LAND TRUST OF
JACKSON COUNTY, MISSOURI

From The Office Of State Auditor
Claire McCaskill

Report No. 2000-08
February 21, 2000

AUDIT REPORT

Office Of The
State Auditor Of Missouri
Claire McCaskill

February 2000

YELLOW SHEET

The following problems were discovered during an audit of the Land Trust of Jackson County, Missouri conducted jointly by this office and the Kansas City, Missouri, City Auditor's Office.

Although state law requires Land Trust to turn over the net sale proceeds from land sales to the taxing authorities, no such distributions have been made since 1994. Since that time, Land Trust has retained the proceeds from all property sales and used those monies to pay all operating expenses and accumulate a surplus in excess of $500,000.

Several questionable sales transactions were noted which may warrant further review. These include two property sales made to the spouse of a Land Trust employee. One of these involved the May 1998 sale of an improved property (a property which includes a house or commercial building) for $6,200. No documentation could be located to indicate that any monies were ever received or deposited related to this sale. In addition, it does not appear this sale went through Land Trust's review and approval process.

The other property was sold in July 1997 to the Land Trust employee's spouse for $2,000; however, it appears only $1,300 was received and deposited, with $700 unaccounted for or outstanding. This property was subsequently condemned by the City of Kansas City for public use and the applicable Land Trust employee and spouse were awarded an $11,000 settlement for this property.

Various other problems were noted regarding Land Trust's management and sale of property.

- Appraisals were not made when properties were added to inventory as required by state law.
- Letters of consent were not obtained from at least two of the three appointing authorities (City of Kansas City, Jackson County, and Kansas City School District) when an offer was accepted for less than two-thirds of a property's value.
- Many of the property sales files did not contain adequate documentation to support property valuations and offers. One of these files included the 1996 sale of the Vista Del Rio building for $400,000. There was no documentation supporting the valuation of that property. Also, there was no documentation available concerning the sale of the Uptown Theater to a former trustee in 1993.

(over)

- The highest offer was not always accepted.
- Improved properties were not advertised in 1997. In addition, Land Trust does not advertise in a newspaper with a wide circulation.
- Land Trust does not have written policies or procedures regarding properties sold on an installment basis or properties held off the available sales list at the request of the City of Kansas City.

Various concerns were noted regarding expenditures incurred by Land Trust.

- In 1998, extra salary payments totaling $10,025 were made to three Land Trust employees. There was no documentation supporting the reasons for the extra payments or indicating that they had been approved by the board. In addition, annual bonuses totaling $32,000 were paid to employees between January 1997 and December 1998. Neither the extra salary payments nor the bonuses were reported on the employees' W-2 forms.
- From 1995 through August 1999, Land Trust expended over $650,000 for contracted mowing services. Land Trust has not formally solicited bids or other proposals for these services. It was noted that the highest paid mowing contractor was the spouse of a Land Trust employee, receiving approximately $50,000 in 1998 and $42,400 during the first eight months of 1999.
- Competitive bids were not solicited for any other items and services purchased by Land Trust, including various pieces of office furniture and equipment.
- Land Trust has not solicited proposals for its banking services as required by law. In 1997, Land Trust moved its accounts to a bank where a trustee serves on the board of directors. At a minimum, this situation gives the appearance of a conflict of interest.
- The Land Commissioner is paid a $500 monthly auto allowance without being required to provide any documentation to support these payments.
- Actual expenditures exceeded the budgets by significant amounts during the past several years.

A review of Land Trust accounting controls and procedures disclosed various record keeping and procedural weaknesses including a lack of segregation of duties, untimely deposits, inadequate records of monies collected, and checks being signed in advance of preparation, among others.

Other findings included:

- The lack of any written policies and procedures.
- Concerns regarding the bonding of the trustees and the Land Commissioner.
- Lack of proper documentation and disclosure regarding offers considered and approved, and not being fully compliant with the Open Meetings Law.

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JACKSON COUNTY, MISSOURI

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CLAIRE C. McCASKILL
Missouri State Auditor

The Board of Trustees of the
Land Trust of Jackson County, Missouri
Kansas City, Missouri 64110

The State Auditor's Office and the Kansas City, Missouri, City Auditor's Office have conducted a joint audit of the Land Trust of Jackson County, Missouri. The objectives of this audit were to review:

1 The management and sale of properties.

2. The handling of revenues generated by land sales.

3. Expenditures incurred to administer and manage properties.

4. Compliance with applicable laws and regulations.

This audit was conducted in accordance with generally accepted government auditing standards, with the exception of the completion of an external quality control review of the City Auditor's Office within the last three years.[1] The board had engaged William Michael Altman, Certified Public Accountant (CPA), to perform financial audits of Land Trust for the years ended December 31, 1997 and 1996. To minimize any duplication of effort, we reviewed the reports and substantiating workpapers of this CPA. We also examined selected Land Trust records, made inquires of Land Trust officials, and examined other documents. The 1983 county audit of Land Trust was considered during the planning and performance of this audit. Our audit included, but was not necessarily limited to, the activity, records, and practices of Land Trust during the period from January 1, 1997 to August 31, 1999.

Our audit was limited to the specific matters described above and was based on selective tests and procedures considered appropriate in the circumstances. Had we performed additional procedures, other information might have come to our attention that would have been included in this report.

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[1] The last review was performed in April 1995. A peer review is planned for the current year.

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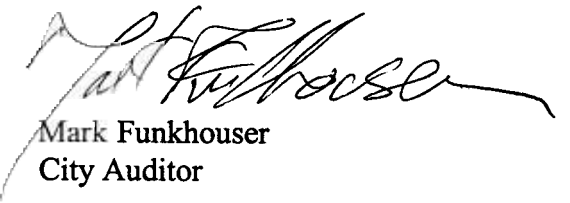
The accompanying History, Organization, and Statistical Information is presented for informational purposes. This information was obtained from Land Trust's management and other sources and was not subjected to the procedures applied in the audit of Land Trust.

The accompanying Management Advisory Report presents our findings and recommendations arising from our audit of the Land Trust of Jackson County, Missouri.

Claire McCaskill
State Auditor



Mark Funkhouser
City Auditor

October 8, 1999 (fieldwork completion date)

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MANAGEMENT ADVISORY REPORT SECTION

LAND TRUST OF
JACKSON COUNTY, MISSOURI
SUMMARY OF FINDINGS

1. Sale Proceeds and Funding Land Trust Operations (pages 7-10)

Although Land Trust is responsible for turning over the net sale proceeds from land sales to the taxing authorities, no distributions have been made since 1994. Land Trust has retained and used the sales proceeds to pay all operating expenses and to accumulate a surplus. State law requires Land Trust to requisition or request its funding for administrative expenses from the county and the municipalities.

2. Managing Land Trust Properties (pages 10-16)

Appraisals are not performed when properties are added to inventory. Letters of consent were not obtained from at least two of the three appointing authorities when an offer was accepted for less than two-thirds of the property's value. Properties are not classified in accordance with state law. Many of the property sales files did not contain adequate documentation to support property valuations and offers. In one instance, involving the sale of a property for $400,000, there was no documentation supporting the valuation of that property. In addition, that property was not advertised among those available for sale. The highest offer was not always accepted. Deposits are not always collected with each offer as required, and checks related to deposits were sometimes returned instead of being deposited. Expenses for each property are not recorded in Land Trust's database. Installment sales are not handled in a consistent manner or in accordance with state law. The improved property list for 1997 was not advertised, and other instances were noted where individual properties were not listed in the property advertisements.

3. Questionable Property Sale Transactions (pages 16-19)

In two instances where properties were sold to the spouse of an employee, it appears all monies due were not received or deposited. The monies unaccounted for related to these sales totaled $6,900. In addition, three other sales were noted for which all monies could not be accounted for properly. In August 1993, a former trustee resigned and subsequently purchased a property from Land Trust. Because the file related to that sale could not be located, we could not evaluate the propriety of the sale.

