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Missouri State Auditor

December 2007

Seventh Judicial Circuit

City of Smithville, Missouri Municipal Division



Office of
Missouri State Auditor
Susan Montee, CPA

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An audit was conducted by our office of the Seventh Judicial Circuit, city of Smithville, Missouri Municipal Division.

Receipts totaling at least \$29,921 were received by the city of Smithville Municipal Division during the period May 2006 through February 2007, but were not deposited.

The former Court Clerk was hired in May 2006 and terminated on February 27, 2007. The former clerk was charged with three felony counts of stealing on May 7, 2007, after it was discovered by the current Court Clerk that some bond monies received were missing. According to a probable cause statement, the former clerk admitted to stealing between \$12,000 and \$16,000. She pleaded not guilty on May 9, 2007.

For the period of May 2006 to February 2007, we compared amounts receipted into the city's receipt system by the court to amounts deposited into the court's fines and costs bank account. Checks from the court's bond bank account, totaling \$16,121, were deposited into the court's fines and costs account but were not recorded in the city's receipt system. These unrecorded bond checks were included in deposits to the court's fines and costs account, and recorded cash collections of fines and costs, totaling at least \$19,980, were not deposited, and apparently were misappropriated. It also appears that recorded fine and cost amounts were altered after receipt slips were issued which allowed additional cash to be withheld from deposits. In addition, cash bonds totaling at least \$9,941 were received and not deposited and apparently were misappropriated.

In addition to the missing monies, the current Court Clerk has been unable to locate many court documents, including case files, court dockets, deposit reports, monthly disbursement reports, and bank reconciliations.

Lack of internal controls and bond and ticket accountability, as well as no independent review of the Court Clerk's work, allowed these misappropriations to go undetected.

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YELLOW SHEET

SEVENTH JUDICIAL CIRCUIT
CITY OF SMITHVILLE, MISSOURI
MUNICIPAL DIVISION

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STATE AUDITOR'S REPORT



SUSAN MONTEE, CPA
Missouri State Auditor

Presiding Judge
Seventh Judicial Circuit
and
Municipal Judge
Smithville, Missouri

We have audited certain operations of the city of Smithville Municipal Division of the Seventh Judicial Circuit. The scope of this audit included, but was not necessarily limited to, the period November 1, 2006 to April 30, 2007, and the year ended October 31, 2006. The objectives of this audit were to:

1. Review internal controls over significant financial functions.
2. Review compliance with certain legal provisions.
3. Review certain receipts and attempt to determine the amount of misappropriated funds.

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

In addition, we obtained an understanding of internal controls significant to the audit objectives and considered whether specific controls have been properly designed and placed in operation. However, providing an opinion on internal controls was not an objective of our audit and accordingly, we do not express such an opinion.

We also obtained an understanding of legal provisions significant to the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting significant instances of noncompliance with the provisions. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion.

Our audit was conducted in accordance with applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such procedures as we considered necessary in the circumstances. The work for this audit was substantially completed by July 2007.

The accompanying History, 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 the audit of the division.

The accompanying Management Advisory Report presents our findings arising from our audit of the city of Smithville Municipal Division of the Seventh Judicial Circuit.



Susan Montee, CPA
State Auditor

The following auditors participated in the preparation of this report:

Director of Audits: Kenneth W. Kuster, CPA
Audit Manager: Todd M. Schuler, CPA
In-Charge Auditor: Julie A. Orlowski

MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

SEVENTH JUDICIAL CIRCUIT
CITY OF SMITHVILLE, MISSOURI
MUNICIPAL DIVISION
MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

1.

Missing Funds

Receipts totaling at least \$29,921 were received by the city of Smithville Municipal Division during the period May 2006 through February 2007, but were not deposited.

The former Court Clerk was hired in May 2006 and terminated on February 27, 2007. The former clerk was charged with three felony counts of stealing on May 7, 2007, after it was discovered by the current Court Clerk that some bond monies received were missing. According to a probable cause statement, the former clerk admitted to stealing between \$12,000 and \$16,000. She plead not guilty on May 9, 2007.

For the period of May 2006 to February 2007, we compared amounts receipted into the city's receipt system by the court to amounts deposited into the court's fines and costs bank account. Checks from the court's bond bank account, totaling \$16,121, were deposited into the court's fines and costs account but were not recorded in the city's receipt system. These unrecorded bond checks were included in deposits to the court's fines and costs account and recorded fines and costs cash receipts, totaling at least \$19,980, were not deposited, and apparently were misappropriated. It also appears that recorded fine and cost amounts were altered after receipt slips were issued for several checks received during this period, which also allowed cash to be withheld from deposits. In addition, cash bonds totaling at least \$9,941 were received by the Court Clerk and not deposited and apparently were misappropriated.

