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Missouri State Auditor

Phelps County



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CITIZENS SUMMARY

Findings in the audit of Phelps County

Prosecuting Attorney's Controls and Procedures	The prosecuting attorney has not adequately segregated accounting duties and does not perform an adequate supervisory review of accounting records. The prosecuting attorney does not restrictively endorse checks and money orders immediately upon receipt and does not deposit receipts timely.
Property Tax System Controls and Procedures	The county clerk and/or county commission do not adequately review the county collector's financial activities, including property tax collections. The county clerk does not maintain an account book or other records summarizing property tax records, and as a result, has not verified the accuracy of the county collector's annual settlement filed by the county collector in March 2015. The county commission also has not adequately restricted access to the property tax system. The county collector, who is responsible for collecting taxes, has inappropriate access rights in the property tax system that allows changes to be made to individual tax records throughout the tax year. Additionally, the county collector and county treasurer do not distribute payment in lieu of taxes received from the Department of Conservation to the applicable political subdivisions.
Sheriff's Liabilities	As noted in prior audits, sheriff's personnel do not prepare monthly lists of liabilities for the commissary account, and consequently, liabilities are not compared to the reconciled bank balance.
County Procedures	As noted in a prior report, the county commission does not maintain documentation supporting the annual transfer from the Unemployment Fund to the General Revenue Fund. The county commission has not adopted a formal policy related to the employment and supervision of related employees. The road and bridge department does not have a procedure in place to monitor fuel use.
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 operations in another office. The overall rating assigned to the county is intended to reflect the performance of the county as a whole. It does not indicate the performance of any one elected official or county office.

In the areas audited, the overall performance of this entity was **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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Phelps County

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NICOLE R. GALLOWAY, CPA
Missouri State Auditor

To the County Commission
and
Officeholders of Phelps County

We have audited certain operations of Phelps County in fulfillment of our duties under Section 29.230, RSMo. In addition, Nichols, Stopp & VanHoy, LLC, Certified Public Accountants, was engaged to audit the financial statements of Phelps 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:

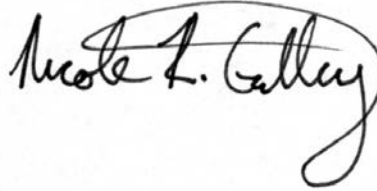
1. Evaluate the county's internal controls over significant management and financial functions.
2. Evaluate the county's compliance with certain legal provisions.
3. Evaluate the economy and efficiency of certain management practices and operations, including certain financial transactions.

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 Phelps County.

A handwritten signature in black ink, reading "Nicole R. Galloway". The signature is fluid and cursive, with a large loop at the end of the last name.

Nicole R. Galloway, CPA
State Auditor

The following auditors participated in the preparation of this report:

Deputy State Auditor:	John Luetkemeyer, CPA
Director of Audits:	Randall Gordon, M.Acct., CPA, CGAP
Audit Manager:	Lori Melton, M.Acct., CPA
In-Charge Auditor:	Colby Dollens, CPA, CFE
Audit Staff:	Sara R. Walsh, MPA
	Shelbi Becker

Phelps County Management Advisory Report State Auditor's Findings

1. Prosecuting Attorney's Controls and Procedures

Despite similar conditions in prior audits, controls and procedures in the Prosecuting Attorney's office need improvement. The Prosecuting Attorney's office collected approximately \$235,000 in bad checks and court-ordered restitution and related fees and approximately \$23,000 in delinquent taxes for the Missouri Department of Revenue during the year ended December 31, 2014.

1.1 Segregation of duties

The Prosecuting Attorney has not adequately segregated accounting duties or performed an adequate supervisory review of the accounting records. One clerk has the ability to receipt payments, prepare and deposit monies, post transactions and adjustments to the accounting system, prepare checks, and perform the monthly bank reconciliations. Neither the Prosecuting Attorney nor the Office Manager performs documented supervisory reviews of the accounting and bank records, other than adjustments.

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 Prosecuting Attorney should implement and document an independent or supervisory review of accounting and bank records.

1.2 Receipts and deposits

The Prosecuting Attorney does not restrictively endorse checks and money orders immediately upon receipt and receipts are not deposited timely. The clerks normally make deposits about every 2 weeks. Monies are generally received daily and deposits may be as large as \$10,000.

Failure to implement adequate receipting and depositing procedures increases the risk of loss, theft, or misuse of monies and the likelihood that errors will go undetected. Procedures should be established to ensure all monies received are deposited timely and restrictively endorsed immediately upon receipt.

Recommendations

The Prosecuting Attorney:

- 1.1 Adequately segregate accounting duties or ensure an independent or supervisory review of accounting and bank records are performed and documented.
- 1.2 Establish procedures to ensure checks and money orders are restrictively endorsed immediately upon receipt and all monies received are deposited timely.

