regarding any possible criminal prosecution related to the missing cash receipts, including restitution of the missing funds. In addition, an attempt should be made to locate or recover the missing court records and documents to determine whether additional funds are missing.

Auditee's Response

The City of Lanagan Municipal Judge provided the following response:

We will immediately begin to work with city and law enforcement officials to recover any missing court money. The court has also implemented increased accountability and review of court records.



The Mayor of the City of Lanagan provided the following response:

City officials will immediately assist court officials and law enforcement personnel to recover any missing court monies.

2. Accounting Controls and Procedures

Significant weaknesses were identified with accounting controls and procedures of the municipal division. As a result, there is no assurance all municipal division receipts are accounted for properly.

According to municipal division records, fines and costs collected during the years ended December 31, 2010 and 2009, were approximately \$92,000 and \$42,000, respectively. Fines and costs are usually collected, recorded, and deposited into a municipal division bank account by the Court Clerk. When the Court Clerk is not available fines and costs are collected by the City Clerk, who writes a manual receipt slip and then transmits the money to the Court Clerk. Fines and costs transmitted by the city to the Court Clerk are also recorded in municipal division receipt records and deposited in the municipal division bank account. The Court Clerk makes disbursements for court liabilities and the remaining fines and costs are disbursed to the city.

2.1 Segregation of duties

The duties of receiving and depositing monies are not adequately segregated from recording transactions. The Court Clerk performs all the duties related to collection of funds, deposit preparation, and posting fines and court costs received. Neither the Municipal Judge nor other city officials independent of the cash custody and record keeping functions provide any supervision or review of the work performed by the Court Clerk.

To safeguard against possible loss or misuse of funds, internal controls should provide reasonable assurance that all transactions are accounted for properly and assets are adequately safeguarded. Internal controls could be improved by segregating duties to the extent possible. If proper segregation of duties is not possible, a documented independent review of the work performed by the Court Clerk is necessary.

2.2 Receipt controls

Accountability over municipal division receipts is inadequate.

- The municipal division does not account for the numerical sequence of receipt slips. During 2009 and part of 2010, the municipal division recorded amounts received on a one-write receipt ledger; however, receipt slips were not always issued in numerical sequence. In February 2010, the Judge and the Court Clerk developed a computerized database in an effort to improve the processing of receipts; however, the data base assigned a numerical sequence to all transactions and did not provide an adequate accountability for receipt transactions. In September 2010, the municipal division again began recording receipts on a one-write receipt ledger. To ensure all receipts are recorded and



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

deposited, the numerical sequence of receipt slips should be accounted for properly.

- Receipt slips issued by the city are not reconciled to court receipt records. Some receipt slips issued by the former City Clerk are not readable and all copies of some receipt slips were torn from the receipt books and not retained. Without proper accountability over receipt records, the court cannot ensure all monies received by the city are transmitted to the municipal division.
- Fines and costs collected by the city are not transmitted to the municipal division timely. For example, city receipt records indicate court fines totaling \$165 were received by the City Clerk in cash on September 4, 2009, but were not posted as received by the municipal division until October 12, 2009. Numerous other receipts were also not transmitted by the city to the municipal division in a timely manner. To ensure all monies are transmitted and accounted for properly, the city should transmit monies timely to the municipal division.

2.3 Deposits

Receipts are not deposited timely or intact. The municipal division deposits receipts approximately monthly, and deposit amounts range from \$5,000 to \$7,000 each month. The municipal division holds deposits to ensure adequate cash is on hand to use as change during court. To protect against the risk of theft or misuse of funds, deposits should be made timely, and a change fund should be established and set at a constant amount.

2.4 Missing records

Some records documenting the receipt of fines and costs during the months of January and May through August 2009 could not be located by the municipal division. Additionally, these records support the disbursement of court fees collected for Crime Victims Compensation, Law Enforcement Training, and Police Officers Standards and Training. Deposits during this time period totaled \$11,354. Further, records documenting the disposition of some cases could not be located by the municipal division.

