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Missouri State Auditor

Sixteenth Judicial Circuit

City of Lone Jack Municipal Division

November 2012
Report No. 2012-142



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Thomas A. Schweich
Missouri State Auditor

CITIZENS SUMMARY

Findings in the audit of the Sixteenth Judicial Circuit, City of Lone Jack Municipal Division

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| Monitoring of Excess Revenues | Section 302.341.2, RSMo, requires municipalities deriving more than 35 percent of their annual general operating revenues from fines and court costs for traffic violations occurring on a state or federal highway to turn the excess over to the Department of Revenue (DOR) to be distributed to schools of the county. The municipal division tracks the amount of relevant fines and court costs collected, but the city improperly included various restricted revenues in its annual excess revenue calculation and owes at least an additional \$119,353 to the DOR for the 3 years ended June 30, 2012. The amount due should be recalculated after completion of the ongoing financial statement audit. In addition, the city did not perform annual excess revenue calculations or make payments of excess revenues to the DOR timely. |
| Ticket Disposition | The Prosecuting Attorney does not sign tickets submitted to the municipal division. Instead, he allows the Court Administrator to maintain his signature stamp and stamp his signature on the tickets, making it more difficult to ensure proper handling of tickets and related monies. |
| Liabilities | The municipal division does not prepare a list of liabilities and compare it to the reconciled bank balance. Audit staff identified liabilities totaling \$16,402, but the reconciled bank balance was \$16,720, and the Court Administrator could not account for the \$318 discrepancy. |

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

| | |
|---|---|
| American Recovery and Reinvestment Act (Federal Stimulus) | The Sixteenth Judicial Circuit, City of Lone Jack Municipal Division, did not receive any federal stimulus monies during the audited time period. |
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*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.

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Sixteenth Judicial Circuit

City of Lone Jack Municipal Division

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THOMAS A. SCHWEICH

Missouri State Auditor

Presiding Judge
Sixteenth Judicial Circuit
and
Municipal Judge
and
Honorable Mayor
and
Members of the Board of Aldermen
City of Lone Jack, Missouri

We have audited certain operations of the City of Lone Jack Municipal Division of the Sixteenth Judicial Circuit in fulfillment of our duties under Chapter 29, RSMo. The scope of our audit included, but was not necessarily limited to, the year ended June 30, 2012. 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.
3. Evaluate the city's compliance with Section 302.341.2, RSMo, which restricts the amount of fines and court costs that may be retained by municipalities from traffic violations occurring on state and federal highways.

Our methodology included reviewing written policies and procedures, financial records, and other pertinent documents; interviewing various personnel of the municipal division and the city, 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, (2) noncompliance with legal provisions, and (3) noncompliance with Section 302.341.2, RSMo. The accompanying Management Advisory Report presents our findings arising from our audit of the City of Lone Jack Municipal Division of the Sixteenth Judicial Circuit.

A handwritten signature in black ink that reads "Thomas A. Schweich". The signature is written in a cursive style with a large, sweeping initial 'T'.

Thomas A. Schweich
State Auditor

The following auditors participated in the preparation of this report:

| | |
|-----------------------|----------------------------|
| Deputy State Auditor: | Harry J. Otto, CPA |
| Director of Audits: | Regina Pruitt, CPA |
| Audit Manager: | Susan J. Beeler, CPA, CIA |
| In-Charge Auditor: | Julie A. Moulden, MBA, CPA |

Sixteenth Judicial Circuit

City of Lone Jack Municipal Division

Management Advisory Report - State Auditor's Findings

1. Monitoring of Excess Revenues

While the city calculated excess revenues due the Missouri Department of Revenue (DOR) for the 3 years ended June 30, 2012, the city included restricted revenues, which are not general operating revenues, in its excess revenue calculation. In addition, the city has not remitted excess revenues to the DOR in a timely manner. Based on the calculation below, at least an additional \$119,353 is due the DOR for the 3 years ended June 30, 2012.

