



Office of Missouri State Auditor
Nicole Galloway, CPA

Osage County



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Missouri State Auditor

CITIZENS SUMMARY

Findings in the audit of Osage County

Sheriff's Controls and Procedures	The Sheriff has not adequately segregated accounting duties and does not ensure adequate supervisory reviews of detailed accounting and bank records are performed. Receipts are not properly reconciled to deposits. The Sheriff's office does not prepare a monthly list of liabilities of inmate balances for the commissary account, and consequently, liabilities are not reconciled to the commissary's available cash balance. The Sheriff's office does not always retain bond forms or reconcile amounts per the forms to deposits, and bond forms are not prenumbered. The Sheriff's office does not always deposit receipts timely.
Reduction of Property Tax Levy	The county has not sufficiently reduced property tax levies to offset 50 percent of sales tax monies received by approximately \$95,000 during the 4 years ended December 31, 2017.
Railroad and Utility Taxes	The County Clerk prepared 2017 property tax statements for the 15 railroads and utilities using an incorrect average school tax rate.
Public Administrator's Annual Settlements	The Public Administrator does not always file annual settlements timely in compliance with state law. The Circuit Court, Probate Division, does not have a system in place to monitor and ensure timely filing of annual settlements, and does not always submit timely notices of settlements due or follow up on annual settlements not filed by the required date.
Passwords	The Recorder of Deeds and Sheriff have not established adequate password controls to reduce the risk of unauthorized access to computers and data.
Additional Comments	Because counties are managed by several separately-elected individuals, an audit finding made with respect to one office does not necessarily apply to the operations in another office. The overall rating assigned to the county is intended to reflect the performance of the county as a whole. It does not indicate the performance of any one elected official or county office.

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

*The rating(s) cover only audited areas and do not reflect an opinion on the overall operation of the entity. Within that context, the rating scale indicates the following:

- Excellent:** The audit results indicate this entity is very well managed. The report contains no findings. In addition, if applicable, prior recommendations have been implemented.
- Good:** The audit results indicate this entity is well managed. The report contains few findings, and the entity has indicated most or all recommendations have already been, or will be, implemented. In addition, if applicable, many of the prior recommendations have been implemented.
- Fair:** The audit results indicate this entity needs to improve operations in several areas. The report contains several findings, or one or more findings that require management's immediate attention, and/or the entity has indicated several recommendations will not be implemented. In addition, if applicable, several prior recommendations have not been implemented.
- Poor:** The audit results indicate this entity needs to significantly improve operations. The report contains numerous findings that require management's immediate attention, and/or the entity has indicated most recommendations will not be implemented. In addition, if applicable, most prior recommendations have not been implemented.

Osage County Table of Contents

State Auditor's Report	2
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Management Advisory Report - State Auditor's Findings	1. Sheriff's Controls and Procedures4 2. Reduction of Property Tax Levy7 3. Railroad and Utility Taxes7 4. Public Administrator's Annual Settlements.....8 5. Passwords9
---	--

Organization and Statistical Information	10
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NICOLE GALLOWAY, CPA

Missouri State Auditor

County Commission
and
Officeholders of Osage County

We have audited certain operations of Osage County in fulfillment of our duties under Section 29.230, RSMo. In addition, Stopp & VanHoy, Certified Public Accountants, and Business Advisors, LLC, has been engaged to audit the financial statements of Osage County for the 2 years ended December 31, 2017. The scope of our audit included, but was not necessarily limited to, the year ended December 31, 2017. The objectives of our audit were to:

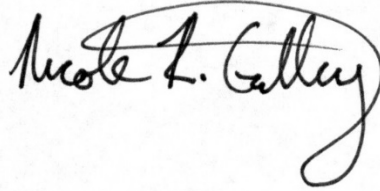
1. Evaluate the county's internal controls over significant management and financial functions.
2. Evaluate the county's compliance with certain legal provisions.
3. Evaluate the economy and efficiency of certain management practices and procedures, including certain financial transactions.

