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OFFICE OF THE COMPTROLLER
CITY OF ST. LOUIS



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Comptroller

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DR. KENNETH M. STONE, CPA
Internal Audit Executive

November 19, 2010

Honorable James W. Murphy, Sheriff
City of St. Louis
1114 Market Street, Suite 112
St. Louis, MO 63101

RE: Observation and Review of Tax Delinquent Land Auction (Project 2010-56)

Dear Sheriff Murphy:

Enclosed is a report of the observation and review of the Tax Delinquent Land Auction held by the Sheriff's Office from June 22 through June 24, 2010.

The fieldwork was completed on July 30, 2010. Management's responses to the observations and recommendations noted in the report were received on November 1, 2010, and have been incorporated in the report.

This review was made under authorization contained in Section 2, Article XV of the Charter, City of St. Louis, as revised, and has been conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*.

If you have any questions, please contact the Internal Audit Section at (314) 622-4723.

Respectfully,

A handwritten signature in black ink that reads "Kenneth M. Stone".

Dr. Kenneth M. Stone, CPA
Internal Audit Executive

Enclosure

cc: Major George Harsley, Administrative Section Commander
Lt. Ray Harris, Commander of Services

**CITY OF ST. LOUIS
SHERIFF'S OFFICE
OBSERVATION AND REVIEW OF TAX DELINQUENT LAND AUCTION
JUNE 22 THROUGH JUNE 24, 2010**

EXECUTIVE SUMMARY

Purpose

The Internal Audit Section (IAS) has completed an observation and review of the Sheriff's Office Tax Delinquent Land Auction held by the Sheriff's Office from June 22 through June 24, 2010. The objectives of this observation and review were to determine if:

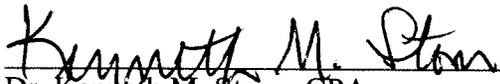
- Land auction transactions and proceeds were accurately recorded and reported
- Land auction proceeds were adequately safeguarded
- The land auction process was performed in compliance with applicable Missouri State Statutes, Ordinances of the City of St. Louis and policies and procedures of the Sheriff's Office.

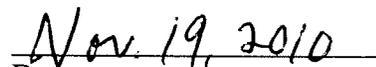
Conclusion

The opportunity exists for the Sheriff's Office to improve the internal controls over operational and fiscal activities. The following are observations resulting from the review:

1. Opportunity to update written procedures (**Repeated, Internal Audit Section's report on Land Sale dated March 11, 2009**)
2. Opportunity to improve recordkeeping and liability reconciliation (**Repeated, Missouri State audit dated March 2010**)
3. Opportunity to recover fees paid on tax delinquent land parcel sale set aside (**Repeated, Missouri State audit dated March 2010**)

Each of these observations is discussed in more detail in the *Detailed Observations, Recommendations and Management's Responses* section of this report.


Dr. Kenneth M. Stone, CPA
Internal Audit Executive


Date



CITY OF ST. LOUIS

SHERIFF'S OFFICE

OBSERVATION AND REVIEW OF TAX DELINQUENT LAND AUCTION

JUNE 22 THROUGH JUNE 24, 2010

PROJECT #2010-56

DATE ISSUED: NOVEMBER 19, 2010

**Prepared by:
The Internal Audit Section**



OFFICE OF THE COMPTROLLER

HONORABLE DARLENE GREEN, COMPTROLLER

**CITY OF ST. LOUIS
SHERIFF'S OFFICE
OBSERVATION AND REVIEW OF TAX DELINQUENT LAND AUCTION
JUNE 22 THROUGH JUNE 24, 2010**

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INTRODUCTION

Background

The Municipal Land Reutilization Law (City of St. Louis) was established by the Revised Statutes of Missouri (RSMo), Sections 92.700 to 92.920. RSMo Section 92.875 created the Land Reutilization Authority (LRA) for the management, auction, transfer and other disposition of tax delinquent real estate acquired by foreclosure of the liens for delinquent real estate taxes. The statutes also authorize the courts to order the Sheriff to advertise and sell (or attempt to sell) the subject property at public auction, in an effort to recover the delinquent taxes and incurred collection costs, before turning any unsold property over to LRA.

Purpose

The objectives of this observation and review were to determine if:

- Land auction transactions and proceeds were accurately recorded and reported
- Land auction proceeds were adequately safeguarded
- The land auction process was performed in compliance with applicable Missouri State Statutes, Ordinances of the City of St. Louis and policies and procedures of the Sheriff's Office

Scope and Methodology

The review was confined to evaluating the Tax Delinquent Land Auction process for LRA Suit #150, conducted from June 22 through June 24, 2010. The procedures included inquiries of management and staff, observation of relevant processes, and reviews for compliance with policies and procedures, as well as applicable laws and regulations. The related controls were tested on a limited basis, prior audit observations were followed up, and other procedures were performed as considered necessary.