Section 302.341.2, RSMo, requires municipalities deriving more than 35 percent of their annual general operating revenue from fines and court costs for traffic violations occurring on a state or federal highway to turn the excess over to the DOR, to be distributed to schools of the county. According to 12 CSR 10-44.100, payment should be made by the last day of the second month immediately following the end of the fiscal year.

The municipal division tracks the amount of fines and court costs collected on tickets issued on state and federal highways in a case tracking system. Based on the 2012 data in the system, \$282,133 was collected on state and federal highways for traffic violations. The city's unaudited budget-to-actual report for fiscal year ended June 30, 2012, indicates the city's 2012 general revenues totaled \$903,449. The city calculated 35 percent of these revenues as \$316,207. Based on this calculation, the city determined it did not have excess revenues from fines and court costs for fiscal year 2012. Similar calculations were made for prior fiscal years and the city determined excess revenues totaled \$107 for fiscal year 2011 and \$19,205 for fiscal year 2010.

However, the revenues the city included in the excess revenue calculations include various restricted revenues, which are not general operating revenues of the city. This includes revenues from various local sales taxes, which are required to be used for street maintenance, city hall construction and improvement, and development of a sewer system; state motor vehicle sales taxes restricted for street-related purposes (including policing, signing, and lighting of streets); court fees restricted for law enforcement and judicial training purposes; etc. Since these are not general operating revenues of the city, they should be excluded from the general operating revenues used in the calculation of excess revenues due the DOR.

The following table, using the city's excess revenue calculations and budget-to-actual reports, indicates the additional amounts to be remitted to the DOR for excess revenues for fiscal years ended June 30, 2012, 2011, and 2010, after excluding restricted revenues:



Sixteenth Judicial Circuit
 City of Lone Jack Municipal Division
 Management Advisory Report - State Auditor's Findings

| | Year Ended June 30, | | |
|---|---------------------|------------------|------------------|
| | 2012 (1) | 2011 | 2010 |
| City Calculated General Operating Revenues | \$ 903,449 | 951,531 | 799,354 |
| Less Restricted Revenues: (2) | | | |
| Capital improvement sales tax | (28,679) | (29,015) | (22,688) |
| Park sales tax | (27,655) | (29,015) | (22,688) |
| Local sales tax | (80,772) | (64,318) | (33,976) |
| Court training fees | (2,612) | (5,883) | (6,452) |
| County urban road system refunds | (1,797) | (31,463) | 0 |
| State motor vehicle sales tax | (12,923) | (18,628) | (19,800) |
| General Operating Revenues (Less Restricted Revenues) | <u>749,011</u> | <u>773,209</u> | <u>693,750</u> |
| 35 Percent of General Operating Revenues | <u>262,154</u> | <u>270,623</u> | <u>242,813</u> |
| Fines and Court Costs From Traffic Violations on State and Federal Highways (3) | <u>(282,133)</u> | <u>(333,143)</u> | <u>(298,979)</u> |
| Excess Revenues | <u>(19,979)</u> | <u>(62,520)</u> | <u>(56,166)</u> |
| Amount Remitted to the DOR | <u>0</u> | <u>107</u> | <u>19,205</u> |
| Remaining Amount Due the DOR | <u>\$ 19,979</u> | <u>62,413</u> | <u>36,961</u> |

- (1) The city is currently undergoing a financial statement audit for the fiscal year ended June 30, 2012.
- (2) There may be other restricted revenues (such as park donations, street light revenues, and grant revenues) that should be excluded from general operating revenues, in which case amounts due the DOR would increase.
- (3) For the fiscal year ended June 30, 2010, the amount (taken from the city's calculation) only included September 2009 through June 2010 amounts due to Section 302.341.2, RSMo, changes, effective August 28, 2009, requiring both fines and court costs from traffic violations be included in the calculation, from previously requiring only fines from traffic violations be included. If July and August 2009 fines were included, the amount due the DOR would increase.

Because audited financial statements may result in different amounts than those reflected on the budget-to-actual report used in the above calculation, the city should recalculate 2012 excess revenues using audited revenue amounts. In addition, the fiscal year 2010 excess revenues should be recalculated to ensure all applicable amounts are included in the calculation.