Our methodology included reviewing minutes of meetings, written policies and procedures, financial records, and other pertinent documents; interviewing various personnel of the county, as well as certain external parties; and testing selected transactions. We obtained an understanding of internal controls that are significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We tested certain of those controls to obtain evidence regarding the effectiveness of their design and operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of applicable contract, grant agreement, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

We conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis.

The accompanying Organization and Statistical Information is presented for informational purposes. This information was obtained from the county's management and was not subjected to the procedures applied in our audit of the county.

For the areas audited, we identified (1) deficiencies in internal controls, (2) noncompliance with legal provisions, and (3) the need for improvement in management practices and procedures. The accompanying Management Advisory Report presents our findings arising from our audit of Osage County.

A handwritten signature in black ink that reads "Nicole R. Galloway". The signature is written in a cursive style with a large, looping flourish at the end of the name.

Nicole R. Galloway, CPA
State Auditor

The following auditors participated in the preparation of this report:

Director of Audits:	Randall Gordon, M.Acct., CPA, CGAP
Audit Manager:	John Lieser, CPA
In-Charge Auditor:	James M. Applegate, MBA
Audit Staff:	Terese Summers, MSAS, CPA Michaela N. Horstman

Osage County Management Advisory Report State Auditor's Findings

1. Sheriff's Controls and Procedures

Controls and procedures in the Sheriff's office need improvement. The Sheriff's office processed receipts for bonds, civil paper service, prisoner board, and other miscellaneous receipts totaling approximately \$73,000 through the fee account and inmate receipts totaling approximately \$21,000 through the commissary account during the year ended December 31, 2017.

1.1 Segregation of duties

The Sheriff has not adequately segregated accounting duties and does not ensure adequate supervisory reviews of detailed accounting and bank records are performed.

The Office Administrator is responsible for receipting, recording, and depositing monies; making disbursements; and preparing the monthly bank reconciliations for both the fee and commissary accounts. Although the Sheriff reviews and signs monthly financial reports from the Office Administrator that include a list of receipts and disbursements for the fee account, a commissary inventory sales summary, and receipt documentation from the County Treasurer, he does not document his review of the bank statements and bank reconciliations for the accounts, account for the numerical sequence of receipt slips, and ensure monies received have been properly recorded, deposited, and disbursed to the appropriate parties.

Proper segregation of duties is necessary to ensure transactions are accounted for properly and assets are adequately safeguarded. Internal controls would be improved by segregating the duties of receiving, recording, depositing, disbursing, and reconciling monies. If proper segregation of duties cannot be achieved, documented independent or supervisory reviews of detailed accounting and bank records are essential and should include comparing daily receipt activity to deposits and disbursements to supporting documentation.

1.2 Commissary receipts and deposits

Receipts are not properly reconciled to deposits. The Office Administrator does not reconcile the manual receipts slips issued to amounts deposited and does not produce receipt reports from the commissary system listing the receipts comprising each deposit.

Failure to implement adequate receipting, depositing, and reconciling procedures increases the risk that loss, theft, or misuse of monies could occur and go undetected.

1.3 Commissary liabilities

The Sheriff's office does not prepare a monthly list of liabilities of inmate balances for the commissary account, and consequently, liabilities are not reconciled to the commissary's available cash balance. Upon our request, the Sheriff's office generated a list of inmate balances totaling \$1,013 as of February 28, 2018. The Sheriff's records indicate undistributed commissary net proceeds for February 2018 totaled \$2,034. The reconciled bank balance of \$4,473 at February 28, 2018, exceeded the liabilities and undistributed commissary net proceeds by \$1,426. The Office Administrator indicated this



Osage County
Management Advisory Report - State Auditor's Findings

balance represents commissary net proceeds remaining in the account from the previous Sheriff that were retained in the account for cash flow purposes, however, no records were available to support this amount.