4. Expenditures (pages 19-24)

In 1998, extra salary payments totaling $10,025 were made to three Land Trust employees. Annual bonuses totaling $32,000 were paid to employees in the past three years. These payments along with the Land Commissioner's auto allowance were not reported on the employees' W-2 forms. Bids were not solicited for mowing services and other significant

expenditures. Proposals for banking services have not been formally solicited, and a trustee is on the board of directors of Land Trust's current depository bank. The Land Commissioner is paid a monthly auto allowance and he is not required to prepare reports documenting the mileage driven on Land Trust business. Actual expenditures exceeded budgeted amounts.

5. Accounting Controls and Procedures (pages 24-26)

Land Trust's accounting and other record keeping duties are not segregated. Deposits are not made on a timely basis. No receipts ledger is maintained and receipts slips are not issued. Checks and money orders are not restrictively endorsed immediately upon receipt. Land Trust checks are signed in advance of their preparation. A monthly listing of deposits being held on pending offers (open items) is not prepared and reconciled to the escrow account balance.

6. Other Compliance Issues (pages 26-27)

The term of the City of Kansas City's appointee expired in January 1998 and no efforts have been made to officially fill this position on the board. The Land Commissioner was not bonded as required. The trustees' surety bonds are not on file with the County Clerk's office and are not paid out of county funds as required. In addition, these bonds were purchased from a company owned by one of the trustees and a competitive bidding process was not used to obtain surety bond coverage.

7. Annual Financial Audits (page 28)

Proposals for audit services have not be requested since 1990. Recent audits have not been completed on a timely basis.

8. Documentation and Reporting of Board Proceedings (pages 28-30)

The board minutes did not always include a listing of the offers that were accepted and rejected, and the trustees' review and approval of expenditures is not documented in the minutes. Offers considered and approved sales are not posted or publicly disclosed. Proper notice is not always given for board meetings. The votes and reasons for closing a meeting are not documented and closed meeting minutes are not maintained.

9. Lack of Formal Policies and Procedures (page 30)

Land Trust has no written policies or procedures.

LAND TRUST OF
JACKSON COUNTY, MISSOURI
MANAGEMENT ADVISORY REPORT

1. Sale Proceeds and Funding Land Trust Operations

Pursuant to Section 141.790, RSMo 1994, Land Trust is responsible for turning over the net sale proceeds from land sales to the taxing authorities in the county. This statute requires proceeds from sales to be applied first to sales expenses, then to any penalties, attorney's fees or costs, then to care and management of the property, with the balance paid to the respective taxing authorities. In 1994, Land Trust disbursed $44,150 to the taxing authorities and has made no subsequent distributions. According to the notes to the financial statements in Land Trust's 1995, 1996, and 1997 audit reports, the trustees decided that any proceeds over and above actual expenditures would be retained and appropriated in future years to pay increasing weed cutting costs.

Between January 1, 1994 and August 31, 1999, Land Trust sold 1,431 properties with sales proceeds totaling approximately $2 million. During the same period, Land Trust expenditures totaled approximately $1,690,000 (not including the distributions to the taxing authorities in 1994), representing approximately $690,000 in property maintenance expenditures and approximately $1 million in salary and other administrative expenditures. As of August 31, 1999, Land Trust had an accumulated surplus of over $500,000.

Although Land Trust has used the retained sales proceeds to pay all Land Trust expenses and accumulate a surplus, this is not in accordance with state law. Section 141.770, RSMo 1994, provides that salaries and other administrative expenses of Land Trust are to be advanced and paid to Land Trust upon requisition, 50 percent by the county and the remaining 50 percent by all municipalities in the county in proportion to their assessed values. The requisition shall not exceed a total of $25,000 each year. Any amount beyond this may be requested, but must be agreed to by the county and municipal legislative bodies. According to the Land Commissioner, Land Trust has not requested any funding from the political subdivisions since the 1980's.

Land Trust should take steps to distribute net sales proceeds and request funds to pay its administrative costs in accordance with the applicable laws. In addition, considering total annual expenses averaged less than $400,000 during 1998 and 1997, it appears the current surplus is excessive and would cover Land Trust expenses for over one year without any additional sales revenues being received.

WE RECOMMEND the Board of Trustees distribute net sale proceeds to the various taxing authorities in accordance with state law. Administrative funds should be requested as provided

by law.

<u>AUDITEE'S RESPONSE</u>

Until 1995, city administrations accepted responsibility and allocated funding for mowing the public properties held in the Land Trust inventory. This was done in accordance with public health code and ordinance standards, circuit and appeals court decisions, and an agreement signed by city and Land Trust officials. In 1989 and 1992, the City Auditor's office reported to the Mayor and City Council that the city was in violation of its own ordinances by failing to effectively cut weeds on public property, both city owned and in the Land Trust inventory. These reports recommended that the city administration formulate a system and find "an acceptable level of General Fund support" to ensure that Land Trust properties are in compliance with the Weeds and Noxious Plants ordinance. The City Manager's office and the Neighborhood and Community Services Department agreed with these proposals and agreed to prepare policy alternatives for consideration by the City Council.

In mid-summer 1995, under increasing budgetary constraints, the City Council informed Land Trust that city resources would not be allocated to carry out these delineated responsibilities and recommendations for mowing Land Trust lots. The vast majority of Land Trust properties conveyed by the circuit court have been abandoned, vacant, weeded lots for years prior to foreclosure. These properties, concentrated in the older, deteriorating neighborhoods of the central city, are the properties that the city decided that it would no longer mow. These are the properties that Land Trust has the responsibility to market.

The comprehensive intent and purpose of the Land Tax Collection Law states that Land Trust's primary responsibility is the sale of tax delinquent properties. An effective marketing strategy requires that the lots are mowed prior to sale. The sale of property in violation of code standards is virtually impossible. Potential buyers are reluctant to purchase overgrown lots, often filled with trash and debris.

The city's inability to provide funding for the mowing of the public properties held in Land Trust confronted the Board of Trustees with a choice:

1. *Continue distributing net sale proceeds to the taxing authorities. This would have resulted in most of the Land Trust lots being in violation of the Weed and Noxious Plants ordinance, in the further deterioration of the neighborhoods, and a steady decline in property values in these areas, as well as an inability on the part of Land Trust to carry out its legislated responsibilities to sell properties.*

2. *Find an alternative system that would permit Land Trust to fulfill its legislated responsibility and continue to market the lots and return them to the tax rolls.*

The Board of Trustees felt it necessary that the properties continue to be mowed in order to

effectively market them and to minimize ordinance violations in the central city. Land Trust hired contractors and began to budget for this unexpected and large expense. The new costs of weed cutting, as well as salaries and other administrative expenses, were considered expenses of sale required for the marketing of the properties.

In regard to Section 141.770, it is Land Trust's position that it is acting in accordance with state law. The audit report cites only paragraph 3 of this section to substantiate the statement that Land Trust is holding an excessive surplus of about $500,000 in violation of state law. This section must be interpreted in its entirety and in conjunction with Section 141.790, which also deals with the operating expenses of Land Trust. Section 141.770, paragraph 1, states:

> *"Each annual budget of the land trust shall be itemized as to objects and purposes of expenditure, prepared not later than December fifteenth of each year, and shall include therein only such appropriations as shall be deemed necessary to meet the reasonable expenses of the land trust during the forthcoming fiscal year. Any unexpended funds from the preceding fiscal year shall be deducted from the amounts needed to meet the budget requirements of the forthcoming year."*

Section 141.790, paragraph 2, states in relevant part:

> *"When any parcel of real estate is sold or otherwise disposed of by the land trust, the proceeds therefrom shall be applied and distributed in the following order:*
>
> *(1) To the payment of expenses of sale;. . . ."*

The expenses of sale are those costs required for the marketing of property.

The Land Trust budget for 2000 projects expenditures of about $410,000. Based on average yearly sales, the board projects a deficit of $104,000. Therefore according to law, Land Trust has the authority to retain $514,000 to meet its reasonable expenses for the year 2000.

During the period subject to audit, Land Trust, which receives no tax revenue, has been self-sufficient and has not found it necessary to requisition $25,000 or any additional funds from Jackson County and the City of Kansas City to meet its salary, administrative, and mowing expenses which amount to about $500,000 per year.

