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Missouri State Auditor

Nodaway County



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Missouri State Auditor

CITIZENS SUMMARY

Findings in the audit of Nodaway County

<p>Sheriff's Commissary Controls and Procedures</p>	<p>The audit revealed serious shortcomings with the Sheriff's department. Receipt and disbursement duties for the Sheriff's commissary account are not adequately segregated, and an adequate supervisory review of the accounting records is not performed. Bank reconciliations for the commissary account are not performed, a running checkbook balance is not maintained, and a monthly list of liabilities is not prepared. Commissary account checks are printed with the electronic signature of the former Jail Administrator. Sales tax on commissary sales was not remitted to the Missouri Department of Revenue timely and sufficient records were not retained to ensure sales tax was collected on all sales. Additionally, commissary receipts are not always deposited timely and the Sheriff has not turned over commissary profits to the county Inmate Prisoner Detainee Security Fund. In addition, accounting records for commissary transactions prior to June 1, 2014, were not always retained, and thus, audit staff are unable to determine if commissary profits were accounted for properly.</p>
<p>Sheriff's Controls and Procedures</p>	<p>The Sheriff does not ensure fees collected are disbursed timely to the County Treasurer. The Sheriff's department does not track civil and criminal process papers served or reconcile papers served to monies received to ensure all paper service fees have been accounted for.</p>
<p>County Sales Tax</p>	<p>The county did not properly report property tax levy reductions to the State Auditor's office for several years and levy reductions reported did not agree to the amounts calculated by the County Clerk. In addition, the County Clerk used an incorrect tax rate ceiling in the sales tax reduction calculations.</p>
<p>Road and Bridge Fuel</p>	<p>The road and bridge department does not have a procedure in place to reconcile fuel usage to fuel purchased.</p>
<p>Additional Comments</p>	<p>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.</p>

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

*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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NICOLE R. GALLOWAY, CPA
Missouri State Auditor

To the County Commission
and
Officeholders of Nodaway County

We have audited certain operations of Nodaway County in fulfillment of our duties under Section 29.230, RSMo. In addition, McBride, Lock and Associates, Certified Public Accountants, has been engaged to audit the financial statements of Nodaway County for the 2 years ended December 31, 2014. The scope of our audit included, but was not necessarily limited to, the year ended December 31, 2014. The objectives of our audit were to:

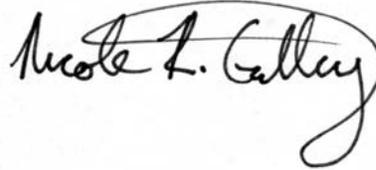
1. Evaluate the county's internal controls over significant management and financial functions.
2. Evaluate the county's compliance with certain legal provisions.
3. Evaluate the economy and efficiency of certain management practices and operations, including certain financial transactions.

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 Nodaway 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.

Nicole R. Galloway, CPA
State Auditor

The following auditors participated in the preparation of this report:

Deputy State Auditor:	John Luetkemeyer, CPA
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Nodaway County

Management Advisory Report

State Auditor's Findings

1. Sheriff's Commissary Controls and Procedures

Controls and procedures over the Sheriff's commissary account need improvement. The Sheriff operates a jail and contracts with a vendor to provide a commissary for inmates to purchase various snacks and personal items. The Sheriff indicated the jail holds an average of 23 inmates on a daily basis. When monies are received on behalf of an inmate or a purchase from the commissary is made, the amount is posted to the inmate's account in the vendor's software. Deposits into the commissary account totaled approximately \$13,000 during the year ended December 31, 2014.

1.1 Segregation of duties and supervisory review

Receipt and disbursement duties for the Sheriff's commissary account are not adequately segregated, and an adequate supervisory review of the accounting records is not performed. The Jail Administrator is primarily responsible for the accounting duties related to commissary, including recording transactions, taking deposits to the bank, and disbursing funds. Various other jail personnel collect monies, issue receipt slips, and prepare deposits. There is no independent and/or supervisory review of commissary accounting records over receipting, depositing, or disbursement procedures to ensure monies are properly and timely recorded, deposited, and disbursed.

