



Office of Missouri State Auditor
Nicole Galloway, CPA

Mercer County

Report No. 2017-087
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Nicole Galloway, CPA
Missouri State Auditor

CITIZENS SUMMARY

Findings in the audit of Mercer County

Sheriff's Controls and Procedures	The Sheriff has not adequately segregated accounting duties and does not ensure adequate supervisory reviews of detailed accounting and bank records are performed. The Sheriff's office does not maintain adequate records to account for e-cigarettes purchased and sold to inmates, and inventory remaining on hand, or conduct periodic physical inventory counts. The Sheriff has not turned over commissary net proceeds to the county Inmate Prisoner Detainee Security Fund as required by state law. The Sheriff's office has not conducted a physical inventory of all seized property.
Prosecuting Attorney's Controls and Procedures	The Prosecuting Attorney has not adequately segregated accounting duties and does not perform adequate supervisory reviews of detailed accounting and bank records for receipts and deposits. The Prosecuting Attorney does not generate a receipt transaction report to reconcile receipts to deposits.
Public Administrator's Controls and Procedures	The Public Administrator does not document bank reconciliations for any of the wards' bank accounts and does not restrictively endorse checks when received.
Passwords and User Identifications	The Sheriff, Ex Officio Recorder of Deeds, and Prosecuting Attorney have not established adequate password controls to reduce the risk of unauthorized access to computers and data.
Additional Comments	Because counties are managed by several separately-elected individuals, an audit finding made with respect to one office does not necessarily apply to the operations in another office. The overall rating assigned to the county is intended to reflect the performance of the county as a whole. It does not indicate the performance of any one elected official or county office.

In the areas audited, the overall performance of this entity was **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 GALLOWAY, CPA

Missouri State Auditor

To the County Commission
and
Officeholders of Mercer County

We have audited certain operations of Mercer County in fulfillment of our duties under Section 29.230, RSMo. In addition, Stopp & VanHoy, Certified Public Accountants and Business Advisors, LLC, has been engaged to audit the financial statements of Mercer County for the 2 years ended December 31, 2016. The scope of our audit included, but was not necessarily limited to, the year ended December 31, 2016. The objectives of our audit were to:

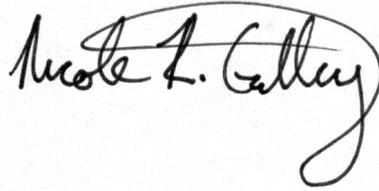
1. Evaluate the county's internal controls over significant management and financial functions.
2. Evaluate the county's compliance with certain legal provisions.
3. Evaluate the economy and efficiency of certain management practices and procedures, including certain financial transactions.

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

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

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

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

Director of Audits:	Randall Gordon, M.Acct., CPA, CGAP
Audit Manager:	Lori Melton, M.Acct., CPA
In-Charge Auditor:	Tina Disney, M.Acct.
Audit Staff:	Anh Nguyen
	Hunter O'Donnell, M.Acct.
	Mariyam Raziyeva

Mercer County

Management Advisory Report

State Auditor's Findings

1. Sheriff's Controls and Procedures

Controls and procedures in the Sheriff's office need improvement. The Sheriff operates a jail and contracts with a vendor to provide a commissary for inmates to purchase various snacks and personal items, in addition to handling money for bonds, conceal carry weapon permits, civil paper service, phone system commissions, e-cigarette commissions, and other miscellaneous receipts. Receipts totaled approximately \$42,000 for the year ended December 31, 2016.

1.1 Segregation of duties

The Sheriff has not adequately segregated accounting duties and does not ensure adequate supervisory reviews of detailed accounting and bank records are performed. The Jail Administrator is responsible for receipting and recording monies collected; and preparing deposits, disbursements, and the monthly bank reconciliation. The Sheriff reviews and signs the month end disbursement reports and checks, but does not review the bank statements or the bank reconciliations. The Sheriff does not account for the numerical sequence of receipt slips and does not ensure monies received have been properly recorded, deposited, and disbursed to the appropriate party.

Proper segregation of duties is necessary to ensure transactions are accounted for properly and assets are adequately safeguarded. Internal controls would be improved by segregating the duties of receipting, recording, depositing, disbursing, and reconciling monies. If proper segregation of duties cannot be achieved, documented independent or supervisory reviews of detailed accounting and bank records are essential and should include accounting for the numerical sequence of receipt slips and ensuring monies received have been accounted for properly.