Regular identification and comparison of liabilities to the reconciled cash balance is necessary to ensure accounting records are in balance, all amounts received are disbursed, and monies are available to satisfy all liabilities. Differences must be adequately investigated and explained.

1.4 Bond forms

The Sheriff's office does not always retain bond forms or reconcile amounts per the forms to deposits. In addition, the forms are not prenumbered. During 2017, the Sheriff's office deposited bonds totaling approximately \$22,000.

We noted bond forms could not be located for 14 bonds totaling \$6,192 deposited during 2017. In January 2018, the Sheriff's office began recording bonds sequentially on a bond log and reconciling the log to bond forms.

To reduce the risk of loss, theft, or misuse of bond monies received, and to provide assurance bond monies are accounted for properly, prenumbered bond forms should be completed and retained for all bonds and the numerical sequence of bond forms should be accounted for properly. In addition, receipt amounts on the bond forms should be reconciled to the amounts deposited.

1.5 Deposits

The Sheriff's office does not always deposit receipts timely. During December 2017, deposits of receipts for both the fee account and commissary account occurred only once, at month end. Deposits of December receipts totaled approximately \$2,800 for the fee account and \$2,100 for the commissary account. The Office Administrator indicated she typically deposits approximately weekly.

To safeguard receipts and to reduce the risk of loss, theft, or misuse of monies received, procedures should be established to ensure all monies received are deposited timely.

Similar conditions previously reported

A similar condition to section 1.4 was noted in our prior audit report, and a similar condition to section 1.5 was noted in our prior 4 audit reports. In addition, Report No. 2015-034, *Follow-Up Report on Audit Findings - Osage County* (sections 4.1 and 4.2), issued in May 2015, reported the status as implemented for section 1.4 and not implemented for section 1.5.

Recommendations

The Sheriff:

- 1.1 Segregate accounting duties or ensure adequate independent or supervisory reviews of detailed accounting and bank records are performed and documented.



Osage County
Management Advisory Report - State Auditor's Findings

- 1.2 Reconcile manual receipt slips to amounts deposited and also produce a receipts report from the system that reconciles to deposits.
- 1.3 Prepare a monthly list of liabilities for the commissary account and reconcile it to the available cash balance. Any differences between accounting records and reconciliations should be promptly investigated and resolved.
- 1.4 Prepare and retain prenumbered bond forms for all bonds received and reconcile the amounts on the bond forms to the amounts deposited.
- 1.5 Ensure monies received are deposited timely.

Auditee's Response

- 1.1 *At this time, the Office Administrator is the only full-time civilian staff and is responsible for receipting, recording and depositing monies, disbursements, and monthly bank reconciliations. The Sheriff is currently reviewing bank statements and end of month reconciliations and has begun initialing the bank statements, and we have recently adopted additional procedures whereby the Sheriff or another staff member verifies all deposits of inmate/commissary monies collected at the jail and also verifies deposits to the Sheriff's fee account.*
- 1.2 *We have begun reconciling all inmate/commissary receipts with the deposits and have begun producing a receipts report from the system and including it in the reconciliation. Also, we have begun recording the sequence of receipt numbers on the deposits slips and check register.*
- 1.3 *We have begun printing an end-of-month listing of inmate balances and attaching it to the bank reconciliation report along with the commissary net proceeds report and reconciling it to the available cash balance. In November any unclaimed money will be sent to the State Treasurer's Office Unclaimed Property Division. At this time we have retained in the account a predetermined constant amount from commissary net proceeds to provide sufficient cash to make payments when needed for commissary items and inmate balances upon their release from custody.*
- 1.4 *We will consider utilizing prenumbered bond forms, and we have recently established procedures to better account for bond forms and to reconcile those bond forms to deposits.*
- 1.5 *The Office Administrator has begun making deposits on Tuesday and Friday of each week unless a holiday falls on one of those days, then*



Osage County
Management Advisory Report - State Auditor's Findings

the deposit will be made on either the day before or the following day. If she is out of the office, arrangements are being made to have another staff member make the deposits.