Auditee's Response

- 1.1 *I have taken steps to address the recommendations made in the report. I have segregated duties so the person receiving money is not preparing the deposit. A second individual prepares and makes*



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the deposit and performs the bank reconciliation. A third person verifies the bank reconciliation.

- 1.2 *The checks and money orders are immediately endorsed when received. We are now depositing at least weekly.*

2. Property Tax System Controls and Procedures

Controls and procedures over the property tax system need improvement.

2.1 Annual settlements

Neither the County Clerk nor the County Commission adequately reviews the financial activities of the County Collector, who processed property tax collections of approximately \$24.3 million during the year ended February 28, 2015. The County Clerk has not approved the 2015 annual settlement as of September 23, 2015, although the annual settlement was filed by the County Collector in March 2015. The County Clerk does not maintain an account book or other records summarizing property tax charges, transactions, and changes, and as a result, the County Clerk could not verify the accuracy and completeness of the County Collector's annual settlement.

Section 51.150.1(2), RSMo, requires the County Clerk to maintain accounts with all persons chargeable with monies payable to the county treasury. 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 should be maintained by the County Clerk. Such records would help the County Clerk ensure taxes charged and credited to the County Collector are complete and accurate and could also be used by the County Clerk and County Commission to verify the County Collector's annual settlements. Such procedures are intended to establish checks and balances related to the collection of property taxes.

2.2 Computer access

The County Commission has not adequately restricted access to the property tax system. The County Collector has access rights in the property tax system that allows changes to be made to individual tax records throughout the tax year. Because the County Collector is responsible for collecting tax monies, good internal controls require the County Collector not have access rights allowing alteration or deletion of tax rates, assessed valuations, and property tax billing information.

To prevent unauthorized changes to the property tax records, access should be limited based on user needs. Unrestricted access can result in the deletion or alteration of data files and programs, and increases the risk of loss, theft, or misuse of funds.



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2.3 Payment in lieu of taxes

The County Collector and County Treasurer do not distribute payment in lieu of taxes (PILT) received from the Department of Conservation. The county received PILT totaling \$1,551 for the year ended December 31, 2014. The County Collector annually receives PILT monies from the Department of Conservation and transmits the check to the County Treasurer but does not indicate to the County Treasurer how the monies are to be distributed. The County Treasurer deposits the monies into the county's General Revenue Fund. These monies are not distributed to the applicable political subdivisions or reported on the County Collector's annual settlement. In addition, the County Treasurer indicated the funds have been maintained in the General Revenue Fund and not distributed for many years.

Article IV, Section 43(b) of the Missouri Constitution requires the payments to be distributed to the appropriate political subdivisions as payment in lieu of taxes for privately-owned land acquired by the Conservation Commission.

Recommendations

- 2.1 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 settlement.
- 2.2 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.
- 2.3 The County Collector and County Treasurer distribute PILT received from the Department of Conservation to the applicable political subdivisions and the County Collector include the receipt and distribution on the annual settlement. In addition, the County Collector and County Treasurer should determine if previous years' payments should also be distributed.

Auditee's Response

- 2.1 *A clerk in the County Clerk's office is working to maintain an account book. When the account book is up to date, we plan to use this account book to review the annual settlement.*
- 2.2 *As of October 30, 2015, the County Collector's rights have been limited in the County Assessor's system and the County Collector no longer has access to change individual tax records.*
- 2.3 *We agree with this recommendation and will distribute the PILT received from the Department of Conservation to the appropriate political subdivisions in the future. We will consult with our legal counsel regarding how to handle previous years' payments.*



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3. Sheriff's Liabilities

As similarly noted in prior audits, Sheriff's personnel do not prepare monthly lists of liabilities for the commissary account, and consequently, liabilities are not compared to the reconciled bank balance. Inmate commissary receipts totaled approximately \$230,000 during the year ended December 31, 2014.

Upon our request, Sheriff's personnel generated a list of liabilities totaling \$40,294 from the commissary computer as of June 29, 2015. This balance included inmate balances of \$8,090, payments due the commissary vendor of \$7,571, and monies to be turned over to the county of \$7,193. The Sheriff's office was unable to determine who is owed the remaining \$17,440.

Monthly lists of liabilities should be prepared and reconciled to cash balances to ensure records are in balance, errors are detected and corrected timely, and sufficient funds are available for payment of all liabilities. Any differences should be promptly investigated and resolved, and any unidentified monies should be disposed of in accordance with state law.

Recommendation

The Sheriff prepare a monthly list of liabilities for the commissary account and compare the list to the reconciled bank balance. Any differences should be promptly investigated and resolved. Any unidentified monies should be disposed of in accordance with state law.

Auditee's Response

We have implemented this recommendation.

