



Office of Missouri State Auditor
Nicole Galloway, CPA

Pike County



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Missouri State Auditor

CITIZENS SUMMARY

Findings in the audit of Pike County

Sheriff's Controls and Procedures	The Sheriff has not adequately segregated accounting duties and does not perform adequate supervisory reviews of detailed accounting and bank records. The Sheriff's clerk does not prepare adequate bank reconciliations for the inmate bank account, and a monthly list of liabilities is not prepared to reconcile to the inmate account balance. The Sheriff used \$6,510 in commissary net proceeds to purchase items for jail operations during the year ended December 31, 2016, instead of turning these monies over to the county's Inmate Prisoner Detainee Security Fund.
Public Administrator's Controls and Procedures	As reported in our prior audit report, the Public Administrator has not filed a final settlement for a deceased ward assigned to the Public Administrator in 2008. In addition, an inventory and appraisal of this ward's assets has not been completed since September 2008 and the current Public Administrator indicated she had not verified existence of the estate's assets listing on the annual settlement. The Public Administrator did not file settlements at the end of her term in compliance with state law.
Protested Taxes	The County Collector has not timely distributed to political subdivisions the portion of protested tax payments not under protest.
Electronic Data Security	The county has not established adequate controls over county computers. As a result, county records are not adequately protected and are susceptible to unauthorized access or loss of data.
Sales Tax Rollback	As noted in our prior audit report, the county has not sufficiently reduced the property tax levy to offset 50 percent of sales tax monies received.
Compensatory Time	Sheriff's office employees have accumulated compensatory time balances in excess of county policy.
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.

Pike County

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NICOLE GALLOWAY, CPA

Missouri State Auditor

To the County Commission
and
Officeholders of Pike County

We have audited certain operations of Pike County in fulfillment of our duties under Section 29.230, RSMo. In addition, Daniel Jones & Associates, Certified Public Accountants, was engaged to audit the financial statements of Pike 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:

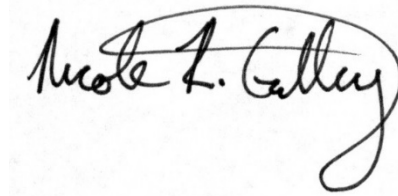
1. Evaluate the county's internal controls over significant management and financial functions.
2. Evaluate the county's compliance with certain legal provisions.
3. Evaluate the economy and efficiency of certain management practices and procedures, including certain financial transactions.

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 tested certain of those controls to obtain evidence regarding the effectiveness of their design and 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 Pike County.

A handwritten signature in black ink, reading "Nicole R. Galloway". The signature is fluid and cursive, with the first name "Nicole" and last name "Galloway" clearly legible. The signature is written over a light gray rectangular background.

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
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	Joel Stucky
	Morgan Alexander
	Wanda S. Rice, MBA

Pike 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 office collected monies for civil paper service, bonds, boarding and transporting prisoners, inmate monies, and other miscellaneous receipts totaling approximately \$457,000 for the year ended December 31, 2016.

1.1 Segregation of duties and supervisory review

The Sheriff has not adequately segregated accounting duties and does not perform adequate supervisory reviews of detailed accounting and bank records. The Sheriff's clerk is responsible for receipting, recording, and depositing monies; making disbursements; and reconciling the bank accounts. The Sheriff reviews bank reconciliations and disbursement documentation; however, no reviews of the accounting records are performed to ensure monies received have been properly recorded and deposited. The Sheriff's review did not identify the concerns we noted in section 1.2 regarding the inmate account bank reconciliations and liabilities.

Proper segregation of duties is necessary to ensure all transactions are accounted for properly and assets are adequately safeguarded. Internal controls would be improved by segregating the duties of receiving, 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 comparing daily receipts to deposits.