1.2 E-cigarettes

The Sheriff's office does not maintain adequate records to account for e-cigarettes purchased and sold to inmates, and inventory remaining on hand, or conduct periodic physical inventory counts. E-cigarettes logs indicate sales to inmates totaled approximately \$6,600 for the year ended December 31, 2016. Our count of inventory on hand on May 10, 2017, was 3 less than the total of 22 that should have been on hand based on the records maintained. As a result, records and procedures are not sufficient to account for e-cigarettes or monies collected, and loss, theft, or misuse may go undetected.

Adequate inventory records are necessary to account for e-cigarettes. Comparisons of e-cigarette purchases and sales to inventory records are necessary to ensure the e-cigarettes and associated monies are properly recorded and handled.

1.3 Commissary net proceeds

The Sheriff has not turned over commissary net proceeds to the county Inmate Prisoner Detainee Security Fund as required by state law. The county maintains net proceeds from e-cigarettes and other commissary



Mercer County
Management Advisory Report - State Auditor's Findings

goods in the Sheriff's Commissary Fund. As of December 31, 2016, approximately \$5,000 of commissary net proceeds remained in the Sheriff's Commissary Fund and should be distributed to the Inmate Prisoner Detainee Security Fund.

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 (net proceeds) into the county Inmate Prisoner Detainee Security Fund held by the County Collector-Treasurer.

1.4 Seized property

The Sheriff's office has not conducted a physical inventory of all seized property.

Considering the often sensitive nature of seized property, adequate internal controls are essential and would significantly reduce the risk of loss, theft, or misuse of the items. The performance of periodic physical inventories and reconciling the inventory to the seized property inventory control log are necessary to ensure items are accounted for properly.

Recommendations

The Sheriff:

- 1.1 Segregate accounting duties or ensure independent or supervisory reviews of accounting and bank records are performed and documented.
- 1.2 Maintain accurate inventory records of e-cigarettes, reconcile these records to e-cigarettes purchased and sold, and perform periodic physical inventory counts.
- 1.3 Ensure existing and future commissary net proceeds not necessary to meet cash flow needs or current operating expenses are disbursed to the County Collector-Treasurer for deposit in the Inmate Prisoner Detainee Security Fund.
- 1.4 Ensure a periodic physical inventory of seized property is conducted and reconciled to the seized property inventory control log.

Auditee's Response

- 1.1 *I agree and have implemented this recommendation.*
- 1.2 *I agree and have implemented this recommendation.*
- 1.3 *I agree and will transfer the net proceeds not needed to meet cash flow needs to the County Collector-Treasurer for deposit in the Inmate Prisoner Detainee Security Fund.*



1.4 *I agree and am in the process of obtaining an electronic seized property software system and will use this system to perform inventories in the future.*

2. Prosecuting Attorney's Controls and Procedures

Controls and procedures in the Prosecuting Attorney's office need improvement. The office collected approximately \$39,000 in bad check and court-ordered restitution and fees during the year ended December 31, 2016.

2.1 Segregation of duties

The Prosecuting Attorney has not adequately segregated accounting duties and does not perform adequate supervisory reviews of detailed accounting and bank records for receipts and deposits. The Office Manager is responsible for receipting, recording, and depositing monies; and preparing disbursements and the monthly bank reconciliation. The Prosecuting Attorney's review of detailed accounting records does not account for the numerical sequence of receipt slips and does not ensure monies received have been properly recorded in the accounting system and disbursed to the appropriate party.

Proper segregation of duties is necessary to ensure transactions are accounted for properly and assets are adequately safeguarded. Internal controls would be improved by segregating the duties of receipting, recording, depositing, disbursing, and reconciling monies. If proper segregation of duties cannot be achieved, documented independent or supervisory reviews of detailed accounting and bank records are essential and should include accounting for the numerical sequence of receipt slips and ensuring monies received have been accounted for properly.

2.2 Depositing

The Prosecuting Attorney does not generate a receipt transaction report to reconcile receipts to deposits. In addition, the Office Manager does not account for the numerical sequence of the receipt transaction numbers.

Failure to implement adequate depositing procedures increases the risk that loss, theft, or misuse of monies received will go undetected. Procedures should be established to ensure receipts are reconciled to deposits and to account for the numerical sequence of receipts.

Recommendations

The Prosecuting Attorney:

- 2.1 Segregate accounting duties or ensure independent or supervisory reviews of accounting and bank records are performed and documented.
- 2.2 Reconcile receipts to deposits and account for the numerical sequence of receipts.



