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Missouri State Auditor

Morgan County

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Missouri State Auditor

CITIZENS SUMMARY

Findings in the audit of Morgan County

County Sales Tax

The county incorrectly certified a tax rate with a voluntary reduction instead of a sales tax reduction for the 3 years ended December 31, 2008, thereby reducing its tax rate ceiling beginning in 2009. The county was apparently unaware of the reduced tax rate ceiling and used incorrect tax rate ceilings when preparing its sales tax reduction calculations for 2009 through 2011, showing an under collection of property taxes each year when there was actually an over collection. The county certified tax rates equal to the lowered tax rate ceiling for each year and reported no sales tax reductions since the county believed its calculated sales tax reduction was already incorporated into the lower tax rates. Also, the county did not prepare a sales tax reduction calculation for 2012. As of December 31, 2012, the county had over collected property taxes by \$1.8 million.

Sheriff Controls and Procedures

Despite similar concerns noted in our prior audit reports, significant weaknesses continue to exist in the Sheriff's controls and procedures, and we were unable to determine if all monies were accounted for, deposited, and disbursed properly. The Sheriff has not established adequate segregation of accounting duties and does not perform supervisory reviews. The fee account clerk does not account for the numerical sequence of receipt slips and does not reconcile receipt records to deposits, and office personnel do not deposit monies intact or timely. The inmate account clerk does not maintain a running balance of the inmate refund cash fund, and controls and records for seized cash are not sufficient. Office personnel do not prepare monthly lists of liabilities, the office lacks adequate procedures to ensure monies received are timely disbursed, and the office has not turned over any 2012 commissary profits or any phone card profits to the county treasury.

Property Tax System Controls and Procedures

The County Collector's access to the property tax system is not adequately restricted. The County Clerk does not prepare or verify the accuracy of the delinquent tax books prepared by the County Collector, and neither the County Clerk nor the County Commission adequately reviews the financial activities of the County Collector. As noted in our prior audit report, there is no procedure in place to ensure outlawed taxes and abatements initiated by the County Collector are reviewed by the County Commission, and neither the County Commission nor the County Clerk review and approve the Assessor-initiated property tax additions and abatements report.

County Collector Withholdings and Commissions

The County Collector withheld more from tax collections for the Assessment Fund than allowed by state law during the year ended February 28, 2013, and erroneously calculated assessment withholdings on city tax collections, resulting in amounts owed to cities and other taxing authorities from the Assessment Fund. During the same year, the County Collector also failed to deduct assessment withholdings from the General Revenue Fund's share of property taxes, and incorrectly calculated Proposition C commissions and withholdings for school districts.

Prosecuting Attorney Controls and Procedures

Neither the Prosecuting Attorney nor the office manager reviews adjustments to defendant accounts receivable balances made by the legal assistant, and

adequate documentation is not always maintained to support the reasons for the adjustments. Prosecuting Attorney personnel do not prepare a monthly list of liabilities for the restitution and bad check account, so liabilities are not compared to the reconciled bank balance, and this account contained an unidentified overage of \$1,969. At March 31, 2013, 39 checks, totaling \$4,018 had been outstanding for over a year in the restitution and bad check account. In addition, at December 31, 2012, the inactive trust account had 14 outstanding checks totaling \$773 with issue dates ranging from 3 to 7 years old, and an unidentified balance of \$685.

County Procedures and Plans	The county collects a maintenance levy on 13 Neighborhood Improvement Districts, but has not developed a long-term plan regarding the use of the \$1.3 million in this account as of December 31, 2012. The road and bridge department, the 911 Administrator, and the Sheriff's office do not have adequate procedures for monitoring fuel usage; the county does not report the value of personal and commuting mileage by some county officials to the Internal Revenue Service; and the county hired two individuals as independent contractors rather than employees without documenting reasons for classifying them as independent contractors.
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Senate Bill 40 Board	As noted in our prior audit report, the Senate Bill 40 Board has not adequately segregated accounting duties, and the Executive Director does not prepare monthly bank reconciliations for the account. The Board discussed issues in closed sessions that are not allowable under the Sunshine Law, and open meeting minutes did not document the vote for closing the meeting for 2 of the 4 closed sessions held during 2012.
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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.
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In the areas audited, the overall performance of this entity was **Poor**.*

*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.

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THOMAS A. SCHWEICH

Missouri State Auditor

To the County Commission
and
Officeholders of Morgan County

We have audited certain operations of Morgan County in fulfillment of our duties under Section 29.230, RSMo. In addition, Casey-Beard-Boehmer PC, Certified Public Accountants, was engaged to audit the financial statements of Morgan County for the 2 years ended December 31, 2012. The scope of our audit included, but was not necessarily limited to, the year ended December 31, 2012. 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 operations, 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 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 contract 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 Morgan County.



Thomas A. Schweich
State Auditor

The following auditors participated in the preparation of this report:

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Morgan County Management Advisory Report State Auditor's Findings

1. County Sales Tax

The county did not properly report property tax levy reduction amounts to the State Auditor's office for the 3 years ended December 31, 2008. The county calculated a sales tax reduction, but did not report or reduce the property tax levy for the sales tax reduction for the 3 years ended December 31, 2011. In addition, the county failed to calculate a sales tax reduction for the year ended December 31, 2012.

Section 67.505, RSMo, requires the county to reduce property taxes for a percentage of sales taxes collected. Morgan County voters enacted a one-half cent sales tax with a provision 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 and in the following year calculate any excess property taxes collected based upon actual sales taxes collected.