1.2 Inmate account bank reconciliations and liabilities

The Sheriff's clerk does not prepare adequate bank reconciliations for the inmate bank account. In addition, a monthly list of liabilities is not prepared to reconcile to the inmate account balance. The reconciliation process includes documenting the transactions that have cleared the bank; however, a report of outstanding checks, deposits in transit, and other reconciling items is not prepared or reviewed. As of March 31, 2017, we determined the reconciled account balance was \$5,051, and liabilities, consisting of inmate monies held in the account and amounts due to vendors, totaled \$5,774, resulting in a shortage of \$723.

Because adequate reconciliations have not been performed, errors contributing to the \$723 shortage were not detected. For example, errors totaling \$315 occurred in the recording of inmate deposits which overstated inmate balances and resulted in incorrect refunds being issued to inmates upon their release. Other accounting and recording errors comprised the remaining shortage of \$408.

Performing adequate 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 available cash balance is necessary to ensure records are in balance and monies are available to satisfy all liabilities.



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Management Advisory Report - State Auditor's Findings

1.3 Commissary net proceeds and purchases The Sheriff used \$6,510 in commissary net proceeds to purchase items for jail operations during the year ended December 31, 2016. These monies should have been turned over to the county Inmate Prisoner Detainee Security Fund and expended from that fund.

Disbursements related to jail operations included \$3,450 for jail supplies including toiletry kits, mattresses and linens, prisoner uniforms, and cleaning supplies; \$2,500 for inmate meals; and \$560 for miscellaneous items.

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 Treasurer. In addition, Section 488.5026.3, RSMo, provides guidance concerning the usage of those funds.

Similar conditions
previously reported

Similar conditions to sections 1.2 and 1.3 were noted in our 2 prior audit reports.

Recommendations

The Sheriff:

- 1.1 Segregate accounting duties or ensure documented independent or supervisory reviews of detailed accounting and bank records are performed.
- 1.2 Ensure adequate monthly bank reconciliations are prepared for the inmate bank account and lists of outstanding checks and deposits in transit are prepared. In addition, prepare a monthly list of liabilities and reconcile the list to the available cash balance. Any differences between accounting records and reconciliations should be promptly investigated and resolved.
- 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 Treasurer for deposit in the Inmate Prisoner Detainee Security Fund.

Auditee's Response

- 1.1 *The Office Manager processes all accounts payable. The Civil Process Clerk processes all accounts receivable. The Office Manager now reviews all monies receipted and deposited by the Civil Process Clerk. The Office Manager also now verifies that checks written from the inmate account for commissary items matches the invoices.*

A report is prepared monthly by the Civil Process Clerk and reviewed by the Sheriff. The Sheriff's review includes comparing balances,



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ensuring no gaps in the numerical sequence of receipt slips, and comparing bank statements to accounting reports.

1.2 *The commissary vendor's instructions for preparing the bank reconciliations did not ensure all items needed for the reconciliation process were completed. In preparing for the audit, Sheriff's office staff found the discrepancy and pointed it out to the auditor. A review of all records found that the intake officer, contrary to procedure, had entered a check twice into an inmate's account. This error was found to have happened only 2 other times since the current system was put in place in November 2013. To prevent this from occurring again, a complete audit of each inmate's account history is now completed prior to checks being mailed. This has increased costs to the county in extra labor and postage and requires the Sheriff's office to hold released inmates' funds for a longer time. We have worked with the vendor to ensure bank reconciliations are now fully prepared and are reconciled to the monthly list of liabilities.*

1.3 *Net proceeds from the commissary are turned over to the County Treasurer at the end of each month with the exception of monies held to meet cash flow needs. All items purchased are allowed under state statute and were simply purchased prior to the end of the month.*

2. Public Administrator's Controls and Procedures

Controls and procedures in the Public Administrator's office need improvement. The Public Administrator is the court-appointed personal representative for 32 individuals, comprised of 30 individuals requiring annual settlements/status reports, and 2 decedent estates as of December 31, 2016.

