

**OFFICES OF THE
STATE AUDITOR OF MISSOURI
JEFFERSON CITY**

OFFICE OF THE LICENSE COLLECTOR
CITY OF ST. LOUIS, MISSOURI
YEAR ENDED APRIL 30, 1987

MARGARET KELLY, CPA



Report No. 89-14
March 23, 1989

OFFICE OF THE LICENSE COLLECTOR
CITY OF ST. LOUIS, MISSOURI

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STATE AUDITOR OF MISSOURI

JEFFERSON CITY, MISSOURI 65102

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STATE AUDITOR

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Billie A. Boykins
License Collector
City of St. Louis, Missouri 63103

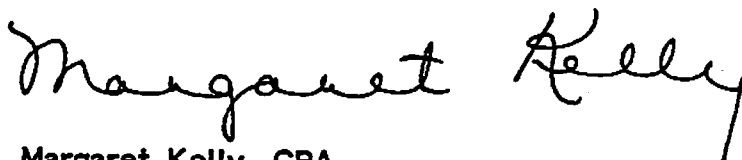
The State Auditor was petitioned under Section 29.230, RSMo 1986, to perform an audit of the city of St. Louis, Missouri. Accordingly, we have conducted an audit of the Office of License Collector, city of St. Louis, for the year ended April 30, 1987. The purposes of our examination were to:

1. Study and evaluate the License Collector's system of internal controls.
2. Perform a limited review of certain management practices to determine the efficiency and effectiveness of those practices.
3. Review probable compliance with certain constitutional provisions, statutes, administrative rules, attorney general's opinions, and city ordinances as we deemed necessary or appropriate.
4. Perform a limited review of the integrity and completeness of the License Collector's financial reporting system.
5. Perform procedures deemed necessary to evaluate petitioner concerns.

Our examination was made in accordance with generally accepted government auditing standards and included such procedures as we considered necessary in the circumstances. In this regard, we reviewed the License Collector's financial records, payroll procedures and documents, expenditures, contractual agreements, and other pertinent procedures and documents; interviewed personnel of the Office of License Collector; and compiled the information in the appendices from the records and reports of the License Collector. The data presented in the appendices were obtained from the city's accounting system. However, they were not verified by us via additional audit procedures and, therefore, we express no opinion on them.

The accompanying History and Organization is presented for informational purposes. The background information was obtained from office management and was not subject to the audit procedures applied by us in our examination.

Our comments on management practices and related areas are presented in the accompanying Management Advisory Report.

A handwritten signature in cursive script that reads "Margaret Kelly". The signature is written in dark ink and is positioned above the printed name and title.

Margaret Kelly, CPA
State Auditor

November 15, 1987

HISTORY AND ORGANIZATION

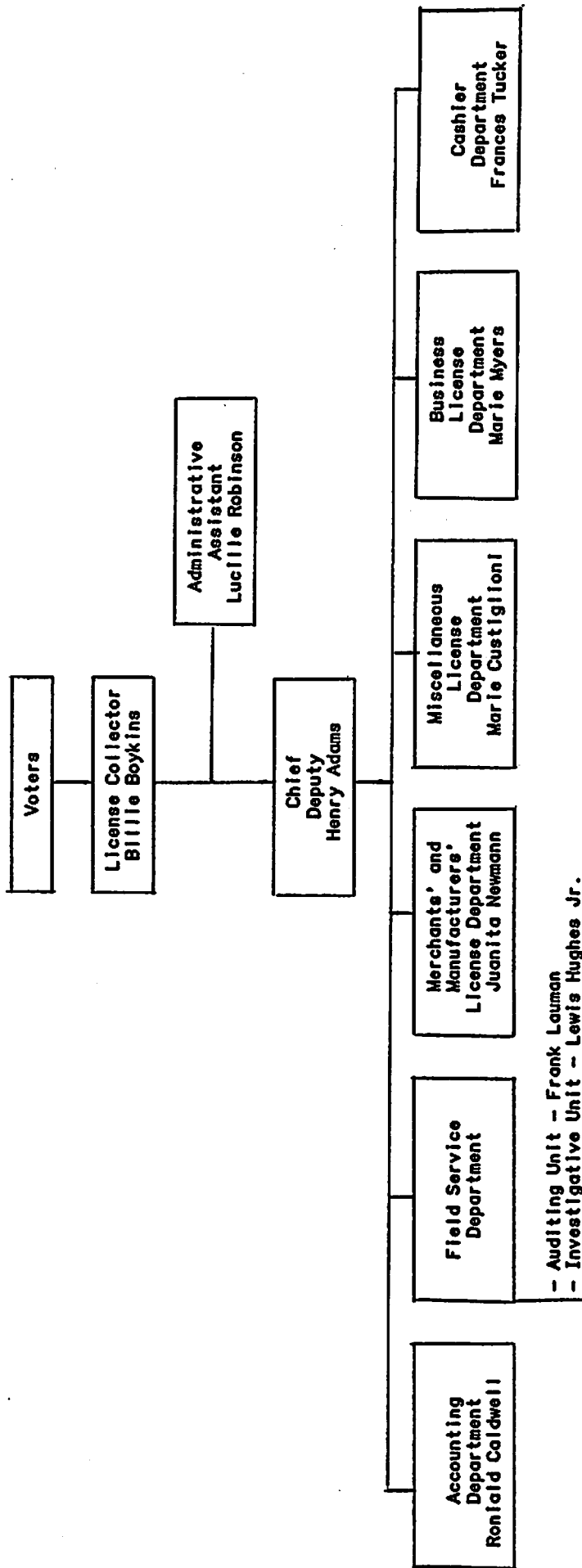
OFFICE OF THE LICENSE COLLECTOR
CITY OF ST. LOUIS, MISSOURI
HISTORY AND ORGANIZATION

The Office of License Collector is an elective office responsible for collecting the gross receipts tax assessed against merchants and manufacturers and various licensing fees from businesses within the city of St. Louis, in accordance with Missouri statutes and city codes and ordinances.

Billie A. Boykins currently serves as the License Collector for the city of St. Louis. She has served in that capacity since her initial election in January 1983. Administrative office functions are supervised by the License Collector's appointed chief deputy. The office is comprised of six departments: accounting, field service, merchants' and manufacturers' license, miscellaneous license, business license, and cashier.

At April 30, 1987, the License Collector employed approximately fifty-eight full-time employees.

OFFICE OF THE LICENSE COLLECTOR
CITY OF ST. LOUIS, MISSOURI
ORGANIZATION CHART
APRIL 30, 1987



EXECUTIVE SUMMARY

**OFFICE OF THE LICENSE COLLECTOR
CITY OF ST. LOUIS, MISSOURI
EXECUTIVE SUMMARY**

The office of the License Collector has numerous, significant problems.

During the period of our review, the office:

- . Failed to collect approximately \$6 million in license revenues.
- . Realized losses of approximately \$351,000 on the \$3,700,000 illegally invested in high risk mutual funds.
- . Paid salaries that were \$354,250 above the amount authorized by statute.
- . Was unaware of inactive bank accounts that totaled \$304,000 at April 30, 1987.

We also noted:

- . Violations of state statutes and city ordinances.
- . Inefficient management practices.
- . An almost complete lack of internal accounting controls for the approximately \$20 million the office collects annually.
- . Insufficient collateral security for bank balances.

In summary, our review disclosed an extreme lack of effective administrative and accounting controls within the License Collector's office. During the period of our review, the lack of effective controls cost the city and other political subdivisions approximately \$7 million. An effective system of administrative and accounting controls would have significantly reduced the impact of the deficiencies, thereby, minimizing the cost of the errors.

The lack of effective controls also has effects that are not measurable in dollars. Without effective controls the License Collector cannot be assured that all transactions are properly recorded and processed, or that errors will be detected on a timely basis. Neither the best intentions of management, nor extensive audit efforts can replace the assurance derived from a proper system of administrative and accounting controls. Such assurances are necessary for the effective administration of any office; however, they are essential for an office that processes approximately \$20 million in revenues annually.

The fact that the License Collector has not established a system of effective administrative and accounting controls is discussed in the accompanying Management Advisory Report (MAR). There is little that can be done to mitigate the damage this lack of controls has caused. There is, however, much that can be done to lessen the likelihood of these types of deficiencies occurring in the future. By implementing the recommendations contained in our report, the License Collector can begin to establish an effective system of controls. If

these recommendations are ignored, it is likely that these same types of errors and deficiencies will occur again.

MANAGEMENT ADVISORY REPORT

OFFICE OF THE LICENSE COLLECTOR
CITY OF ST. LOUIS, MISSOURI
SUMMARY OF FINDINGS

1. Bank Accounts (page 15)

The License Collector was apparently unaware of the existence of four official bank accounts, totaling \$304,000 at April 30, 1987. This condition indicates serious cash control weaknesses and, as a result, significantly enhances the possibility for undetected theft or misuse of funds.

2. Investments (pages 15-18)

The License Collector's decision to illegally invest over \$3,700,000 in unsecured mutual funds resulted in a \$351,000 loss.

3. Salary Overpayments (pages 18-19)

License collector employees received compensation totaling \$354,250 in excess of state statute limitations. Computed overpayments covered the period January 1, 1986, through September 28, 1987.

4. Accounting for Cash Balances (pages 19-20)

The License Collector does not maintain by case name and amount an open-items listing documenting monies associated with unapproved business licenses. Consequently, available cash balances totaling \$5,244,715 at May 15, 1987, could not be reconciled to \$3,310,260 in identified existing obligations. The License Collector had no explanation for the \$1,934,455 excess cash balance.

Additionally, partial payments accepted for license fees are commingled with all other cash receipts and separate records are not maintained for accounting purposes. As a result, there is little assurance all receivable amounts are collected prior to license issuance.

5. Billing and Collection Procedures (pages 20-21)

Billing and collection procedures do not ensure complete and timely license fee collection. A review of forty-five applicant files indicated 53 percent of the applications had been approved, bills had been mailed, but payment had not been received. The total dollar value of unpaid license fees associated with the forty-five cases was \$102,711.

6. License Collector's Banking Practices (pages 21-23)

At April 30, 1987, the License Collector did not have a formal written agreement with depository banks, resulting in an inability to evaluate the adequacy or quality of banking services provided.

Deposits in one of the License Collector's bank accounts exceeded the Federal Depository Insurance Corporation coverage amount by

approximately \$1,564,000. Additionally, the collateral securities pledged by depository banks were not held with a disinterested banking institution as statutorily required and, further, the composition of securities pledged did not comply with state statutes.

Instances were also noted where bank correspondence was addressed to prior cashiers. This is a significant weakness since the License Collector's primary depository bank processes all checks written, irrespective of available cash balances.

7. Investigative Section (pages 23-26)

Office investigators are responsible for delivering business license applications, enforcing payment of license fees and taxes, and routinely examining businesses for evidence of proper licensure. Visits to several businesses revealed a significant number operating without a valid business license. These errors prompted an extensive review to determine the amount of uncollected and/or forfeited city revenue associated with unlicensed businesses. Our review indicated the city lost an estimated \$6 million for the 1988 licensing year.