This large surplus was unexpected and resulted from the sale of 3 unusual properties including the Vista Del Rio for $400,000 (sale total, $510,000). Such sales are unprecedented and unlikely to occur in the future.

Therefore, it is Land Trust's position that the current surplus is not excessive, that it must be used to cover expenses for 2000, and that Land Trust has been and is acting in accordance with the full intent and scope of the Land Tax Collection Law.

AUDITORS' COMMENT

We do not agree that the mowing responsibilities turned over to Land Trust in 1995 has prevented it from distributing any sales proceeds to the various taxing authorities since that time, and this decision by the Land Trust Board was clearly not in accordance with state statutes. We also disagree with Land Trust's interpretation of the statutes cited in this finding. In their response, Land Trust asserts that retaining a surplus of $514,000 for calendar year 2000 is justified based on projected expenditures of $410,000 and a $104,000 deficit. This analysis and conclusion is flawed because projected revenues for the current year are not considered in this analysis. A more accurate estimate of a surplus that Land Trust could justify based on the law, is the amount of the projected deficit ($104,000) for calendar year 2000.

The response further states that Land Trust has been self-sufficient and has not found it necessary to requisition any funds from Jackson County or the City of Kansas City. This comment is contrary to state law. The statutes do not authorize Land Trust to retain all sales proceeds and be self-sufficient, and it ignores the provisions of Section 141.770.3, RSMo, which requires that monies needed to pay salaries and other administrative expenses be requisitioned or requested from the county and municipalities in the county.

2. Managing Land Trust Properties

During a review of the Land Trust's management and sale of properties, we noted the following concerns:

A. Appraisals are not performed when properties are added to inventory as required by state law. The Land Commissioner indicated that he does not prepare a property valuation worksheet until after an offer has been made on a property. We reviewed 72 sales files and found that valuation worksheets were completed by the Land Commissioner an average of seven days after offers were made.

Section 141.760, RSMo 1994, requires Land Trust to immediately assume possession and control of all properties it acquires, direct the land commissioner to inventory and appraise the properties, and thereafter maintain a perpetual inventory of those properties.

Without appraisals prepared as properties are added to inventory and periodically updated, Land Trust does not have a value for all the properties it is responsible for managing and is unable to track the change in value between the time a property is received and when it is ultimately sold. In addition, conducting appraisals after receiving an offer could affect the value placed on property by Land Trust, providing an environment where unfair treatment or other improprieties could occur.

B. Land Trust did not obtain letters of consent from at least two of the three appointing authorities (Jackson County, City of Kansas City, and Kansas City School Board) when an offer was accepted for less than two-thirds of the value noted on the valuation worksheet. We noted that 7 of 72 sales reviewed were sold for less than the two-thirds valuation determined by Land Trust. Two properties were each sold for approximately $6,500 less than the two-thirds valuation and the other five were sold below the two-thirds valuation by amounts of less than $100.

Section 141.750.2, RSMo 1994, states:

> "... if such selling price represents a consideration less than two-thirds of the appraised value of said real estate, then <u>the land trustees shall first procure the consent thereto of not less than two of the three appointing authorities</u>, which consent shall be evidenced by a copy of the action of each such appointing authority duly certified to by its clerk or secretary attached to and made a part of said deed." (emphasis added)

Land Trust officials have taken a position that since the trustees are appointed and represent the three appointing bodies, no further written consents are required. However, this interpretation is in direct conflict with the statutes.

C. Land Trust does not classify properties in accordance with state law. Properties in Land Trust's inventory records are only classified as improved properties (properties which include a house or commercial building) or vacant lots. Section 141.760, RSMo 1994, requires Land Trust to classify property as (a) suitable for private use, (b) suitable for public use, or (c) not useable in present condition and held as public land reserve. In addition, that law requires Land Trust to make every effort to return land classified as "private use" to private ownership as soon as possible; to offer "public use" land to any public body subject to the discretion of the trustees; and to study or make recommendations to taxing authorities about possible use of land classified as "not useable".

Classifying all properties as "available" does not allow Land Trust to focus its efforts on managing, selling or otherwise disposing of property based on the condition or best potential use of the property.

D. Land Trust has not established effective procedures over the property sale process. Our review of 72 sales files, which included 160 offers, disclosed the following concerns:

1) Many of the property sales files did not contain adequate documentation to support property valuations and offers. For example, we noted 19 offers related to 9 sales where a valuation worksheet was not present in the file at the

time the decision was made on those offers. While two of these files contained valuation worksheets prepared after decisions were made on the offers, the other seven contained no documentation indicating the Land Commissioner ever determined the value of the properties. One of the sales files without a valuation worksheet related to the $400,000 sale of the Vista Del Rio building in 1996. This sale was the largest sale noted during our review of Land Trust. According to county records, the appraised value of the property was $1,942,520 when it was deeded to Land Trust in March 1996 and the delinquent taxes and judgements totaled $1,711,296.

We noted instances where valuation worksheets were not signed or dated by the Land Commissioner and instances where valuation worksheets were dated after the trustees made their decision to accept or reject the offers. Also, the trustees did not sign or include the date of acceptance or rejection for a number of offer sheets reviewed.

Land Trust should ensure property sales are properly handled and fully documented. Proper and complete information should be made available to the trustees when considering offers on properties, to ensure that Land Trust receives fair value for the properties, to provide evidence that statutory requirements are met, and to ensure that offers are consistently handled.

2) Land Trust did not always accept the highest offer in instances when more than one offer was submitted on a property. We noted that Land Trust accepted a $1 offer from a church for a commercial building, while rejecting a $1,000 offer from an individual. This file did not contain a valuation worksheet; however, according to county records, the appraised value of this property was $14,286 when it was deeded to Land Trust.

While there is no legal requirement for Land Trust to sell property to the highest bidder, it would appear to be in the best interests of the taxing authorities to do so. Not selling properties to the highest bidder contributes to the appearance of unfair or unequal treatment. If there are valid reasons for selling a property to a lower bidder, the circumstances should be thoroughly documented.

3) Land Trust did not always collect a deposit with each offer as required. According to Land Trust's standard offer sheet, offerors are required to submit a deposit of 10 percent of the offer amount for an improved property and 25 percent for a vacant lot when an offer is made on a property.

Not requiring deposits for all offers submitted creates an environment for inconsistent treatment and gives the perception of favoritism.

4) Rather than being deposited into a bank account, deposit checks submitted with offers were sometimes marked void and returned to the offeror after the offer was rejected.

All deposits submitted with offers should be deposited intact and subsequently refunded by check, if the applicable offer is rejected. Handling these funds in a consistent manner improves accountability, reduces the risk of loss or misappropriation, and helps prevent perceptions of favored or unequal treatment.

E. An individual record for each property is included in Land Trust's database; however, the expenses for each property are not recorded in the database or in the property file. It appears Land Trust's database system has the capability to track costs, but this capability is not being used. The information in the database for the individual properties only includes the address/location, legal description, offers made on the property, and the property's status.

Maintaining a record of expenses for each property is necessary for Land Trust to distribute the net proceeds from each sale to the taxing authorities as required by law. Section 141.790, RSMo 1994, requires Land Trust to establish accounts on its books relating to the operation, management, or other expenses of each parcel of real estate.

F. Land Trust has sold some properties on an installment basis, whereby the purchaser pays for the property over a period of time. We noted such installment sales (properties sold on a Note and Deed of Trust) have not been handled in a consistent manner and Land Trust has no written procedures related to these types of sales. The office manager indicated that sales paid over a longer period of time are charged interest, while sales paid over a shorter term are not charged interest. Section 141.760(4), RSMo 1994, indicates that interest at a legal rate is to be charged on the balance of installment sales.

We also noted an instance where penalties were charged for late or delinquent payments, while such penalties were not charged in other similar instances. In addition, for the two existing installment sales as of August 1999, neither purchaser had made a payment on the respective property since 1997. It appears Land Trust has not taken adequate steps to collect the remaining amounts due or to recover the properties.