The \$19,205 payment made to the DOR for excess revenues for the fiscal year ended June 30, 2010, was not made until December 2010. In addition,



because the new City Clerk hired in August 2011 was not aware of Section 302.341.2, RSMo, the excess revenues for the fiscal year ended June 30, 2011, were not calculated until we brought it to his attention in May 2012. Subsequently, a \$107 payment for excess revenues was made to the DOR in June 2012 for the fiscal year ended June 30, 2011.

Recommendation

The Board of Aldermen ensure annual excess revenue calculations are performed timely, only general operating revenues are included in the calculation, and payments of excess revenues are made timely. In addition, the Board of Aldermen should recalculate excess revenues for fiscal years 2010 through 2012 and make appropriate payments to the DOR for any additional excess revenues.

Auditee's Response

The Board of Aldermen provided the following written response:

Section 302.341, RSMo is vague and subject to differing interpretations. The City's position is that "annual general operating revenue" includes funds which, while earmarked for certain purposes, are nonetheless used for general governmental purposes. The City will timely make its determination of excess revenues, if any.

Auditor's Comment

Revenues restricted by law for specific purposes cannot be used for general operating purposes and should not be included in the excess revenue calculation.

2. Ticket Disposition

The city Prosecuting Attorney does not sign tickets submitted to the municipal division, but rather allows the Court Administrator to maintain his signature stamp and stamp his signature on the tickets. Without formal approval by the Prosecuting Attorney of all tickets processed, the risk of improper handling of tickets and related monies increases.

Missouri Supreme Court Rule 37.35 states citations shall be in writing and signed by the prosecutor and filed with the court. The Prosecuting Attorney's review, documented with his signature, is needed to provide assurance proper cases and charges are filed with the municipal division.

Recommendation

The City of Lone Jack Municipal Division ensure the Prosecuting Attorney signs all tickets.

Auditee's Response

The Municipal Division provided the following written response:

All charges filed with the court will be stamped or signed by the Prosecutor himself.



3. Liabilities

A list of liabilities is not prepared and compared to the reconciled bank balance. As a result, the Court Administrator is unable to agree the reconciled bank balance to related liabilities.

We identified liabilities totaling \$16,402 in the case tracking system at June 30, 2012. However, the reconciled bank balance of \$16,720 exceeded the identified liabilities by \$318 and the Court Administrator was unable to determine the reason for this discrepancy.

A monthly list of liabilities should be prepared and reconciled to the reconciled bank balance to ensure bank activity and accounting records are in agreement, and to detect and correct errors timely.

Recommendation

The City of Lone Jack Municipal Division prepare monthly lists of liabilities and reconcile the lists to the reconciled bank balances. Unidentified differences should be investigated and resolved in accordance with state law.

Auditee's Response

The Municipal Division provided the following written response:

The discrepancy amount identified by the Auditor, namely \$318.00, is a bank account balance in excess of the amount calculated by our case management system, INCODE. This amount may be a bank account excess going back a number of years. We are continuing to analyze our banking, financial and case management data to determine whether an adjusting entry is needed. A monthly distribution report will be prepared and reconciled to the bank balance to ensure bank activity and accounting records are in agreement. We will seek guidance and assistance from the Auditor's staff to correct this issue, if necessary.

Sixteenth Judicial Circuit

City of Lone Jack Municipal Division

Organization and Statistical Information

The City of Lone Jack Municipal Division is in the Sixteenth Judicial Circuit, which consists of Jackson County. The Honorable Charles Atwell 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 June 30, 2012, the municipal division employees were as follows:

| Title | Name |
|---------------------|----------------|
| Municipal Judge | J. Brand Eskew |
| Court Administrator | Donna Furr |

Financial and Caseload Information

| | Year Ended June 30, 2012 |
|-----------------------|-----------------------------|
| Receipts | \$373,356 |
| Number of cases filed | 2,578 |

American Recovery and Reinvestment Act 2009 (Federal Stimulus)

The City of Lone Jack Municipal Division, did not receive any federal stimulus monies during the year ended June 30, 2012.