In addition to the missing monies, the current Court Clerk has been unable to locate many court documents including the following: case files, court dockets, deposit reports, monthly disbursement reports, and bank reconciliations.

Lack of internal controls and bond and ticket accountability, as well as no independent review of the Court Clerk's work, as discussed in the remainder of the Management Advisory Report (MAR), allowed these misappropriations to go undetected.

WE RECOMMEND the city of Smithville Municipal Division, along with the city, work with law enforcement officials regarding criminal prosecution, including restitution of the missing funds, and attempt to locate or recover the missing court records and documents.

AUDITEE'S RESPONSE

The Municipal Judge, Court Clerk, and City Administrator responded:

We agree and will fully cooperate with law enforcement officials to get this matter resolved.

2. Receipt Procedures

- A. Receipt slips were not issued for some monies received, some receipt amounts were changed after the receipt slip was issued, and the numerical sequence of receipt slips issued prior to March 2007 could not be accounted for. In addition, the composition of receipt slips issued is not compared to the composition of deposits.

Receipt slips are not issued when checks are written from the court's bond bank account and deposited to the court's fines and costs account. Furthermore, controls within the receipting system allowed some receipt amounts to be altered in the receipt system after issuance. These alterations made it appear that a lesser amount was received. The court uses the Incode system for processing payments, but the former clerk did not issue receipt slips from the Incode system, but rather used the city's receipt system that is shared by various other departments within the city. Because of the various users of the city's receipt system, it was not possible to account for the numerical sequence of receipt slips issued for payments made to the court. Payments would be manually posted to the court's Incode system by the former clerk after being receipted through the city's receipt system. The deposit report prepared from the city's receipt system typically did not agree to the amount deposited, which went undetected due to the lack of supervisory review over the Court Clerk's functions.

We obtained the deposit detail from the bank for deposits made during December 2006 by the former clerk and determined that three checks from the court's bond account, totaling \$4,561, were not receipted but were included in deposits. This allowed recorded cash receipts, totaling \$2,682, to be misappropriated. The difference of \$1,879 was caused by not depositing other recorded checks, but instead holding them to substitute into subsequent deposits and depositing more money in the bank than was recorded. Deposits made in December 2006 exceeded recorded receipts for that period by approximately \$650. The composition of deposits did not agree to the deposit reports for any deposits made in December 2006, and the total amount deposited did not agree to the total amount received for 3 of the 4 deposits made that month. These discrepancies were not identified by any court or city personnel.

To adequately account for all monies received, receipt slips should be issued for all monies received, and the composition of receipt slips should be reconciled to

the composition of deposits. In addition, the numerical sequence of receipt slips should be accounted for periodically.

- B. Receipts were not deposited intact on a timely basis, and deposit slips did not include sufficient detail to indicate the individual receipts making up each deposit.

The deposit frequency for fines and court costs significantly decreased in June 2006. Prior to that time, an average of 22 deposits were made each month to the fines and costs account, and these deposits averaged approximately \$1,200. Between May 2006 and February 2007, the average number of deposits decreased to approximately 8 per month, and the average deposit amount increased to over \$2,900. From September 2006 to February 2007, there were only four deposits made to the bond account, averaging approximately \$2,800, with no deposits to the bond account in November 2006 and February 2007.

Additionally, it appears that beginning in June 2006, there was often a 10 to 14 day time lag between the receipt and deposit of funds. For example, the deposit report for a deposit made on November 15, 2006, showed the receipts were posted on November 1, 2006, and the deposit made December 5, 2006, showed the receipts were posted on November 13-15, 2006. Based on our review of deposit information provided by the bank for deposits made in December 2006, the checks included in the deposits did not always agree to the checks recorded on the deposit report prepared from the receipt database.

To adequately safeguard receipts and reduce the risk of loss, theft, or misuse of funds, all receipts should be deposited intact daily.

- C.1. Fines and court costs received were not distributed to the city or state, as applicable, in a timely manner, and for at least one month it appears no amounts were distributed. Failure to pay out fines and costs collected to the appropriate parties deprives the city and state of revenue due them. Section 479.080, RSMo, states that all fines and court costs shall be paid to and deposited monthly into the city treasury. State law also requires certain court costs be distributed to the applicable state agencies on a monthly basis.
- 2. Interest income earned related to various court bank accounts was not turned over to the city. Instead, it is retained in the municipal division's bank accounts and used to order new checks and replenish petty cash. Accumulated interest should be periodically turned over to the city treasurer for deposit in the city's general account. All court operating expenses should be approved by the board of alderman and paid by the city.