A written policy should be established for all aspects of such sales. All installment sales should be handled in a consistent manner to ensure all purchasers receive equal treatment and avoid any perception of favoritism. This would include charging interest and penalties on a consistent basis and in accordance with state law. In addition, Land Trust should take timely action to recover amounts owed on delinquent installment sales or recover the properties.

G. Each year, Land Trust advertises improved properties in inventory in a local newspaper. However, it appears no properties were advertised by Land Trust in 1997. We could not locate an advertisement for that year and Land Trust could not provide a copy of the advertisement. In addition, we noted instances where individual properties were not advertised after being received by Land Trust. For example, the Vista Del Rio building noted earlier was not listed in the 1996 property advertisement. Further, Land Trust does not advertise its properties in a newspaper with a wide circulation, but instead advertises in a weekly newspaper with a limited circulation.

Land Trust should ensure all improved properties in inventory are advertised at least once annually in a newspaper with a wide circulation. By not doing so, all potential purchasers are not made aware of available properties.

H. Land Trust holds property off the available sales list at the request of the City of Kansas City, Missouri. The city requests properties to be held for redevelopment projects and these requests are forwarded to Land Trust by a letter or phone call. Land Trust staff indicated that the trustees decide whether or not to grant the request. Land Trust records indicate that the city currently has about 240 properties held off the list of available properties. Land Trust does not have written policies and procedures in place to ensure these transactions are documented and monitored.

Some of the above conditions were similarly noted in the 1983 audit of Land Trust conducted by the Jackson County Legislative Auditor.

WE RECOMMEND the Board of Trustees:

A. Direct the Land Commissioner to appraise or value properties when they are received as required by state law.

B. Obtain the consent of at least two appointing authorities before approving sales for less than two-thirds of the established value and document this approval by attaching copies of these letters to the deed as required by state law.

C. Classify properties as required by state law.

D.1. Ensure adequate and complete documentation is maintained in all sales files regarding property valuations and offers. Valuation worksheets should be prepared for all properties and be used in evaluating each offer.

2. Accept the highest offers made on properties, with any exceptions explained and documented.

3.&4. Require deposits be submitted with all offers considered by the board, that all monies

received be deposited intact, and that any refunds be made by check from Land Trust.

E. Maintain records accounting for the operation, management, or other expenses related to each parcel of real estate as required by state law.

F. Establish a written installment sale policy to ensure installment sales are handled in a consistent manner and in accordance with state law, and ensure delinquent installment sales are pursued on a timely basis.

G. Advertise all improved properties at least once annually in a newspaper with a wide circulation.

H. Develop and implement written procedures regarding "hold" properties.

AUDITEE'S RESPONSE

A. The Board of Trustees agrees with this recommendation. The board at a meeting in December 1999, directed the Land Commissioner to appraise and value the properties based upon the 2/3 valuation.

B. The Board of Trustees agrees that Land Trust was not in strict adherence with this part of the statute in regard to the sale of 2 properties. The other 5 sales were very close to the 2/3 valuation and approved after changed circumstances were presented to the board (for example, the adjacent owner and purchaser removed dead tree from the property at his expense). The board has requested letters of consent from the taxing authorities regarding sales for public purposes and received no response.

C. The properties in the Land Trust inventory are classified according to state statute; those suitable for private use are available to the public, those suitable for public use are held off the market at the request of the taxing authorities. Land Trust currently has no properties classified as "not useable".

D.1. & 2. The Board of Trustees agrees with these recommendations. The board is in the process of implementing procedures to ensure full and complete documentation for every offer in the files.

3. The Board of Trustees' policy has always required deposits for each offer submitted.

4. Prior to the audit, Land Trust had established a policy not to accept personal checks and this should not be a problem in the future.

E. The Board of Trustees thinks that this recommendation too narrowly interprets Section

141.790, paragraph 1, which was enacted in 1943. According to Section 141.780, the board has the authority and discretion to group or regroup individual tracts for economy or convenience. Given the large number of properties now in the inventory, the only feasible way to track actual expenses with actual income is to prorate these expenses to the properties sold in a given year.

F. The Board of Trustees agrees with this recommendation. Land Trust does not have a policy of selling properties on payment to the general public . Currently, there are no properties being financed by Land Trust. The two installment sales mentioned in the audit have been closed out. All monies due have been collected on one and title to the other property has been regained through foreclosure. These situations are rare and occur when property is occupied when Land Trust receives title and eviction would cause undesirable consequences for the resident.

G. The Board of Trustees agrees that all improved properties should be advertised. This has been done in the newspaper with the widest circulation in the neighborhoods where Land Trust has the largest concentration of properties for sale.

H. The city has used Land Trust as a land banking agency. The Board of Trustees has established procedures regarding "Hold" properties. Prior to the audit report, a letter was sent to the city asking it to inform Land Trust of plans for the properties which the city has held off the market for public use. Land Trust is still awaiting a response.

3. Questionable Property Sale Transactions

A. During our review, we noted the following sales made to a spouse of an employee:

1) In May 1998, an improved property was sold for $6,200 to the spouse of a Land Trust employee; however, we found no documentation to indicate that any monies were received or deposited related to this sale. In addition, it does not appear this sale went through Land Trust's review and approval process.

According to the offer sheet, the offer was made on May 30, 1998, and accepted that same day. According to Land Trust records, the trustee meeting for May 1998 occurred on May 28, 1998; two days before this offer was received and accepted. The next recorded trustee meeting was June 30, 1998. The board minutes from these meetings contain no record of an offer being accepted or rejected for this property. As a result, it appears the offer related to this sale may not have been brought to the board for consideration and approval. Further, no valuation worksheet could be located documenting Land Trust's appraisal of the property and this property did not appear on Land

Trust's 1998 advertisement of available improved properties. The deed related to this property sale was prepared on June 30, 1998, and subsequently recorded by the county on September 23, 1998.

We asked the employee about this sale and were told that there should be more files related to the sale and that they were probably in the Land Commissioner's office. We were later told this sale had been discussed with the Land Commissioner and that the property sale should have been canceled because the property was not really useable or fixable. It was explained that the $6,200 check had never been deposited and was returned to the offeror. We were also told that the deed should have been canceled and Land Trust would be preparing an affidavit to void the deed.

We drove by and viewed the exterior of the property at that address. From the exterior, the house appears to be in better condition than many of the other Land Trust houses we observed, and did not appear to be in any worse condition than the houses immediately adjacent to it. The block also has a number of newer homes.

In addition, a subsequent discussion with the Land Commissioner did not support the employee's explanation of this situation. According to the Land Commissioner, he was not aware this property had been in Land Trust until we asked questions about this transaction.

2) On July 25, 1997, another property was sold for $2,000 to the same Land Trust employee's spouse. We were only able to trace $1,300 received and deposited, with $700 being unaccounted for or outstanding. Even though the full sale price was not accounted for, the property was deeded to this individual on November 18, 1997.

In February 1997, the City of Kansas City passed an ordinance authorizing property acquisition and relocation services related to a development project in the area where this property is located. In March 1998, this piece of property (along with other surrounding properties) was condemned by the City of Kansas City for public use and the applicable Land Trust employee and spouse were subsequently awarded an $11,000 settlement for this property. We were unable to determine whether these two individuals had prior knowledge of the city's plans for future development in this area.

It appears improprieties may have occurred related to the two property purchases noted above. The lack of segregation of duties discussed later in this report contributed to this situation.

It should be noted that the Land Trust employee did not disclose the relationship with this individual when we inquired whether any properties were sold to related parties or during discussions concerning these two sales. We also determined the employee's spouse is a mowing contractor for Land Trust (see MAR No. 4). Again, the Land Trust employee did not disclose the relationship with this individual when we asked whether any related parties performed contract work for Land Trust.

B. Based on the approved offer sheets and deeds maintained in the sale files and the deposit records, we could not locate all amounts due related to three other property sales reviewed as follows:

	Offer Amount	Deposits	Amount Unaccounted For
Sale A	$ 8,000	6,000	$ 2,000
Sale B	1,500	120	1,380
Sale C	1,300	225	1,075
Total Amount Unaccounted For			$ 4,455

These sales may represent additional instances where all monies due were not collected. We attempted to contact the purchasers of the properties in these transactions. The purchasers in Sales A and C confirmed that the amounts deposited represented the total monies paid on those properties. The difference between the amounts offered and the actual payments could be due to errors or inadequacies in record keeping or could possibly represent fraudulent activity. Purchaser B did not respond to our request for information. These sales should be reviewed and an effort made to collect any monies which may be owed to Land Trust.