Exit Conference

An exit conference was conducted at the Sheriff's Office on October 27, 2010. James W. Murphy, Sheriff; Gordon Schweitzer, Attorney for Sheriff; Major George Harsley, Administrative Section Commander; Lt. Ray Harris, Commander of Services; Chris Bartoni, Land Tax Sale Deputy and Wendy Rohrbach, Deputy Sheriff represented the Sheriff's Office. Dr. Ishmael Ikpeama, Audit Supervisor; Don Curby, Auditor; and William B. Weir, Auditor represented the Internal Audit Section.

Management's Responses

Management's responses to the observations and recommendations identified in this report were received from the Sheriff's Office on November 1, 2010. Those responses have been incorporated into this report.

OBSERVATIONS

Status of Prior Observations

The following is a prior observation, from the Internal Audit report on Land Auction #143, issued March 11, 2009:

Opportunity to update written procedures (**Not Resolved - See Current Observation #1**)

The following are observations from the state audit report issued March 2010:

3. A. The Sheriff's Office does not attempt to reconcile liabilities to the balances in the Land Auction Sales Fund (**Not Resolved - See Current Observation #2**)
3. B. The Sheriff's Office spreadsheets need improvement (**Resolved**)
3. C. Opportunity to recover fees paid for tax delinquent land parcel sale is set aside (**Not Resolved - See Current Observation #3**)
3. D. The Sheriff's office does not adequately follow up on notification fees due from land tax auction (**Resolved**)
3. E. Opportunity to establish procedures to identify parcels that have been sold but a hearing for confirmation or set aside has not been held (**Resolved**)

Summary of Current Observations

The opportunity exists for the Sheriff's Office to improve controls to ensure the tax delinquent land auction process is performed in compliance with applicable Missouri State Statutes, Ordinances of the City of St. Louis and policies and procedures of the Sheriff's Office. The following observations have resulted from our review:

1. Opportunity to update written procedures (**Repeated**)
2. Opportunity to improve recordkeeping and liability reconciliation (**Repeated**)
3. Opportunity to recover fees paid on tax delinquent land parcel sale set aside (**Repeated**)

DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT'S RESPONSES

1. Opportunity To Update Written Procedures (Repeated)

The Sheriff's Office written policies and procedures for court-ordered auction of tax delinquent land parcels have not been updated regularly. The procedures in use are significantly different from the written policies and procedures as presented by the Sheriff's Office.

Written policies and procedures assist in ensuring that procedures and job functions are:

- Effectively communicated to and understood by staff
- Approved by management
- Consistently performed
- In accordance with management's goals and objectives

The Sheriff's Office does not have a system of internal control in place to ensure that the written policies and procedures are updated when they are revised or changed.

The absence of updated written policies and procedures increase the risk that:

- Organization's processes may not performed in a consistent way in compliance with regulations and standard
- Accounting records may not be accurate and reliable
- Employees may not be effectively trained
- Appropriate performance standards and measures may not be developed

Recommendation

It is recommended that the management of the Sheriff's Office update the written policies and procedures for court-ordered auctions of tax delinquent land parcels as soon as possible to accurately reflect the processes that are currently performed. The updated policies and procedures should also include procedures for the following:

- Reconciliation of its accounting records to the records/reports obtained from outside sources (the monthly City general ledger reports and reports generated by the Collector of Revenue).
- Correction of the spreadsheet tracking system to allow for tracking of payments made by vouchers and payouts to multiple claimants.
- Generation of any cumulative financial and statistical reports from the spreadsheet tracking system.

Management's Response

Updates were made and approved by William Weir, Auditor

1. Continued...

Auditor's Comment

The Management's response above does not address the Internal Audit Section's recommendation. The auditor neither updated nor approved the Sheriff's Office policies and procedures. It is the responsibility of Sheriff's Office to update and approve its policies and procedures.

2. Opportunity To Improve Recordkeeping And Liability Reconciliation (Repeated)

The state audit dated March 2010 noted that the Sheriff's Office does not reconcile the tax delinquent land sales liabilities to the balance held pending distribution in the Land Auction Sales Fund Account maintained within the city treasury.

A comparison by the State Auditor of these liabilities to the cash balance in the Land Auction Sales Fund revealed an initial difference of \$1,079,800.