The county is required to certify to the State Auditor's office the annual property tax levy including the amount the levy is reduced for sales tax collections, as well as voluntary reductions, if any. For 2006 through 2008, the county performed sales tax reduction calculations, but incorrectly certified a tax rate with a voluntary reduction instead of a sales tax reduction. The county certified the tax rate ceiling, sales tax reduction, voluntary reduction, and actual tax levy for the General Revenue Fund as follows:

	2008	2007	2006
Tax rate ceiling	\$ 0.1916	0.1912	0.2027
Sales tax reduction	0.0000	0.0000	0.0000
Voluntary reduction	0.1216	0.1073	0.1160
Actual tax levy	0.0700	0.0839	0.0867

In calculating the property tax rate ceiling for 2009 through 2012, the State Auditor's office followed Section 137.073.5(4), RSMo (amended in 2008), which provides a voluntary reduction taken in a non-reassessment year (even year) results in a reduced tax rate ceiling during the subsequent reassessment year (odd year). As a result, the tax rate ceiling for the county's General Revenue Fund was lowered for 2009 through 2012 due to the voluntary reduction in 2008. The county subsequently certified tax rates equal to the lowered tax rate ceiling for each year, reporting no reductions as explained below.

The county was apparently unaware of the reduced tax rate ceiling starting in 2009. For 2009 through 2011, the county used incorrect tax rate ceilings when preparing its sales tax reduction calculations. Rather than using the certified tax rate ceilings, the county incorrectly used the tax rate ceilings that would have been in effect if there had been no voluntary reduction in



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2008. In addition, the county did not prepare a sales tax reduction calculation for 2012.

The county's incorrect calculations used the following data, which county personnel believed to be correct:

	2011	2010	2009
Tax rate ceiling	0.1992	0.1975	0.1963
Sales tax reduction	0.1265	0.1254	0.1246
Voluntary reduction	0.0000	0.0000	0.0000
Actual tax levy	0.0727	0.0721	0.0717

The county's calculations showed an under collection of property taxes each year when there was actually an over collection, and the county believed its calculated sales tax reduction was already incorporated into the lower tax rates.

However, the county reported no sales tax or voluntary reductions to the State Auditor's office from 2009 through 2012, and certified the tax rate ceiling, sales tax reduction, voluntary reduction, and actual tax levy for the General Revenue Fund as follows:

	2012	2011	2010	2009
Tax rate ceiling	\$ 0.0736	0.0727	0.0721	0.0717
Sales tax reduction	0.0000	0.0000	0.0000	0.0000
Voluntary reduction	0.0000	0.0000	0.0000	0.0000
Actual tax levy	0.0736	0.0727	0.0721	0.0717

Based upon the reduced tax rate ceiling required by Section 137.073.5(4), RSMo, and the failure of the county to reduce the tax levy for a sales tax reduction, the over collections of General Revenue property taxes for 2009 through 2012 are as follows:

For Sales Tax Reductions	Year Ended December 31,			
	2012	2011	2010	2009
Required property tax revenue reduction	\$ 487,930	467,766	456,523	449,348
Actual property tax revenue reduction	0	0	0	0
Over collection	487,930	467,766	456,523	449,348
Prior years over collection	1,373,637	905,871	449,348	0
Total property tax over collected	\$ 1,861,567	1,373,637	905,871	449,348

Section 137.073.5(4), RSMo, allows a governing body, in a year following general reassessment, to increase a previously voluntarily reduced tax rate, for a reduction taken in a prior non-reassessment year, to the tax rate ceiling that would have been effective in the current year had no voluntary reduction been taken. Therefore, the county could reinstate its property tax



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rate ceiling in 2014. In addition, Section 137.073.6(3), RSMo (amended in 2013), allows a taxing authority to submit amended tax rate forms to the State Auditor's office in the event the taxing authority incorrectly completed the forms or made clerical errors.

To ensure property tax levies are properly set and property tax rate ceilings are maintained, the County Commission and County Clerk should ensure property tax levies are adequately reduced by 50 percent of sales tax revenue and are accurately reported and certified as such. Documentation of calculations and tax rate setting decisions is important to demonstrate compliance with statutory provisions and serve as a reference tool should questions arise.

Recommendation

The County Commission and County Clerk properly calculate and report property tax rate reductions (sales tax or voluntary), evaluate if amended forms should be submitted to the State Auditor's office, and develop a plan to incorporate corrected property tax reductions from prior years into the current tax rate. During the tax rate setting process, the County Commission and County Clerk should ensure tax rate information reported back to the county in the State Auditor's office certification letter is consistent with expectations and, if not, promptly follow up on any discrepancies.

Auditee's Response

The County Commission and County Clerk provided the following response:

We have agreed to rollback annually, reinstate the tax rate ceiling, set future rates to incorporate corrected property tax reductions from prior years, and work closely with the State Auditor's office to get a better understanding of the rollback process. We will ensure tax rate information on the certification letter is consistent with expectations. We are considering submitting amended forms to the State Auditor's office, and we will ensure the sales tax reductions are properly reported as a sales tax reduction and not as a voluntary reduction in future years.

2. Sheriff Controls and Procedures

Despite similar concerns noted in our prior audits, significant weaknesses continue to exist in the Sheriff's controls and procedures. With the exception of sections 2.5 and 2.7, we have reported similar findings related to the Sheriff's office in one or more of our prior reports. Due to the concerns noted below, we were unable to determine if all monies were accounted for, deposited, and disbursed properly.

Deposits into the Sheriff's fee account for civil fees, jail phone card sales, bonds, and other miscellaneous receipts totaled approximately \$227,000 for the year ended December 31, 2012. Deposits into the Sheriff's inmate account for inmate receipts totaled approximately \$231,000 for the year ended December 31, 2012. Additionally, fees collected for concealed carry



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permits, which totaled approximately \$25,000 for the year ended December 31, 2012, were transmitted to the County Treasurer for deposit.

2.1 Segregation of duties

The Sheriff has not established adequate segregation of accounting duties and does not perform supervisory reviews. One clerk is responsible for receiving, recording, depositing, and disbursing monies, and reconciling the fee bank account. Another clerk is responsible for those same duties for the inmate bank account.