C. In August 1993, a former trustee resigned his position with Land Trust and subsequently purchased the Uptown Theater. According to a letter dated February 3, 1994, from the Land Commissioner to the Mayor of Kansas City, this trustee resigned from the Land Trust Board on August 19, 1993. On this same date, the property was deeded to a company owned by this individual for $7,500. The deed was signed by the board’s vice-chairman and secretary and notarized. The deed was recorded with the county on November 12, 1993.

Because of the circumstances surrounding the sale of this property, we requested the applicable sale file for review. We were informed by Land Trust officials that it could not be located. As a result, we were unable to verify whether any other offers were received related to this property, to determine whether Land Trust's appraisal of the property was reasonable, or to evaluate the propriety of the sale.

Although the county had appraised the property prior to tax delinquency at $561,354,

Land Trust officials stated that the property was of little or no value at the time of the sale and was a liability due to environmental concerns. The delinquent taxes and judgements related to this property at the time it was deeded to Land Trust totaled $69,724. The theatre is now part of a tax increment financing plan. Such a plan allows new taxes generated by development to be used to reimburse certain costs incurred by that developer.

> **WE RECOMMEND** the Board of Trustees ensure that all monies related to property sales are collected, recorded, and deposited before signing deeds transferring ownership. In addition, the board should develop and implement policies and procedures that address sales to related parties or Land Trust officials and ensure such sales are properly documented.

AUDITEE'S RESPONSE

The Board of Trustees does have policies and procedures that require that all monies related to sales are collected, recorded, and deposited before transferring ownership. It is Land Trust's policy that sales to related parties and Land Trust officials are inappropriate.

A.1.
&2. *The Board of Trustees is taking this matter very seriously. The employee has been suspended and an independent investigation is in progress. The board intends to take whatever actions are appropriate after the investigation is complete.*

B. *In reviewing these sales, the Board of Trustees found that two of the three sales (A&C) were not adequately documented but that all money owed to Land Trust had been collected. We are continuing to investigate Sale B ($1,380 still unaccounted for).*

C. *It is unfortunate that the file on the transaction cannot be found. The trustee resigned at the county courthouse before coming to the Land Trust meeting and making an offer to purchase the Uptown Theater. This property was on the market for over 2 years. There were no other offers made for the purchase of this property. It was shown many times by office personnel during the time it was held by Land Trust. The facade at the top of the building was falling to the ground, thus making it unsafe for people walking on the street. It was barricaded from the alley in the rear around to the front of the building. It was decided that any reasonable offer should be accepted, if the purchaser had the financial means to restore the building. This would relieve Land Trust, the State of Missouri and the taxing authorities of liability and promote Broadway development. Two appraisals were made by the FDIC indicating a negative value for the property.*

4. Expenditures

During our review of Land Trust expenditures, we noted the following concerns:

A. In January 1998, Land Trust changed its payroll cycle from paying twice a month to once a month. During 1998, extra salary payments totaling $10,025 were made to the three salaried Land Trust employees. During the first half of 1998, one extra payment was made to the attorney and Land Commissioner and two extra payments were made to the office manager. In addition, the Land Commissioner received an extra $500 auto allowance payment during this period.

According to the office manager, one of her extra payments was for unused vacation leave; however, we could not verify this because leave records are not maintained. In addition, there is no written leave policy and employees reported different understandings of Land Trust's informal policy. It appears the other extra salary payments may have occurred because of errors caused due to employees not being paid at the same time each month. There was no documentation supporting the reason(s) for the extra payments or indicating they had been approved by the Board of Trustees. In addition, these payments were not reported on the applicable employees' W-2 forms as required by the Internal Revenue Code.

The Land Trust Board should review the payments noted above and recover any unauthorized compensation. The employee W-2 forms should be amended, as necessary. To reduce the risk of unauthorized disbursements, the Land Trust Board should compare checks issued to the monthly check register and establish a regular monthly payday. Also, a written leave policy should be established to clarify the board's intent regarding this benefit. Employee leave records should be required in conjunction with this policy.

B. Land Trust employees have been paid annual bonuses. We noted bonuses totaling $6,000 in January 1997, $18,000 in December 1997, and $8,000 in December 1998, which were paid to the employees, including the Land Commissioner. The board did not retain any documentation indicating their approval of these bonuses or how the bonuses were determined. In addition, these payments were not included in the amounts reported on the employees' W-2 forms.

These payments appear to represent additional compensation for services previously rendered and, as such, are in violation of Article III, Section 39 of the Missouri Constitution. Also, Attorney General's Opinion No. 72, to Pray, 1952, states ". . . a government agency which derives its power and authority from the Constitution and laws of this state would be prohibited from granting compensation in the form of bonuses to public officers or servants after the service has been rendered." In addition, the employee W-2 forms should be amended to reflect this additional compensation.

C. According to the Land Commissioner, Land Trust currently holds approximately 1,500 properties which need to be mowed periodically. Prior to 1995, the City of Kansas City had been mowing weeds on most Land Trust properties and absorbing the associated costs. In 1995, the city discontinued mowing Land Trust properties and turned this responsibility and the associated expenses for this maintenance over to Land Trust. Since that time, expenditures for contracted mowing services have increased significantly and represent a large portion of Land Trust's operating costs. Recent mowing expenditures of Land Trust were:

Calendar Year	Total Mowing Expenditures
1994	$ 2,800
1995	56,555
1996	130,058
1997	150,092
1998	188,365
1999 (eight months) ended August 31,)	126,808

1) Land Trust has not formally solicited bids or other proposals for these mowing expenses. According to Land Trust officials, possible mowing contractors have been identified through references or by individuals/companies contacting Land Trust regarding the need for mowing services. Land Trust has never advertised publicly for these services.

According to Land Trust officials, the Land Commissioner selects the mowing contractors and determines the amount of mowing business awarded to each one. Each mowing contractor is paid the same rate ($6 per 1,000 square feet).

A governmental entity should award significant service contracts through an advertised, competitive bid process to the extent possible. The lack of a public and competitive procurement process, at a minimum, could give the appearance of favoritism and unfair treatment of other contractors. The spouse of a Land Trust employee was Land Trust's highest paid mowing contractor, receiving approximately $50,000 in 1998 and $42,400 in the first eight months of 1999 for mowing services.

2) Land Trust does not maintain adequate documentation to ensure the mowing services billed to Land Trust are actually provided. According to the Land Commissioner, he visits some of the properties mowed to ensure the services billed are provided and documents this by initialing the invoice prior to payment. However, no documentation is maintained identifying the specific properties

inspected.

Land Trust should develop and implement procedures to verify and document that mowing services billed are actually performed.

D. In addition to the expenditures discussed in part C. above, we noted that competitive bids were not solicited for any other items and services purchased by Land Trust. Examples of significant purchases which were not bid included computer equipment ($14,500), a copier ($7,800), and an executive desk and chair ($3,100).

Formal bidding procedures for significant purchases provide a framework for economical management of resources and help ensure that the board receives fair value by contracting with the lowest and best bidders. In addition, competitive bidding ensures all parties are given an equal opportunity to participate in Land Trust business. Documentation of bids should include, at a minimum, a listing of vendors from whom bids were requested, a copy of the request for proposal, newspaper publication notices when applicable, bids received, the basis and justification for awarding bids, and documentation of all discussions with vendors.

E. Land Trust has not formally solicited proposals for its banking services in recent years. However, in 1997 Land Trust moved its accounts to a bank where a trustee serves on the board of directors. There was no mention in the board's minutes of whether this trustee participated in the decision to move the bank accounts or whether he abstained from this decision. Because of the lack of documentation, this situation at a minimum, gives the appearance of a conflict of interest. In addition, Land Trust does not have a written depository agreement with this bank.