Missouri Supreme Court Operating Rule 8 requires municipal divisions to retain all case file records including copies of tickets issued. Retention of municipal records is essential to establish accountability of municipal division activity and in demonstrating compliance with state law.

2.5 Unpaid fines and costs

Procedures for processing and collecting monies due on tickets where the defendant fails to appear in court are not adequate. The municipal division issues license suspensions for unpaid moving violations, but does not continue these cases on the docket or maintain a list of unpaid fines and costs to properly monitor amounts due. At our request, the Court Clerk prepared a list of open court cases as of November 31, 2010, totaling approximately \$55,000; however, the list was not accurate. Our review of



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

the list identified some cases on the list that had been paid and several cases that were included twice on the list.

Adequate procedures and records are necessary to ensure proper and timely follow-up action is taken on amounts due the municipal division. This helps maximize municipal division collections and provides equitable treatment for those citizens who are paying fines and court costs when due.

2.6 Case list

A monthly list of all cases heard is not prepared and filed with the city. Without such a report, the city cannot effectively monitor municipal division activity and ensure monies are properly remitted. Section 479.080.3, RSMo, requires the Court Clerk to prepare a monthly list of all cases heard in the municipal division, including the names of the defendants and fines and court costs imposed, to be verified by the Court Clerk or the Municipal Judge and filed with the city.

2.7 Disbursements

Fines and costs collected by the municipal division are not properly disbursed to the city as required by law. The Court Clerk directly pays court related expenses (compensation of court clerk and municipal judge and office supplies) out of the municipal division bank account and then remits remaining monies to the city throughout the month in varying amounts depending on the balance of the account. The Court Clerk indicated the city was in poor financial condition so payments are made to the city as funds are needed. In addition, although two signatures are required, some checks written out of the municipal division bank account to pay expenses only included one signature.

Because disbursements are made from the municipal division bank account, they are not approved by the Board of Aldermen and are not reflected in the city budget document. Section 67.010, RSMo, requires the city budget present a complete financial plan for the ensuing budget year. In addition, to ensure all disbursements are proper, they should be reviewed and approved by the Board of Aldermen, and include two signatures as required. Finally Section 479.080, RSMo, indicates all fines and costs shall be paid into the municipal treasury.

2.8 Computer back ups

Backup copies of computer programs and data are not maintained or stored at an offsite location. The Court Clerk indicated the computerized accounting records from February 2010 through September 2010 were destroyed during bad weather, and she had to recreate the records from the manual receipt and banking records. Backup copies of computer information are necessary to provide a means for recreating destroyed data. These copies should be maintained and stored off-site to provide increased assurance municipal division data can be recreated.



2.9 Bonding

The Court Clerk and the City Clerk who collect monies for the municipal division are not bonded. Adequate bonding is necessary to reduce the risk of loss if funds are mishandled.

Recommendations

The City of Lanagan Municipal Division:

- 2.1 Segregate accounting duties to the extent possible and implement appropriate reviews and monitoring procedures.
- 2.2 Properly account for the numerical sequence of receipt slips, and work with city officials to ensure receipt slips issued by the city are readable and properly maintained. Additionally, the Municipal Division should work with the city to ensure receipt slips issued by the city are reconciled to court receipt records and the receipts are transmitted timely.
- 2.3 Ensure receipts are deposited timely and intact, and a change fund should be established if needed.
- 2.4 Ensure necessary records are complete and maintained.
- 2.5 Develop adequate procedures to account for and follow up on delinquent amounts.
- 2.6 Ensure a monthly list of cases heard in the municipal division is prepared and filed with the city in accordance with state law.
- 2.7 Ensure all fines and court costs are disbursed at least monthly and court related expenses are paid by the city. Additionally, the Municipal Division should ensure checks are signed by two board members, as required.
- 2.8 Ensure backup copies of computer programs and data are maintained and stored at a secure, off-site location.
- 2.9 Work with the city to ensure the City Clerk and Court Clerk are properly bonded.