Proper segregation of duties is necessary to ensure transactions are accounted for properly and assets are safeguarded. If proper segregation of duties cannot be achieved, the Sheriff should implement a documented independent or supervisory review to ensure bank records are in agreement with accounting records.

2.2 Numerical sequence and reconciliation of receipt records

The Sheriff's fee account clerk does not account for the numerical sequence of receipt slips and does not reconcile receipt records to deposits. As a result, it is difficult to determine which receipts are included in each deposit to ensure all receipts are actually deposited.

For cash bonds received, a receipt slip is issued by the booking department and placed with the cash in the drop safe for the fee account clerk to pick up. The fee account clerk does not issue receipt slips for cash bonds obtained from the drop safe even though she issues receipt slips for all other types of receipts.

When preparing deposit summaries, the fee account clerk did not always include the corresponding receipt slip numbers or identify which cash bonds were included in the deposits. A comparison of December 2012 bond deposits to booking department bond receipt slips, determined receipt slips totaled \$6,052, while deposits totaled \$6,622. The fee account clerk was unable to determine the reason for the difference. A possible reason for the difference may have been related to prior months' bond receipts held and not deposited until December. However, because no records are kept showing which bonds are included in which deposit, we also could not determine the reason for the difference.

Procedures to account for all receipt slips issued by both the booking department and by the fee account clerk and reconciliation of receipt records to deposits are necessary to provide assurance all monies are accounted for properly and to reduce the risk of loss, theft, or misuse of monies.

2.3 Deposits

Fee account

Sheriff's office personnel do not deposit monies intact or timely.

The fee account clerk does not deposit monies intact for the fee account. We noted a \$40 check for civil fees had been included on a December 27, 2012,



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deposit summary report; however, it was not included in the deposit. The check was not actually deposited until January 17, 2013. In addition, there were three \$10 checks received on November 8, 2012, November 15, 2012, and November 22, 2012, not deposited until December 3, 2012, when they should have been included in the November 27, 2012, deposit. Further, the December 27, 2012, deposit included two additional \$10 checks received on November 29, 2012, and December 13, 2012, that should have been included in the December 3, 2012, and December 18, 2012, deposits, respectively.

Inmate account

The inmate account clerk does not deposit timely for the inmate account. Cash received for inmates from visitors is collected in the lobby kiosk while monies in the possession of inmates when they are booked are either put in the booking department kiosk (cash) or in the drop safe (checks). We reviewed December 2012 receipts for the inmate account and found the following concerns regarding timeliness of deposits:

- The inmate account clerk did not deposit any lobby kiosk receipts during December 2012. On January 9, 2013, she deposited \$8,397, which included \$2,910 from November 2012, \$4,559 from December 2012, and \$928 from January 2013.
- The inmate account clerk made a \$1,733 deposit on December 12, 2012, for the booking department kiosk receipts. This deposit included \$644 in receipts from November and \$1,089 in receipts from December. Subsequent December receipts for the booking department kiosk totaling \$1,113 were deposited on January 16, 2013.
- The inmate account clerk made a \$4,449 deposit on December 12, 2012, for the drop safe receipts. This deposit included \$2,308 in receipts from November and \$2,141 in receipts from December. Subsequent December receipts for the drop safe totaling \$2,059 were deposited on January 14, 2013.

Failure to implement adequate depositing procedures increases the risk that loss, theft, or misuse of monies received will go undetected. Proper depositing procedures are necessary to ensure all receipts are handled and accounted for properly.

2.4 Inmate refunds

The Sheriff's inmate account clerk does not maintain a running balance of the cash fund. The Sheriff's office maintains a cash fund to refund monies to U.S. Immigration and Customs Enforcement (ICE) inmates prior to deportation or transfer to another facility. Cash is withdrawn from the inmate account to replenish the cash fund. Released inmates sign for any cash received and the inmate account clerk posts this amount on the computer system. This cash is not reflected in the list of liabilities for the



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inmate account (see section 2.6) because the Sheriff's office does not keep records of the balance of the cash fund. At the time of our cash count on March 4, 2013, the cash fund totaled \$2,562.

Records to maintain a running balance of the cash fund are necessary to provide assurance cash is handled properly and to reduce the risk of loss, theft, or misuse of monies.

2.5 Seized cash

Controls and records for seized cash are not sufficient and periodic inventories are not conducted. Sheriff's office personnel cannot generate a report of total cash currently on hand from the seized property system. Therefore, a ledger of seized cash is maintained. The seized cash is kept in a safe that only the Sheriff and a clerk can access. We performed a cash count of the seized cash on March 27, 2013, by comparing amounts on the labels of the sealed evidence bags, totaling approximately \$72,800, to the ledger amounts totaling approximately \$67,900. We determined the ledger did not include 4 evidence bags totaling approximately \$4,900.

Considering the often sensitive nature of seized cash, accurate and complete inventory records are essential and would significantly reduce the risk of loss, theft, or misuse of these monies. In addition, the ledger of seized cash should be agreed to cash amounts in the computerized system and periodic physical inventories should be performed and compared to the records of seized cash.

2.6 Liabilities

Sheriff's office personnel do not prepare monthly lists of liabilities for either the inmate account or the fee account, and consequently, liabilities are not compared to the reconciled bank balances. At our request, a list of liabilities for the inmate account was prepared and identified liabilities totaled \$78,139, at December 31, 2012. The reconciled bank balance was \$87,223, leaving an unidentified balance of \$9,084. In addition, at our request, a list of liabilities for the fee account was prepared and identified liabilities totaled \$1,129 at April 16, 2013. The fee account book balance on that date was \$2,020, leaving an unidentified balance of \$891.

Monthly lists of liabilities should be prepared and reconciled to cash balances to ensure records are in balance, errors are detected and corrected on a timely basis, and sufficient funds are available for payment of all liabilities.