4. County Procedures

The County Commission procedures over the Unemployment Fund, personnel policies, and fuel use need improvement.

4.1 Unemployment Fund

As similarly noted in the prior report, the County Commission does not maintain documentation supporting the annual transfer from the Unemployment Fund to the General Revenue Fund to cover administrative costs for maintaining the Unemployment Fund and processing unemployment claims. The county transferred \$10,000 from the Unemployment Fund to the General Revenue Fund during the year ended December 31, 2014, and has transferred \$10,000 annually from the Unemployment Fund to the General Revenue Fund since 2000. However, no documentation was available supporting this amount or analyzing the impact of this transfer on the Unemployment Fund.

As allowed by law, the county has elected to not pay quarterly unemployment contributions to the Missouri Department of Labor and Industrial Relations and instead is responsible for the payment of unemployment claims as they occur. Although there are no statutory or regulatory requirements to establish such a fund, the county has voluntarily



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elected to set monies aside in the Unemployment Fund to pay unemployment claims.

To ensure transfers from the Unemployment Fund are appropriate, administrative transfers from the Unemployment Fund should approximate administrative costs incurred in the General Revenue Fund.

4.2 Personnel policies

The County Commission has not adopted a formal policy related to the employment and supervision of related employees. The road and bridge Department Head directly supervises his son who works as a full-time employee in the department. The supervision of a related employee could compromise a supervisor's objectivity when assigning duties or evaluating employee performance.

Complete and up-to-date personnel policies are necessary to ensure compliance and equitable treatment of employees and should address pertinent issues such as the employment of related employees.

4.3 Road and bridge fuel

The road and bridge department does not have a procedure in place to monitor fuel use. The road and bridge department incurred fuel costs of approximately \$211,000 during the year ended December 31, 2014.

The road and bridge department uses bulk fuel tanks for vehicles and equipment as well as fuel cards with contracted gas stations. A log of bulk fuel usage, including the vehicle or equipment being filled; the number of gallons dispensed; and fuel on hand is not maintained. Information on road and bridge vehicle use, such as a mileage log including odometer readings, destination, purpose, or other maintenance information is not recorded.

Mileage and fuel logs are necessary to document the appropriate use of vehicles and to support fuel charges. Failure to review fuel use and reconcile to fuel purchased could result in loss, theft, and misuse of fuel going undetected.

Recommendations

The County Commission:

- 4.1 Prepare and maintain calculations of the costs associated with the administrative functions related to the Unemployment Fund to support the administrative transfers made from the Unemployment Fund to the General Revenue Fund.
- 4.2 Revise the personnel policy to address issues involving related employees.
- 4.3 Ensure mileage and fuel use logs are required for all vehicles and equipment, and these logs are reviewed for accuracy and reconciled



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to fuel purchases. Any significant discrepancies should be investigated.

Auditee's Response

- 4.1 *We will evaluate the Unemployment Fund, establish a target balance, and determine if a transfer is needed based on the target balance. Any transfers made will be based on a percentage of the fund and we will maintain documentation to support the determination and calculation.*
- 4.2 *We agree. We have ensured the road and bridge Department Head is not directly supervising his son or signing his timesheet. We are researching personnel policies to implement.*
- 4.3 *We have identified one of the off-road bulk fuel tanks did not have a meter to indicate the amount dispensed. We have ensured all tanks have meters on the tanks so that the amount dispensed can be logged. We will require odometer readings for every fueling and will direct the road and bridge Office Manager to compare the odometer readings to fuel dispensed and purchased as she reviews fuel invoices.*

Phelps County

Organization and Statistical Information

Phelps County is a county-organized, third-class county. The county seat is Rolla.

Phelps 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 139 full-time employees and 26 part-time employees on December 31, 2014.

In addition, county operations include a Senate Bill 40 Board, Senior Companion Board, Law Enforcement Restitution Board, and the Phelps County Health Department.

Elected Officials

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

Officeholder	2015	2014
Randy Verkamp, Presiding Commissioner	\$	38,393
Gary W. Hicks, Associate Commissioner		36,353
Larry J. Stratman, Associate Commissioner		36,353
Robin Kordes, Recorder of Deeds		55,080
Carol Bennett, County Clerk		55,080
John Beger, Prosecuting Attorney		125,287
Richard Lisenbe, Sheriff		63,771
Carol Green, County Treasurer		55,080
Larry Swinfard, County Coroner		19,584
Kathleen S. Oliver, Public Administrator		55,080
Davis R. Haas, County Collector (1), year ended February 28,	63,080	
Bill Wiggins, County Assessor (2), year ended August 31,		65,080
Louis Gilbert, County Surveyor (3)		

- (1) Includes \$8,000 of commissions earned for collecting city property taxes.
- (2) Includes \$10,000 of annual compensation for E911 addressing services.
- (3) Compensation on a fee basis.