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Missouri State Auditor

Lewis County Collector and Property Tax System



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Missouri State Auditor

CITIZENS SUMMARY

Findings in the audit of the Lewis County Collector and Property Tax System

Background	Section 52.150, RSMo, requires the State Auditor to audit the office of a County Collector after being notified of a vacancy in that office. A vacancy occurred in the office of the County Collector of Lewis County on October 28, 2013. A successor was appointed and sworn into office effective December 23, 2013. The scope of our audit included, but was not necessarily limited to, the 2 years ended February 28, 2014.
County Collector Controls and Procedures	Despite similar concerns noted in our 3 prior audits, significant weaknesses continued to exist throughout the former County Collector's time in office, and weaknesses continue to exist in the current County Collector's office. The County Collector's office does not always use the actual date of receipt when recording payments and does not account for the numerical sequence of receipt numbers. The County Collector lacks adequate procedures for receipting and depositing monies and does not reconcile receipts to deposits and disbursements, causing differences to go undetected and uncorrected. The County Collector does not deposit receipts intact, does not timely prepare bank reconciliations or lists of liabilities, lacks adequate procedures for the collection and recording of non-sufficient funds checks, and has not segregated accounting duties.
Property Tax System Controls and Procedures	As noted in our prior audit, the County Collector does not prepare timely annual settlements. The former County Collector did not prepare annual settlements for the year ended February 28, 2013, and the year ended February 29, 2012, and, as of August 1, 2014, the current County Collector had not finalized the annual settlement for the year ended February 28, 2014. Controls over property tax additions and abatements are not adequate, there is no independent comparison of property assessment changes made by the County Assessor to changes made in the property tax system by the County Clerk, and the County Collector is able to enter additions and abatements in the computer system.

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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Lewis County Collector and Property Tax System

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THOMAS A. SCHWEICH

Missouri State Auditor

To the County Commission
and
County Collector
Lewis County, Missouri

We have audited the County Collector and Property Tax System of Lewis County. Section 52.150, RSMo, requires the State Auditor to audit the office of the County Collector after being notified of a vacancy in that office. In addition, we did additional work and expanded the audit period in fulfillment of our duties under Section 29.230, RSMo. On October 28, 2013, a vacancy occurred in the office of the County Collector of Lewis County. A successor was appointed and sworn into office effective December 23, 2013. The scope of our audit included, but was not necessarily limited to, the 2 years ended February 28, 2014. The objectives of our audit were to:

1. Evaluate the county's internal controls over significant property tax functions.
2. Evaluate the county's compliance with certain legal provisions.

Our methodology included reviewing 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 Collector and county management and was not subjected to the procedures applied in our audit of the County Collector and Property Tax System.

Section 52.150, RSMo, requires the County Commission to accept the State Auditor's report and, if necessary, to take certain specific actions if the State Auditor finds any monies owing to the county or the former County Collector. For the areas audited, we identified (1) deficiencies in internal controls, and (2) noncompliance with legal provisions. The accompanying Management Advisory Report presents our findings arising from our audit of the County Collector and Property Tax System of Lewis County.

An additional report, No. 2014-103, *Lewis County*, was issued in November 2014.

A handwritten signature in black ink, reading "Thomas A. Schweich". The signature is fluid and cursive, with the first name "Thomas" and last name "Schweich" clearly legible.

Thomas A. Schweich
State Auditor

The following auditors participated in the preparation of this report:

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Lewis County Collector and Property Tax System

Management Advisory Report

State Auditor's Findings

1. County Collector Controls and Procedures

Despite similar concerns noted in our 3 prior audit reports, significant weaknesses continued to exist throughout the former County Collector's time in office. The current County Collector worked in the office prior to her appointment as County Collector, but was not responsible for setting policy and ensuring audit recommendations were implemented. We expanded our audit work past the vacancy date to satisfy requirements of our scheduled audit. The current County Collector has continued to use the property tax system and some procedures established by the former County Collector, so weaknesses continue to exist. Accounting and reporting procedures do not provide assurance all property tax receipts and disbursements are accounted for properly. As a result, loss, theft, or misuse of funds could go undetected for a significant period of time.

The County Collector's office processed collections totaling approximately \$6.9 million during the year ended February 28, 2014, and \$6.5 million during the year ended February 28, 2013.

1.1 Receipt dates and payment number sequence

The County Collector's office does not always use the actual date of receipt when recording payments and does not account for the numerical sequence of receipt numbers (payment numbers) assigned by the computerized property tax system.

The computerized property tax system sequentially assigns a payment number for all monies received through the County Collector's office. However, the system allows users to backdate payments received in the system, resulting in payment numbers being out of order. For example, if a mailed in payment is postmarked with a date prior to the month it is entered into the computer system, the County Collector can backdate the date of receipt in the system to the postmarked month for the payment. In addition, payment numbers can be deleted from the system after a receipt has been printed without an audit trail. These control weaknesses allow for possible manipulation of receipt data.