2.7 Disbursements

The Sheriff's office lacks adequate procedures to ensure monies received are properly disbursed to the County Treasurer and/or other parties from the fee account. As a result, some monies were not disbursed on a timely basis as follows:



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Month of Collection	Totaled Received	Date Disbursed
September	\$ 2,695	November 2, 2012
October	2,054	December 19, 2012
November	2,027	December 19, 2012
December	1,768	January 23, 2013

Our review also identified 15 of the 24 bonds (62.5 percent) collected in December 2012 were disbursed to the appropriate court 10 or more days after the date of receipt. We also noted a \$2,500 bond was disbursed on July 26, 2012, but it appears the corresponding monies were not deposited until August 6, 2012, or later. The actual deposit date cannot be determined due to poor records; however, this deposit was the first one subsequent to July 26, 2012, to contain sufficient cash to include this bond.

Timely disbursement of fees and bonds collected is necessary to provide adequate controls over account balances and increase the likelihood discrepancies are promptly detected. Sections 50.360 and 50.370, RSMo, require all county officials who receive fees or any other remuneration for official services to pay such monies monthly to the County Treasurer.

2.8 Commissary and phone card profits

The Sheriff's office has not turned over any 2012 commissary profits or any phone card profits to the county treasury. The last turnover, which consisted of only commissary profits, was made in January 2012. The Sheriff's office was holding approximately \$61,000 in profits as of December 31, 2012, in the inmate account. The inmate account clerk indicated profits from the phone cards sold to inmates are not turned over to the county treasury because they are used to pay for cable TV and indigent packages for the inmates.

Section 221.102, RSMo (effective August 28, 2013), requires each county jail to keep revenues from its canteen or commissary in a separate account and pay for goods and other expenses from that account, allows retention of a minimum amount of money in the account for cash flow purposes and current expenses, and requires deposit of the remaining funds (profits) into the county Inmate Prisoner Detainee Security Fund.

Recommendations

The Sheriff:

- 2.1 Adequately segregate accounting duties to the extent possible or ensure supervisory reviews of accounting records are performed and documented.
- 2.2 Account for the numerical sequence of receipt slips and reconcile receipt slips issued with deposits to ensure all receipts have been deposited.



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- 2.3 Ensure deposits are made timely and include all monies on hand at the time a deposit is prepared.
- 2.4 Maintain a running balance of the cash fund. In addition, on a periodic basis, cash on hand should be counted and reconciled to the related records by an independent person.
- 2.5 Ensure a periodic physical inventory is conducted and reconciled to the various records of seized cash.
- 2.6 Prepare a monthly list of liabilities for both accounts and compare to the reconciled bank balances. Any differences should be promptly investigated and resolved. Any unidentified monies should be disposed of in accordance with state law.
- 2.7 Establish procedures to ensure all monies are disbursed to the County Treasurer and other parties on a timely basis.
- 2.8 Ensure existing and future commissary profits (including phone card profits) not necessary to meet cash flow needs or current operating expenses are turned over to the County Treasurer to be deposited into the Inmate Prisoner Detainee Security Fund.

Auditee's Response

The Sheriff provided the following responses:

- 2.1 *We will have each clerk perform the bank reconciliation for the other bank account. The Sheriff will continue to review bank statements.*
- 2.2 *We are preparing deposit summaries, which include receipt numbers for all deposits (including bond deposits). We are using these deposit summaries to account for the numerical sequence of receipt slips and to reconcile all receipts to deposits. The computer system malfunctioned during the audit period, which may have caused some of these issues.*
- 2.3 *We will implement this recommendation.*
- 2.4 *We will attempt to determine a weekly balance in the cash fund based on ICE inmate account balances and will reconcile these balances to the cash on-hand.*
- 2.5 *We are planning to start performing an annual physical inventory of all seized property, including cash. Within the next month, we will start maintaining a log of all seized cash to show date and time of intake and release.*



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- 2.6 *We will begin to prepare monthly lists of liabilities for both accounts and compare them to the reconciled bank balances. Any unidentified monies will be disposed of in accordance with state law.*
- 2.7 *The delay was due to the problems with the accounting software. We will ensure all future disbursements are made timely.*
- 2.8 *We have implemented this recommendation. We have started to make transfers of commissary profits to the County Treasurer. A \$40,100 transfer was made in December 2013.*

3. Property Tax System Controls and Procedures

Controls and procedures over the property tax system need improvement. As a result of the significant control weaknesses identified, there is less assurance property tax monies have been accounted for properly. For the year ended February 28, 2013, property taxes and other monies collected by the County Collector totaled approximately \$20.9 million.

3.1 Computer access

Access to the property tax system is not adequately restricted. The County Collector has access in the property tax system to make address changes, enter tax rates, post abatements, and outlaw taxes. Because the County Collector is responsible for collecting tax monies, good internal controls require the County Collector not have access rights to be able to alter or delete tax rates or abate taxes.

Without adequate segregation of incompatible duties, there is an increased risk of loss, theft, misuse, and errors occurring and going undetected. In addition, due to the lack of oversight of the County Collector's office activities (as explained in the following sections), any erroneous or improper changes made in the system by the County Collector could go undetected.

3.2 Tax books

The County Clerk does not prepare or verify the accuracy of the delinquent tax books prepared by the County Collector. A review of the tax books should include recalculating tax book totals and charges. Failure to prepare and review the tax books may result in errors, irregularities, or misuse going undetected.

Section 140.050, RSMo, requires the County Clerk to extend the delinquent tax books and charge the County Collector with the amount of taxes to be collected.

3.3 Review of activity

Neither the County Clerk nor the County Commission adequately reviews the financial activities of the County Collector. The County Clerk does not maintain an account book or other records summarizing property tax charges, transactions, and changes, and no procedures are performed by the



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County Clerk or the County Commission to verify the accuracy and completeness of the County Collector's annual settlements. As a result, there is an increased risk of loss, theft, and misuse of property tax monies, and less assurance the annual settlements are complete and accurate.