8. Field Audit Section (pages 26-28)

Field auditors are responsible for verifying the accuracy of financial information reported by businesses submitting a license application. Our review revealed audit work is not performed in accordance with a standardized audit program and there is no supervisory review of audit work done. As a result, adjustments made to reported financial information are not adequately documented. These adjustments can have a significant impact on licensure revenues.

9. Distribution of License Revenues (pages 28-29)

The License Collector has not distributed license revenues in accordance with city ordinance provisions and voter approved tax levies. Errors made resulted in the city General Fund not receiving \$103,808 in license revenues. Other errors included the city's Debt Service Fund receiving \$150,864 in excess license revenues.

10. Distributions of Merchants' and Manufacturers' Tax to Political Subdivisions (pages 29-31)

Distributions of merchants' and manufacturers' collections to various state and local taxing authorities are calculated and remitted in an unorganized and unreliable manner. Calculation errors made by the cashier resulted in various taxing authorities not receiving \$19,635 in entitled revenues.

11. Interest Turnover (page 31)

Interest earnings in the amount of \$35,250 have not been remitted to the city.

12. Hotel and Tourism Tax (pages 31-35)

The License Collector has not complied with contractual terms relating to the collection and remittance of a 3 3/4 percent tax imposed on the gross receipts of the city's hotels and motels. Examples of deficiencies noted included the License Collector's overretention of the city's collection fees by \$19,923 and the failure to transfer \$71,129 in interest and commissions to the city's General Fund. Generally, records maintained to document hotel and tourism tax receipts and deposits were found to be incomplete, inaccurate, and unreliable.

13. Amusement Tax (pages 35-36)

Entities associated with amusement and sporting events are required to pay a 5 percent gross receipts amusement tax. For amusement events considered tax exempt (because proceeds are used solely for religious, charitable, or educational purposes), the License Collector does not obtain adequate documentation to support the granting of an exempt status.

14. Cigarette Tax (pages 36-37)

The License Collector's method for collecting and recording cigarette tax revenues provides no assurance that all cigarette tax remittances received from the Missouri Department of Revenue are properly recorded and deposited. In addition, inventories of cigarette tax stamps do not agree to recorded quantities, indicating improper recording of cigarette stamp sales.

15. Payroll and Personnel Controls, Records, and Procedures (pages 37-41)

The License Collector has no formal personnel policy manual; personnel policies are issued on an as needed basis. Also, significant deficiencies were revealed in our review of leave policies.

16. Personnel System (page 41)

The License Collector has failed to develop a personnel system which ensures that qualified individuals are hired.

17. Internal Controls over Cash (pages 42-43)

Prenumbered receipts are not issued for all monies received and deposits of cash receipts are not made intact. Further, an imprest cash balance is not maintained, making it impossible to properly account for all monies received. More significantly, once monies are received into the cashier division, there is no segregation of duties or oversight function to ensure all cash receipts are properly deposited and disbursed.

18. Access to Cash, Negotiable Instruments, and Unissued Licenses (pages 43-45)

The Cashier's Section, which is the depository for all monies received in the License Collector's office, is accessible to all office employees. Additionally, controls over monies prior to being remitted to the cashier

are not adequate: mail receipts are not recorded upon receipt and monies received over the counter are highly accessible to unauthorized personnel, thereby, increasing the risk of theft and/or misuse of funds.

19. Equipment Leasing and Maintenance Agreements (pages 45-46)

The License Collector's decision to purchase \$10,970 of office equipment on a lease-purchase plan resulted in financing charges totaling \$4,228. Further, the License Collector pays approximately \$240 per year for maintenance on six calculators. Only two of the machines could be located and there was no indication of any maintenance service ever being rendered.

20. Employee Bonding (pages 46-48)

Bond premiums are being paid for some employee positions that do not exist. Also, some employees working in the Cashier's Section are not properly bonded, and, in general, current bonding levels of the License Collector and her employees are not adequate.

21. Expenditure Reconciliations (pages 48-49)

The License Collector does not maintain an expenditure control ledger as a means to ensure amounts charged against appropriations are proper.

22. Use of Comptroller's Office Reports (pages 49-50)

Reports generated by the Comptroller's office relating to License Collector activities and transactions are not adequately utilized as a resource tool.

23. Fixed Assets Controls (page 50)

The License Collector has not established an oversight function to ensure adequate physical safeguards have been established and complete annual inventories are conducted.

24. Postage Machine (page 51)

The office's postage machine is accessible to all office personnel.

**OFFICE OF THE LICENSE COLLECTOR
CITY OF ST. LOUIS, MISSOURI
MANAGEMENT ADVISORY REPORT**

As part of our examination of the Office of License Collector, city of St. Louis, for the year ended April 30, 1987, we studied and evaluated the internal accounting control system to the extent needed to evaluate the system as required by generally accepted government auditing standards. For the purpose of this report, we have classified the significant internal accounting controls as cash, payroll, revenues, and expenditures. Our study included each of these control categories. Since the purpose of our study and evaluation was to determine the nature, timing, and extent of our audit procedures, it was more limited than would be needed to express an opinion on the internal accounting control system taken as a whole.

It is management's responsibility to establish and maintain the internal control system. In so doing, management assesses and weighs the expected benefits and related costs of control procedures. The system should provide reasonable, but not absolute, assurance that assets are safeguarded against loss, and that transactions are carried out as authorized by management and are recorded in a manner that will permit the subsequent preparation of reliable and proper financial reports.

Because of the inherent limitations in any internal control system, errors or irregularities may still occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation was made for the limited purpose described in the first paragraph and, thus, might not disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the internal accounting control system of the city taken as a whole. However, our study and evaluation disclosed certain conditions that we believe are material weaknesses and these findings are presented in this report.

We reviewed probable compliance with certain constitutional provisions, statutes, ordinances, and attorney general's opinions as we deemed necessary or appropriate. This review was not intended to provide assurance of full compliance with all regulatory provisions and, thus, did not include all regulatory provisions which may apply. However, our review disclosed certain conditions that may represent noncompliance and these findings are presented in this report.

During our examination, we identified certain management practices which we believe could be improved. Our examination was not designed or intended to be a detailed study of every system, procedure, and transaction. Accordingly, the findings presented in this report should not be considered as all inclusive of areas where improvements may be needed.

The State Auditor was petitioned under Section 29.230, RSMo 1986, to audit the city of St. Louis. We included those procedures necessary in our judgment to evaluate the petitioner concerns and those concerns requiring corrective action are addressed in this report.

The period of examination for the purposes stated above included, but was not limited to the period covered by the financial statements for the year ended April 30, 1987.

1. Bank Accounts

Our review of the License Collector's cash transactions revealed four official bank accounts which the License Collector was apparently unaware existed. At April 30, 1987, the balance of these accounts totaled \$304,000, comprising approximately 9 percent of all License Collector bank balances noted during our examination.

These four accounts had no recent activity. However, bank statements were regularly received on all of the accounts except one. Therefore, the License Collector should have been aware of the accounts. Apparently, the purpose of the accounts was never questioned and the existence of the accounts was never brought to management's attention. The accounts were discussed with the License Collector who stated that the major portion of the funds probably related to disputed license fees collected prior to 1983. Because the License Collector was unsure of the source or proper disposition of the fees, the monies were allowed to remain idle. No attempt has been made to identify the funds for proper disposition.

As a result of the License Collector's failure to monitor all bank accounts and represent an accurate record of all available funds, we could not assure ourselves all official funds had been identified. This condition indicates inadequate cash controls and, as a result, significantly enhances the possibility for undetected theft or misuse of funds.

WE RECOMMEND the License Collector fulfill her official responsibility by properly accounting for all official funds.

AUDITEE'S RESPONSE

The License Collector declined to respond.

2. Investments

From February 1987 to March 1988, the License Collector invested approximately \$3,700,000 in unsecured, mutual funds. Because of inherent market risks and other associated costs, the License Collector lost approximately \$351,000 in city revenues upon redemption of these investments. Our review of the mutual funds and related events is documented below:

A. Government Plus Portfolio

During February 1987, the License Collector received \$2,766,962 in merchants' and manufacturers' taxes paid under protest. Pending settlement of the case, the License Collector was instructed by the Merchants' and Manufacturers' Tax Equalization Board to invest the funds. Overlooking the uncertainty of settlement of the protested tax case, which would strongly indicate that investment liquidity

would be an overriding factor, the License Collector invested the \$2,766,962 in a long-term government securities mutual fund: The Government Plus Portfolio.

- 1) According to the investment prospectus, the Government Plus Portfolio is designed specifically for long-term investors, and is not intended as an investment vehicle for investors seeking either short-term gain or liquidity. The prospectus further states the securities in which the fund invests have historically involved little risk of principal loss only if held to maturity. However, because the investment is dependent upon market risks and fluctuations, there are no guarantees the original investment in the mutual fund will remain intact.

In March 1988, acting on the state's attorney general's opinion that investments in mutual funds were unallowable, the License Collector redeemed the investment. Taking into consideration market value decreases, losses on reinvested earnings, and early withdrawal penalties, the following investment loss resulted:

	<u>Cost</u>	<u>Market Value</u>	<u>Gain or (Loss) on Investment</u>
Original investment	\$ 2,766,962	2,557,732	(209,230)
Reinvested earnings	306,280	300,870	(5,409)
Deferred sales charge			(101,153)
			<hr/>
Total (Loss) on Investment			\$ (315,792) <hr/>

- 2) The investment portfolio's net income is declared and distributed to investors as monthly dividends. The License Collector had the option of either reinvesting the earnings or receiving the dividends as cash distributions. At March 21, 1988, dividend earnings totaling \$306,280 had been reinvested and had experienced a \$5,409 market value decline. The License Collector apparently never considered selecting the option to withdraw dividends as they were earned.
- 3) The fund allowed investment shares to be redeemed at current market value, less a sales charge applied to shares redeemed within the first six years of initial purchase. As noted earlier, the License Collector was forced to pay a \$101,153 sales charge for liquidating all invested shares prior to maturity.

The investment objectives of the Government Plus Portfolio were obviously inconsistent with the License Collector's investment needs. Further, Section 95.530, RSMo 1986, provides no authorization to invest in securities not guaranteed as to both principal and interest. Apparently, the mutual fund was selected

with little foresight being exercised and the advice of a brokerage firm was taken without performing an independent analysis or determination of statutory compliance.

This uninformed, illegal investment decision has resulted in a \$315,792 loss. These monies were fully the responsibility of the License Collector and unless legal actions are taken against the city official, the loss is not recoverable.

B. U. S. Government Securities Fund

In addition to the investment in the Government Plus Portfolio, the License Collector invested approximately \$1,003,154 in the U. S. Government Securities Fund, a mutual fund.

- 1) The U. S. Government Securities Fund is designed for high current income, liquidity, and security of principal through investments in U. S. government obligations. Although risk is minimized, if held to maturity, the value of the investment will fluctuate over time and there are no guarantees that funds will experience positive rates of return.