To ensure all monies received are properly recorded and deposited, and reduce the risk of loss, theft, or misuse of funds, consideration should be given to modifying the software program to ensure an audit trail of changes made in the property tax system is maintained and adequate controls are in place to allow the County Collector's office to account for the numerical sequence of payment numbers.

1.2 Receipting, depositing, and disbursing

The County Collector does not have adequate procedures for receipting and depositing monies and does not reconcile receipts to deposits and disbursements, causing differences to go undetected and uncorrected.

The County Collector does not deposit receipts intact. The County Collector and the Deputy County Collector can each have separate work sessions open



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at the same time and can select which payments to include in deposits. The County Collector indicated the property tax system was designed to allow each user the ability to select which payments received each session will be included in a deposit so that the office can hold postdated checks for taxpayers when necessary.

Receipts are reported on the tax register based on the receipt date entered into the property tax system rather than the actual date of receipt and the monthly tax register is used to prepare the monthly disbursement settlement. Payments backdated to a prior month or postdated to a subsequent month will not be included in the current month's tax register or distributed. We noted a payment received in April 2013 and backdated to March 2013 for \$792 was not included in the tax register for March 2013 and therefore, was not distributed as of August 1, 2014. The current County Collector was not aware payments backdated to a prior month were not included in monthly distributions until we identified this issue. If the County Collector performed regular reconciliations between receipts, deposits, and the tax register, this difference would have been identified.

To ensure all monies received are properly recorded and deposited, daily tax registers should be generated and reconciled to collections and deposits and all monies received should be deposited intact.

1.3 Bank reconciliations

We noted the following concerns during our review of the former and current County Collector's bank reconciliations.

- The former County Collector had not prepared bank reconciliations or prepared lists of liabilities since January 2008. The current County Collector opened a new bank account on November 1, 2013, and since that date the old account has not been used for routine activity. The balance in the former County Collector's bank account on February 28, 2014, was \$54,604; however, without a corresponding list of liabilities the County Collector does not know what the account balance should be or how the monies should be distributed.

We reviewed the former County Collector's records and identified liabilities of \$37,847 and excess distributions of \$16,132 at February 28, 2014, resulting in a \$32,889 unexplained difference between the bank balance and total liabilities.

- The current County Collector does not reconcile the new bank account timely. As of August 2014, the current County Collector had not performed bank reconciliations or identified liabilities for 5 months.

Timely preparation of monthly bank reconciliations is necessary to ensure the bank account is in agreement with accounting records and to detect and



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correct errors. In addition, without regular identification and comparison of liabilities to the reconciled bank balance, there is less likelihood errors will be detected and the ability to both identify liabilities and resolve errors is diminished. Also, maintaining a dormant bank account with unidentified funds increases the risk of loss, theft, or misuse of funds. The County Collector should attempt to identify and distribute funds held in that account. Various state laws address the disposition of unidentified funds.

1.4 Non-sufficient funds checks

The County Collector does not have adequate procedures in place to ensure non-sufficient funds (NSF) checks are collected, adjustments are made to the distribution of tax collections, and NSF checks are reversed in the property tax system to reflect amounts still owed by taxpayers. As a result, the County Collector's office may be unaware additional tax is due.

The County Collector's office does not reverse NSF checks in the property tax system to indicate the taxpayer's check was returned and payment is still due from the taxpayer. In addition, adjustments are not made to deduct NSF check amounts from monthly disbursements of tax collections to the county and other political subdivisions. Restitution for NSF checks may not be received until several months after the receipt was initially collected and, in some instances, restitution may never be received. As a result, the office needs records to track the repayment status of NSF checks.

Without adequate procedures for the collection and recording of NSF checks, the County Collector's office cannot ensure amounts due from taxpayers are properly tracked.

1.5 Segregation of duties

The County Collector has not segregated accounting duties. All employees receive and record monies in the property tax system and are responsible for preparing deposits for receipts they collect. The former County Collector did not review employee deposits or compare receipt records to deposits to ensure all monies receipted were deposited. The current County Collector stated she performs undocumented reviews of some deposits prepared by office staff.

Proper segregation of duties is necessary to ensure transactions are accounted for properly and assets are adequately safeguarded. If proper segregation of duties cannot be achieved, the County Collector should implement an adequate documented supervisory review of the accounting records.

Recommendations

The County Collector:

- 1.1 Work with the computer software vendor to establish controls to account for the numerical sequence of payment numbers assigned by the computerized property tax system, maintain an audit trail of



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- changes made in the property tax system, and prevent the editing of payment transaction information after a receipt slip has been printed.
- 1.2 Ensure daily tax registers are printed and reconciled to daily collections and deposits. In addition, deposits should be made intact.
 - 1.3 Reconcile bank balances to a list of liabilities monthly, and ensure any differences are investigated and promptly resolved. In addition, the County Collector should attempt to identify and distribute funds held in the dormant bank account, disburse any remaining unidentified balance in accordance with state law, and close the account.
 - 1.4 Ensure a policy is established for the collection of NSF checks and accounting records accurately document the status of accounts involving bad checks.
 - 1.5 Segregate accounting duties to the extent possible or ensure a supervisory review of accounting records is performed and documented.