Section 51.150.1(2), RSMo, requires the County Clerk to maintain accounts with all persons chargeable with monies payable to the county treasury. Maintaining an account book or other records that summarize all taxes charged to the County Collector, monthly collections, delinquent credits, additions and abatements, and protested amounts would help the County Clerk ensure taxes charged and credited to the County Collector are complete and accurate. Such records could also be used by the County Clerk and County Commission to verify the County Collector's annual settlements.

3.4 Changes and reconciliations

The County Commission and County Clerk are not adequately reviewing property tax system changes and activity. The County Assessor prepares and posts additions and abatements to the property tax system. As explained in section 3.1, the County Collector also has the ability to post abatements to the property tax system and to outlaw taxes in the property tax system. The County Collector submits supporting documentation to the County Commission for abatements she initiates and provides the County Commission with total amounts for her outlawed taxes; however, there is no procedure in place to ensure all outlawed taxes and abatements initiated by the County Collector are submitted for review. At the end of each month, the County Collector prints the Assessor-initiated property tax additions and abatements report from the property tax system and provides the report to the County Clerk. However, neither the County Commission nor the County Clerk review and approve these reports, and no comparison to the County Assessor's supporting documentation is performed. As a result, additions and abatements (including outlawed taxes), which constitute changes to the amount of taxes the County Collector is charged with collecting, are not properly monitored and errors or irregularities could go undetected.

Sections 137.260 and 137.270, RSMo, assign responsibility to the County Clerk for making changes to the tax books with the approval of the County Commission. An independent review of approved additions and abatements to changes made to the property tax system would help ensure changes to the property tax system records are proper.

Similar conditions previously reported

Similar conditions to sections 3.3 and 3.4 were noted in our prior audit report.



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Recommendations

- 3.1 The County Commission ensure property tax system access rights are limited to only what is needed for the users to perform their job duties and responsibilities.
- 3.2 The County Clerk prepare the delinquent tax books, or at a minimum, verify the accuracy of the delinquent tax books prior to charging the County Collector with the property tax amounts to be collected. Procedures performed should be adequately documented.
- 3.3 The County Clerk maintain an account book with the County Collector. In addition, the County Clerk and the County Commission should use the account book to review the accuracy and completeness of the County Collector's annual settlements.
- 3.4 The County Commission and the County Clerk develop procedures to ensure all property tax additions and abatements (including outlawed) are properly approved and monitored.

Auditee's Response

The County Commission and County Clerk provided the following responses:

- 3.1 *We will implement a plan to correct by contacting the programmer and appropriate elected officials.*
- 3.2 *We have implemented this recommendation. The County Clerk now reviews the delinquent tax books for completeness and reasonableness before the tax bills are mailed to the taxpayers.*
- 3.3 *The County Clerk is now keeping an account book and is reconciling with the County Collector monthly. The County Clerk will use her account book to review the County Collector's annual settlement when filed. In addition, the County Commission will review the annual settlement when filed.*
- 3.4 *We will develop procedures with the Assessor's office to ensure the additions and abatements are approved and that supporting documentation is retained.*

4. County Collector Withholdings and Commissions

The County Collector did not properly calculate some withholdings and commissions for the year ended February 28, 2013.

- 4.1 Assessment withholdings The County Collector is not calculating and withholding amounts for the Assessment Fund in compliance with state laws.



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- The County Collector did not adequately reduce the percentage used to calculate amounts withheld from tax collections for the Assessment Fund, and as a result, \$12,916 more was withheld from tax collections and disbursed to the Assessment Fund than allowed by state law during the year ended February 28, 2013.

Sections 137.720.1, 137.720.3, 137.082.6, RSMo, each provide a percentage be deducted from property tax collections and deposited into the Assessment Fund (1 percent, 0.5 percent, and 0.2 percent, respectively, for a total of 1.7 percent). However, Section 137.720.3, RSMo, limits the 0.5 percent deduction to \$75,000. After this limit is reached, the total percentage used should be reduced to 1.2 percent. Prior to July 1, 2009, this 0.5 percentage was 0.25 percent and was not limited.

The County Treasurer monitors total collections monthly to determine when the limit has been reached, and notifies the County Collector when that occurs. However, the County Collector reduces the percentage to 1.45 instead of to 1.2, as required. In addition, the \$75,000 limit for calendar year 2012 was reached in the middle of February 2012, but the County Collector continued to withhold monies resulting in \$835 of excess withholdings over the \$75,000 limit. As a result, a total of \$13,751 is due from the Assessment Fund to the taxing authorities to correct these errors.

- The County Collector erroneously calculated assessment withholdings on city tax collections. The calculation includes interest on taxes (which is not included in the calculations of assessment withholdings for other taxing authorities), the cities' portion of surtax (which has already had assessment withholding taken), and city motor vehicle fees (which are not based on assessed valuations and thus are not ad valorem property tax collections). As a result of these calculation errors, \$623 in excess withholdings is owed to the cities from the Assessment Fund. In addition, no assessment withholdings are taken from the General Revenue Fund's share of property taxes. As a result, \$4,186 is owed to the Assessment Fund from the General Revenue Fund.

Section 137.720.1, RSMo, provides for 1 percent of all ad valorem property tax collections allocable to each taxing authority within the county and the county be deducted from tax collections and deposited into the Assessment Fund.

Adequate monitoring and proper calculation of Assessment Fund withholdings is necessary to ensure compliance with statutory provisions.



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4.2 Proposition C commissions and withholdings

The County Collector incorrectly calculated Proposition C commissions and withholdings on real estate and personal property taxes for one school district and on state-assessed railroad and utilities taxes for all school districts.