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 Sheriff should implement an adequate independent or supervisory review of bank and accounting records.

1.2 Bank reconciliations and liabilities

The Jail Administrator does not perform monthly bank reconciliations for the commissary bank account. In addition, a running checkbook balance for the account is not maintained, outstanding checks are not determined, and a monthly list of liabilities is not prepared to reconcile to the commissary account balance. As of January 31, 2015, the commissary account balance was \$2,184, while liabilities, consisting of inmate monies held in the account, totaled \$179, resulting in an unidentified balance of \$2,005. A portion of the unidentified balance could be outstanding checks and commissary profits.

Maintaining running book balances in check registers and performing monthly bank reconciliations helps ensure accurate records are kept and increases the likelihood errors will be identified. Regular identification and comparison of liabilities to the reconciled cash balance is necessary to ensure records are in balance and monies are available to satisfy all liabilities. Further, various statutory provisions provide for the disposition of unidentified monies.

1.3 Electronic signature

The commissary account checks are printed with the electronic signature of the former Jail Administrator, who resigned November 30, 2014. The signature of the former Jail Administrator was still in use and 21 checks,



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Management Advisory Report - State Auditor's Findings

totaling \$863, were issued from December 1, 2014, to March 24, 2015. All Sheriff deputies and jailers have the ability to print checks from the commissary account with the former Jail Administrator's signature.

To safeguard against possible loss, theft, or misuse of funds and to ensure disbursements are properly handled, the Sheriff's department should discontinue the use of the electronic signature. In addition, the ability to print checks should be restricted.

1.4 Sales tax

The Sheriff's department did not remit sales tax to the Missouri Department of Revenue (DOR) timely and did not retain sufficient records to ensure sales tax was collected on all sales. The Sheriff was to collect and transmit sales tax on commissary items purchased by prisoners during the jail's prior commissary contract, which was effective May 28, 2010, to May 31, 2014. Two checks, totaling \$1,920, were issued from the commissary account to the DOR on May 14, 2014, to pay sales tax on the sale of commissary goods from 2010 through December 31, 2013. The Sheriff was unable to provide documentation of how the sales tax disbursed was calculated.

In addition, the Nodaway County Sheriff's state tax account with DOR was closed on December 31, 2013; however, the Sheriff's department was, according to the vendor contract, responsible for sales tax until May 31, 2014. Thus, additional sales tax may be due to the DOR for January 1, 2014, through May 31, 2014. Beginning June 1, 2014, the Sheriff contracted with a different vendor and the vendor is responsible for collecting and remitting sales tax on commissary sales.

Section 144.080, RSMo, requires sales tax collections be remitted to the DOR on a monthly or quarterly basis, depending on the amounts collected. Additionally, penalties may be assessed because of the county's failure to remit sales tax for the period January 1, 2014, to May 31, 2014.

1.5 Receipting and depositing procedures

Controls and procedures over receipting and depositing monies for the Sheriff's commissary account are not sufficient. As a result, there is less assurance all monies received are deposited.

Manual receipts

Manual receipt slips were issued by the Sheriff's department for the commissary account until May 31, 2014. Various jail personnel were responsible for issuing manual receipt slips. The following weaknesses with manual receipting procedures were noted:

- Manual receipt slips were not always issued in numerical sequence, and original copies of some voided receipt slips were not retained. Two receipt slips were skipped and not used, 2 receipt slips did not indicate the receipt amount, and it is unclear whether these receipt slips were incomplete or if they were voided. The original copies of these receipt slips were removed from the receipt slip book and not retained. We also



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noted instances where the carbon copies of the receipt slips were removed from the receipt slip book and not retained.

