



Susan Montee, CPA
Missouri State Auditor

Thirty Eighth Judicial Circuit

City of Ozark Municipal Division

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Office of
Missouri State Auditor
Susan Montee, CPA

November 2008

An audit was conducted by our office of the Thirty-Eighth Judicial Circuit, city of Ozark, Missouri Municipal Division.

Accounting duties are not adequately segregated, and the work performed by the Court Clerk is not adequately reviewed. In addition, there is no independent reconciliation of the composition of recorded receipts to the composition of amounts transmitted to the City Treasurer, manual receipt slips do not always indicate the method of payment, and documentation is not obtained from the city upon the transmittal of monies for deposit. Also, some payments received by the court are not recorded and transmitted timely.

The municipal division does not prepare and reconcile monthly listings of open bonds to cash balances or adequately follow up on old bonds. Old outstanding checks are not properly followed-up and resolved, and insufficient fund check procedures are in need of improvement. Additionally, some court fees and interest have not been disbursed from the court's general bank account, and a monthly listing of open items is not prepared and reconciled with the balance in this account. Also, better documentation is needed to support amended charges, approval of court dockets, and fine reductions for time served.

Neither the police department nor the municipal division accounts for the numerical sequence and ultimate disposition of traffic tickets issued. In addition, the city does not account for the numerical sequence and ultimate disposition of summonses issued for municipal code violations.

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YELLOW SHEET

THIRTY EIGHTH JUDICIAL CIRCUIT
CITY OF OZARK
MUNICIPAL DIVISION

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STATE AUDITOR'S REPORT



SUSAN MONTEE, CPA
Missouri State Auditor

Presiding Judge
Thirty-Eighth Judicial Circuit
and
Municipal Judge
Ozark, Missouri

We have audited certain operations of the city of Ozark Municipal Division of the Thirty-Eighth Judicial Circuit. The scope of our audit included, but was not necessarily limited to, the year ended December 31, 2007. The objectives of our audit were to:

1. Determine if the municipal division has adequate internal controls over significant financial functions such as receipts.
2. Determine if the municipal division has complied 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 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 our audit of the division.

The accompanying Management Advisory Report presents our findings arising from our audit of the city of Ozark Municipal Division of the Thirty-Eighth Judicial Circuit.

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



Susan Montee, CPA
State Auditor

The following auditors participated in the preparation of this report:

Director of Audits:	Alice M. Fast, CPA
Audit Manager:	Donna Christian, CPA, CGFM
In-Charge Auditor:	Ted Fugitt, CPA
Audit Staff:	Michelle Crawford

MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

THIRTY-EIGHTH JUDICIAL CIRCUIT
CITY OF OZARK
MUNICIPAL DIVISION
MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

1. Segregation of Duties and Receipt Procedures
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Accounting duties are not adequately segregated, and the work performed by the Court Clerk is not adequately reviewed. There is no independent reconciliation of the composition of recorded receipts to the composition of amounts transmitted to the City Treasurer, manual receipt slips do not always indicate the method of payment, and documentation is not obtained from the city upon the transmittal of monies for deposit. Some payments received by the court are not recorded and transmitted timely.

- A. Accounting duties are not adequately segregated and there is no independent comparison of the composition of receipt slips to the composition of monies transmitted to the City Treasurer. The Court Clerk and her assistants perform duties related to collecting and recording fines, court costs, and bonds. The Court Clerk prepares the deposit slips and transmits the monies and the deposit slip to the City Treasurer to be deposited into one of the court's bank accounts (general and bond). Although the City Treasurer's office reconciles the court's two bank accounts, no one independent of the Court Clerk compares the composition recorded on receipt slips to the composition of amounts transmitted to the City Treasurer for deposit.

To adequately safeguard against possible loss or misuse of funds, internal controls should provide reasonable assurance that the duties of receiving, recording, transmitting and reconciling court receipts are adequately segregated. At a minimum, the Municipal Judge or other personnel independent of the cash custody and record-keeping functions should periodically compare the composition of the receipt slips to the composition of the amounts transmitted to the City Treasurer.

- B. Some manual receipt slips issued by the court do not indicate the method of payment (cash, check, or money order). The municipal division issues manual receipt slips to individuals who pay fines and costs in person. Information from the manual receipt slips is subsequently recorded in the municipal division's computer system along with receipts received through the mail. To ensure the composition of all receipts can be reconciled to the composition of amounts transmitted to the City Treasurer for deposit, the method of payment should be recorded on all receipt slips.
- C. Documentation, such as a receipt slip, is not obtained from the City Treasurer when the municipal division transmits monies for deposit. To adequately

document the transfer of monies from the Court Clerk to the City Treasurer, documentation, such as a receipt slip, should be obtained which records the cash/check composition of the transmittal.