Land Trust should solicit bids for its banking services every two years in accordance with Section 110.070, RSMo 1994. Any trustee associated with a bank bidding for the services should abstain from the selection process and that abstention should be documented. Land Trust should also enter into a contract with the depository bank, outlining the terms agreed to and the services to be received.

F. The Land Commissioner is paid $500 a month as an auto allowance to defray travel expenses he incurs on Land Trust business in his personal vehicle. The Land Commissioner is not required to prepare reports documenting the mileage incurred while performing his duties to support or justify these payments in any manner. In addition, the monthly payments are not reported as compensation on his W-2 forms.

Considering the extent of the auto allowance, the board should require the Land Commissioner to prepare and submit monthly reports documenting the mileage and other expenses incurred on Land Trust business. Any payments to the Land Commissioner which are above the amount of documented expenses should be treated

as compensation and should be subject to payroll withholdings and reported on his annual W-2 form.

In addition, in 1998 we noted Land Trust paid $2,370 for repairs to the Land Commissioner's personal vehicle. Considering the monthly auto allowances being paid to the Land Commissioner, it does not appear reasonable for Land Trust to also pay for the cost of repairs to his vehicle.

G. Actual expenditures exceeded budgeted amounts in the administrative account as follows:

Calendar Year	Budgeted Expenditures	Actual Expenditures	Actual Over Budgeted
1998	$ 366,259	431,455	65,196
1997	301,503	350,957	49,454
1996	220,877	287,699	66,822
1995	195,598	210,336	14,738

Source: Land Trust budgets, financial statements, and records.

If there are valid reasons for excess expenditures, budget amendments should be made following the same process by which the annual budget is approved. By allowing budgets to be routinely exceeded, any benefits intended by the budget process are diminished or lost.

A complete and well-planned budget can serve as a useful management tool by establishing specific cost and revenue expectations for each area of operations. A budget can also provide a means to monitor actual costs by periodically comparing budgeted amounts to actual expenditures.

WE RECOMMEND the Board of Trustees:

A. Review the extra salary and auto allowance payments and recover any unauthorized amounts. The employee W-2 forms should be amended, as necessary. In addition, the board should set employee compensation, require that documentation for salaries paid is maintained, and establish a regular monthly payday. Also, a written leave policy should be established and employee leave records maintained.

B. Review the propriety of bonuses that have been paid and, in the future, discontinue paying bonuses to employees. Furthermore, the employees' W-2 forms must be amended to report the compensation already paid.

C&D. Establish a formal procurement policy and ensure competitive bids are solicited for all significant purchases. Land Trust should develop and implement procedures to verify and document that mowing services billed were actually performed.

E. Solicit proposals for banking services every two years and enter into a written agreement with the depository bank. Any trustee associated with a bank bidding for the services should abstain from the selection process to avoid a potential conflict of interest. That abstention should be documented in the board minutes.

F. Require the Land Commissioner to prepare and submit monthly reports to support auto allowance payments. Amounts paid in excess of actual expenses incurred should be reported as compensation on W-2 forms. In addition, the trustees should establish a policy not to pay both an auto allowance and actual expenses. In conjunction with this, the trustees should review the $2,370 payment related to the repairs made to the Land Commissioner's personal vehicle and consider recovering this amount.

G. Ensure actual expenditures do not exceed the amounts budgeted. The budget should be amended if additional expenditures are necessary.

AUDITEE'S RESPONSE

The Board of Trustees agrees with the recommendations regarding 4.A-G. Procedures are being implemented to correct any deficiencies and problems.

In regard to A & B, an independent accountant has been hired to review the matters in question.

In regard to C.1.&2., in 1995, when Land Trust undertook new mowing responsibilities, the office requested a list of city contractors who had experience in mowing properties in the Land Trust inventory. The Board of Trustees is taking appropriate action to procure bids for future grass cutting contracts and to maintain better documentation for these services. The Trustees and the Land Commissioner were unaware that one of the contractors was the spouse of an employee.

In regard to D, Land Trust did receive bids for office equipment. The proposals should have been more fully documented.

In regard to E, the Trustee did abstain from the vote approving the transfer of funds and in the future the board will take bids.

5. Accounting Controls and Procedures

Land Trust collects money from property sales and from deposits submitted with offers on properties. The sales proceeds are deposited in a trust account and the offer deposits are deposited in an escrow account. An administrative account is used to pay expenses of Land Trust and money is transferred periodically from the trust account to the administrative account. A review of Land Trust's accounting controls and procedures disclosed the following concerns:

A. The accounting duties of Land Trust are not adequately segregated. The office manager essentially performs all accounting and record keeping duties, which include collecting monies, preparing and making the deposits, performing bank reconciliations, preparing checks, and maintaining documentation related to disbursements. In addition, this individual is responsible for handling offer sheets, maintaining the sales files, and preparing and filing deeds. It appears no independent review of the duties and activities performed by this individual is performed.

To safeguard against possible loss or misuse of funds, internal controls should provide reasonable assurance that all transactions are properly accounted for and assets are adequately safeguarded. An adequate system of internal controls requires segregation of duties. The Board of Trustees should, at a minimum, designate someone independent of the process to perform and document periodic reviews of the records and procedures.

B. Deposits are not made on a timely basis. During the year ended December 31, 1998, deposits into the trust account were made an average of two times a month, with deposits averaging $7,770. During this same period, deposits into the escrow account were made an average of two to three times a month with deposits averaging $2,450. In some months, only one deposit was made into each of these accounts. During our review of sale files, we noted an instance where the payment on the balance of a property purchase was received and deposited several weeks before the initial cash deposit submitted with the offer was deposited. In another instance, a deposit related to a rejected offer was not deposited until after Land Trust had sent a refund check to the individual who had submitted the offer.

In January 1999, Land Trust's office was burglarized and over $19,200 in checks and money orders were reported stolen. While it appears Land Trust was able to get most of the checks replaced, the seriousness of this situation would have been reduced had the monies been deposited on a timely basis. The timeliness of deposits did improve after the burglary; however, further improvement is still needed.

To adequately safeguard receipts and reduce the risk of loss due to theft or misuse of funds, deposits should be made on a daily basis or when accumulated receipts exceed $100.

C. The records maintained to document the monies collected by Land Trust are

inadequate. No receipts ledger is maintained to account for all monies received and receipt slips are issued only when they are requested. Generally, the only information supporting the monies collected is documented on the deposit tickets and in the sale files.

To help ensure collections are properly recorded and deposited and to reduce the risk of loss or theft, all monies should be recorded on prenumbered receipt slips and in a receipts ledger when received. This could be readily accomplished by the establishment of a one-write receipts system. In addition, recorded receipts should be reconciled to bank deposits on a periodic basis.

D. Checks and money orders are not restrictively endorsed immediately upon receipt. During a cash count conducted in July 1999, we noted that 14 of 21 checks held by Land Trust had not been restrictively endorsed.

To reduce the risk of loss or misuse of funds, checks and money orders should be restrictively endorsed immediately upon receipt.

E. Checks issued on Land Trust bank accounts require two signatures (the Land Commissioner and one trustee). According to the Land Commissioner, a trustee will generally sign the checks in advance of their preparation and then the Land Commissioner will sign after the checks are prepared. However, during our July 1999 cash count, we noted two blank checks signed in advance by both a trustee and the Land Commissioner.

A trustee signing checks in advance eliminates the additional control intended by a dual signature system. When both signators sign checks in advance of their preparation, a serious control weakness exists which provides an opportunity for the theft or loss of funds.

F. A monthly listing of deposits being held on pending offers (open items) is not prepared for the escrow account. Monthly listings of open items should be prepared and reconciled to the balance in the escrow account to ensure proper accountability over these monies.

WE RECOMMEND the Board of Trustees:

A. Adequately segregate the duties performed by the office manager and designate someone independent of the process to perform and document periodic reviews of the records and procedures.

B. Require deposits be made daily or when accumulated receipts exceed $100.

C. Ensure adequate records of monies collected are maintained by requiring that all monies received be recorded on prenumbered receipt slips and that a receipts ledger be maintained. Recorded receipts should be reconciled to deposits on a periodic basis.