Tax delinquent land sales proceeds as of 5/31/2009	\$ 1,107,755
Funds held pending court confirmation	<u>155,583</u>
Total land sales funds in hand as per Sheriff's records	\$ 1,263,338
City Land Auction Sales Fund balance	<u>183,538</u>
Unidentified difference as of 5/31/2009	<u>\$ 1,079,800</u>

The State Auditor then performed additional procedures to determine the causes of this difference and noted numerous overpayments and accounting errors, which reduced the unidentified difference to \$27,443 as noted below:

Unidentified Difference as Above	\$ 1,079,800
Underpayments	594
Overpayments	(20,990)
Posting error - receipts	(678,195) (A)
Posting Error - disbursements	<u>(408,652) (B)</u>
Adjusted unidentified difference - Surplus	<u>\$ 27,443</u>

In the follow-up to the state audit, Internal Audit Section (IAS) noted that the Sheriff's Office has yet to implement the procedures for reconciling its tax delinquent land sales liabilities to the funds held in the City's Land Auction Sales Fund pending distribution. A comparison of the two records as of June 30, 2010 disclosed a difference of \$(376,954) as follows:

Sheriff's Office land sales with open balances as of 6/30/2010	\$2,750,672
Posting errors (A) and (B) above not corrected in Sheriff's records	<u>(1,086,847)</u>
Total land sales funds in hand as per Sheriff's records	\$1,663,825
City Land Auction Sales Fund balance as of 6/30/2010	<u>\$1,286,871</u>
Unidentified difference (deficit) as of 6/30/2010	<u>\$(376,954)</u>

2. Continued...

The Sheriff's Office is responsible for conducting sales of property with delinquent real estate taxes and distributing the proceeds to the creditors and the purchaser under Sections 92.700 to 92.920, RSMo, the Municipal Reutilization Law.

The Sheriff's Office does not have a system of control in place to track the distribution of the land auction proceeds by creditors and reconciling the undistributed funds to the Land Auction Sales Fund.

The lack of reconciliation of the undistributed funds pending distribution to the Land Auction Sales Fund may lead to improper payments or misappropriation of the land auction sales fund.

Recommendation

It is recommended that the Sheriff's Office reconcile monthly the outstanding land auction sales liabilities to the balance in the Land Auction Sales Fund maintained within the city treasury.

Management's Response

In an attempt to set up a process wherein we could reconcile the Land Tax account on a monthly basis, the Sheriff's Office requested a meeting for the Comptroller's Office and their IT Staff to meet with William Weir, City of St. Louis Internal Audit and the Sheriff's Department and their IT Staff.

Auditor's Comment

It is the responsibility of Sheriff's Office to maintain its accounting records accurately. However, The Sheriff's Office Formally requested the Internal Audit Executive to assist the Sheriff's Office in establishing a land sales liability reconciliation process.

3. Opportunity To Recover Fees Paid On Tax Delinquent Land Parcel Sale Set Aside (Repeated)

The Sheriff's Office does not recover fees paid to the Recorder of Deeds and the Sheriff's Office for parcel land auction sales set aside.

When a parcel sale is confirmed, the sale proceeds are distributed by the Sheriff's Office. Included in these proceeds is a fee paid to the Recorder of Deeds for recording the Sheriff's Deed and payments to the Sheriff's Office for notification fee and sale commission.

In some instances, a parcel sale may be confirmed and the funds distributed but the sale is later set aside. In these instances, the Sheriff's Office is required to recover all sales proceeds and return the monies to the purchaser.

The State audit, dated March 2010, recommended that the Sheriff's Office recover fees from the Recorder of Deeds and the Sheriff's Office for confirmed parcel sales set aside by the court.

The Sheriff's Office stated it does not pursue recovery of fees turned over to the Recorder of Deeds or the Sheriff's Office fees deposited with the City Treasurer because they are charged for the services provided by them during the auction.

Since the Sheriff's Office refunds the original purchase price, this results in overpayment of fees and shortages in the Land Auction Sales Fund.

Recommendation

It is recommended that the Sheriff's Office:

- Recover all funds previously disbursed prior to refunding the sale proceeds to the purchaser when a land sale was set aside.
- Establish and implement procedures to recover all applicable fees or offset the fees refunded to the purchaser against future turnovers to the Recorder of Deeds and City Treasurer.

Management's Response

The Sheriff's Office made every attempt to transfer, fix, apply and recover fees as noted by the state auditors in regard to parcels affected by this. Future procedures and safeguards are still being looked into, one of which is the addition of the following policy to be used as a guide (if) in the future a property is set aside after it is confirmed.

In those instances in which the sale of property has been confirmed and the deed is recorded, but is later set aside, the Attorney for the Sheriff shall ensure the court

3. Continued...

order reflects the return to the Office of Sheriff the amount advanced for the Recording Fee and Sheriff's fees. (Effective October 2010).