Unless otherwise specified below, references to the Public Administrator relate to the former Public Administrator whose term ended December 31, 2016. The current Public Administrator took office in January 2017. Recommendations are directed to the current Public Administrator because she is in a position to work with the Circuit Court, Probate Division, and to implement changes.

2.1 Case disposition

As reported in our prior audit report, the Public Administrator has not filed a final settlement for a deceased ward assigned to the Public Administrator in 2008. As of July 2017, this final settlement has not yet been filed. In addition, assets totaling approximately \$156,900, have not been distributed to the ward's heirs. These assets include personal property (\$29,100), business assets and materials (\$127,400), and bank accounts (\$400). Reasonable justification as to why a final settlement had not been filed was not provided and the Public Administrator had not petitioned the court to distribute the ward's assets.



Pike County Management Advisory Report - State Auditor's Findings

Although a final settlement has not been filed, the current Public Administrator filed an annual settlement for this case for the period of February 2016 to January 2017. This settlement included only one disbursement which was for probate court costs; however, fees are still accruing for storage of undistributed assets and for legal services. In addition, an inventory and appraisal has not been completed since September 2008 and the current Public Administrator indicated she had not verified existence of the estate's assets listed on the annual settlement dated January 23, 2017. As a result, the current condition and value of the assets are unknown.

To reduce unnecessary disbursements and the risk of loss, theft, or misuse of assets and destruction of property, the current Public Administrator should ensure final settlements are filed timely and assets are distributed to heirs promptly. In addition, the current Public Administrator should verify existence and secure possession of assets in accordance with Section 473.263, RSMo, and the court should require filing of a final settlement and distribution of assets to the heirs.

2.2 Transition

The Public Administrator did not file settlements at the end of her term in compliance with state law. The Public Administrator was required by Section 473.767.2, RSMo, to deliver property and make necessary filings prior to leaving office. Case files and bank accounts were turned over to the new Public Administrator; however, settlements were not prepared.

Section 473.767, RSMo, requires the Public Administrator to deliver property and file necessary settlements prior to leaving his or her term of office. Timely settlements are necessary for the court to properly oversee the administration of cases, document the delivery of property to the newly elected official, and reduce the possibility that loss, theft, or misuse of funds will go undetected.

Recommendations

- 2.1 The current Public Administrator perform an inventory and appraisal of assets, secure possession of assets, file a final settlement for this ward, and petition the court for an order of distribution. Further, the Circuit Court, Probate Division, should ensure final settlements are filed with the court timely to avoid unnecessary costs and fees, and to ensure distribution of estate assets to heirs.
- 2.2 The Circuit Court, Probate Division, ensure end of term settlements are filed by each outgoing Public Administrator as required by state law.



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Management Advisory Report - State Auditor's Findings

Auditee's Response

The current Public Administrator provided the following response:

- 2.1 *I have been trying to verify the assets in question. So far, I have not been able to completely verify the assets mentioned in the audit. I am currently working to complete the process and hope to have the assets verified and the final settlement completed soon and the assets distributed.*

The Circuit Court, Probate Division, provided the following responses:

- 2.1 *We will continue to monitor this decedent's estate in an effort to get the final settlement filed and distribute remaining assets to the heirs.*
- 2.2 *Any future outgoing official will receive notices to file turnover (end of term) settlements.*

3. Protested Taxes

The County Collector has not timely distributed to political subdivisions the portion of protested tax payments not under protest. Tax bills totaling approximately \$441,000 were paid under protest during the 4 years ended December 31, 2016; however, only a portion of the taxes paid on the related properties were paid under protest. State law allows for all portions of taxes not protested or not disputed by the taxpayer to be disbursed.

The County Collector was notified by the State Tax Commission each year from 2013 through 2016 of appeals by a taxpayer seeking a reduction in the valuation of the taxpayer's assessed property. The County Collector also received yearly notification from the taxpayer identifying the percentage of the total tax bill that was being protested. The County Collector held the total tax payment, including both the protested and the unprotested portion, in separate bank accounts for each year. In August 2016, the County Collector distributed the unprotested portions, totaling \$135,608, from the 2013, 2014, and 2015 protested tax payments to the applicable political subdivisions. In August 2017, the County Collector distributed the unprotested portion, totaling \$44,436, from the 2016 protested tax payment to the applicable political subdivisions.