Auditee's Response

The County Collector provided the following responses:

- 1.1 *I am working with the software designer to address the control issues noted. The system has been updated to include an audit trail for changes made to tax records, including any deposits or payments deleted from the tax system. Controls have been added to the tax system to allow penalties and interest to be assessed as of the date the payment is postmarked and the payment included in the current day's receipts. Additionally, the system has been updated to enable office staff to run a payment report by the date posted to account for all payment numbers. We are also keeping copies of all deleted payments and deleted deposit records.*
- 1.2 *We now deposit intact at the end of each day. All checks are included in one deposit and separate deposits are prepared for cash collections for each drawer. Separate deposits may be prepared for check collections for each drawer when the office is busy. We are now reconciling total daily deposits to the daily tax register and are noting any differences.*
- 1.3 *As of August 2014, I am diligently working on reconciliations. I will distribute identified amounts included in the dormant account and*



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turn the balance in the account over to the County Treasurer as unclaimed property upon completion of the audit.

- 1.4 *We have established a policy for the collection of NSF checks and have implemented a spreadsheet to track these checks. If a NSF check is not settled within 10 business days, the NSF check will be turned over to the Prosecuting Attorney's office for collection. We will void the transaction in the tax system at the time the check is turned over to the Prosecuting Attorney and will make a notation in the tax system. I will reverse the payment amount off the settlement sheet until payment has been received and will then include it as an adjustment.*
- 1.5 *I am now depositing all checks collected by all employees. I also review and initial cash deposits prepared by employees. Additionally, I will spot check employees cash drawers randomly. Daily, I ensure all transactions collected have been deposited.*

2. Property Tax System Controls and Procedures

We identified significant weaknesses in controls and procedures over the county's property tax system.

2.1 Annual settlements

The former County Collector did not prepare annual settlements for the year ended February 28, 2013, and the year ended February 29, 2012. Additionally, as of August 1, 2014, the current County Collector has not finalized the annual settlement for the year ended February 28, 2014.

To help ensure the validity of tax book charges, collections, and credits, and for the County Clerk and County Commission to properly verify these amounts, it is imperative the County Collector file timely annual settlements. Section 139.160, RSMo, requires the County Collector to settle accounts with the County Commission by the first Monday of March.

A similar condition was noted in our prior audit report.

2.2 Additions and abatements

Controls over property tax additions and abatements are not adequate. There is no independent comparison of property assessment changes made by the County Assessor to the related changes in the property tax system made by the County Clerk. In addition, the County Collector has the ability to enter additions and abatements into the computer system.

The County Assessor's office records changes to property assessments on manual forms. These forms are forwarded to the County Clerk's office, where additions and abatements are entered into the property tax system and



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sequentially numbered orders of assessment changes are prepared for County Commission approval. However, the County Clerk does not generate a monthly report of additions and abatements that can be reconciled to individual court orders approved by the County Commission. Errors made by the County Clerk when entering some property tax additions and abatements into the system were not detected timely, contributing to the delay by the current County Collector in preparing the annual settlement for the year ended February 28, 2014.

The lack of independent verification and approval of assessed valuation changes made by the County Assessor and tax book additions and abatements entered by the County Clerk significantly increases the risk of intentional and unintentional errors and omissions to the property tax books. Because the County Collector is responsible for collecting tax monies, good internal controls require she not have system access rights to be able to alter or delete tax rates, assessed values, and property tax billings.

Recommendations

- 2.1 The County Collector should prepare and file timely annual settlements.
- 2.2 The County Commission should ensure all tax book additions and abatements are properly recorded, approved, and charged to the County Collector. The County Commission should also ensure property tax system access rights are limited to only what is needed for users to perform their job duties and responsibilities.

Auditee's Response

The County Collector provided the following responses:

- 2.1 *I filed the annual settlement for the year ended February 28, 2014, in September 2014. I will file future annual settlements in a timely manner.*
- 2.2 *Since I need to be able to create files to add drainage districts, payment in lieu of taxes, and forest crop land records, I have requested the software designer update the tax system to allow me access to those records only.*

The County Commission and County Clerk provided the following response:

- 2.2 *The County Commission will ensure changes made to property assessments by the County Assessor's office agree to respective assessment changes made in the property tax system. In addition, the software designer has been contacted and asked to remove the County Collector's access in the property tax system for additions and abatements with the exception of drainage districts, payment in lieu of taxes, and forest crop land.*

Lewis County Collector and Property Tax System

Organization and Statistical Information

The County Collector bills and collects property taxes for the county and most local governments. Pursuant to Section 52.015, RSMo, the term for which collectors are elected expires on the first Monday in March of the year in which they are required to make their last final settlement for the tax book collected by them. Annual settlements are to be filed with the county commission for the fiscal year ended February 28 (29).

Robert E. Veatch served as County Collector until October 28, 2013. Denise Goodwin was appointed the Lewis County Collector and sworn into office on December 23, 2013.

The County Collector received compensation of \$30,113 for the period March 1, 2013, to October 28, 2013. During the year ended February 28, 2013, the County Collector received compensation of \$47,285. Compensation was in accordance with statutory provisions.