- D. Some money is not recorded or transmitted to the City Treasurer timely. For example, fines and court costs received from the defendant before the related traffic ticket is received from the city prosecutor are not recorded by the Court Clerk and transmitted to the City Treasurer until the ticket is received. Further, the Court Clerk does not record or transmit partial payments made by defendants if the initial payment is less than the amount of court costs owed (typically \$24.50). According to the Court Clerk, since the computer system applies the first payment received on a case to court costs, she is unable to post an initial payment to the computer system that is less than the court costs owed. As a result, some partial payments are held, and not recorded until another payment is received to fully cover court costs.

To adequately safeguard receipts and reduce the risk of loss or misuse of funds, all monies should be recorded immediately upon receipt, and amounts should be transmitted to the City Treasurer timely. If the municipal division's computer system does not provide for these funds to be recorded, the municipal division should develop procedures to track these funds.

WE RECOMMEND the city of Ozark Municipal Division:

- A. Adequately segregate the duties of receiving, recording, transmitting, and reconciling court receipts, or if such segregation is not possible, ensure a documented periodic review of the reconciliation of the composition of recorded receipts to the composition of deposits by an independent person is established.
- B. Ensure the method of payment is documented on all receipt slips.
- C. Obtain documentation to support the transmittal of monies to the city for deposit which includes the cash/check composition of the transmittal.
- D. Record monies immediately upon receipt and transmit receipts to the city timely. Additionally, the municipal division should develop procedures to track monies received before the related traffic ticket is received and partial payment monies that are less than the court costs charged in the case.

AUDITEE'S RESPONSE

The Municipal Judge and Court Clerk provided the following responses:

A&C. Internal controls throughout the city (including the municipal court) have been in the process of development due to the recommendations of our independent auditors. The municipal court has implemented an internal control process requiring the segregation of

duties so that an Assistant Clerk will prepare the appropriate deposits that will then be reviewed by the Court Clerk and transmitted to the Treasurer. A receipt form will accompany any deposit transmitted to the Treasurer identifying the composition of the deposit. Alternatively, in accordance with city internal control policies, the Court Clerk may deposit directly to the city's bank. In addition, the Municipal Judge has scheduled one day per month to review all financial and procedural reports to better provide for independent reconciliation of all court procedures.

- B. The Court Clerk has reviewed the manual receipt books and the appropriate personnel have been reminded that when a manual receipt is issued, that the appropriate method of payment is to be annotated. The computerized receipts have the appropriate annotation as to the composition of payment and computerized receipts will be utilized as the primary source of recording receipts.*

- D. This particular comment identifies a particularly complicated problem, however, only in a very small percentage of cases. Police Officers provide a prospective defendant with an envelope with which to pay to the traffic violations bureau certain fines that can be paid without an appearance in court. In a small number of cases, a defendant will appear in the clerk's office with payment prior to receipt of the citation. It has been and will continue to be our policy that this defendant will be directed to return at such time as the citation is processed. In the infrequent event that a payment is received before a citation is processed, then the Clerk has been instructed to continue her practice of segregating the payment in safekeeping and associating it with the ticket when the ticket is received from the Police Department. The Clerk has contacted our computer software provider and learned that an initial payment of less than all of the court costs (\$24.50) can be received and will be allocated by the program, on an equal basis, to all of the various cost accounts. However, this allocation will create greater accounting problems than it will solve, particularly if the receipt occurs at or near the end of the month.*

Accordingly, it will continue to be the court's policy that no initial payment of less than the court costs will be received against any fine and court costs. Lastly, the Municipal Judge has requested that the Police Department speed up the citation processing and provide them to the Prosecutor in smaller batches in order to minimize the number of receipts for unprocessed citations.

2.

Court Records and Procedures

The municipal division does not prepare and reconcile monthly listings of open bonds to cash balances or adequately follow up on old bonds. Old outstanding checks are not properly followed-up and resolved, and insufficient fund (NSF) check procedures are in need of improvement. Additionally, a monthly listing of open items is not prepared and reconciled with the general account balance, and some court fees and interest have not been disbursed from this account. Better documentation is needed to support amended charges, approval of court dockets, and fine reductions for time served. Also, passwords and/or user IDs are not kept confidential or changed periodically.