Prompted by the same reasoning noted in A., the License Collector redeemed all invested shares in March 1988. Results of this divestment are illustrated below:

	<u>Cost</u>	<u>Market Value</u>	<u>Gain (Loss) on Investment</u>
Original investment	\$ 1,003,154	976,422	(26,732)
Reinvested earnings	66,531	66,076	(455)
Forfeiture on letter of intent			(7,820)
Total (Loss) on Investment			<u><u>\$ (35,007)</u></u>

The loss noted above included a \$26,732 loss on invested principal.

- 2) Similar to the Government Plus Portfolio, earnings on the U. S. Government Securities Fund are recorded monthly as dividend distributions. The License Collector did not opt to withdraw dividends as they were earned. Four hundred and fifty-five dollars in dividend earnings were lost as a result of being reinvested and subjected to market risk.
- 3) Purchases of U. S. Government Securities Fund shares are subject to a maximum 4 1/2 percent sales commission. Reduced commission rates apply to purchases of at least \$100,000. The same reduced sales charges apply to an aggregate amount of purchases made within a thirteen-month

period. On redemption of the investment, the License Collector was charged \$7,820.

It is important to note that in an effort to reduce the sales charge to the minimum one-fourth of 1 percent, in March 1987, the License Collector signed a letter of intent to invest a total of \$5 million in the fund by April 1988. This goal was never met as the License Collector withdrew from the fund in March 1988. However, from March 1987 through March 1988, the License Collector deposited unapproved license fees into the mutual fund. Placing unapproved license fees in a long-term investment vehicle likely resulted in a significant slowdown of the license approval process. Since license revenues are not transmitted to the city until the license application is approved, slowing the approval process results in untimely revenue remittances to the city. Although the city relies on these revenues and considers them in forecasting cash-flow needs, there is currently no means for the city to monitor the License Collector's revenue turnovers.

The License Collector's investment decisions placed public assets at a significant level of risk. Because adequate foresight was not exercised, the city has experienced a \$350,799 loss in revenue.

WE RECOMMEND the License Collector comply with Section 95.530, RSMo 1986, when making all future investment decisions.

We further recommend the city counselor's office evaluate the situation and attempt to recover the loss through a claim on the License Collector's official bond and License Collector personally.

AUDITEE'S RESPONSE

The License Collector declined to respond.

3. Salary Overpayments

License Collector employees have received compensation in excess of amounts allowed by state statute. Our review of statutory salaries prescribed by Section 82.390, RSMo, covered calendar year 1986 and 1987, through September 28, 1987, when the General Assembly repealed specific salary limitations. For the period reviewed, we identified salary overpayments totaling approximately \$286,711 in calendar year 1986, and approximately \$67,539 paid in excess compensation for the period January 1 through September 28, 1987. Payments made in excess of statutory limitations were calculated by comparing actual salaries paid to individual office employees with compensation statutorily prescribed for specific employee classifications.

Annual salaries paid to License Collector employees during 1986 and 1987 were limited by Section 82.390, RSMo 1978, as follows:

<u>Employee Classification</u>	<u>Salary Limitation</u>	
	<u>1987</u>	<u>1986</u>
Chief deputy	\$26,000	20,000
Assistant deputy	20,000	14,000
Cashier	15,000	12,500
Assistant cashier	13,000	10,000
Secretary	13,000	10,500
Account Clerk II	14,000	10,000
Account Clerk I	10,000	7,800
Clerk II	11,000	8,000
Clerk I	9,000	5,000
Inspector	14,000	9,000

While the Board of Estimate and Apportionment, the city's budget approval board, approved the excessive salaries, the License Collector is responsible for ensuring legal compliance by submitting salary budget requests that are in accordance with prescribed guidelines. The License Collector's failure to adhere to statutory provisions addressing salary guidelines has resulted in the city paying excessive salaries totaling \$354,250, related to calendar years 1986 and 1987. It should be stressed that our review period was limited to calendar years 1986 and 1987.

As previously mentioned, effective September 28, 1987, the statutes no longer limit salaries paid to License Collector employees. The Board of Estimate and Apportionment can now set the salaries of each employee classification.

WE RECOMMEND the License Collector ensure compliance when implementing all policy changes or initiating any budgetary action with the Board of Estimate and Apportionment.

AUDITEE'S RESPONSE

The License Collector declined to respond.

4. Accounting for Cash Balances

Prior to the issuance of a business, merchants, or contractors license, an applicant must pay all required fees and taxes, and certify data presented in the application as complete and accurate. Application data is subject to the License Collector's final approval. Pending final licensure approval, all payments received are deposited in a holding account. As applications are approved and licenses are issued, the License Collector transfers payments to the city treasurer. Our review of the License Collector's accountability over cash receipts prior to remittance to the city treasurer revealed the following concerns:

- A. The License Collector does not maintain an open-items listing which documents, by case name and amount, monies associated with unapproved licenses. At our request, a listing was prepared. Our review of the prepared listing revealed numerous errors, and overall, the listing was inaccurate and incomplete. As a result, we were

unable to ensure all monies associated with unapproved licenses had been properly handled. Consequently, we were unable to reconcile available cash balances to the dollar value of unapproved applications. On May 15, 1987, we identified \$5,244,715 held in the License Collector's custody. We identified only \$3,310,260 in existing obligations. The License Collector could not account for the \$1,934,455 difference.

Based on results of other audit work, the difference could represent distribution shortages to various city funds and taxing authorities or the failure to include a significant number of unapproved applications on the listing.

Section 82.350, RSMo 1986, requires the License Collector to document all information, in a complete and up-to-date manner, necessary for the proper issuance of licenses. To ensure that all applicants paying fees receive the proper license and that available funds are accounted for properly, a complete listing of unapproved applications should be maintained and regularly reconciled to the cash balance.

- B. In addition to holding monies associated with unapproved applications, the License Collector also accepts partial payments toward satisfaction of the full license fee. These monies are commingled with all other receipts and a control account is not maintained for accounting purposes. As a result, the current status of partial payment accounts cannot be determined and there is no assurance that receivable amounts are collected in full prior to the issuance of a license.

Partial payment amounts should be documented in the open-items listing. Additionally, the status of these amounts should be closely monitored to ensure full payment is received and the license is properly issued.

WE RECOMMEND:

- A. A complete and accurate listing of unapproved applications be prepared and reconciled monthly to cash balances.
- B. Partial payment amounts be included on the unapproved application listing and procedures be established to ensure the full license fee is received prior to the license being issued.

AUDITEE'S RESPONSE

The License Collector declined to respond.

5. Billing and Collection Procedures

Billing procedures do not ensure complete and timely license fee collection. Using a comptroller's office report, we reviewed forty-five various enterprises which had applied for an operating license but, as of the report date, had not paid the appropriate license fee. Although a

license had not been issued, our review revealed significant deficiencies in monitoring unpaid license fees. A review of forty-five applicant files indicated 53 percent of the applications had been approved and billings had been mailed but, as of June 10, 1987, payment had not been made. For example, we noted one instance where a merchant was billed \$12,812 for license taxes on September 3, 1986. At June 10, 1987, the bill remained unpaid and the business continued to operate without a valid license. The total dollar value of unpaid license fees associated with the forty-five cases was \$102,711.

According to License Collector personnel, payment of license fees, in full, is due thirty days subsequent to application approval and notification of the billing amount. If payment is not received within sixty days of the billing date, a second billing is supposedly mailed. After 120 days of nonpayment, the case is to be referred to the Investigative Section for immediate collection or business closure. Our review indicated billings are generally mailed once. Only seven of forty-five cases examined documented a second billing date. We noted no additional follow up on delinquent accounts and saw no indications of any accounts being referred to the Investigative Section for collection or business closure.

Apparently billing procedures are not operating as intended. As a result, the License Collector has virtually no control over the timely collection of license fees. Consequently, a significant delay and possible forfeiture of revenues has occurred. Additionally, the lax nature in which collections are pursued allows businesses to operate without a valid license. According to Section 82.340, RSMo 1986, it is the duty of the License Collector to prevent any business for which a license or license tax is required to operate without first meeting licensing requirements.

WE RECOMMEND the License Collector ensure compliance with Section 82.340, RSMo 1986, by establishing and enforcing stringent billing and collection procedures and referring all delinquent accounts to the investigative section for immediate action.

AUDITEE'S RESPONSE

The License Collector declined to respond.

6. License Collector's Banking Practices

The license collector processes monies primarily through two banking institutions. Our review of controls and procedures relating to banking practices revealed the following:

- A. At April 30, 1987, the License Collector did not have a formal written agreement with depository banks. An agreement was never adopted with one bank and in the second instance, an agreement was drafted but never formalized. As a result, the License Collector has no method to evaluate the adequacy or quality of banking services provided.

A written depository contract helps the bank and the office to understand and comply with the requirements of any banking

arrangement. The contract, among other things, may specify the bank fees for check printing, checking account services, and safe deposit boxes, interest rates for invested funds, and a requirement for the bank to pledge collateral security for any deposits in excess of Federal Deposit Insurance Corporation (FDIC) coverage as required by statute.

- B. Bank correspondence and statements addressed to the attention of prior License Collector cashiers were noted. Collateral security correspondence dated February 1987 was addressed to a cashier who terminated in 1986. Bank statements addressed to an individual who held the cashier position in 1983 were also noted. As a result of personnel changes going unreported to its financial institutions, the License Collector's office has less assurance that all official correspondence is received. All correspondence relating to financial transactions of the License Collector's office should be appropriately addressed to the attention of a currently employed individual.
- C. Money in one of the License Collector's bank accounts exceeded the amount of FDIC coverage by approximately \$2,534,000 in February 1987. The depository bank had secured only \$970,000 of that amount leaving an unsecured balance of \$1,564,000. Section 110.020, RSMo 1986, provides that the value of the securities pledged shall at all times be not less than 100 percent of the actual amount on deposit less the amount insured by the FDIC. Unsecured deposits could result in loss of funds in the event of bank failure.
- D. The License Collector's primary depository bank processed all checks written, irrespective of available cash balances. Our scan of bank statements covering the year ended April 30, 1987, revealed two instances of significant negative cash balances. The most significant instance occurred when approximately \$2.7 million in protested license fees was erroneously abstracted and disbursed. The overdraft condition existed for five days before a correcting transfer was made. According to a bank official, License Collector personnel are not always notified when overdrafts occur. An assumption is made that funds exist to cover the obligation and will soon be deposited. This lax policy results in poor controls over fund accountability. Fraudulent diversions of cash balances as well as obvious abstracting and disbursing errors could go undetected until the receipt of a bank statement.

To protect the License Collector against potential liability for insufficient funds, only those checks for which there is an available cash balance should be processed.

- E. Collateral securities pledged by the License Collector's depository banks are not in compliance with state statutes. Section 95.530, RSMo 1986, permits the nature of sureties pledged to include only U. S. bonds or treasury certificates, state of Missouri or city of St. Louis bonds, and any other obligation guaranteed as to principal and interest by the United States. Our review of securities pledged revealed a number of governmental obligations, including Federal

Home Loan Bank notes and Federal National Mortgage Association notes that are not guaranteed as to principal and interest. As stated in A. above, a formalized bank depositary agreement could help ensure the nature of securities pledged is in compliance with state statutes.