WE RECOMMEND the city of Smithville Municipal Division:

- A. Issue receipt slips for all monies received and periodically account for their numerical sequence. In addition, the composition of receipt slips issued should be reconciled to the composition of bank deposits.
- B. Deposit receipts intact daily or when accumulated receipts exceed \$100, and ensure deposit slips include sufficient detail to indicate the individual receipts making up the deposit.
- C.1. Ensure fines and court costs are transmitted to the appropriate parties at least monthly as required by state law.
- 2. Interest income should be periodically turned over to the city treasurer for deposit in the city's general account, and all costs related to court operations should be paid by the city.

AUDITEE'S RESPONSE

The Municipal Judge and Court Clerk responded:

A&B. These recommendations have been implemented.

C.1. We agree and have implemented the recommendation.

2. The city and court have complied with this recommendation.

3. Internal Controls and Records

- A. The duties of receiving, recording, depositing, and disbursing court receipts were not adequately segregated, and the work of the Court Clerk was not adequately reviewed.

The Court Clerk performed all of the duties related to the collection and disbursement of fines, court costs, and bonds. Neither the Municipal Judge nor other personnel independent of the cash custody and record-keeping functions provided any supervision or review of the work performed by the Court Clerk until March 2007. At that time, procedures were changed due to the discovery of the missing funds discussed in MAR finding number 1 earlier in this report. The City Clerk now compares the receipt slips issued to deposited amounts and documents these reviews, but her reviews of bank statements and bank reconciliations are not documented.

To safeguard against possible loss or misuse of funds, internal controls should provide reasonable assurance that transactions are accounted for properly and assets are adequately safeguarded. Since this is currently an office of one employee and proper segregation of duties cannot be achieved, at a minimum, there should be a documented independent comparison of receipt slips issued to amounts deposited and an independent review of bank statements and reconciliations. Any unusual items or discrepancies should be investigated and resolved promptly.

- B.1. Formal bank reconciliations were either not prepared on a timely basis or were not prepared and reconciled to the cash control. Furthermore, these reconciliations included reconciling items which did not represent actual transactions.

Between May 2006 and February 2007, we noted some instances when bank reconciliations were never performed, and many instances when bank reconciliations were not performed timely. Also, the March and April 2007 bank statements were not reconciled until June 2007.

Bank reconciliations for most court accounts contained outstanding checks and deposits which did not represent actual transactions, making the reconciliation process meaningless. Between May 2006 and April 2007, some deposits were posted to the cash control that were not deposited and disbursements were recorded but no check was issued. In addition, there were receipts and disbursements that cleared the bank that were not posted to the cash control. As a result of these errors, as of April 30, 2007, the cash balance on the cash control for the bond account was overstated by \$5,792; the cash control balance for the credit card account was overstated by \$1,425; and the cash control balance for the fines and costs account was understated by \$12,157. Because of the errors and misrepresentations related to these accounts, two new accounts have been opened and efforts have been made to improve the recordkeeping and reconciliation processes.

Monthly bank reconciliations are necessary to ensure accounting records are in agreement with the bank account and to detect errors on a timely basis.

2. Monthly listings of open items (liabilities) were not prepared and reconciled to the available cash balances for five court accounts, including the old and new bond accounts, old and new fines and costs accounts, and a credit card payments account.

Monthly listings of open items should be prepared and reconciled to the available cash balance to ensure proper accountability over open cases and to ensure monies held in trust by the municipal division are sufficient to meet liabilities. An attempt needs to be made to identify these balances, disburse the balances to the appropriate parties, and close the accounts.

3. The court does not account for the numerical sequence of checks. Checks were not always issued in numerical order and voided checks were not always recorded in the cash control records. In addition, not all voided checks are mutilated and maintained.

To ensure all checks are accounted for properly, the numerical sequence of all checks should be accounted for and all checks should be issued in numerical order and entered into the computer system, including voided checks. In addition, all voided checks should be mutilated and retained.

- C. Some cases are not reported on the court docket. In addition, the Municipal Judge does not sign the court dockets. The Court Clerk disposes of violation bureau (VB) cases on the date the monies are received. As a result, these cases fail to appear on the court docket for the judge's review. Furthermore, the court bailiff takes notes during court for the judge and signs the court docket on the judge's behalf.

Section 479.070, RSMo, requires the proceeding for every case commenced before the court to be entered on the docket, along with the ultimate disposition of the case. To ensure the proper disposition of all cases has been entered in the court records, the judge should sign the dockets after reviewing to ensure their propriety.