Section 139.031.2, RSMo, requires the County Collector to disburse all portions of taxes not protested or not disputed by the taxpayer and maintain in a separate fund all portions of such taxes that are protested or in dispute. In addition to being required by state law, timely distributions of property tax collections to the political subdivisions are important because most political subdivisions rely heavily on property tax revenues to fund their operations.

Recommendation

The County Collector ensure the unprotested portion of protested tax payments are timely disbursed.



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Auditee's Response

2013 was the first year that a protest was received that included an unprotested portion.

In the future, if taxes are paid under protest and there is a portion that is unprotested, that portion will be calculated and distributed to the political subdivisions at the time of payment. At this time, all unprotested portions have been distributed.

4. Electronic Data Security

The county has not established adequate controls over county computers. As a result, county records are not adequately protected and are susceptible to unauthorized access or loss of data. In addition, some data backups are not stored at an offsite location or periodically tested.

4.1 Passwords

The County Collector, Sheriff, Prosecuting Attorney, Recorder of Deeds, and the County Assessor 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 to help ensure passwords remain known only to the assigned user. In addition, the Recorder of Deeds and her employee share a password to access the recording software and the seasonal employees in the County Collector's office are not assigned accounts with passwords.

Passwords are necessary 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 by employees in certain offices, are shared in one office, and are not assigned in another office, 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 unique, confidential, and changed periodically to reduce the risk of a compromised password and unauthorized access to and use of computers and data.

4.2 Security controls

The County Collector, Sheriff, and Recorder of Deeds do not have security controls in place to lock computers after a certain period of inactivity. In addition, the Sheriff and Recorder of Deeds do not have security controls in place to lock computers after a certain number of incorrect logon attempts.

Inactivity controls are necessary to reduce the risk of unauthorized individuals accessing an unattended computer and having potentially unrestricted access to programs and data files. Logon attempt controls lock the capability to access a computer after a specified number of consecutive invalid logon attempts and are necessary to prevent unauthorized individuals from continually attempting to logon to a computer by guessing passwords. Without effective security controls, there is an increased risk of unauthorized access to computers and the unauthorized use, modification, or destruction of data.



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4.3 Data backup

The Sheriff's office does not store data backups for its public safety software at an offsite location. In addition, the Sheriff's public safety software backups and the Recorder of Deeds' backups are not tested and the Prosecuting Attorney and the County Assessor indicated they were unsure if their backups are periodically tested by the software vendor.

To help prevent loss of information and ensure essential information and computer systems can be recovered, computer data should be stored offsite and tested on a periodic basis.

Recommendations

The County Commission work with other county officials to:

- 4.1 Require confidential passwords for each employee that are periodically changed to prevent unauthorized access to the county's computers and data.
- 4.2 Require county computers to have security controls in place to lock each computer after a certain period of inactivity and a specified number of incorrect logon attempts.
- 4.3 Ensure backed-up computer data is stored in a secure offsite location and tested on a regular basis.

Auditee's Response

The County Commission provided the following response:

We have discussed the concerns identified in the recommendations with the county's elected officials. We are developing a county-wide electronic data security policy which will include password and security controls, and data backup procedures.

The Sheriff provided the following responses:

- 4.1 &
4.2 *The Sheriff will take the recommendations under consideration.*
- 4.3 *From May 2009 through the fall of 2016, offsite backups were done via the internet. In the fall of 2016, offsite backups were stopped because the internet capacity was no longer sufficient. In February 2017, paperwork was signed to bring fiber optic internet into the Sheriff's office. This was completed in August 2017 and offsite backups were resumed.*

5. Sales Tax Rollback

As noted in our prior audit report, the county has not sufficiently reduced the property tax levy to offset 50 percent of sales tax monies received resulting in excess property taxes collected that were not sufficiently adjusted in subsequent years. At December 31, 2012, the total insufficient property tax



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reduction was \$77,900. The amount has since decreased by only \$2,600 and at December 31, 2016, the insufficient reduction was \$75,300.