Auditee's Response

- 2.1 *I acknowledge the findings of the audit but respectfully disagree with the auditor's conclusion that the prosecutor's office "has not adequately segregated accounting duties and does not perform adequate supervisory reviews of detailed accounting and bank records for receipts and deposits." It should be noted that the audit was for the year ending December 31, 2016. Since being appointed in November 2016, the officeholder has closely reviewed each bank statement and all checks that have cleared the account. Upon confirmation of the totals, the officeholder signs and dates each monthly statement. As prosecutor is a part-time position in Mercer County, the officeholder maintains a separate civil practice and cannot be in the office every day. As such, it is necessary for the Office Manager to complete the accounting functions with the officeholder confirming the amounts and signing off on the statements at month end. Additionally, at the time of the appointment of the officeholder, all receipts were handwritten and provided to payors. No discrepancies in the receipts were found, as each payment was deposited in due course, and all amounts paid for restitution and bad checks were directed to the proper parties in due course. As communicated to the onsite auditors, in the last several months, in order to bring the office up to necessary levels of technology, the prosecutor's office has implemented the Karpel system, which allows for the numerical sequencing of receipts. This process has brought our system up to date. Electronic sequencing of receipts is now being completed. The receipts are being reconciled, reviewed and signed off on by the officeholder.*
- 2.2 *Electronic sequencing of receipts is now being completed. The receipts are being reconciled, reviewed and signed off on by the officeholder.*

3. Public Administrator's Controls and Procedures

The Public Administrator does not document bank reconciliations for any of the wards' bank accounts and does not restrictively endorse checks when received. The Public Administrator restrictively endorses checks when the deposit is prepared. A cash count on May 2, 2017, identified 3 checks totaling \$1,366 that had not been restrictively endorsed. The Public Administrator is the court-appointed personal representative for wards or decedent estates of the Circuit Court, Probate Division. As of December 31, 2016, the Public Administrator was responsible for the financial activity of 18 individuals.

Monthly bank reconciliations are necessary to ensure the bank activity and accounting records are in agreement, and to identify errors timely. Failure to restrictively endorse checks immediately upon receipt increases the risk of loss, theft, or misuse of funds.



Recommendation

The Public Administrator document monthly bank reconciliations for all accounts and restrictively endorse checks immediately upon receipt.

Auditee's Response

I was not made aware of these problems from past audits. I have since implemented these recommendations.

4. Passwords and User Identifications

The Sheriff, Ex Officio Recorder of Deeds, and Prosecuting Attorney have not established adequate password controls to reduce the risk of unauthorized access to computers and data. Employees in these offices are not required to change passwords periodically. In addition, the Ex Officio Recorder of Deeds and all employees in that office share a user account and password to access a computer.

Passwords are required to authenticate access to computers. The security of computer passwords is dependent upon keeping them confidential. However, since passwords do not have to be periodically changed and/or shared by employees, there is less assurance passwords are effectively limiting access to computers and data files to only those individuals who need access to perform their job responsibilities. Passwords should be confidential and changed periodically and user accounts should be unique to each employee to reduce the risk of a compromised password and unauthorized access to and use of computers and data.

Recommendation

The County Commission work with other county officials to require confidential passwords and unique user accounts for each employee that are periodically changed to prevent unauthorized access to the county's computers and data.

Auditee's Response

We will establish an order to require confidential passwords be changed quarterly and unique user accounts for each user.

Mercer County

Organization and Statistical Information

Mercer County is a township-organized, third-class county. The county seat is Princeton.

Mercer 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. In addition to elected officials, the county employed 17 full-time employees and 1 part-time employee on December 31, 2016. The townships maintain county roads.

In addition, county operations include a Senior Citizens Board and a Recreation District Board.

Elected Officials

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

Officeholder	2017	2016
Duane Hobbs, Presiding Commissioner	\$	27,325
Shane Grooms, Associate Commissioner		24,961
Zachary W. Martin, Associate Commissioner		24,961
Tammy Crouse, Circuit Clerk and Ex Officio Recorder of Deeds (1)		
Judy Hamilton, County Clerk		37,820
Ryan Horsman, Prosecuting Attorney (2)		4,364
Brian Keedy, Prosecuting Attorney (2)		14,840
John L. Young, Prosecuting Attorney (2)		26,888
Stephen Stockman, Sheriff		44,911
Michael Greenlee, County Coroner		4,333
Kelli Judd, Public Administrator		23,637
Susan Moore, County Collector-Treasurer (3), year ended March 31,	38,928	
Diana J. Blunk, County Assessor, year ended August 31,		37,407

- (1) Compensation is paid by the state.
- (2) John L. Young resigned as Prosecuting Attorney effective July 31, 2016. Brian Keedy served as interim Prosecuting Attorney until the Governor appointed Ryan Horsman on November 26, 2016.
- (3) Includes \$918 of commissions earned for collecting city property taxes.