



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

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)

YELLOW SHEET

- 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.

LAND TRUST OF
JACKSON COUNTY, MISSOURI

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AUDITORS' REPORT

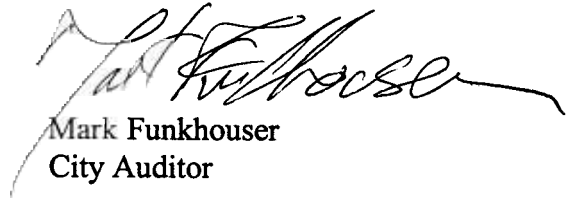


The accompanying History, Organization, and Statistical Information is presented for informational purposes. This information was obtained from Land Trust's management and other sources and was not subjected to the procedures applied in the audit of Land Trust.

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.

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:

<u>Timeline for 1997 Foreclosures</u>				
<u>Property Tax Delinquent</u>	<u>Foreclosure Initiated</u>	<u>Foreclosure Judgement</u>	<u>County Tax Sale</u>	<u>Deed Filed</u>
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	<u>2,353</u>	<u>2,595</u>	<u>2,675</u>	<u>2,756</u>	<u>2,888</u>	<u>3,087</u>

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:

<u>Members</u>	<u>Appointing Body</u>	<u>Year Initially Appointed to Board</u>	<u>Term Expires</u>
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:

<u>Employees</u>	<u>1998 Compensation</u>
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 <u>UNAUDITED</u>	Year Ended December 31,				
		1998 <u>UNAUDITED</u>	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	<u>316,934</u>	<u>241,100</u>	<u>656,681</u>	<u>421,975</u>	<u>252,095</u>	<u>228,287</u>
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	<u>259,580</u>	<u>431,455</u>	<u>350,957</u>	<u>301,238</u>	<u>210,336</u>	<u>181,083</u>
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	<u>\$ 572,130</u>	<u>514,776</u>	<u>705,131</u>	<u>399,407</u>	<u>278,670</u>	<u>236,911</u>

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