WE RECOMMEND the License Collector:

- A. Enter into a formal written agreement with depositary banks.
- B. Ensure all official correspondence is addressed to currently employed individuals.
- C. Ensure depositary banks pledge sufficient collateral securities at all times.
- D. Enter into an agreement with depositary banks whereby only checks for which funds are available be processed.
- E. Ensure collateral securities pledged by depositary banks are in compliance with Section 95.530, RSMo 1986.

AUDITEE'S RESPONSE

The License Collector declined to respond.

7. Investigative Section

At April 30, 1987, the License Collector employed approximately thirteen field investigators. The investigators are assigned to a designated city business district and are responsible for delivering business license applications, enforcing payment of license fees and taxes, and routinely examining businesses for evidence of proper licensure. Our review of the Investigative Section's internal controls and general operations revealed the following concerns:

- A. Investigators are allowed to collect monies from license applicants. Because investigators are primarily responsible for ensuring proper business licensure, allowing them to collect monies could compromise their enforcement responsibilities and further increases the possibility for undetected theft or misuse of funds.

In fact, during August and September 1987, this control weakness apparently did result in a misappropriation of license fees. Based upon the files and memoranda in the License Collector's office, a former employee of the Investigative Section was suspended for failing to turn in approximately \$1,308 in collections on nonsufficient funds checks. This incident may not have occurred if the investigator had not been authorized to collect license fees.

- B. Investigative measures to ensure all businesses are properly licensed are inadequate. Our concerns in this respect prompted an extensive review of investigative measures, including field visits for evidence of business existence and proper licensure. The results of our review revealed the following:

- 1) For thirty-two businesses visited, in four (12.5 percent) instances the License Collector had no record of current licensure activity. All of the businesses visited were viable operating concerns and, accordingly, should have been properly licensed.
- 2) Our examination of businesses further revealed that for those entities with a current operating license, 36 percent did not have the license properly displayed. Section 8.06.140 of the Revised City Code requires that licenses be conspicuously displayed. Field investigators should monitor and enforce this requirement.
- 3) Under various city code provisions, all coin-operated machines should have a current operating decal affixed. Our examination of 102 coin-operated machines in conjunction with our field visits revealed only one had an operating decal properly affixed. According to License Collector personnel, there is no established method for tracing sales of decals to specific coin-operated machines. Aside from this inability, it does not appear outside of the scope of investigator responsibilities to review for decals and follow-up, to the extent possible, on instances of noncompliance.

Results of discrepancies noted above include a potential loss of city revenue, noncompliance with city code and statutory provisions.

Section 82.340, RSMo 1986, states it is the License Collector's duty to prevent any persons carrying on any business for which a license is required, to do so without proper license or license receipt.

- C. Investigators are not mailing license applications to businesses previously licensed and, as a result, are allowing businesses to operate without a valid license. Using a comptroller's office central business index current status report, which documented approximately 1,600 businesses previously licensed for which a current tax year license application had not been processed, a review was performed to determine the current billing status. In fourteen of thirty-two cases examined, we found no evidence of investigators mailing a license application. This significant error rate, coupled with our inability to obtain any reasonable explanations from License Collector personnel, prompted us to extend our review.

Twenty-seven businesses were selected to determine whether they were viable operating concerns. We concluded thirteen of the twenty-seven (48 percent) were currently operating without a valid license. It should be stressed each of these businesses had been previously licensed. Prior year licensure revenues associated with the thirteen above-noted entities were approximately \$43,000. A significant loss of revenue obviously results from the failure to

mail license applications to all businesses and, subsequently, follow-up on the disposition or payment of the proper licensing fee. Additionally, Section 82.350, RSMo 1986, requires the License Collector to keep a complete list of all entities required to obtain a license or pay a license tax and to collect all information necessary for the proper assessing and issuing of licenses and license taxes. It is imperative that a reliable system for ensuring statutory compliance be immediately established and properly maintained.

The errors and inadequacies noted in the Investigative Section prompted us to utilize extensive sampling techniques to determine the impact of these problems. Through these sampling techniques we have determined that a significant amount of city revenue is going uncollected. Our test indicates the city lost approximately \$6 million in revenues for license year 1988 (we are 90 percent confident that the lost revenues are between \$3.7 and \$9 million).

This lost revenue is caused both by unlicensed businesses and by licensed businesses underreporting their gross receipts. Roughly one-third of the businesses we tested did not have a valid business license, while approximately 28 percent of the licensed businesses may have underreported their gross receipts data.

The Investigative Section of the License Collector's office could have substantially reduced this error rate by simply reviewing prior year license files. Thirty-four percent of the businesses that we found to be operating without a valid license had been licensed in the previous year. There was no documentation available at the License Collector's office to indicate if these businesses had been contacted when they failed to renew their license. From all indications, these businesses were still operating and should have paid a license fee.

Although the License Collector's office should have been aware of these businesses, it is apparent that they were not. This is attributable primarily to the significant inadequacies of the License Collector's records and procedures. Unless the License Collector takes steps to remedy these inadequacies, they will continue to fail to collect all possible city revenue.

WE RECOMMEND:

- A. Investigators be relieved of collection responsibilities. Responsibility for collections should be given to someone independent of the license issuing and monitoring function.
- B. The License Collector comply with Section 82.340, RSMo 1986, by:
 - 1) Improving investigator examination techniques to better ensure all businesses are properly licensed and licenses are conspicuously displayed.
 - 2) Implementing a method to ensure all coin-operated machines are affixed with required operating decals.

- C. The License Collector comply with Section 82.350, RSMo 1986, by maintaining a complete and reliable record of all entities to be licensed. Documentation should clearly indicate fees assessed and final disposition of the case involved.

AUDITEE'S RESPONSE

The License Collector declined to respond.

8. Field Audit Section

At April 30, 1987, the License Collector employed a staff of eleven field auditors. The staff's primary responsibility is to verify the accuracy of questionable sales and machinery valuations reported by businesses submitting license applications. Changes made to reported sales and machinery valuations as a result of the verification process are used as the basis for license fee billing amounts.

Our review of the Field Audit Section revealed the following concerns:

- A. Audit work is not performed in accordance with a standardized audit program, which details audit objectives to be achieved and audit procedures to be performed. As a result, supporting documentation for recommended changes to reported sales and machinery valuations is inadequate or, in many cases, nonexistent.

In connection with our review of licensing fees, we identified several examples of the Field Audit Section's failure to document work performed. For example, an audit adjustment to increase a depreciation reserve for a taxpayer by \$94,109 was made without any explanation. Exclusive of any other adjustments made, the effect of the undocumented adjustment was a \$1,500 decrease in the applicant's license fee. In a separate instance, the auditor's conclusion stated in reference to adjustments made "... I'm not sure they are correct"

When the issue of audit procedure documentation was discussed with the Field Audit Supervisor, we were informed procedures documentation was "... too time consuming"

Without the implementation of standardized audit objectives and procedures that require adequate documentation, there is no assurance that audit adjustments affecting licensing fees are either valid or accurate. This lack of certainty could result in forfeited city revenues or unauthorized overcharges to the public. Established documentation guidelines would provide the necessary information for evaluating the propriety and accuracy of audit adjustments.

- B. There is no supervisory review and approval of audit work performed. We were informed by the Field Audit Supervisor that daily on-site audit visits are conducted. However, we observed no documented evidence of such. Based on the lack of documentation

noted earlier, and the lack of supervisory oversight, the reliability of audit work performed is highly questionable.

The implementation of a quality control process, which requires documented supervisory review and approval, is essential to ensure a quality work product.

- C. All businesses, contractors, merchants, and manufacturers required to submit gross earnings reports for license fee determination are not equally at risk for audit examination. Audit referrals may be generated either internally, by the comptroller's office, or the board of tax equalization. All audit referrals are selective in nature and are based on internal suspicions or obvious errors in reported gross earnings. This selective audit process results in only the cases with obvious errors being examined. While it is appropriate that the cases be examined, all businesses should at least be subject to the chance of a review. There is, however, no provision for subjecting all reporting entities to periodic audit examination. As a result other errors in reported earnings could go unnoticed over an extended period.

If all reporting entities were subject to the risk of audit examination, assurance that all reported earnings are reasonable would be enhanced.

- D. Audit staff qualifications provide little assurance that examinations are adequately performed. Our review of audit staff education and work experience levels revealed the following:

1) Educational Background

Although all eleven auditors completed a high school education, only three had an accounting or business related educational background. The highest level of formal education the audit supervisor has attained is high school diplomacy.

We were informed by the audit supervisor that there are no established minimum education requirements and that an accounting background is not a prerequisite for an auditor position. Rather, auditors are supposedly selected from the investigative staff. Since investigators are primarily responsible for ensuring all businesses obtain a valid license, this policy provides little basis for the selection of qualified financial auditors.

Current auditor responsibilities include interpreting financial data, verifying accuracy of sale, applying analytical review procedures, and evaluating the reasonableness and accuracy of reported machinery valuations. The License Collector recently required that all auditors enroll in an entry level accounting course.

2) Work Experience

A review of the eleven auditor's previous work experience revealed that only four individuals had a relevant experience background. Other examples of work experience included cosmetologist, lifeguard, and campaign manager positions. These backgrounds give little assurance that the auditors have the necessary experience and knowledge to perform audits.

If the audit function is to provide reliable and beneficial results, it is imperative that auditors possess the education and work background necessary to perform audits. This requires the reevaluation of the personnel policy and indicates a need to review current audit staff qualifications and to determine what is necessary to recruit and retain qualified auditors.

WE RECOMMEND:

- A. Standardized audit programs which specify audit objectives and procedures and require adequate documentation of work performed be formulated and used on every audit engagement.
- B. A documented working paper review and approval process be implemented.
- C. An audit master plan be formulated which places all city businesses at audit risk.
- D. Currently required auditor qualifications be closely evaluated, with an emphasis on upgrading the required level of qualification and experience.

AUDITEE'S RESPONSE

The License Collector declined to respond.

9. Distribution of License Revenues

The License Collector has not distributed license revenues in accordance with city ordinance provisions and voter approved tax levies. All license fees received by the License Collector are accountable and due to a separate city fund. As a result of numerous mathematical and fund distribution errors, the following funds have incurred a liability or receivable balance for the fiscal year ended April 30, 1987:

	City General Fund	Convention Center Fund	City Debt Service Fund	Library Fund
Due to (Due from)	\$ 148,808 (45,000)	2,708 -0-	4,365 (155,229)	832 -0-
Net Amount Due to, (Due from)	\$ 103,808	2,708	(150,864)	832

In addition to the items noted above, during January 1987, the cashier made a \$173,336 recording error relating to distributions to the city's General Fund. As a result of our audit procedures, the error was brought to the cashier's attention and the appropriate correction was made in May 1987. It should be stressed that, because of the License Collector's poor record-keeping system, we cannot be assured the errors noted above represent all erroneous distributions.

Although the overall financial impact of the above noted errors is not significant, the individual fund distribution errors are. For example, the cashier transposed the debt service and General Fund distribution ratios, resulting in a shortage of city General Fund distributions. City general funds represent the city's budget for general operating expenses.