Section 67.505, RSMo, requires the county to reduce property taxes for a percentage of sales taxes collected. Pike County voters enacted a one-half of 1 percent general sales tax with a provision to reduce property taxes by 50 percent of sales taxes collected. The county is required to estimate the annual property tax levy to meet the 50 percent reduction requirement and in the following year calculate any excess property taxes collected based upon actual sales taxes collected. Any excess should be included as an adjustment in the next year's property tax levy calculation to ensure property taxes are reduced in the subsequent year by the amount of the excess collection.

Recommendation

The County Commission and County Clerk reduce property tax levies for 50 percent of sales tax revenue and develop a plan to correct for the accumulation of prior years' insufficient property tax levy reductions.

Auditee's Response

Reductions of \$38,528 and \$10,035 were achieved in 2013 and 2016, respectively. However, due to unanticipated increases in sales tax collections of approximately 14 percent, reductions were not achieved in 2014 and 2015. The county has included an adjustment for the insufficient reduction noted in the prior audit report in future calculations. The county will reduce the cumulative by \$10,000 to \$30,000 per year. A spreadsheet has been developed to confirm the needed reduction as well as using materials and instructions for calculating the property tax levy provided in the State Auditor's Office budget template.

6. Compensatory Time

Sheriff's office employees have accumulated compensatory time balances in excess of county policy. The county policy states no employee is permitted to accumulate and retain more than 80 hours of compensatory time; however, as of June 2017, compensatory time balances for 7 Sheriff's office employees were between 113 hours and 492 hours.

By not following county policy, the county may be paying more compensatory time than required when an employee leaves county employment, resulting in a greater financial burden to the county. In addition, compliance with county policy is necessary to ensure equitable treatment of county employees.

Recommendation

The County Commission work with the Sheriff to ensure county employees do not accumulate compensatory time balances in excess of county policy.

Auditee's Response

The County Commission reviews timesheets and approves or questions hours reported. The overtime issue has been addressed with employees that the County Commission has oversight. That being said, the Sheriff's office has been notified several times concerning overtime accrual. We will work with



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Management Advisory Report - State Auditor's Findings

the Sheriff to find a workable solution to this issue and we will review the county policy for possible changes.

Pike County

Organization and Statistical Information

Pike County is a county-organized, third-class county. The county seat is Bowling Green.

Pike 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. In addition to elected officials, the county employed 65 full-time employees and 25 part-time employees on December 31, 2016.

In addition, county operations include the Senate Bill 40 Board, the Pike County Memorial Hospital Board, and the Law Enforcement Restitution Board. The Senate Bill 40 Board is audited separately, with the last audit report issued for the year ended December 31, 2016. The Pike County Memorial Hospital Board is audited separately, with the last audit report issued for the year ended June 30, 2016.

Elected Officials

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

Officeholder	2017	2016
Chris Gamm, Presiding Commissioner	\$	34,680
Curt Mitchell, Associate Commissioner		32,629
Jim Luebrecht, Associate Commissioner		32,629
Sherry McCarty, Recorder of Deeds		47,569
Melissa Kempke, County Clerk		47,569
Mark Fisher, Prosecuting Attorney		133,716
Stephen Korte, Sheriff		51,612
Patti Crane, County Treasurer		47,569
Jim Turner, County Coroner		18,012
Nina K. Long, Public Administrator		47,569
Marty J. Morrison, County Collector, year ended February 28,	47,569	
Donna Prior, County Assessor, year ended August 31,		47,569
Marty Wasson, County Surveyor (1)		

(1) Compensation on a fee basis.