A total of \$3,361 was over withheld from a school district and paid to the county General Revenue Fund (\$1,867) and Assessment Fund (\$1,494) from December 2012 current tax collections. The County Clerk calculated an incorrect Proposition C ratio for the County Collector, who used the incorrect ratio in the real estate and personal property tax calculations, resulting in the over withholding for December. The same incorrect ratio was used for November 2012, January 2013, and February 2013 and would have resulted in additional amounts being over withheld for those months and those amounts should be determined. In addition, the County Collector made errors when calculating Proposition C commissions and withholdings for state-assessed railroad and utility taxes and over withheld \$2,099 from the various school districts (\$723 in commissions in the General Revenue Fund and \$1,376 in assessment withholdings in the Assessment Fund) for the year ended February 28, 2013.

Section 50.338, RSMo, establishes Proposition C withholding rates for commissions and assessments. Proper calculation of Proposition C adjustments is necessary to ensure compliance with statutory provisions.

Recommendations

The County Collector:

- 4.1 Recalculate assessment withholdings for current and prior years, disburse amounts owed to the taxing authorities from the Assessment Fund, and transfer amounts owed to the Assessment Fund from the County's General Revenue Fund. The County Collector should also ensure the percentage to be deducted from property taxes for the Assessment Fund is properly reduced in future years once the \$75,000 limit is reached.
- 4.2 Recalculate commission and assessment withholdings for current and prior years and correct distributions from the General Revenue Fund and Assessment Fund to the various school districts. The County Collector should also ensure future commission calculations are accurate and work with the County Clerk to ensure Proposition C ratios are calculated correctly.

Auditee's Response

The County Collector provided the following responses:

- 4.1 *Recalculations have been made and the amounts disbursed in May 2013 to the taxing authorities from the Assessment Fund and also to the Assessment Fund from the General Revenue Fund for County*



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Collector year ending February 28, 2013. Due to the complexity of the issue, no recalculations will be made for prior years. The proper percentage will be deducted in future years once the \$75,000 limit is reached.

4.2 *Recalculations have been made for December 2012 and amounts disbursed in May 2013 from the General Revenue Fund and the Assessment Fund to various school districts. November 2012, January 2013, and February 2013 calculations will be reviewed and proper disbursements will be made. Due to the complexity of this issue, no recalculations will be made for prior years. The proper Proposition C ratios and commissions will be calculated correctly in the future.*

5. Prosecuting Attorney Controls and Procedures

Independent reviews of adjustments made to defendant accounts are not performed, and controls and procedures over liabilities and outstanding checks are not adequate. The Prosecuting Attorney's office received bad check restitution and fees, and court-ordered restitution totaling approximately \$162,000 during the year ended December 31, 2012.

5.1 Adjustments

Neither the Prosecuting Attorney nor the office manager is reviewing adjustments to defendant accounts receivable balances made by the legal assistant. In addition, adequate documentation is not always maintained to support the reasons for the adjustments. As a result, there is little assurance the 51 adjustments totaling \$50,652 made during the year ended December 31, 2012, were properly authorized.

Adjustments are sometimes needed because defendants pay the vendor directly or return to the vendor the merchandise purchased with the bad check, defendants are sentenced to serve time in jail or prison in lieu of paying restitution, amounts are deemed uncollectible, or insufficient information is provided on the complaint. We reviewed the 7 largest adjustments totaling \$40,657. One of these was a \$2,500 adjustment made in October 2012 to decrease a defendant's balance and the only supporting documentation was a handwritten note regarding a telephone call from the vendor.

Proper authorization of adjustments and adequate documentation that fully explains the reasons for the adjustments to accounts receivable balances are necessary to ensure only the proper accounts and amounts are adjusted and to reduce the risk of loss, theft, or misuse of funds.

5.2 Liabilities

Prosecuting Attorney personnel do not prepare a monthly list of liabilities for the restitution and bad check account, and consequently, liabilities are not compared to the reconciled bank balance. At our request, a list of liabilities was prepared for this account and identified liabilities totaled



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\$352 at April 20, 2013. The book balance was \$2,321 at that time, leaving an unidentified difference of \$1,969. The Prosecuting Attorney's office also has a trust account that was used to account for bad checks prior to the current restitution and bad check account, but it has not been used for several years. The trust account reconciled bank balance at December 31, 2012, was \$685, and the entire balance is unidentified.

Monthly lists of liabilities should be prepared and reconciled to book balances to ensure records are in balance, errors are detected and corrected on a timely basis, and sufficient cash are available for payment of all liabilities.

5.3 Outstanding checks

The Prosecuting Attorney has not established procedures to routinely follow up on outstanding checks. As a result, at March 31, 2013, 39 checks, totaling \$4,018, had been outstanding for over a year in the restitution and bad check account. In addition, as of December 31, 2012, the inactive trust account had 14 outstanding checks totaling \$773 with issue dates ranging from 3 to 7 years old.

Proper follow-up procedures are necessary to prevent the accumulation of old outstanding checks and ensure monies are appropriately disbursed to the payee or as otherwise allowed by state law.

Similar conditions previously reported

Similar conditions to sections 5.2 and 5.3 were noted in our prior audit report.

Recommendations

The Prosecuting Attorney:

- 5.1 Perform a documented independent review and approval for all accounting adjustments and ensure adequate documentation is maintained to support all adjustments.
- 5.2 Ensure a monthly list of liabilities is prepared and compared to reconciled bank balance. Any differences should be promptly investigated and resolved. Any unidentified monies should be disposed of in accordance with state law.
- 5.3 Establish procedures to routinely investigate outstanding checks. Old outstanding checks should be voided and reissued to payees that can be readily located. If the payee cannot be located, the amount should be disbursed in accordance with state law.