WE RECOMMEND the city of Smithville Municipal Division:

- A. Establish a documented periodic review of municipal division records by an independent person.
- B.1 Prepare monthly bank reconciliations in a timely manner and correct errors in the cash control to allow the accounts to reconcile to the bank balance.
2. Prepare monthly open items listings and reconcile these listings to monies held in trust. In addition, the court should attempt to identify the balances remaining in the old bond account, old fine account, and credit card account and distribute amounts to the appropriate parties.
3. Account for the numerical sequence of checks issued and ensure voided checks are properly mutilated and retained.
- C. Include all cases on the court docket as required by state law. Furthermore, the Municipal Judge should review all court dockets for propriety and sign the dockets.

AUDITEE'S RESPONSE

The Municipal Judge and Court Clerk responded:

- A. *The court complied by creating an independent review and sign off by the City Administrator or City Clerk.*

- B.1. *This recommendation has been implemented.*
 - 2. *The court has complied.*
 - 3. *The court has implemented this recommendation.*

- C. *The Municipal Judge will review and sign all court dockets as recommended.*

4. Bond and Ticket Accountability
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- A. The bond log maintained by the police department is not complete and accurate, and a reconciliation of bonds received to bonds deposited is not performed. The bond log does not include bond monies received from other political subdivisions nor does it include the disposition of the bonds, including the date the bond was disposed, refunded, or transmitted to the city. Neither the police department nor the Court Clerk accounted for the numerical sequence of the bond forms nor was there an independent reconciliation of bonds collected by the police department to the bonds deposited by the Court Clerk. Bond payments are collected by the police department, recorded on a prenumbered bond form and posted to the bond log, and placed in a lock box for the Court Clerk.

By failing to reconcile amounts recorded in the bond log to deposits in the bond account, numerous cash bonds were not deposited and were apparently stolen, as discussed earlier in this report. Numerous bonds posted in the log had incomplete data, did not agree to the actual bond form, or could not be traced to a deposit in the bond account. In addition, voided bond forms were not properly accounted for and retained.

To improve accountability over bonds received by the court and to help in the preparation of the bond open items list, all bonds received should be accurately recorded in the bond log and the bond log should document the date the bond is deposited, and the ultimate disposition of each bond. In addition, the numerical sequence of bond forms should be accounted for and voided bond forms should be recorded on the bond log and all copies of the defaced bonds should be retained. To adequately safeguard receipts and reduce the risk of loss or misuse of funds, an independent reconciliation of bonds collected by the police department to the bonds deposited by the Court Clerk should be performed.

- B. Neither the police department nor the municipal division had adequate procedures to account for the numerical sequence of traffic tickets. The court assigns each sequence of traffic tickets a number and tracks the sequence assigned to each officer. The Incode system is capable of tracking the numerical sequence of tickets entered into the system, but this control was disabled when the former clerk failed to enter the entire ticket number into the system when posting them. As a result, the status report prepared by the Incode system indicated all tickets assigned as missing.

Without a proper accounting of the numerical sequence of traffic tickets, the municipal division cannot be assured that all tickets are properly submitted to the court for processing.

WE RECOMMEND the city of Smithville Municipal Division:

- A. Accurately post all bonds received, as well as the ultimate disposition of each bond, to the court's bond log and account for the numerical sequence of all bond forms issued. Voided bond forms should be recorded on the bond log and all copies of the defaced bonds should be retained. In addition, an independent reconciliation of bonds collected by the police department to the bonds deposited by the Court Clerk should be performed.
- B. Work with the police department to ensure the numerical sequence of all traffic tickets issued can be accounted for properly.

AUDITEE'S RESPONSE

The Municipal Judge and Court Clerk responded:

- A. *We agree. A new form for bond posting has been implemented that requires a police officers' signature. Bond tracking will be much more efficient with the implementation of the new court accounting software.*
- B. *This recommendation has been implemented by establishing a review of traffic ticket sequences with the police department.*

HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

SEVENTH JUDICIAL CIRCUIT
 CITY OF SMITHVILLE, MISSOURI
 MUNICIPAL DIVISION
 HISTORY, ORGANIZATION, AND
 STATISTICAL INFORMATION

The city of Smithville Municipal Division is within the Seventh Judicial Circuit, which consists of Clay County. The Honorable Michael J. Maloney 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 (VB) in which fines and costs are collected at times other than during court and transmitted to the city treasury.

Operating Costs

The operating costs and court salaries of the municipal division are paid by the municipality.

Personnel

Municipal Judge	J. Michael Murphy
Court Clerk	Jeanette Chastain *
City Clerk	Judy Clough
City Administrator	Gerry A. Vernon

* Hired in March 2007 to replace Donna Hamilton, who served as Court Clerk from May 2006 to February 2007. Jeanette Chastain also served as Court Clerk prior to April 2006.

Financial and Caseload Information

	<u>Year Ended October 31,</u>	<u>Period Ended April 30,</u>
	<u>2006</u>	<u>2007</u>
Receipts	\$354,652	\$130,794
Number of cases filed	4,178	1,339