D. Require checks and money orders be restrictively endorsed upon receipt.

E. Prohibit the practice of signing blank checks in advance. If it is not always practical for a trustee to sign the checks subsequent to their preparation, the board should designate another Land Trust employee who is independent of the disbursements function to serve as the second signator.

F. Require monthly listings of open items be prepared and reconciled to the monies held in the escrow account.

AUDITEE'S RESPONSE

The Board of Trustees agrees with these recommendations. New procedures are being implemented to correct any deficiencies and problems.

6. Other Compliance Issues

A. The term of the City of Kansas City's appointee to Land Trust expired on January 31, 1998, and this individual has continued to serve in this position. Section 141.720, RSMo 1994, states that if any appointing authority fails to make any appointment of a land trustee within thirty days after any term expires or vacancy occurs, then the appointment shall be made by the mayor of the city with the largest population in the county.

We could find no official correspondence from Land Trust to either the former Mayor or current Mayor of Kansas City informing them of the need to address this expired term.

B. During our review, we noted the Land Commissioner was not bonded as required by law. Section 141.740, RSMo 1994, requires the Land Commissioner to furnish a surety bond of at least $10,000 at the expense of Land Trust and this bond is to be filed with the County Clerk. The failure to properly bond individuals exposes Land Trust to risk of loss.

After we brought this matter to the attention of Land Trust officials, they indicated actions would be taken to obtain bond coverage for this official.

C. Each of the trustees is bonded for $25,000; however, the bonds are not filed with the County Clerk's office as required. The bond premiums were paid by Land Trust rather than the county. Section 141.730, RSMo 1994, requires the trustees to furnish surety bonds in an amount not to exceed $25,000 that are approved by the County Collector, paid out of county funds, and deposited with the County Clerk.

One of the trustees owns the company from which the trustees' surety bonds were obtained. The bond premiums paid this company totaled $1,065. This amount covered the four years of the trustees' terms. There was no documentation that quotes were obtained for this bond coverage, nor was there any mention in the board minutes whether the applicable trustee participated in the decision to purchase these bonds from his company or whether he abstained from this decision.

Because of the lack of documentation, this situation, at a minimum, gives the appearance of a conflict of interest. In such situations, bids should be solicited for the surety bond coverage and the applicable trustee should abstain from the decision.

WE RECOMMEND the Board of Trustees:

A. Notify the current Mayor of Kansas City about the need to address the expired term of the applicable trustee.

B&C. Ensure surety bond coverage is maintained for the Land Commissioner and the Board of Trustees as required. In addition, the board must ensure that the surety bonds of the trustees as well as the Land Commissioner are filed with the County Clerk's office. The bond premiums for the trustees should be paid out of county funds in accordance with state law. Furthermore, Land Trust should obtain quotes for surety bond coverage and in situations where a potential conflict of interest exists, document the abstention of the applicable trustee(s).

AUDITEE'S RESPONSE

A. In a conversation with the office of the previous Mayor, the Land Commissioner was told that the trustee would be re-appointed. This was near the end of the Mayor's term and preparations were being made to make the appropriate transitions. The trustee was also contacted and confirmed that the Mayor had re-appointed him. No further action was taken.

B. The Board of Trustees has taken care of the bonding of the Land Commissioner.

C. The Trustee mentioned did abstain from any vote authorizing his company to issue the bonds. In the future, bids will be obtained for this bond coverage.

7. Annual Financial Audits

Section 141.760, RSMo 1994, requires an annual audit of Land Trust's accounts and records be conducted by a certified public accountant. During our review of recent financial audits, we noted the following concerns:

A. Land Trust has not formally requested proposals for audit services since the selection of the current auditor in 1990. Land Trust should periodically solicit proposals for audit services from several independent auditors or auditing firms to compare and evaluate audit services available in terms of quality, experience, and cost.

B. The audits were not completed on a timely basis. The audit reports for the years ended December 31, 1995, 1996, and 1997, were not issued until approximately 12, 19, and 18 months, respectively, after the end of the applicable year. In addition, the audit for the year ended December 31, 1998, had not been completed as of January 25, 2000.

To obtain maximum benefit of audit services, Land Trust should ensure its financial audits are completed on a timely basis. The ability to complete timely audits should be considered during the evaluation of audit proposals.

WE RECOMMEND the Board of Trustees:

A. Periodically solicit proposals for auditing services.

B. Ensure financial audits are completed on a timely basis.

AUDITEE'S RESPONSE

The Board of Trustees agrees with these recommendations and intends to implement whatever changes are necessary.

8. Documentation and Reporting of Board Proceedings

A. The board minutes did not always include a listing of the offers that were accepted and rejected at the trustees' meetings. In addition, the minutes did not include documentation of the board's review and approval of Land Trust expenditures.

To adequately document the board's review of offers, a listing of the offers accepted and rejected should be prepared and maintained with the minutes. In addition, the

board should review and approve all expenditures of Land Trust and that review and approval should be documented.

B. Land Trust does not post or make any other type of public disclosure (such as to the three appointing authorities) of the offers considered and the sales approved related to its properties. The public posting or other disclosure of all offers considered and all approved sales would provide additional control and help ensure all offers received have been brought to the trustees for consideration.

C. Land Trust did not fully comply with all provisions of Section 610.020, RSMo Cumulative Supp. 1999, (the Open Meetings Law):

1) Proper notice was not always given for trustee meetings as required. For example, the March 1999 trustee meeting was advertised in the newspaper the same day as the meeting. That advertisement incorrectly reported the time of the meeting and did not include an agenda. In addition, in September 1999, we noted that a meeting of the trustees was held, but no notice was given.

Section 610.020, RSMo Cumulative Supp. 1999, requires all public governmental bodies to give notice of the time, date, and place of each meeting, and its tentative agenda in a reasonable manner to advise the public. Notice shall be given at least twenty-four hours prior to the commencement of any meeting.

2) According to Land Trust employees, the trustees discuss personnel matters during closed meetings in December of each year; however, the meeting minutes did not document the related votes or the reasons for closing the meeting. In addition, there were no minutes maintained to document the matters discussed in these closed meetings.

Section 610.022, RSMo Cumulative Supp. 1999, requires that before any meeting may be closed, the question of holding the closed meeting and the reason for the closed meeting shall be voted on at an open session. In addition, closed meeting minutes should be maintained to document these meetings.

WE RECOMMEND the Board of Trustees:

A. Ensure the approval and rejection of offers is adequately documented by including a detailed listing of accepted and rejected offers with all board minutes. The board's review and approval of Land Trust expenditures should be documented.

B. Ensure the offers considered and approved sales are posted and/or publicly disclosed in some other manner.

C.1. Ensure timely, accurate, and complete notice is given for all meetings of the board as required by law.

2. Ensure a public vote is held prior to going into closed session. The vote and the reason(s) for going into closed session should be entered into the minutes. In addition, minutes should be maintained to document the matters discussed in the closed meetings.

AUDITEE'S RESPONSE

The Board of Trustees agrees with these recommendations and intends to implement whatever changes are necessary.

9. Lack of Formal Policies and Procedures

Land Trust has no written policies or procedures, and Land Trust officials indicated that their only formal procedures are those contained in the state statutes. Statutes cannot, and are not intended to, serve as a substitute for internally established operating policies and procedures of a governmental entity. The lack of established policies and procedures and management oversight contributed to many of the problems noted in other parts of this report.

Land Trust should conduct a comprehensive review of its activities and operations and identify those areas where established policies and procedures are needed. These would include, but not necessarily be limited to, property valuations and sales, the handling of deposits, installment sales, related party transactions, payroll and personnel matters, properties withheld from those available for sale, and procurement procedures. Written policies and procedures are needed to ensure Land Trust officials and employees are aware of their duties and responsibilities, and to ensure that the public receives equitable treatment. Such policies and procedures would also help ensure employees adhere to the intent of the board and avoid any misunderstandings.

This condition was also noted in the 1983 audit of Land Trust conducted by the Jackson County Legislative Auditor.