- A. A monthly listing of bond open items (liabilities) is not prepared and reconciled to the balance in the bond account. Further, the municipal division does not adequately follow up on old bonds.
- We requested the Court Clerk prepare an open items listing for May 31, 2008. The reconciled bank balance was \$13,040 and the open items list totaled \$13,194, resulting in a shortage of \$154. A complete and accurate bond open items listing should be prepared monthly and reconciled to the cash balance to ensure records are in balance and sufficient funds are available for the payment of all liabilities. Such reconciliations would allow for prompt detection of errors. The unidentified shortage of \$154 should be investigated and appropriate action taken.
 - At May 31, 2008, thirty bonds over one year old, totaling \$4,509, remained in the court's bond account. An attempt should be made to determine the proper disposition of these bonds. If the defendant failed to make the required court appearance, the court should determine if the bond should be forfeited and monies paid over to the city treasury as provided in Section 479.210, RSMo. If the bond is to be refunded but the payee cannot be located, Section 447.595, RSMo, requires bonds remaining unclaimed for one year after disposition of the case be turned over to the state's Unclaimed Property Section.
- B. Procedures have not been established to resolve old outstanding checks. According to the December 31, 2007, bank reconciliation prepared by the City Treasurer, seven checks totaling \$187 have been outstanding for over a year for the bond account, with some of these checks dating back to 2005.
- Old outstanding checks create an additional and unnecessary record keeping burden. An attempt should be made to locate the payees of the old outstanding checks, and the checks should be reissued, if possible. If a payee cannot be located, various statutory provisions provide for the disposition of unclaimed monies. In addition, routine procedures should be established to investigate checks outstanding for a considerable period of time.
- C. The court does not have adequate procedures in place to ensure NSF checks are collected, adjustments are made to the distribution of fines and court costs, and NSF checks are added back to the defendant's computerized case files to reflect an amount still owed.
- When notices of NSF checks are received from the bank, adjustments are not made to the court's computer system to indicate that the defendant's check was returned and a payment is still due from the defendant. Restitution for NSF checks may not be received until several months after the receipt was initially collected and in some instances, restitution may never be received. To ensure

amounts due from defendants are properly tracked in the court's computer system, the amount of the NSF check should be added back to the defendant's computerized case file to reflect the amount owed.

- Adjustments are not made to deduct NSF check amounts from monthly disbursements of fines and costs to the city and state, and as of June 2008, court records showed \$979 of NSF checks for which payment has not been received. The municipal division has had sufficient funds in its account to cover the disbursement of NSF check amounts because of the account balance discussed in part D below.

To properly account for NSF checks received by the court, the Court Clerk should reduce future distributions to the city or state for the amount of NSF checks remaining uncollected.

- The court does not have a consistent policy for the collection of NSF checks and warrants have not been issued for defendants whose NSF checks remain uncollected. The court should establish a consistent policy for the collection of NSF checks, including issuance of warrants for individuals who fail to make restitution within a specified time.

- D. A monthly listing of open items is not prepared and reconciled with the general account cash balance. The general account had an unidentified balance of \$3,848 at December 31, 2007, after December fines and costs were deducted.

At our request the City Treasurer's office reviewed the general account balance and determined that \$1,246 in Court Automation Fund (CAF) fees collected between January and May 2005 were still in the account. According to court personnel, the court mistakenly assessed this fee and stopped collecting it, but did not disburse the collections. Further, interest earned on the court's general account totaling \$3,934 from January 2005 to December 31, 2007, had not been disbursed to the city.

According to the City Treasurer, the CAF fees (\$1,246) plus interest (\$3,934) less NSF checks discussed in part C above and other deductions (\$1,332) represent the unidentified balance in the general account.

A complete and accurate open items listing should be prepared monthly and reconciled to the cash balance to ensure records are in balance and sufficient funds are available for the payment of all liabilities. Such reconciliations would allow for prompt detection of errors. Section 488.027, RSMo, requires all monies collected for the CAF to be remitted to the state Director of Revenue and accumulated interest should be periodically turned over to the City Treasurer for deposit in the city's general account.

- E. The City Prosecutor does not always sign the amendment of charges on the ticket to indicate he reviewed and amended the charge. In addition, the Municipal Judge's authorization of the fine amount on amended tickets was not documented nor did he always sign the court dockets after case dispositions had been recorded. Further, the court sometimes posts non-cash transactions to its accounting system to reduce individual fines based on credit for jail time served; however, adequate documentation that the judge authorized the credit for time served against fines was not always in the case files.

To ensure the proper disposition of all cases has been entered in the court records, the Prosecuting Attorney should sign or initial all amended tickets indicating his approval, and the amount of fines on amended tickets should be authorized and documented by the Municipal Judge. In addition, all court dockets should be signed by the Municipal Judge, and the Municipal Judge's authorization to reduce fines by a credit for time served should be adequately documented.

- F. Passwords and/or user IDs which restrict employee access to the court's computer accounting system are not kept confidential or changed periodically. The Court Clerk issues and approves the user IDs and passwords of the assistant court clerks. Passwords should be kept confidential and changed periodically to prevent unauthorized access to the accounting system.