Auditee's Response

The Prosecuting Attorney provided the following responses:



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- 5.1 *All adjustments are now initialed and dated by the Prosecuting Attorney along with a review of the supporting documentation.*
- 5.2 *We are reconciling monthly to the balance of unidentified monies and will work on identifying these monies in the next few months and will dispose of them in accordance with state law.*
- 5.3 *We have reissued checks to payees we could find, and even identified one deceased payee. The remaining balance will be sent to the State Treasurer's office Unclaimed Property Division.*

6. County Procedures and Plans

Procedures related to long-term plans for Neighborhood Improvement Districts (NID) monies, fuel and vehicle use, and employment classification are in need of improvement.

6.1 Long-term plans for NID monies

The county has not developed a long-term plan regarding the use of NID maintenance levy monies. The county collects a maintenance levy on 13 NIDs and is currently accumulating these funds to help pay for future asphalt overlay projects for the NIDs. As of December 31, 2012, the combined cash balance of the NID maintenance accounts exceeded \$1.3 million, with individual NID balances ranging from approximately \$13,000 to \$259,000. The County Commission has not performed a formal analysis to determine when or if sufficient monies will accumulate to fund future NID asphalt overlay projects. A formal plan documenting future maintenance costs and available funding sources would help the county monitor and plan for future maintenance projects. Such a plan would demonstrate the county's intentions to the residents within the NIDs.

6.2 Fuel use

The road and bridge department, the 911 Administrator, and the Sheriff's office do not have adequate procedures for monitoring fuel usage. Accounting records indicated fuel purchases totaled approximately \$292,000 during the year ended December 31, 2012.

The fuel purchased by the road and bridge department is for bulk tanks at the two county road and bridge sheds. The 911 Administrator and Sheriff's office personnel purchase fuel using fuel cards furnished by the county. We noted the following concerns:

- Road and bridge department employees are not consistently recording odometer readings on the logs maintained for the metered bulk fuel tanks at the road and bridge sheds.
- The County Commission does not have procedures in place to reconcile the road and bridge department's fuel logs with fuel purchase records.



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- The 911 Administrator's mileage and fuel use log is not submitted to the County Commission for review nor is it reconciled to fuel purchases on the monthly billing statements.
- The Sheriff's office does not have procedures in place to reconcile mileage and fuel use logs with fuel purchases on the monthly billing statements.

Procedures for maintaining and reviewing mileage and fuel use logs and reconciling log information to fuel purchased and related records are necessary to ensure vehicles are properly utilized; prevent paying vendors for improper billing amounts; and decrease the risk of loss, theft, or misuse of fuel going undetected. Logs should provide sufficient details to enable the county to effectively monitor vehicle and equipment use and fuel costs.

6.3 Commuting mileage

The personal and commuting use of county vehicles by some county officials is not reported to the Internal Revenue Service (IRS). Each County Commissioner is allowed to use a county vehicle to commute to and from home daily. However, none of the County Commissioners complete vehicle logs. Without complete vehicle logs, the county cannot distinguish between business and personal use, and therefore, is unable to properly report personal use.

IRS regulations indicate personal and commuting mileage are reportable fringe benefits and require the full value of the provided vehicle to be reported if the employer does not require the submission of detailed logs that document business and personal use. Because procedures have not been established to ensure IRS regulations are followed, the county may be subject to penalties and/or fines for failure to report all taxable benefits.

6.4 Employment classification

The county did not document the reasons for classifying two individuals hired to perform information technology duties as independent contractors rather than employees. The county did not withhold payroll and income taxes from payments made to these individuals. Rather, these payments, which totaled \$45,055 and \$18,473, were reported to the IRS on 1099 forms.

The County Commission indicated the county allowed the individuals to choose their hiring status (employee or independent contractor). However, in December 2011, the County Commission approved employment agreements with these two individuals that state the individuals are employees. In addition, these individuals are required to complete timesheets similar to other county employees and submit timesheets to their supervisor, who is a county employee.



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Section 105.300, RSMo, defines an elected or appointed officer or employee of a political subdivision as an employee for Social Security and Medicare tax purposes. For employees, the IRS requires employers to report employee compensation on W-2 forms and withhold and remit income and payroll taxes. Similarly, Chapter 143, RSMo, includes requirements for reporting wages and withholding state income taxes. State and federal laws require employers to pay the employer's share of Social Security and Medicare on the compensation paid to employees. Proper classification of employees is necessary to ensure compliance with various state and federal laws and regulations. The failure to withhold and properly report payroll and income taxes for county employees makes the county potentially subject to additional tax liabilities along with penalties and interest.

Similar conditions
previously reported

Similar conditions to sections 6.1, 6.2, and 6.3 were noted in our prior audit report.

Recommendations

The County Commission:

- 6.1 Develop a long-term plan regarding the use of NID maintenance levy monies.
- 6.2 Require complete mileage and fuel use logs be maintained for the road and bridge department and ensure the 911 Administrator periodically submits his mileage and fuel use log. In addition, fuel use for the road and bridge department, the 911 Administrator, and the Sheriff's office should be reconciled to fuel purchases, and any significant discrepancies should be investigated.
- 6.3 Comply with IRS regulations for reporting fringe benefits related to commuting and personal miles and require mileage logs that distinguish between business and personal use.
- 6.4 Ensure all persons hired by the county are properly classified as employees or independent contractors in compliance with state and federal laws and regulations, and all compensation paid is subject to applicable income and payroll taxes and properly reported.

Auditee's Response

The County Commission provided the following responses:

- 6.1 *We will create a long-term NID maintenance plan that will be re-evaluated annually.*
- 6.2 *We agree with the recommendation. We will implement procedures to ensure mileage and fuel use logs are consistently maintained and will reconcile fuel use to fuel purchases.*



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6.3 *We will start keeping logs of mileage to comply with IRS regulations.*

6.4 *We will review these individuals' employment statuses and ensure documentation conforms to independent contractor status.*

7. Senate Bill 40 Board

The Senate Bill 40 Board is not adequately reviewing accounting records and Board meeting minutes are in need of improvement. The Board is funded through a property tax levy and a state funded Targeted Case Management (TCM) program. For the year ended December 31, 2012, receipts in the Senate Bill 40 Board bank account totaled \$194,000 and receipts in the TCM bank account totaled approximately \$270,000.