- The method of payment (cash, check, or money order) was not always indicated on the manual receipt slip. For example, the method of payment was not indicated on 39 of the 140 (28 percent) manual receipt slips issued during 2014. In addition, the name of the inmate was not noted on 6 receipt slips.
- Two manual receipt slips were issued on September 25, 2014, more than 3 months after electronic receipt slips started being issued. The Sheriff's department was not able to explain why these manual receipt slips were issued.
- The composition of receipts could not be reconciled to the composition of deposits. The Jail Administrator does not include an itemized listing of cash, check, and money orders on deposit slips. The composition of the deposit was not indicated on 10 of 23 deposits made from January 12, 2014, to June 4, 2014.

Electronic receipts

Commissary receipts are not always deposited timely as deposits are generally made about once a month. The Sheriff's department began using a kiosk to collect monies for inmate commissary accounts on June 1, 2014. The kiosk works in connection with accounting software and monies deposited into the kiosk are automatically applied to inmate accounts, but personnel are not removing the money from the kiosk and making deposits timely. For example, 12 inmate receipts totaling \$774 received between November 11, 2014, and December 13, 2014, were not deposited until December 22, 2014.

To ensure all monies received are properly handled and deposited, and reduce the risk of loss, theft, or misuse of funds, adequate receipting and depositing procedures are needed.

1.6 Commissary profits

The Sheriff has not turned over commissary profits to the county Inmate Prisoner Detainee Security Fund as required by state law. The Sheriff allows inmates to make commissary purchases through the contracted vendor and keeps the commission on the sales in the commissary account. The Sheriff does not track the amount of commissary profit remaining in the account.

Section 221.102, RSMo, requires each county jail to keep revenues from its 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. In addition, Section 488.5026.3, RSMo, provides guidance concerning the usage of those funds.



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1.7 Record retention

Accounting records for commissary transactions prior to June 1, 2014, were not always retained, and thus, we are unable to determine if commissary profits were accounted for properly. The Sheriff was unable to provide order forms or invoices for commissary transactions prior to June 1, 2014, and was unable to provide documentation supporting the calculation of sales tax disbursed to the DOR (see section number 1.4). Furthermore, the Sheriff was unable to provide documentation showing inmate account balances before and after a new accounting software for commissary transactions was implemented on June 1, 2014.

Record retention is necessary to ensure the validity of transactions and provide an audit trail. Section 109.270, RSMo, indicates all records made or received by officials in the course of their public duties are public property and are not to be disposed of except as provided by law.

Similar conditions previously reported

Conditions similar to sections 1.1 and 1.6 were noted in our prior audit report.

Recommendations

The Sheriff:

- 1.1 Adequately segregate accounting duties to the extent possible or ensure independent or supervisory reviews of accounting and bank records are performed and documented.
- 1.2 Ensure monthly bank reconciliations are performed, running balances in the check register are maintained, and lists of liabilities are prepared and reconciled to the cash balance monthly. Any differences between accounting records and reconciliations should be investigated and resolved. After sufficient efforts are made to resolve differences, any remaining unidentified monies should be disposed of in accordance with state law.
- 1.3 Discontinue the use of the electronic signature and restrict the number of jailers and deputies with the ability to print checks.
- 1.4 Contact the DOR and determine if any sales tax is still due to the DOR and ensure that future sales tax collections, if collected, are calculated properly and remitted timely.
- 1.5 Ensure all monies are deposited timely. In addition, if manual receipt slips are used, ensure receipt slips are issued in numerical sequence and are complete, all copies of voided receipt slips are retained, the method of payment is indicated, and the composition of receipt slips issued is reconciled to the composition of deposits.



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- 1.6 Ensure existing and future commissary profits are adequately tracked and turned over to the County Treasurer to be deposited in the Inmate Prisoner Detainee Security Fund.
- 1.7 Ensure accounting records are properly retained.