2. Reduction of Property Tax Levy

The county has not sufficiently reduced property tax levies to offset 50 percent of sales tax monies received by approximately \$95,000 during the 4 years ended December 31, 2017. County officials did not accurately calculate property tax reduction amounts for the 2 sales taxes requiring reduction. We reviewed the calculations for the 4 years ended December 31, 2017, and noted the County Clerk made various errors in calculating the property tax rate. For example, the tax rate ceiling used in the calculation for 2 years exceeded the actual tax rate ceiling. As a result, the property tax rate was not sufficiently reduced.

Section 67.505, RSMo, requires the county to reduce property taxes for a percentage of sales taxes collected. Osage County voters enacted 2 one-half of 1 percent general sales taxes with provisions to reduce property taxes by 50 percent of sales taxes collected. The county is required to estimate the annual property tax levy to meet the 50 percent reduction requirement based on estimated sales tax collections of the current year, and in the following year calculate any excess property taxes collected based upon actual sales taxes collected.

Recommendation

The County Commission and the County Clerk properly calculate property tax rate reductions, adequately reduce property tax levies for 50 percent of sales tax revenue, and develop a plan to correct for the accumulation of prior years' over collection of property taxes.

Auditee's Response

We will calculate future reductions and levies properly and recoup the \$95,000 over collection of property taxes over the next 5 years.

3. Railroad and Utility Taxes

The County Clerk prepared 2017 property tax statements for the 15 railroads and utilities using an incorrect average school tax rate. The average school tax rate used for the tax statements was lower than the average of the actual rates set by the school districts by \$0.0068 per \$100 assessed valuation. The error resulted in property tax collections for schools totaling approximately \$2,100 less than what they should have been. The county's procedures for preparing tax rates and tax statements were insufficient to detect the error. During the year ended February 28, 2018, the county collected property taxes from railroads and utilities totaling approximately \$1.6 million.

Section 151.150, RSMo, requires the county commission establish the average rate of taxation for school purposes for railroads and Sections 151.170 and 151.190, RSMo, require the county clerk prepare the railroad tax books and statements. Additionally, Section 153.030, RSMo, requires the taxes for utilities be levied in the same manner as for railroads. Tax statements



Osage County
Management Advisory Report - State Auditor's Findings

should be prepared using proper tax rates to ensure tax statements for railroad and utilities are accurate and collections for schools and other political subdivisions are proper.

Recommendation

The County Clerk and County Commission establish procedures to ensure the average of the school rates for railroads and utilities are proper.

Auditee's Response

We will establish procedures to ensure average school rates on future railroad and utilities taxes are proper.

**4. Public
Administrator's
Annual Settlements**

The Public Administrator does not always file annual settlements timely in compliance with state law. In addition, the Circuit Court, Probate Division, does not follow up with the Public Administrator when annual settlements are not filed by their due date. The Public Administrator is the court appointed personal representative for wards or decedent estates of the Circuit Court, Probate Division, and was responsible for the financial activity of 19 individuals as of December 31, 2017.

Timely filing

The Public Administrator does not always file annual settlements timely. For each ward or estate, the Public Administrator is required to file an annual settlement with the Circuit Court, Probate Division, on the anniversary date of the date of letters reflecting a detailed list of assets held, as well as financial activity for the previous year. We reviewed filing dates for the annual settlements due during 2017 for the 19 ward or estates and determined the Public Administrator filed 7 annual settlements after the due date, including one annual settlement filed approximately 6 months late. In addition, he filed settlements on 2 cases for a 16-month period, which exceeded the required 12-month period.

Sections 473.540 and 475.270, RSMo, require the Public Administrator to file an annual settlement with the court for each ward or estate. Timely settlements are necessary for the court to properly oversee the administration of cases and reduce the possibility that loss, theft, or misuse of funds will occur and go undetected.