7.1 Segregation of duties

Accounting duties related to the TCM bank account are not adequately segregated. The Executive Director is responsible for all duties including receipting, recording, and disbursing monies for this account. The majority of disbursements are made through a debit card. Furthermore, the Executive Director does not prepare monthly bank reconciliations for the account. While spreadsheets showing activity for both of the Board's bank accounts and the bank statements are presented to the Board along with the bank reconciliations for the Board's other bank account, there is no documented review of any of these records by the Board. The Executive Director indicated he takes his file of receipt slips for debit card purchases to Board meetings so they would be available if a Board member requested them; however, the records have not actually been given to the Board to review.

Proper segregation of duties is necessary to ensure all transactions are accounted for properly and assets are safeguarded. If proper segregation of duties cannot be achieved, periodic independent or supervisory reviews of accounting records should be performed and documented by the Board. In addition, timely preparation of monthly bank reconciliations is necessary to ensure bank accounts are in agreement with accounting records and to detect and correct errors.

A similar condition was noted in our prior audit report.

7.2 Sunshine Law

The Board discussed issues in closed session such as changing phone service providers, bill paying procedures, bonding an employee, and TCM contract changes that are not allowable under the Sunshine Law. Additionally, for 2 of the 4 closed sessions held during 2012, open meeting minutes did not document the vote for closing the meeting or cite the specific statute and subsection allowing the closure.

The Sunshine Law, Chapter 610, RSMo, requires the question of holding the closed meeting and the reason for the closed meeting to be voted on at an open meeting. Additionally, the Sunshine Law also limits discussion



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topics and actions in closed meetings to only those specifically allowed by state law.

Recommendations

The Senate Bill 40 Board:

- 7.1 Ensure independent or supervisory reviews of accounting records are performed and documented and monthly bank reconciliations are prepared and submitted to the Board for review for the TCM account. In addition, the Board should adopt procedures to ensure supporting documentation is submitted and reviewed for all debit card usage.
- 7.2 Ensure open meeting minutes document the reason and the corresponding vote for entering closed session and ensure items discussed in closed sessions comply with the Sunshine Law.

Auditee's Response

The Senate Bill 40 Board provided the following responses:

- 7.1 *We have implemented this recommendation. All accounting records and monthly bank reconciliations are being reviewed by the Board at the quarterly meetings. The debit card is no longer being used. We now have a credit card for most TCM transactions. All invoices are submitted to the Board for review.*
- 7.2 *In the future, we will strive to comply with the Sunshine Law. We will look into obtaining Sunshine Law training.*

Morgan County

Organization and Statistical Information

Morgan County is a county-organized, third-class county. The county seat is Versailles.

Morgan 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. The county employed 122 full-time employees and 24 part-time employees on December 31, 2012.

In addition, county operations include the Senate Bill 40 Board, the Senior Services Board, and the County Law Enforcement Restitution Board.

Elected Officials

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

Officeholder	2013	2012
James D. Fisher, Presiding Commissioner (1) \$		29,494
Wayne Kroeschen Jr., Associate Commissioner		30,146
Dan Murdock, Associate Commissioner		30,146
Nancy Boles, Recorder of Deeds		45,675
Cathy Daniels, County Clerk		45,675
Dustin Dunklee, Prosecuting Attorney		113,112
Jim Petty, Sheriff		50,570
Louella Pryor, County Treasurer		45,675
Maynard B. Jones, County Coroner		16,240
Ray Forrest, Public Administrator		45,675
Kathy Francis, County Collector (2), year ended February 28,	50,359	
Bob Raines, County Assessor, year ended August 31,		45,675

- (1) James Fisher passed away in November 2012. James Vaughan was appointed by the Governor in December 2012 to replace him.
- (2) Includes \$4,684 of commissions earned for collecting city property taxes.

Financing Arrangements

The county entered into a lease agreement with a not-for-profit corporation (NFP) in September 1998. The terms of the agreement called for the NFP to issue bonds of \$4,500,000 for the purpose of constructing a justice center and for the NFP to lease the justice center back to the county for payments



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totaling the principal and interest due on the outstanding bonds. An additional \$500,000 in bonds were issued in 2000. In 2005, the NFP issued refunding bonds for \$3,495,000 to pay off the 1998 and 2000 bonds. In 2010, the NFP issued more refunding bonds to pay off the 2005 refunding bonds. The remaining balance on the bonds at December 31, 2012, was \$885,000 in principal and \$31,185 in interest. The bonds mature on September 1, 2014. In November 1997, county voters approved a 1/2 cent law enforcement sales tax, which is used in part to make the principal and interest payments. This sales tax is set to expire in 2017.

The county has 13 NIDs. General obligation bonds were issued to finance the projects. Although these are general obligations bonds of the county, special assessments have been levied on the property located in the districts to pay the principal and interest. The remaining balance on the bonds at December 31, 2012, was \$703,000 in principal and \$107,571 in interest.

The county has entered into a lease purchase agreement for 911 equipment. At December 31, 2012, the balance of the lease purchase was \$476,611 in principal and \$29,944 in interest. Payments are made from the General Revenue Fund.

The county was notified in January 2012 that the state Department of Revenue had improperly distributed approximately \$535,705 to the county in general and law enforcement sales tax that should have gone to the Mid-Mo Ambulance District. In January 2012, the County signed a promissory note with the Mid-Mo Ambulance District agreeing to pay \$107,141 per year for 5 years to the ambulance district, starting in 2012. Half of the amount will be paid from the General Revenue Fund and half from the Law Enforcement Sales Tax Fund.