WE RECOMMEND the Board of Trustees develop and implement formal written policies and procedures.

AUDITEE'S RESPONSE

The Board of Trustees agrees that it should have written policies and procedures to reflect the policies and procedures which are followed by the Land Trust office. The board would like to point out that, during the period under audit, Land Trust received into its inventory and sold hundreds of properties. The problems cited in the audit were not the result of a lack of policy

and procedure, but failures in a few isolated instances to strictly adhere to the guidelines established for the effective management and sale of the properties held in the Land Trust inventory.

This report is intended for the information of the management of the Land Trust of Jackson County, Missouri, and other applicable government officials. However, this report is a matter of public record and its distribution is not limited.

STATISTICAL SECTION

History, Organization, and
Statistical Information

LAND TRUST OF
JACKSON COUNTY, MISSOURI
HISTORY, ORGANIZATION, AND STATISTICAL INFORMATION

Background

The Land Trust of Jackson County, Missouri, was established by an act of the state legislature in 1943 as a public corporation acting in a governmental capacity. Land Trust was created and operates pursuant to Sections 141.700 to 141.810, RSMo 1994, and it is authorized to exercise all the powers in Sections 141.210 to 141.690, RSMo 1994, for the effective management, sale, or other disposition of real estate. The beneficiaries of Land Trust are the various taxing authorities in the county, including the county, municipalities, and school districts. Properties in Land Trust are exempt from all taxation and all prior delinquent taxes or other assessments are set aside.

The activities of Land Trust are overseen by a board of trustees, consisting of three members. One is appointed by the county legislature, one is appointed by the city council of the city with the largest population, and one is appointed by the board of the school district with the largest population. The trustees are appointed for four-year terms, receive $2,400 annually as compensation, and must have at least 10 years experience in the management or sale of real estate. The trustees have the responsibility to manage, maintain, protect, rent, lease, repair, insure, alter, sell, trade, exchange or otherwise dispose of trust properties under terms and conditions determined by the trustees. The trustees may also appoint a land commissioner and other employees, as needed, to carry out the duties and responsibilities of Land Trust.

Foreclosure and Land Trust Sale Processes

According to the Jackson County Collector, the county begins foreclosure proceedings on properties when taxes are in arrears for three years. After the judgement in the foreclosure suit, properties are sold on the courthouse steps for the amount of the back taxes and any judgement amounts assessed against the property. After a property has been offered for sale on three different days at the county foreclosure sale with no successful bids, Land Trust is deemed to have bid the full amount of all tax bills and other assessments included in the judgement. Overall, the process from tax delinquency to Land Trust receiving the property can take about five years. For example, the timeline for properties sold at the 1998 auction from tax delinquency to the properties being deeded to Land Trust was as follows:

Timeline for 1997 Foreclosures

Property Tax Delinquent	Foreclosure Initiated	Forclosure Judgement	County Tax Sale	Deed Filed
1994, 1995, and 1996	May 1997	November 1997	August 1998	January 1999

Sources: Jackson County deeds and interviews with Land Trust and County staff.

The county conducts two tax sales each year, one in Kansas City and one in Independence, to sell properties for delinquent taxes. Generally, properties sold at the Kansas City tax sale are within Kansas City's geographic boundaries and the properties sold at the Independence tax sale are located in other areas of Jackson County. Properties deeded to Land Trust from the Kansas City tax sale represented 94 percent of the properties received by Land Trust between 1994 and 1999. Between January 1, 1994 and August 31, 1999, Land Trust received 2,482 properties and sold 1,431 properties.

A summary of Land Trust's property inventory balances and additions and sales activity is presented below:

	Year Ended December 31,					Eight Months Ended August 31,
	1994	1995	1996	1997	1998	1999
Beginning inventory balance	2,036	2,353	2,595	2,675	2,756	2,888
Additions	575	499	359	345	341	363
Sales	(258)	(257)	(279)	(264)	(209)	(164)
Ending inventory balance	2,353	2,595	2,675	2,756	2,888	3,087

Sources: Land Trust sales records, Jackson County deeds, and County Assessor's records.

Land Trust receives a report of sales from the county tax sales and uses this information to enter properties into its inventory database. When the deed is received, it is compared to the report of sales and database entries. Within a few days, letters are mailed to adjacent property owners notifying them about available properties. Property worksheets that describe the property and provide a map of the immediate vicinity are prepared using legal descriptions in the deed and plat maps. A list of available improved properties is advertised and this list as well as a list of vacant lots are also available at Land Trust's office.

Citizens may make offers for properties owned by Land Trust by completing an offer sheet and submitting a deposit. When an offer is made on a piece of property, a valuation worksheet is given to the Land Commissioner to complete after conducting a site visit. A valuation (full value and two- thirds value) of the property is made and noted on the worksheet, which is then placed in a sale file along with the offer sheets. Valuations on improved properties are more detailed than those for vacant lots.

Land Trust trustees generally meet on a monthly basis to review the offers and either accept or reject them. Offers may be rejected because they are less than the two-thirds value (minimum set by state law) or because a higher bid is submitted. Letters are sent to offerors notifying them of the status of their offer (accepted or rejected). After receiving the final payment, a special warranty deed is

prepared and signed by two trustees and recorded at the county recorder's office. Copies of the deed are sent to the county and city as notification that properties have been sold.

Land Trust Personnel

The members of the Board of Trustees are:

Members	Appointing Body	Year Initially Appointed to Board	Term Expires
Robert Newsome, Chairman	City of Kansas City	1987	1/31/98 *
Herman Johnson, Vice Chairman	Kansas City School District	1987	1/31/03
Greg Patterson, Secretary	Jackson County	1993	1/31/02

* Mr. Newsome continues to serve in this position until he is reappointed or a replacement is named.

Land Trust employees and their compensation (in 1998) are as follows:

Employees	1998 Compensation
Willie McCann, Land Commissioner	$42,625 (1)
Duke Bledsoe, Attorney	38,400 (2)
Ardie Shannon, Office Manager	34,200 (3)
J.T. Spotts, Map Researcher	19,540 (4)

(1) This amount includes the $31,500 annual salary authorized in the 1998 budget, an extra salary payment of $2,625, $6,500 in auto allowances, and a $2,000 bonus.
(2) This amount includes the $33,600 annual salary authorized in the 1998 budget, an extra salary payment of $2,800, and a $2,000 bonus.
(3) This amount includes the $27,600 annual salary authorized in the 1998 budget, two extra salary payments totaling $4,600, and a $2,000 bonus.
(4) This amount includes $17,540 earned on an hourly basis and a $2,000 bonus.

Audits

In addition to annual financial audits, in 1983 the Jackson County Legislative Auditor audited Land Trust. That auditor reported various problems, including but not limited to, a lack of documented procedures, minutes containing inadequate or inconsistent information, taxing authorities not being contacted when property was sold for less than two-thirds of the value determined by Land Trust, all properties not being listed in the inventory, and properties were not being appraised by Land Trust

when received.

Financial Data

The following is a comparative table of revenues, expenditures, and changes in fund balance.

	Eight Months Ended August 31, 1999 UNAUDITED	Year Ended December 31, 1998 UNAUDITED	1997	1996	1995	1994
REVENUES						
Land sales	$ 310,366	226,138	641,382	408,324	243,902	220,637
Interest and other	6,568	14,962	15,299	13,651	8,193	7,650
Total Revenues	316,934	241,100	656,681	421,975	252,095	228,287
EXPENDITURES						
Salaries	81,277	128,265	134,283	107,100	92,630	85,500
Other administrative expenses	48,775	108,935	63,379	56,147	46,008	48,633
Property maintenance	129,528	194,255	153,295	137,991	71,698	2,800
Distributions to taxing authorities	0	0	0	0	0	44,150
Total Expenditures	259,580	431,455	350,957	301,238	210,336	181,083
REVENUES OVER (UNDER) EXPENDITURES	57,354	(190,355)	305,724	120,737	41,759	47,204
FUND BALANCES						
Beginning balance	514,776	705,131	399,407	278,670	236,911	189,707
Ending balance	$ 572,130	514,776	705,131	399,407	278,670	236,911

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