Auditee's Response

The Sheriff provided the following responses:

- 1.1 *We are now transmitting all monies received to the County Treasurer, who verifies the amount received, and deposits the monies to our bank account. I will ensure a supervisory review of bank reconciliations and the accounting records is performed monthly in the future.*
- 1.2 *The person responsible for commissary received additional training from our vendor. Monthly bank reconciliations are now being performed and a running book balance is now maintained in the system. I am in the process of identifying all liabilities of my office, to be reconciled with the cash balance of the account monthly.*
- 1.3 *Our vendor has recommended the use of the electronic signature on checks, but I will discuss with them if this is absolutely necessary and will work with the vendor to restrict access to printing checks. I will discuss again the discontinuance of electronic signatures on checks with the vendor.*
- 1.4 *I was under the impression the sales tax issue was resolved. I will contact the Department of Revenue to determine if any liability to the county exists. I do not anticipate collecting sales tax in the future as the current vendor handles those responsibilities.*
- 1.5 *I will work with the Jail Administrator to develop better depositing procedures. I do not anticipate using manual receipt slips in the future, but if necessary, I will ensure they are accounted for properly by handling as recommended.*
- 1.6 *I am working with the vendor to ensure the system tracks the balance of commissary profits. I will develop a set amount of profit to maintain in my commissary account and will turn over profits above that threshold to the County Treasurer.*
- 1.7 *I agree. New procedures are being put in place to properly maintain records.*



2. Sheriff's Controls and Procedures

Controls and procedures over the Sheriff's fee account need improvement. The Sheriff's department receives money for bonds, conceal carry weapon permits, board bills, paper service, phone system commissions, and other miscellaneous receipts. Receipts totaled approximately \$141,000 for the year ended December 31, 2014.

2.1 Monthly disbursements

The Sheriff does not ensure fees collected are disbursed timely to the County Treasurer. A review of receipts collected in 2014 indicated disbursements generally did not occur timely. For example, fees totaling \$4,768 for July 2014 were disbursed to the County Treasurer on September 5, 2014. Fees totaling \$5,315 and \$3,922 for October and November 2014 respectively, were disbursed to the County Treasurer on January 13, 2015.

Timely disbursement of fees 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.

2.2 Paper service

The Sheriff's department does not track civil and criminal process papers served or reconcile papers served to monies received to ensure all paper service fees have been accounted for. Payments for the paper service are accepted by the Circuit Court and the Sheriff's department. Documentation from the Circuit Court for payment of paper service does not include the payee but only the lump sum collected. As a result, the Sheriff's department cannot ensure fees are collected for all papers served.

To adequately account for civil and criminal process fees and reduce the risk of loss, theft, or misuse of funds, civil and criminal process papers served should be tracked and reconciled to the related monies received and deposited.

Recommendations

The Sheriff:

- 2.1 Disburse fees to the County Treasurer monthly in accordance with state law.
- 2.2 Track civil and criminal process papers served and perform a comparison of papers served to the related fees collected and deposited.

Auditee's Response

The Sheriff provided the following responses:

- 2.1 *I agree and will implement this recommendation.*



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2.2 *I have spoken with the Circuit Clerk regarding this issue and will follow up with the court to determine how process paper fees will be handled in the future. I will develop a method to ensure all fees are collected and deposited.*

3. County Sales Tax

The county did not properly report property tax levy reductions to the State Auditor's office for several years and levy reductions reported did not agree to the amounts calculated by the County Clerk. In addition, the County Clerk used an incorrect tax rate ceiling in her sales tax reduction calculations.

Section 67.505, RSMo, requires the county to reduce property taxes for a percentage of sales taxes collected. Nodaway 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 provides for an adjustment for actual sales tax collections of the preceding year that are more or less than the estimate for the preceding year.