City funds are established pursuant to legal provisions approved either by voters or governing bodies. Each fund must be accounted for separately. The License Collector is accountable for the fair and proper distribution of license revenues. Greater care is necessary in the fulfillment of this obligation.

WE RECOMMEND the License Collector request the transfer of funds to correct noted distribution errors and, in the future, exercise greater care when preparing revenue distributions.

AUDITEE'S RESPONSE

The License Collector declined to respond.

10. **Distributions of Merchants' and Manufacturers' Replacement Tax to Political Subdivisions**

The License Collector has the fiduciary responsibility for distributing merchants and manufacturers (M&M) tax collections to various state and local taxing authorities. Distributions are based on each taxing authority's tax rate levy, taking into consideration total collections and the proportion each tax levy bears in relation to all others. Our review of the License Collector's procedures for recording and distributing M&M collections disclosed the following weaknesses:

- A. Separate records maintained by an account manager documenting M&M licenses issued and dollar amounts to be distributed to taxing authorities do not agree. We noted one instance where approximately \$46,346 in manufacturer's licenses were recorded by the account manager as processed and distributed. However, the amount was never recorded in the licenses issued record. Since the cashier uses the licenses issued record as a basis for M&M distributions, the oversight resulted in various taxing authorities not receiving approximately \$14,863 in M&M distributions due. The remaining \$31,483 was due to the city's General Fund. Had the two records of entry been properly reconciled, this error could have been discovered.

To enhance the usefulness and reliability of records maintained, periodic reconciliations should be performed.

- B. The cashier's M&M distribution calculations are not agreed to the account manager's records of M&M collections and taxing authority allocations. Since the cashier is solely responsible for preparing distribution checks to the taxing authorities, there is no independent verification to ensure amounts are accurate.

Records maintained by the account manager should be used as a basis for determining the accuracy of payment distributions prepared. Had this reconciliation been done, most of the errors noted during our review could have been detected.

- C. Remittance advices prepared as supporting documentation for M&M checks written to taxing authorities are often incomplete and inaccurate. Our review of remittance advices revealed transposition errors, improper fund distributions, and mathematical errors. All remittance advices contain a statement that represented amounts are true. The statement is signed either by the License Collector or Chief Deputy License Collector. As a fiduciary agent, it is imperative that adequate care be exercised when preparing distributions to taxing authorities.
- D. As a result of several errors made by the cashier in computing amounts due to taxing authorities, the license collector remains liable to the taxing authorities for the following amounts:

<u>Taxing Authority</u>	<u>Amount of Underpayment</u>
Sheltered workshop	\$ 186
Zoological district	230
Art museum	230
Museum of Science	115
Botanical Gardens	3,003
Sewer district:	
General revenue	267
Antipollution bonds	386
Junior college:	
General revenue	784
Debt service	75
Public schools-general revenue	13,937
State Blind Pension Fund	422
Total Underpayments	\$ 19,635

Due to the unorganized manner in which distributions are calculated and remitted, neither the License Collector nor the taxing authorities were aware the shortages had occurred.

M&M tax revenue is a major revenue source for taxing authorities. Reliance has been placed upon the license collector in a fiduciary capacity to ensure M&M distributions are proper, fair, and complete. This responsibility should be fulfilled with a greater degree of care.

WE RECOMMEND:

- A. M&M records maintained by the account manager be regularly reconciled by an independent party.
- B. Calculations of M&M taxing authority distributions be agreed between the cashier and account manager by an independent party.
- C. Remittance advices be carefully reviewed and verified as accurate prior to approval.
- D. The License Collector authorize the payment of \$19,635 to the taxing authorities.

AUDITEE'S RESPONSE

The License Collector declined to respond.

11. Interest Turnover

License collector interest earnings for the period ended April 30, 1987, were not properly remitted to the city treasurer.

During the year ended April 30, 1987, License Collector bank accounts earned interest totaling approximately \$167,030. However, the interest ledger maintained by the cashier documented only \$131,780 in interest turnovers to the city. Apparently, the License Collector has not turned over interest earnings totaling approximately \$35,250.

A detailed review of the interest ledger and bank statements revealed that the ledger did not include four interest-bearing bank accounts. As a result, approximately \$33,947 in interest earnings were never recorded and, consequently, never remitted to the city treasurer. The \$1,303 relates to miscellaneous timing and record-keeping errors.

Section 82.400, RSMo 1986, requires that all monies received by the License Collector for licenses and license tax be paid to the city treasurer. Since interest earnings result from the deposit of licensing monies, interest revenue should be remitted to the city treasurer.

WE RECOMMEND the License Collector turn over \$35,250 in interest earnings to the city treasurer. In the future, the interest ledger should document all interest-bearing bank accounts.

AUDITEE'S RESPONSE

The License Collector declined to respond.

12. Hotel and Tourism Tax

Pursuant to Section 67.601, RSMo 1986, a regional convention and visitors commission (RCVC) was established in St. Louis to promote city convention and tourist business. In conjunction with the RCVC

establishment, voters approved a 3 3/4 percent tax to be imposed on the gross receipts of hotels and motels conducting business within the city. The RCVC, as allowed by Section 67.623(1), RSMo 1986, contracted with the License Collector's office to collect and remit the gross receipts tax. Our review of the License Collector's compliance with contractual terms revealed the following deficiencies:

- A. The License Collector has not retained the correct amount for the city 2 percent collection charge on gross tax receipts as allowed by contractual provisions. Irrespective of other errors made, based on calculated receipts of \$3,144,089 for the period April 1986 through May 1987, the License Collector should have remitted \$3,081,207 to the RCVC and retained \$62,882 in collection fees for the city. Our analysis of collections and remittances revealed \$3,061,914 remitted to RCVC and \$87,175 retained by the License Collector. As a result, the License Collector overretained \$19,293 in collection fees. This error represents a misuse of special tax monies designated exclusively to promote convention and tourist business. Office personnel were unaware the error had occurred.

Contractual terms, as acknowledged by the license collector, state all taxes collected, net of a 2 percent collection fee, should be remitted to the RCVC.

- B. Although the License Collector established a separate bank account solely for hotel and tourism tax receipts, \$9,811 in unidentifiable funds were erroneously deposited to the account during April 1986 to May 1987. Since all office cash receipts are commingled prior to bank deposit, it is highly possible such errors would occur. However, the result of deposit errors is a complete lack of assurance as to the source and proper disposition of the monies.

To assure the proper handling of monies, adequate care should be exercised when preparing bank deposits.

- C. The License Collector has not turned over interest earnings and collection charges to the city's General Fund. Our review of the hotel and tourism bank account balance revealed that approximately \$71,129 in interest and commissions had not been transferred to the General Fund. Further review revealed approximately \$57,000 had been turned over, but from a wrong bank account. As a result, other funds have been inappropriately shorted and the hotel and tourism bank account has excessive funds.

The License Collector has been empowered with the responsibility for handling over \$3,100,000 annually in hotel and tourism tax revenue. To ensure proper handling of these funds, adequate care must be exercised.

- D. Records maintained to document hotel and tourism tax receipts and deposits are incomplete, inaccurate, and, as a result, unreliable. As hotels submit gross earnings taxes, a department supervisor is responsible for preparing a prenumbered receipt and recording the receipt in a detail ledger. Daily, cash receipts, accompanied by a

receipt copy, are remitted to the cashier. The cashier is responsible for depositing the monies and calculating amounts due the RCVC. Our efforts to reconcile receipts to ledger entries and to subsequent bank deposits revealed:

- 1) Cash receipts are not consistently documented in either the department supervisor's or cashier's records.
- 2) Cash receipt amounts are incorrectly recorded.
- 3) Prenumbered receipts cannot be accounted for in full.
- 4) Cash receipt slips could not be reconciled to either ledger entries or bank deposits.

Since the License Collector performs no reconciliations, these discrepancies had never been discovered. The level of errors noted provides no assurance that all cash receipts are either recorded or deposited.

E. The License Collector's method for collecting the hotel gross receipts tax provides no assurance that all hotels subject to the tax are properly remitting taxes due.

- 1) The License Collector has no method for assuring all hotels are remitting taxes due. An earnings report is mailed to all hotels previously submitting taxes but little is done to locate new hotel businesses. As a result, hotel tax revenues may not be maximized.
- 2) Hotel tax remittances are not reviewed for completeness. Office personnel recalculate the tax due from the hotel's submitted earnings report. However, procedures are not performed to determine whether reported earnings appear either reasonable or complete. The License Collector has assumed since the earnings reports are notarized, further action is not necessary. However, the notarization provides no assurance as to the completeness or accuracy of reported revenues. Once again, this failure to verify amounts results in little assurance that revenues are being maximized.

F. The License Collector's office has not adequately fulfilled its contractual responsibility to pursue the collection of delinquent accounts. Taxes are due and payable on the tenth day following any calendar quarter. For taxes not paid by hotels on or before the thirtieth day following any calendar quarter, the license collector is to assess a 1 percent penalty fee and charge interest at 2 percent per month on total tax amounts due. If the tax has not been collected on or before the sixtieth day following any calendar quarter, collection responsibilities transfer to the RCVC. Our analysis of tax collections revealed the following payment cycle:

Tax Collections, April 1986 to May 1987

Total	Within 20 Days		20 Days Past Due		30 Days Past Due		60 Days Past Due	
	Dollar Value	Percentage	Dollar Value	Percentage	Dollar Value	Percentage	Dollar Value	Percentage
\$ 3,144,089	2,004,004	63.77%	615,661	19.6%	391,321	12.5%	133,103	4.2%

Our review indicated only \$5,124 was assessed in penalties and interest during the period noted above. There were no noted turnovers of delinquent accounts to the RCVC. Additionally, records maintained were not adequate to accurately determine currently delinquent accounts. Office personnel indicated they were not certain how to compute interest and penalties.

The lax collection policy documented above results in a breach of contractual obligations. Further, since the license collector is entitled to all interest and penalties, the failure to pursue the collection of delinquent accounts represents a substantial revenue loss. To ensure all taxes due are promptly collected, the license collector must have an effective collection policy.

WE RECOMMEND the License Collector:

- A. Remit \$19,293 to the RCVC and, in the future, ensure the 2 percent collection fee is properly retained.
- B. Attempt to identify the proper disposition of \$9,811 in erroneous deposits. Greater care should be exercised when preparing deposits.
- C.1. Turn over to the city's General Fund \$14,129 in interest earnings from the hotel and tourism bank account.
 2. Determine what bank account paid \$57,000 to the General Fund and, in turn, reimburse the account from the hotel and tourism bank account.
 3. Properly turn over all interest and collection fees to the city's General Fund in the future.
- D.1. Record all cash receipts in the hotel and tourism ledger immediately upon receipt.
 2. Properly record cash receipt amounts.
 3. Retain all prenumbered receipts in an organized manner.
 4. Reconcile cash receipt slips to ledger entries and subsequent bank deposits and resolve all discrepancies.
- E.1. Coordinate investigator duties to include inspections for new hotel businesses.