Auditee's Response

The City of Lanagan Municipal Judge provided the following responses:

- 2.1 *Additional review procedures have now been implemented.*
- 2.2 *Additional accounting procedures have now been implemented to ensure receipt slips are readable and accounted for properly. Court officials are now accounting for the numerical sequence of receipts.*



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

Transmittal procedures have now been implemented to track monies received by the city and transmitted to the court.

- 2.3 *Deposits are now being made in a timely manner and a court change fund has been established.*
- 2.4 *Complete court records are now being maintained by the court.*
- 2.5 *The court is currently tracking fines and costs owed to the court. Court officials are now following up on balances due the court in a timely manner.*
- 2.6 *Procedures have now been implemented to maintain a complete court docket system, including filing reports with the city.*
- 2.7 *Court procedures now include disbursing CVC, LET and POST monies collected weekly. All other monies collected are now transmitted to the city, court related expenses are paid by the city, and checks are appropriately signed.*
- 2.8 *Computers are now backed up at least weekly with information stored off-site.*
- 2.9 *It was our understanding that court personnel were adequately bonded by the city's bond insurer; however, the court is currently in the process of obtaining bonding coverage.*

3. Municipal Division Procedures

Municipal division procedures over case dispositions, license suspensions, and tickets need improvement.

3.1 Case dispositions

Case files were not maintained in compliance with court rules. The final disposition of each case is not consistently documented, and court dockets are not always prepared. The disposition of some cases was documented on a copy of the ticket by noting only the amount of fines and costs paid. The disposition of several other cases was not documented on any court record. As a result, the status of each ticket cannot be adequately tracked and accounted for properly.

Missouri Supreme Court Operating Rule 4 requires municipal divisions to maintain a docket or backer sheet for each case. All information regarding the case should be documented to include, but not limited to, a copy of the ticket, case number, defendant's name, amount due the municipal division, bond information, warrants, and disposition of the case.



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

3.2 Prosecutor signature

The Prosecuting Attorney does not sign all tickets processed by the municipal division. Missouri Supreme Court Rule 37.35 states citations shall be in writing and signed by the prosecutor and filed with the court. Without the signature of the Prosecuting Attorney it is unclear whether or not the tickets processed by the municipal division are valid.

3.3 Ticket accountability

The police department and municipal division do not adequately account for the numerical sequence of traffic tickets issued. While the police department has established a log of traffic tickets issued, the log is not always complete and logs for some months could not be located. We noted numerous instances of missing sequential ticket numbers on the log.

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 are properly submitted for processing. A record should be maintained accounting for the ultimate disposition of each ticket issued to ensure all tickets have been accounted for properly and to decrease the risk of loss, misuse, or theft of funds.

Recommendations

The City of Lanagan Municipal Division:

- 3.1 Maintain case files in compliance with court operating rules.
- 3.2 Work with the Prosecuting Attorney to ensure all tickets are signed before they are submitted to the municipal division.
- 3.3 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 City of Lanagan Municipal Judge provided the following responses:

- 3.1 *Procedures have now been implemented to ensure all case files are maintained and accounted for properly.*
- 3.2 *Court procedures have now improved to ensure all tickets are signed.*
- 3.3 *Court officials will immediately begin working with the police department to account for the disposition of all citations issued by the municipal division.*

Fortieth Judicial Circuit

City of Lanagan Municipal Division

Organization and Statistical Information

The City of Lanagan Municipal Division is in the Fortieth Judicial Circuit, which consists of Newton and McDonald 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 December 31, 2010, the City of Lanagan contracted with municipal division personnel as follows:

Title	Name
Municipal Judge	Patricia Attlesey
Court Clerk	Tammy Moore

Financial and Caseload Information

	Years Ended December 31,	
	2010	2009
Receipts	\$91,935	41,552
Number of tickets issued	1,163	541

American Recovery and Reinvestment Act of 2009 (Federal Stimulus)

The Fortieth Judicial Circuit, City of Lanagan Municipal Division, did not receive any federal stimulus monies during the 2 years ended December 31, 2010.