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. In 2012, 2013, and 2014, the county chose to set the general revenue tax levy at 0.1400, 0.1300, and 0.1200, respectively. The county certified a voluntary reduction for 2012, although the County Clerk's worksheets indicated a combination of both voluntary and sales tax reductions should have been taken. The State Auditor's office followed Section 137.073.5(4), RSMo (amended in 2008), which provides a voluntary reduction taken in a non-assessment year (even year) results in a reduced tax rate ceiling during the subsequent reassessment year (odd year), causing a significantly lowered tax rate ceiling for the county in 2013. County officials were apparently unaware of the lowered tax rate ceiling and the County Clerk used the incorrect tax rate ceiling in her sales tax reduction calculations for 2013.

The county upon realization of the error held a public hearing in April 2014 and adopted a resolution to increase its previously reduced tax rate ceiling as allowed by Section 137.073.5(4), RSMo. County officials used the reinstated ceiling in performing 2014 sales tax reduction calculations and when setting the county's property tax levy for 2014. However, the county again incorrectly reported the reduction. The reduction was reported completely as a sales tax reduction, although the County Clerk's worksheets indicated a sales tax reduction and a voluntary reduction should have been reported. The county failed to submit amended tax rate forms for 2012, 2013, and 2014 to the State Auditor's office as allowed by Section 137.073.6(3), RSMo, until it was brought to their attention by the State Auditor's office in March 2015.



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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 levy reductions are accurately calculated, reported and certified.

Recommendation

The County Commission and County Clerk properly calculate and report property tax rate reductions (sales tax or voluntary). 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:

Amended returns were filed for the affected years in April 2015. We will ensure tax rate information filed with the State Auditor's office is accurate and the certification letter received from the State Auditor's office is consistent with the information filed.

4. Road and Bridge Fuel

The road and bridge department does not have a procedure in place to reconcile fuel usage to fuel purchased. The department has 3 bulk fuel tanks, two used for diesel fuel and one for gasoline. A daily log is maintained showing the mileage/hours for the vehicle/equipment being fueled and the number of gallons dispensed, by type. This information is entered into a monthly log, which also records the number of gallons of fuel purchased each month. However, this usage information is not reconciled to fuel purchases. The monthly logs include year to date usage and the December log indicates the road and bridge department used 14,373 gallons of diesel but purchased 13,081 gallons of diesel during 2014. The bulk log also indicates the road and bridge department used 2,244 gallons of gasoline but purchased 2,331 gallons of gasoline during 2014. Because reconciliations are not performed, the county is unable to explain these differences.

Procedures for reviewing fuel use and reconciling fuel purchased to related records are necessary to ensure the reasonableness and propriety of fuel use and disbursements. Failure to document and monitor fuel use could result in loss, theft, and misuse going undetected.

A similar condition was noted in our two prior reports.

Recommendation

The County Commission ensure a reconciliation of fuel used by the road and bridge department to fuel purchased is performed.



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Auditee's Response

The County Commission provided the following response:

We agree and will work with the road and bridge supervisor to implement this recommendation.

Nodaway County

Organization and Statistical Information

Nodaway County is a township-organized, third-class county. The county seat is Maryville, Missouri.

Nodaway 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 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 58 full-time employees and 5 part-time employees on December 31, 2014. The townships maintain county roads.

In addition, county operations include the Senate Bill 40 Board and Senior Citizens Services Board.

Elected Officials

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

Officeholder	2015	2014
Robert Schieber, Presiding Commissioner	\$	42,030
Bob Westfall, Associate Commissioner		39,627
Bob Stiens, Associate Commissioner		39,627
Sandra L. (Sandy) Smail, Recorder of Deeds		60,042
Beth Walker, County Clerk		60,042
Robert Rice, Prosecuting Attorney		109,366
Darren White, Sheriff		68,297
Vince Shelby, County Coroner		20,255
Diane Thomsen, Public Administrator		46,738
Marilyn Jenkins, County Collector-Treasurer (1), year ended March 31	75,385	
Rex Wallace, County Assessor, year ended August 31,		59,843
Troy Hayes, County Surveyor (2)		

(1) Includes \$15,088 of commissions earned for collecting city property taxes.

(2) Not compensated by the county.