2. Obtain greater assurance reported hotel earnings are complete and accurate. Procedures could include analytical review of reported earnings, cross references with reported sales and earnings taxes.
- F. Comply with contractual provisions by implementing and enforcing stringent collection policies for delinquent accounts.

AUDITEE'S RESPONSE

The License Collector declined to respond.

13. Amusement Tax

All individuals conducting business within city limits are required to purchase an operating license. Additionally, entities associated with amusement and sporting events are required to pay a 5 percent gross receipts amusement tax. Reported amusement tax receipts were approximately \$1,900,000 for the year ended April 30, 1987. A gross receipts tax is not levied on events conducted entirely for religious, educational, or charitable purposes. A tax exemption also applies to live stage performances. Our review of the License Collector's controls over the determination and subsequent collection of amusement taxes disclosed the following problems:

- A. For amusement events considered exempt from the gross receipts tax, adequate exemption documentation is not consistently obtained. City Ordinance 56912 states that in determining whether production proceeds are used solely for religious, charitable, or educational purposes, the license collector must render a decision based on a review of relevant documents and a physical inspection of production premises. Discussions with office personnel disclosed that blanket exemptions are often granted without a detailed document review or production premises inspection. Without a thorough investigation of exemption applications, the License Collector has no assurance that exemptions are proper.
- B. The License Collector does not require adequate supporting documentation for submitted amusement tax receipts. Our review of amusement tax receipts revealed that licensees often submit payments without any indication of the number of event tickets sold or the admission price. Office personnel stated this type of documentation is not required. As a result, the License Collector has no basis to evaluate whether payments submitted are either reasonable or complete. Under city ordinance, the License Collector is to ensure that all nonexempt amusement and exhibition events submit a 5 percent gross receipts tax.

WE RECOMMEND the License Collector:

- A. Obtain and retain adequate documentation to support gross receipts amusement tax exemptions granted.
- B. Require licensees to provide sufficient detail to support tax remittances as reasonable and complete.

AUDITEE'S RESPONSE

The License Collector declined to respond.

14. Cigarette Tax

Pursuant to Section 8.10.050, Revised City Code, "Every dealer or wholesaler engaged in the business of selling cigarettes . . . within the city shall pay an occupation tax . . . for all cigarettes sold" The License Collector is responsible for collecting and remitting all cigarette taxes to the city treasurer.

There are two primary revenue sources for the tax. First, the License Collector receives cigarette tax monies from the Missouri Department of Revenue (DOR). Second, the License Collector sells cigarette stamps directly to wholesalers purchasing tobacco products out-of-state.

Our review of the License Collector's methods for collecting and recording cigarette tax revenues and accounting for cigarette tax stamp inventories revealed the following concerns:

- A. There is no assurance that all cigarette tax remittances received from the DOR are properly recorded and deposited. The same individual receives and opens the mail, records tax receipts, and turns cigarette tax monies over to the cashier for deposit. We were informed that DOR weekly tax transmittals, which document revenues sent to the city, are reconciled to internal cash receipt records. We could not locate any reconciliations.

In fact, records were kept in such an unorganized manner we were unable to locate all DOR remittance advices and additionally, because of the poor record-keeping system, it was not practical to independently trace the DOR cigarette tax monies remitted to the License Collector.

- B. Records maintained by the account manager do not adequately distinguish between DOR cigarette tax revenues and tax revenues applicable to cigarette stamp sales. Since the cigarette tax stamp custodian reports sales and revenues to the account manager and the cashier uses the account manager's records as a source for making deposits, any discrepancies between initial tax receipts, and bank deposits could not be clearly identified. This weakness results in an inability to properly reconcile receipts to deposits and ultimately, an inability to verify the accuracy of reported revenues.
- C. Physical inventories of cigarette tax stamps do not agree to recorded quantities. Although we were informed weekly reconciliations are performed, our test count of cigarette stamps revealed 270 more stamps on hand than recorded. This overage comprised a 5 percent error rate and indicated improperly recorded sales of cigarette stamps. Upon completion of our review, office personnel admitted weekly reconciliations are not consistently prepared. To ensure proper accountability over assets and

revenues, regular reconciliations between recorded and actual inventories are necessary. Reconciliations should be prepared or reviewed by a party independent of cigarette tax cash handling or record-keeping responsibilities.

During the year ended April 30, 1987, the License Collector recorded approximately \$3,600,000 in cigarette tax revenues, accounting for approximately 19 percent of total revenues. Because of the lack of proper controls, the License Collector has virtually no assurance that all those revenues are properly recorded and deposited.

WE RECOMMEND the License Collector:

- A.1. Adequately segregate cigarette tax accounting and bookkeeping duties.
2. Maintain DOR tax remittances in an organized manner.
3. Perform independent reconciliations of DOR remittances and recorded cash receipts. Documentation should be retained.
- B. Separately classify account manager cigarette tax revenues by source and perform periodic reconciliations between cash receipts and cashier deposits.
- C. Conduct physical inventory counts of cigarette stamps on a periodic basis and reconcile to recorded amounts. All differences should be investigated and resolved.

AUDITEE'S RESPONSE

The License Collector declined to respond.

15. Payroll and Personnel Controls, Records, and Procedures

Since it is a separately elected office, the License Collector's office is not subject to the city's civil service personnel policies. Our review of the License Collector's efforts to establish effective controls and administrative policies regarding payroll and personnel issues revealed serious deficiencies:

- A. The License Collector has no formal personnel policy manual. Based on our observations, and as documented below, personnel policies are issued on an as needed basis either verbally or in memorandum form. This ad hoc method of personnel management results in inconsistent treatment of employee matters and allows for undetected abuses of the system.

The purpose of a personnel policy manual is to provide guidance and control for the entity's operation. Policies should be established and administered in an equitable manner to provide for fair employee treatment. Without a written policy, the License Collector cannot be assured of, and in fact has failed to attain consistent treatment of personnel matters. Examples of these inconsistencies are illustrated below.

- B. The License Collector's informal policies regarding compensatory leave are not consistently enforced.

The License Collector's informal leave policy allows employees to earn and accumulate vacation and sick leave. Individual vacation and sick leave records, which document hours earned, taken, and the corresponding balance, are to be maintained for each employee. Our review of ten employee leave records for proper accrual, mathematical accuracy, and general compliance with certain provisions revealed the following inconsistencies:

- 1) Records of four individuals reviewed did not accrue vacation and/or sick leave at the rate indicated by office management. One error related to the administrative assistant recording a full year's accumulation of vacation leave at the beginning of the year instead of on a monthly basis, as required.
- 2) Records were not mathematically accurate in three of the ten records reviewed.
- 3) A leave record is not maintained for the Chief Deputy License Collector. Upon inquiry, the chief deputy believed a record was being kept. He stated that, upon termination, he would expect to be fairly compensated for any existing vacation leave balance. At the time of our review, his vacation or sick leave balance could not be determined.

A complete, accurate, and up-to-date record of leave amounts earned and taken is necessary to properly account for accumulated leave and to ensure that employees receive leave to which they are entitled.

- C. Our initial review of leave records revealed instances where the amount of leave taken exceeded the available leave balance. Based on this information, we expanded our procedures to include a detailed review of leave balances. The result of our examination was the discovery of a significant number of negative leave balances. For example, during the year ended April 30, 1987, seven employees carried negative vacation leave balances ranging from nine to twenty-three hours.

In addition to negative vacation leave balances, we noted a number of negative sick leave balances, ranging from 9 to 339 hours. A policy which allows selected employees to excessively use vacation and/or sick leave while being compensated for a full pay period reflects inappropriately on the License Collector's fiduciary responsibility for the accountability of taxpayer funds. Further, preferential employee treatment could result in a justifiable basis for discriminatory action against the License Collector.

Effective August 1986, as documented in a memorandum from the Chief Deputy, advanced leave was to no longer be granted. Leave taken in excess of amounts earned was to be reflected as leave

without pay. Subsequent to the memorandum date, we identified nine employees who accrued negative vacation and sick leave balances totaling 278 hours.

The granting of negative leave balances presents a significant control weakness. The policy of not granting excess leave should be immediately enforced.

- D. At the discretion of either the License Collector or Chief Deputy, office employees, on an individual basis, may be granted administrative leave with pay. According to a policy memorandum, such leave is to be granted only for work related purposes. According to office personnel, administrative leave has been granted for such purposes as Christmas shopping and political campaigning.

Any leave taken in addition to recognized holidays should be reflected in employee leave records as leave taken and authorized and be in accordance with a written office policy.

- E. During the year ended April 30, 1987, seventeen persons terminated from employment with the License Collector's office. Our review of ten terminations to ensure final remuneration was properly computed and terminated employees were promptly removed from payroll records revealed an extremely excessive number of errors:

- 1) In 70 percent of cases reviewed, final remuneration was improperly computed. We identified \$532 in accrued vacation balances for which the terminating employee was not compensated. In addition, excess compensation of \$113 was paid to employees who terminated with negative vacation balances. Appropriate steps were not taken to properly adjust the final pay.

These errors were discussed with both the payroll clerk and the Chief Deputy. The cited cause was "clerical oversight" but there was no indication that any pursuit to correct these errors would be made.

- 2) One individual who retired in August 1986 continued to receive a paycheck two additional months after termination. It appears the checks were subsequently returned and the proper adjustments were made. However, if adequate monitoring of payroll transactions and records had been performed, such an error could have been avoided.

Based on the results of our review, we have no assurance that the amount of compensation paid employees upon termination was proper.

- F. Our review of eleven personnel files revealed the following errors:

- 1) Two of eleven files examined did not contain proper pay rate authorization. It was noted the Chief Deputy approved his own pay rate adjustment.

- 2) Ten of the files reviewed did not contain an annual employee service rating. According to the Chief Deputy, all employees are to be regularly evaluated. However, the Chief Deputy also stated the policy is not "... rigorously enforced"

Personnel files provide documentation for personal service expenditures and personnel action. Files should be maintained in an accurate and complete manner.

- G. Time sheets are to be prepared by all License Collector employees. However, supervisory review and approval of time sheets is not consistently documented.

Independent supervisory review and approval of time sheets is necessary to provide reasonable assurance that wages paid are based on actual hours worked.

The License Collector's total payroll expense was approximately \$955,000 for the year ended April 30, 1987, and represented over 92 percent of total expenditures. Without proper administrative and accounting controls over these transactions, the License Collector cannot be assured that these expenditures have been properly authorized and represent only valid claims for wages actually earned. It is imperative that corrective action be taken.

WE RECOMMEND:

- A. A formal policy addressing all relevant personnel issues be formulated and distributed to all employees.
- B. The License Collector maintain leave records for all employees in a manner that provides a complete and accurate indication of the amount of leave earned taken, and accumulated.
- C. The policy of allowing leave to be taken in excess of earned amounts be discontinued.
- D. The policy of granting administrative leave for purposes unrelated to work duties be discontinued.
- E.1. The License Collector take into consideration accrued leave balances when computing final remuneration for terminating employees.
- 2. Payroll records be closely monitored to ensure terminated employees are promptly removed following final remuneration.
- F. The License Collector maintain complete personnel files for all employees that include proper hiring and pay rate authorization as well as annual service ratings.
- G. Independently approved time sheets be required as the basis for payroll preparation.