Probate Division review

The Circuit Court, Probate Division, does not have a system in place to monitor and ensure timely filing of annual settlements, and does not always submit timely notices of settlements due or follow up on annual settlements not filed by the required date.

Failure to ensure annual settlements are filed timely increases the risk that loss, theft, or misuse of funds could go undetected. Sections 473.557 and 475.280, RSMo, require the clerk of the court to notify the conservator or guardian (Public Administrator) of the deadline for the annual settlement; however, failure to receive the notice does not excuse the conservator or guardian from filing the settlements as required by law.



Osage County
Management Advisory Report - State Auditor's Findings

Recommendation

The Public Administrator ensure annual settlements are filed timely. In addition, the Circuit Court, Probate Division, should notify the Public Administrator of annual settlement deadlines timely, and follow up on settlements not filed by the required date.

Auditee's Response

The Public Administrator provided the following response:

I will work directly with my attorney and the Probate Clerk to ensure that annual settlements will be filed on time and in an accurate manner.

The Circuit Court, Probate Division, provided the following response:

We will establish procedures to make more timely notification of annual settlements that are due and follow up on annual settlements not filed by the due date.

5. Passwords

The Recorder of Deeds and Sheriff have not established adequate password controls to reduce the risk of unauthorized access to computers and data. Employees in the office of the Recorder of Deeds are not required to change passwords periodically to help ensure passwords remain known only to the assigned user. In addition, passwords for employees in the offices of the Recorder of Deeds and Sheriff are not required to have a minimum number of characters.

Passwords are necessary to authenticate access to computers. The security of computer passwords is dependent upon keeping them confidential. However, since passwords do not have to be periodically changed or contain a minimum number of characters in certain offices, there is less assurance they are effectively limiting access to computers and data files to only those individuals who need access to perform their job responsibilities. Passwords should be confidential, contain a minimum number of characters, and be changed periodically to reduce the risk of a compromised password and unauthorized access to and use of computers and data.

A similar condition was noted in our prior audit report.

Recommendation

The County Commission work with other county officials to require employees maintain confidential passwords with a minimum number of characters that must be periodically changed.

Auditee's Response

We will reevaluate and upgrade our policies and work with other officials to ensure better password controls are in place.

Osage County

Organization and Statistical Information

Osage County is a county-organized, third-class county. The county seat is Linn.

Osage County's government is composed of a three-member county commission and separate elected officials performing various tasks. All elected officials serve 4-year terms. The county commission has mainly administrative duties in setting tax levies, appropriating county funds, appointing board members and trustees of special services, accounting for county property, maintaining county roads and bridges, and performing miscellaneous duties not handled by other county officials. Principal functions of these other officials relate to law enforcement, property assessment, property tax collections, conduct of elections, and maintenance of financial and other records important to the county's citizens. In addition to elected officials, the county employed 47 full-time employees and 13 part-time employees on December 31, 2017.

In addition, county operations include the Senate Bill 40 Board.

Elected Officials

The elected officials and their compensation paid for the year ended December 31 (except as noted) are indicated below:

Officeholder	2018	2017
Dave Dudenhoeffer, Presiding Commissioner \$		29,390
John Glavin, Associate Commissioner		27,390
Larry Kliethermes, Associate Commissioner		27,390
Cindy Hoffman, Recorder of Deeds		41,500
Patrick Steele, County Clerk		41,500
Amanda L. Grellner, Prosecuting Attorney		51,000
Michael C. Bonham, Sheriff		46,000
Tim G. Neuner, County Treasurer		41,500
Lois Jaegers, County Coroner		14,000
Paul G. Stratman, Public Administrator		25,000
Doris J. Keilholz, County Collector (1), year ended February 28,	43,000	
Ross Seals, County Assessor, year ended August 31,		41,500
Timothy Hamburg, County Surveyor (2)		

(1) Includes \$1,500 of commissions earned for collecting city property taxes.

(2) Compensation on a fee basis.