WE RECOMMEND the city of Ozark Municipal Division:

- A. Prepare monthly listings of bond open items and reconcile the listing with the balance in the bond account. Additionally, the Municipal Division should determine the cause of the \$154 shortage in the bond account, and implement adequate procedures to follow up on old outstanding bonds and dispose of them in accordance with state law.
- B. Work with the city to establish routine procedures to investigate any checks that have been outstanding for a considerable period of time.
- C. Work with the city to establish procedures to properly account for all uncollected NSF checks. Such checks should be added back to the individual's case file and adjusted from future distributions, as applicable. Further, the Municipal Division should ensure that accounting records accurately document the status of cases involving bad checks and establish a consistent policy for the collection of NSF checks which includes issuance of warrants for individuals who fail to make restitution within a specified time.
- D. Prepare a monthly listing of open items and reconcile the listing with the balance in the general account, turn all CAF fees over to the state, and disburse accumulated interest to the City Treasurer.

- E. Require the Prosecuting Attorney's signature on all amended tickets and ensure the Municipal Judge's authorization of fines on amended tickets is documented. Also, all court dockets should be signed by the Municipal Judge and authorization to reduce fines by a credit for time served should be adequately documented.
- F. Ensure passwords are kept confidential and changed periodically.

AUDITEE'S RESPONSE

The Municipal Judge and Court Clerk provided the following responses:

- A. *This error occurred during the transition from the manual system to the computerized court accounting system. Since May 2006, there have been no similar errors in bond accounting. The computer does produce an "Open Bond" report and that report will be reviewed by the Judge on a monthly basis. The Judge has committed to reviewing the "Open Bond" report and making a prompt determination as to the disposition of the open bonds to include forfeitures when appropriate. No bonds have, or will be held after the final disposition of a case.*
- B. *The Clerk has been directed to review with the Treasurer any outstanding checks from the bond account. The Clerk will then make a reasonable effort to contact the payee of the check and, if there is no response, then the statutory provisions relating to unclaimed monies will be followed.*
- C. *The Clerk has been in contact with our software provider and an update in the system is available and will be installed shortly that will allow for the reversal of payments when an NSF check is received. In addition, the Prosecuting Attorney has been directed to address NSF checks with appropriate "Ten Day" letters or additional charges on a more prompt basis. Finally, the Judge will review all NSF checks, on at least a monthly basis, and will take appropriate actions regarding warrants and suspension notices for the non-payment of fines depending upon the previous action of the Prosecuting Attorney.*
- D. *The City Treasurer will prepare the appropriate "Open Balance" report on the General Revenue Fund Account on a monthly basis for review by the Judge. The CAF balance will be paid to the Director of Revenue in accordance with appropriate statutes. Interest payments (less a \$500.00 "reserve" for prospective insufficient funds checks) will be transferred immediately to the City General Revenue Fund and will be transferred at least semi-annually in the future.*
- E. *The City Prosecutor has been directed to "sign" (or otherwise annotate by initials) all amended charges and other recommendations. The Judge will annotate all final dispositions (or changes in that disposition) either on the Court file or upon the final Court Docket.*

- F. *The Clerk has been directed to change (and direct Assistant Clerks to change) their respective user IDs and passwords on a semi-annual basis and that Assistant Clerks will maintain their passwords on a confidential basis.*

3. Ticket Accountability

Neither the police department nor the municipal division accounts for the numerical sequence and ultimate disposition of traffic tickets issued. While the police department maintains a log of ticket books assigned to officers and has a spreadsheet containing ticket information, they are not used to track numerical sequence.

Additionally, summonses are issued by city code enforcement officers for municipal code violations; however, the city does not account for their numerical sequence and ultimate disposition.

Without a proper accounting for the numerical sequence and ultimate disposition of tickets and summonses issued the court, police department, and city cannot be assured all tickets and summonses issued were properly submitted for processing.

WE RECOMMEND the city of Ozark Municipal Division work with the police department and city to ensure the numerical sequence and ultimate disposition of all tickets and summonses issued are accounted for properly.

AUDITEE'S RESPONSE

The Municipal Judge and Court Clerk provided the following response:

The Municipal Court has initiated discussions with the police department and code enforcement. The police department has identified a minor programming deficiency and will address that issue. Code enforcement will account, sequentially, for all uniform citation books and accurately record the disposition for all citations issued. The Municipal Court has and will continue to maintain records of citations received and of all final dispositions of citations received.

HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

THIRTY-EIGHTH JUDICIAL CIRCUIT
CITY OF OZARK
MUNICIPAL DIVISION
HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

The city of Ozark Municipal Division is in the Thirty-Eighth Judicial Circuit, which consists of Christian and Taney Counties. The Honorable Mark Orr 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

At December 31, 2007, the municipal division employees were as follows:

Municipal Judge	Kenneth W. Johnson
Court Clerk	Iciminda Snook

Financial and Caseload Information

	Year Ended <u>December 31, 2007</u>
Receipts	\$384,098
Number of cases filed	3,317