AUDITEE'S RESPONSE

The License Collector declined to respond.

16. Personnel System

The License Collector has failed to establish a personnel system that helps to ensure employee's qualifications and training are commensurate with the responsibilities of their job.

- A. The License Collector has not established written job descriptions, or minimum experience and education requirements for the various positions. Written job descriptions help to ensure that both the employer and applicant understand what is expected. The use of minimum education and experience requirements helps to ensure that these expectations can be reasonably accomplished. Since the License Collector does not use either written job descriptions or minimum experience requirements, it cannot be effectively determined whether an applicant possesses the skills and abilities needed to properly carry out assigned duties.
- B. In addition, the applicant's experience and education are not always the most heavily evaluated criteria for determining who to hire. The Chief Deputy informed us that an applicant's training and other qualifications are considered during the screening and interview process. The final decision, however, is based upon a subjective assessment of the applicant and may take into consideration factors other than training and education. These factors are based strictly on the License Collector and/or the Chief Deputy's judgment. Since the impact of these subjective factors on the individual's performance is not quantifiable, there is no demonstrable benefit from using them as the basis for making personnel decisions.

Many of the more significant deficiencies noted in this report are the direct result of inadequately trained individuals performing tasks for which they are not clearly qualified. This situation is attributable to the fact that the License Collector has not established written job descriptions and minimum qualifications for the positions within the office. Although the License Collector is an elected official, and her office is exempt from the requirements of the city civil service code, she has a responsibility to establish a personnel system that ensures qualified applicants are hired for all positions.

WE RECOMMEND the License Collector:

- A. Establish formal job descriptions, minimum qualifications and experience for all positions.
- B. Create an objective hiring system based upon these requirements.

AUDITEE'S RESPONSE

The License Collector declined to respond.

17. Internal Controls over Cash

The Cashier Division is primarily responsible for complete and accurate cash receipts accounting. Our review of controls over cash receipts revealed the following weaknesses:

- A. Bank deposits are made daily. However, cash receipts are not deposited intact and an imprest cash balance is not maintained. In addition, prenumbered receipt slips are not prepared for all monies received. According to the cashier, checks are deposited daily but cash is allowed to accumulate until it is judgmentally determined that an excessive amount has accumulated. Bank deposits cannot be identified with specific cash receipts.

Failing to record all cash receipts on a prenumbered receipt slip and not maintaining an imprest cash balance which provides a correlation between cash receipts and bank deposits virtually eliminates all accountability over monies received. This weakness significantly increases the possibility that undetected misuse and/or theft of funds will occur.

The License Collector has a fiduciary responsibility to account for all monies received.

- B. Once monies are received into the Cashier Division, there is no segregation of duties or oversight function to ensure all cash receipts are properly deposited and subsequently distributed in accordance with voter-approved tax levies, state statutes, and city ordinances.

The cashier is solely responsible for recording monies received, preparing bank deposits, performing bank reconciliations, and abstracting distributions to the various taxing authorities and city internal funds. We saw no evidence of these functions being independently reviewed for accuracy.

Because of the weaknesses noted in A. above, there is no assurance that funds have been properly handled.

Adequate segregation of duties is necessary to provide reasonable assurances that all transactions are accounted for properly and assets are adequately safeguarded. If adequate segregation of duties cannot be implemented, then at a minimum, a review should be made and documented by the Chief Deputy License Collector.

- C. Duplicate records maintained by the cashier and account manager of licenses issued are not reconciled. Further, a reconciliation between the detailed record of licenses issued and the receipt coding form, which documents the weekly cash turnover to the city treasurer is not performed. Since the account manager's weekly total of licenses issued should agree to the weekly turnover of cash to the City Treasurer, a complete reconciliation of these records would provide greater assurance that license revenues are being accounted for properly. Additionally, such a reconciliation, if reviewed by an independent party, would provide better segregation of duties.

- D. The License Collector allows employee payroll checks to be cashed from undeposited monies. During a cash count, we identified a cashed payroll check. According to office management, payroll checks can be cashed only with prior administrative approval. However, several employees indicated that payroll checks are routinely cashed.

Because of the complete lack of assurance that all cash receipts are accounted for properly, there is no means to determine whether the amount of cash distributed to the individual equals the stated sum on the check. Maintaining excessive cash to cash employee checks only serves to further weaken controls over the safeguarding of assets. Further, it is not the License Collector's responsibility or obligation to provide check cashing services.

WE RECOMMEND the License Collector:

- A.1. Prepare prenumbered receipts for all monies received.
- 2. Maintain an imprest cash balance.
- 3. Make bank deposits intact. Verify completeness of deposits by agreeing cash receipt slips to cash deposited.
- B.1. Segregate duties performed by cashier.
- 2. Implement oversight function whereby financial transactions are independently reviewed.
- C. Require records maintained by the cashier and account manager be reconciled for completeness and accuracy.
- D. Cease the practice of cashing employee checks.

AUDITEE'S RESPONSE

The License Collector declined to respond.

18. Access to Cash, Negotiable Instruments, and Unissued Licenses

- A. All monies received by the License Collector are to be processed by the cashier. A restricted area has been established for the purpose of handling monies. Our review of physical securities over cash receipts indicated the following weaknesses:
 - 1) The Cashier's Section, although intended to be restricted, is accessible to all license collector employees. We noted instances of nonauthorized personnel in the area as well as instances when no one was in the area. We also observed the restrictive door was rarely closed.
 - 2) The cash drawer is not adequately protected against possible misuse or theft of funds. The drawer has no locking device

and instances were noted where the cash drawer was left open.

During the year ended April 30, 1987, the License Collector processed approximately \$29,000,000 in deposits. During a cash count, we counted approximately \$163,000 in undeposited cash and checks. The significance of these dollar amounts strongly indicates the importance of establishing and enforcing controls which limit access to cash.

- B. The office's work area, where monies are initially processed and business licenses are prepared and issued, is not adequately protected against unauthorized access. The area has been equipped with a gate that locks automatically which separates office space from public access. However, we observed that the gate was seldom locked. In fact, we were informed to leave the gate slightly open at all times since locking it restricted the employee traffic flow through this area. Such a control could be very effective if its use were monitored and enforced.
- C. Controls over unissued licenses and decals are not adequate. Unissued instruments are easily accessible during business hours and are not consistently locked up during the evening. Since the work area is not adequately restricted and reconciliations between licenses/decals issued and cash receipts are not performed, there is no assurance that all instruments have been accounted for properly. This weakness could result in diverted unissued instruments and, ultimately, lost revenues. Licenses and decals represent the license collector's primary revenue source. Adequate physical controls over unissued instruments is a necessity.
- D. Controls over monies prior to being turned over to the cashier are inadequate.
 - 1) There is no assurance that monies received through the mail are properly recorded and deposited. Mail receipts are received by an individual who has record-keeping and custodial responsibilities. Monies are not recorded in a mail log of receipts and checks are not restrictively endorsed. Instead, cash and checks are physically distributed to each responsible license department. There, the monies are recorded in a cash receipts register. Daily, monies received and processed by departments are deposited with the cashier. The cashier prepares the bank deposit, restrictively endorses checks, and apparently marks off monies received in each respective department's cash receipt register. However, from the point of initial receipt to final deposit there are no comparisons or reconciliations to ensure all monies received are deposited.

Controls must exist which provide assurance that accountable fees are properly handled. Mail receipts should be centrally logged, with checks being restrictively endorsed, by an individual independent of other cash handling and record-keeping responsibilities. Receipts should be

immediately deposited with the cashier, with a proper reconciliation being performed. License departments should then use the mail log as a source to record the receipt of their respective license fees.

- 2) Monies received over the counter are not adequately controlled against theft and/or misuse. The receipt and processing area is highly accessible to unauthorized personnel and employees receiving monies also have record-keeping responsibilities. This condition increases the risk for loss, theft, or misplacement of monies. Controls should be in place to adequately safeguard assets.

WE RECOMMEND:

- A. The cashier's area and cash drawer be restricted to authorized personnel.
- B. The restrictive gate be maintained in a locked position when not in use.
- C. Unissued licenses and decals be stored in a secure place, inaccessible to unauthorized persons. Numerical sequence of licenses and decals should be accounted for.
- D.1.
 - a. A mail log of receipts which documents each license departments receipts separately be established. The log should be prepared by someone with no other cash or record-keeping responsibilities. The log should be periodically reconciled to cashier receipts and deposits by an independent party.
 - b. Checks be restrictively endorsed upon receipt and monies received through the mail be directly deposited with the cashier. The mail log should be used as the source for recording license fee receipts by department.
- 2.a. Controls over access to undeposited monies be strengthened.
 - b. Office personnel performing cash-related functions not perform any record-keeping functions.

AUDITEE'S RESPONSE

The License Collector declined to respond.

19. Equipment Leasing and Maintenance Agreements

- A. The License Collector is presently buying a check endorser and a copier machine on a lease-purchase basis. The following table presents financing costs associated with these lease-purchase agreements:

<u>Lease-Purchase Item</u>	<u>Outright Purchase Price</u>	<u>Deferred Sales Price</u>	<u>Financing Charge</u>	<u>Annual Financing Rate</u>
Check endorser	\$ 5,328	8,312	2,984	19.1%
Copier	5,642	6,886	1,244	13.4

Small monthly payments are an attractive feature of lease-purchasing; however, the associated finance charges significantly decrease the economy and efficiency of lease-purchase decisions. Apparently, the License Collector selected the lease-purchase option because funding had not been approved for equipment acquisitions.

Associated financing charges should be evaluated when entering into lease-purchase agreements. If funds are not available for outright equipment purchase, consideration should at least be given to financing purchases over a shorter period.

- B. Annually, the License Collector pays approximately \$240 in calculator maintenance fees. The maintenance agreement covers six calculators with retail values of \$150 to \$200. We found no evidence of service being provided. Further review revealed four of the calculators could not be located and the remaining two were discontinued models. According to office personnel, the maintenance agreement was automatically renewed with no consideration being given to the condition or existence of covered equipment. As a result, the License Collector has expended city funds for which no service could have been expected. It is only reasonable to expect that new calculators could have been purchased with the monies annually expended on nonexistent equipment. Future consideration should be given to need and associated cost when renewing service agreements.

WE RECOMMEND the License Collector:

- A. Obtain budgetary approval for all equipment purchases. Additionally, financing charges should be considered when evaluating the cost-effectiveness of lease-purchasing.
- B. Evaluate the need and cost of all current equipment and service agreements.

AUDITEE'S RESPONSE

The License Collector declined to respond.

20. Employee Bonding

In compliance with Section 82.330, RSMo 1986, the License Collector has posted a \$25,000 fidelity bond. In accordance with Section 8.02.090 of the Revised City Code, bookkeepers and clerks have been bonded for \$2,500 each, with an additional \$7,500 applied to two deputy and three cashier positions. Although the License Collector is in apparent compliance with

basic statutory and city code provisions, our review of bond coverage revealed the following inadequacies:

- A. Bond premiums are apparently being paid for some employee positions that do not exist. For example, the 1987 annual bond premium provides coverage for an assistant chief deputy and two assistant cashiers, in addition to other office personnel. According to the chief deputy, the three noted positions do not exist within the office's current framework. As a result, bond premiums are being paid on nonexistent employees.

It is the License Collector's fiduciary responsibility to prudently account for all monies spent, and not to expend funds for bonds for nonexistent personnel.

- B. All employees working in the Cashier Section are not properly bonded. During the course of our review, we were informed there is only one designated cashier position, and there are no classified assistant cashier positions. However, we noted two individuals in the Cashier Section at times. Although the Chief Deputy indicated the additional person was a counter clerk, responsible for processing license applications, we observed the individual preparing bank deposits. Based on bond coverage provisions, the individual's counter clerk title limits bond coverage to \$2,500. Considering the significant amount of cash handled, in the event funds were discovered missing, bond coverage could be materially deficient.

As a public official, the License Collector is fully accountable for all funds collected. Inadequate bonding levels increase the risk of unrecoverable funds in the event of theft and also represent a potential personal liability to the designated official. It is imperative that all employees handling cash, irrespective of their classified job title, be bonded in an appropriate sum.

- C. Based on noted cash balances, current bonding levels of the license collector and her employees are not adequate.

During the year ended April 30, 1987, the License Collector recorded deposits totaling approximately \$29 million. Current bonding levels are as follows:

<u>Title</u>	<u>Bond Coverage</u>
License collector	\$ 25,000
Chief deputy license collector	10,000
Cashier	10,000
License collector employees (faithful performance blanket bond)	2,500

Since bond coverage is limited to the above stated sums, the effect of a significant loss of funds could create a large personal liability for the License Collector.

As mentioned earlier, the License Collector is in compliance with basic statutory and city code bonding provisions. However, these provisions do not appear limiting in nature. Considering the license collector's fiduciary responsibility for license revenue accountability, it would appear the current bond coverage should be reevaluated. To limit the potential personal liability, bond coverage should be commensurate with collections and average cash balances.

WE RECOMMEND the License Collector:

- A. Pay bonding premiums only on filled employee positions.
- B. Secure adequate bond coverage on all employees handling cash.
- C. Evaluate current bond coverage and modify as necessary to adequately protect city funds.

AUDITEE'S RESPONSE

The License Collector declined to respond.

21. Expenditure Reconciliations

The License Collector's office processes all payments for goods and services, including personal services, through the comptroller's office. Monthly, the comptroller's office gives the License Collector's office reports of the current month and year-to-date charges against appropriations.

The License Collector's office retains a copy of all submitted invoices and disbursement vouchers. However, a control ledger which documents this information by budget or expenditure classification is not maintained. It is the License Collector's opinion that once invoices are submitted for payment, all associated responsibilities transfer to the comptroller's office. As a result of the License Collector's failure to accept responsibility for monitoring appropriations and expenditures, there is no means to determine the payment status of invoices previously submitted or to reconcile invoices submitted to recorded expenditures. These weaknesses manifested themselves during February 1987 when an invoice amount for \$1,147 was paid twice. The error was noticed by the vendor and the appropriate credit adjustment was made. However, had the vendor not taken the initiative, the error would never have been uncovered by the License Collector.

To provide accountability over expenditures and to ensure that amounts charged against appropriations are proper, the License Collector should maintain an expenditure control ledger and reconcile charges and balances with the comptroller's office on a monthly basis.

WE RECOMMEND the License Collector maintain an expenditure control ledger and reconcile charges and balances to comptroller's report monthly.

AUDITEE'S RESPONSE

The License Collector declined to respond.

22. Use of Comptroller's Office Reports

Reports generated by the comptroller's office relating to License Collector activities and transactions are not adequately utilized as a resource tool.

- A. The comptroller's office Central Business Index Division, which operates, among other things, as an oversight agency of the License Collector, generates monthly reports documenting the current status of various licenses and taxes processed by the License Collector's office. These reports provide information relating to entities which have not applied for a current operating license, those which have applied for a current license but have not paid the related license fee or tax, and those which have been issued a license. License Collector personnel indicated they were unaware such reports existed.

Based on the significant billing and collection weaknesses noted throughout this report, the License Collector could benefit by using an independent reporting system as an information referral.

- B. The License Collector's office receives a monthly general ledger report which documents recorded revenues and expenditures per the comptroller's office. Based on discussions with office personnel, the monthly report is filed without any review. As a result, there is no assurance that recorded revenues and expenditures are complete and/or fairly classified. For example, the city's accounting system provides for approximately 150 individual revenue categories associated with each type of license issued. The system is intended to be used for financial reporting purposes as well as an analysis and resource tool for management. Our detailed review of revenues revealed there is little concern for proper revenue classification. Numerous instances of misclassification were encountered. When questioned about revenue trends, office personnel were unable to provide viable explanations and, in several instances, indicated recorded revenue amounts when compared to licenses issued, were obviously in error. Such explanations strongly indicate misrepresented financial reports as well as a lax management attitude regarding investigating revenue trends and using these trends as a basis for improving the efficiency of operations and maximizing revenues to the extent possible.

Use of externally generated reports provides greater assurance that operations are functioning as intended.

WE RECOMMEND the License Collector obtain and use as a resource and investigative tool, all externally generated reports relating to office operations.

AUDITEE'S RESPONSE

The License Collector declined to respond.

23. Fixed Assets Controls

Nonexpendable property management is coordinated citywide under the Fixed Asset Management System (FAMS). Overall property management is centralized under the comptroller's office. However, user departments, through a designated FAMS coordinator, are responsible for communicating acquisitions, retirements, or transfers of fixed assets items to the comptroller for record updating. Custodial responsibilities for physical control over fixed assets is also a user department responsibility. Our review of fixed assets controls and procedures at the license collector's office revealed the following areas where improvements could be made:

- A. The License Collector's office has no designated FAMS coordinator. As a result, there is no oversight function to ensure adequate physical safeguards have been established, complete annual inventories are conducted, FAMS reports are reviewed for completeness and accuracy, or fixed assets deletions are properly reported.

To ensure the integrity of the citywide fixed asset system, it is essential that user department responsibilities be fulfilled. This can be best accomplished through the assignment of a FAMS coordinator.

- B. In conjunction with the comptroller's office, a physical inventory of License Collector assets was conducted in March 1987. The procedure was incomplete since furniture items were not included in the physical count and subsequent reconciliation to property records.

The purpose of a physical inventory count is to ensure the overall completeness and accuracy of recorded fixed assets. When all nonexpendable property items are not included, a physical inventory count provides little usefulness. All property control items should be included in a physical inventory procedure. Results of this procedure should be used as the source for making any necessary adjustments to fixed assets records.

The FAMS system was established to provide guidelines for accounting for nonexpendable property in an adequate manner. These guidelines should be followed to ensure complete and accurate financial reporting and adequate physical control.

WE RECOMMEND the License Collector:

- A. Designate a FAMS coordinator.
- B. Include all fixed assets in the physical inventory count.

AUDITEE'S RESPONSE

The License Collector declined to respond.

24. Postage Machine

Established controls over use of the postage machine are not adequate. According to an office official, all mailing responsibilities have been assigned to one individual. However, the area in which the postage machine is located is accessible to all personnel. The fact that the machine does not imprint outgoing mail "for official use only," further increases the risk for personal use.

During the year ended April 30, 1987, \$6,207 in postage expenditures were made. Greater assurance that these monies were spent only for official office purposes appears necessary.

WE RECOMMEND the License Collector reduce the risk of postage machine misuse by further restricting access to the machine and installing a "for official use only" imprint.

AUDITEE'S RESPONSE

The License Collector declined to respond.

APPENDICES

Appendix A

OFFICE OF THE LICENSE COLLECTOR
CITY OF ST. LOUIS, MISSOURI
STATEMENT OF ESTIMATED AND COLLECTED REVENUES - GENERAL FUND
YEAR ENDED APRIL 30, 1987

(U N A U D I T E D)

	Estimated Revenues	Collected Revenues	Collected Revenues Over (Under) Estimated Revenues
MERCHANTS AND MANUFACTURERS			
Gross receipts tax	\$ 11,500,000	8,199,443	(3,300,557)
LICENSES AND PERMITS			
Cigarette	3,570,000	3,589,530	19,530
Amusement	1,786,000	1,917,383	131,383
Automobile	1,404,000	92,351	(1,311,649)
Public parking	1,400,000	1,516,681	116,681
Business	1,355,775	1,470,034	114,259
Contractors	1,300,000	1,259,604	(40,396)
Liquor	552,845	524,793	(28,052)
Other	407,380	412,159	4,779
Total	11,776,000	10,782,535	(993,465)
INTEREST	100,000	134,140	34,140
MISCELLANEOUS			
Penalty and filing charges	67,000	82,216	15,216
Contractual services	-0-	56,596	56,596
Total	67,000	138,812	71,812
Total Revenues	\$ 23,443,000	19,254,930	(4,188,070)

Appendix B

OFFICE OF THE LICENSE COLLECTOR
CITY OF ST. LOUIS, MISSOURI
STATEMENT OF APPROPRIATIONS AND EXPENDITURES - GENERAL FUND
YEAR ENDED APRIL 30, 1987

(U N A U D I T E D)

	Approved Appropriation	Expenditures	Appropriation Balance
PERSONAL SERVICE			
Salaries:			
Regular employees	\$ 773,890	769,620	4,270
Per performance employees	18,900	18,892	8
Social security coverage	56,976	56,379	597
Employees:			
Health insurance	70,138	69,498	640
Retirement system	41,451	35,023	6,428
Life insurance	5,686	5,592	94
Workers' compensation	200	-0-	200
Total Personal Service	967,241	955,004	12,237
EXPENSE AND EQUIPMENT			
Printing services	21,000	7,220	13,780
Office services	19,600	17,732	1,868
Allowances - personally owned cars	29,775	29,775	-0-
Postage	9,500	6,207	3,293
Prior year encumbrances	9,967	9,967	-0-
Office supplies	4,000	3,477	523
Total Expense and Equipment	93,842	74,378	19,464
Total, Office of the License Collector	\$ 1,061,083	1,029,382	31,701

Appendix C

OFFICE OF THE LICENSE COLLECTOR
CITY OF ST. LOUIS, MISSOURI
COMPARATIVE STATEMENT OF ADMINISTRATIVE EXPENDITURES - GENERAL FUND

(UNAUDITED)

	Year Ended April 30,				
	1987	1986	1985	1984	1983
Salaries and fringe benefits	\$ 955,004	922,525	854,608	749,479	751,729
Printing services	7,220	35,407	40,093	20,976	8,199
Office services	17,732	27,125	20,442	14,582	14,996
Allowances - personally owned cars	29,775	31,090	20,880	16,240	18,342
Postage	6,207	8,194	10,100	10,172	7,684
Prior year encumbrances	9,967	-0-	-0-	-0-	-0-
Office supplies	3,219	1,824	1,117	6,562	2,311
Total Administrative Expenditures	\$ 1,029,124	1,026,165	947,240	818,011	803,261

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