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Missouri State Auditor

Phelps County

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CITIZENS SUMMARY

Findings in the audit of Phelps County

Property Tax System	As noted in the prior audit report, neither the County Clerk nor the County Commission adequately reviews the financial activities of the County Collector.
Prosecuting Attorney's Bank Reconciliations and Liabilities	Prosecuting Attorney's office personnel do not prepare adequate and timely bank reconciliations and do not maintain an adequate list of liabilities.
County Procedures	As similarly noted in the 2 prior audit reports, the County Commission does not maintain documentation supporting the annual transfer from the Unemployment Fund to the General Revenue Fund for administrative costs for maintaining the Unemployment Fund and processing unemployment claims. The County Commission has not established a comprehensive county personnel policy manual covering all county employees and vacation leave policies developed for the Road and Bridge department are not always followed.
County Commission Meeting Minutes	The County Clerk and the County Commission do not ensure minutes of all County Commission meetings are prepared and approved timely.
Senate Bill 40 Board Employee Bonuses	The Senate Bill 40 Board paid bonuses to employees in violation of the Missouri Constitution.
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 **Fair**.*

*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.

Phelps County

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NICOLE GALLOWAY, CPA

Missouri State Auditor

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. The scope of our audit included, but was not necessarily limited to, the year ended December 31, 2019. The objectives of our audit were to:

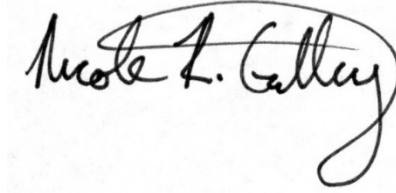
1. Evaluate the county's internal controls over significant management and financial functions.
2. Evaluate the county's compliance with certain legal provisions.
3. Evaluate the economy and efficiency of certain management practices and procedures, including certain financial transactions.

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 control that is significant to the audit objectives and assessed the design and implementation of such internal control to the extent necessary to address our audit objectives. 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 Phelps 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 distinguishable. It is written over a faint, rectangular background that appears to be a stamp or a watermark.

Nicole R. Galloway, CPA
State Auditor

The following auditors participated in the preparation of this report:

Director of Audits:	Kelly Davis, M.Acct., CPA, CFE
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Audit Staff:	Albert Borde-Koufie, MBA
	Logan J. Vogel

Phelps County Management Advisory Report State Auditor's Findings

1. Property Tax System

As noted in our prior audit report, neither the County Clerk nor the County Commission adequately reviews the financial activities of the County Collector, who processed property tax collections of approximately \$29.3 million during the year ended February 29, 2020.

The County Clerk does not maintain an account book or other records summarizing property tax charges, transactions, and changes. In addition, the County Clerk and the County Commission do not perform adequate procedures to verify the accuracy and completeness of the County Collector's annual settlements. The County Collector filed the annual settlement for the year ended February 28, 2019, in March 2019. However, the County Clerk and the County Commission had not approved the settlement as of March 12, 2020. As a result, there is an increased risk of loss, theft, or misuse of property tax monies going undetected, and less assurance the annual settlements are complete and accurate.

Section 51.150.1(2), RSMo, requires the County Clerk to maintain accounts with all persons chargeable with monies payable into 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 the County Commission to verify the County Collector's annual settlements. In addition, Section 139.190, RSMo, requires the County Commission to carefully and fully examine the annual settlement of the County Collector. Such procedures are intended to establish checks and balances related to the collection of property taxes.

Recommendation

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 settlements.

Auditee's Response

We concur with the recommendation. The County Clerk will develop an account book and the County Commission and County Clerk will review the accuracy and completeness of the annual settlements.

2. Prosecuting Attorney's Bank Reconciliations and Liabilities

Prosecuting Attorney's office personnel do not prepare adequate and timely bank reconciliations and do not maintain an adequate list of liabilities. The office collected bad check and court-ordered restitution and fees totaling approximately \$116,000 during the year ended December 31, 2019.

Office personnel did not complete the monthly bank reconciliations for October and November 2019 until February 2020, and only partially completed the reconciliation for December 2019 as of March 11, 2020.



Phelps County Management Advisory Report - State Auditor's Findings

In addition, office personnel do not use a consistent time frame when comparing bank activity to book activity, resulting in differences not being identified and resolved. For example, the September 2019 reconciled bank balance was calculated using activity through September 30, 2019, but was compared to a book balance calculated as of October 2, 2019. The reconciliation did not consider adjustments for timing differences, including deposits in transit or disbursements made after the September month end. After we adjusted for these differences, the reconciled bank balance totaled \$36, while the book balance totaled \$2,678, resulting in a shortage of \$2,642. Office personnel do not maintain a running book balance throughout the month; therefore, this difference may be due to errors in the book balance used in the reconciliation. Also, office personnel do not reconcile the available cash balance to a monthly list of liabilities, such as undistributed restitution and fees.

Adequate monthly bank reconciliations are necessary to ensure accounting records balance, transactions are properly recorded, and errors or discrepancies are detected and resolved timely. Regular identification and comparison of liabilities to the available cash balance is also necessary to ensure records are in balance and monies are available to satisfy all liabilities.

Recommendation

The Prosecuting Attorney ensure an accurate book balance is maintained and accurate bank reconciliations are prepared monthly. In addition, prepare monthly lists of liabilities and reconcile the list to the available cash balance. Any differences between accounting records and reconciliations should be promptly investigated and resolved.

Auditee's Response

*Bank reconciliations are now complete through April 2020. Moving forward, reconciliations will be completed within five days of the receipt of the bank statement. The reconciliations will subsequently be approved by both the Office Manager and the elected Prosecuting Attorney. To expedite receipt of the monthly bank statements, online banking has been set up for both the Office Manager and the elected Prosecuting Attorney. Online banking provides the ability to review transactions, verify cashed checks and bank balance, and download bank statements only. Online banking **DOES NOT** permit anyone to transfer funds or affect monies in the account in any way. These changes should resolve any previous timeliness issues with bank reconciliations. Lastly, in an effort to speed the process up further, the Restitution Clerk has been directed to block off time each month to perform her part of the reconciliation. That time is to be considered "do not disturb" time. In the past, trying to reconcile bank statements while also fielding phone calls, emails, or other general inquiries has contributed to delays. The office recognizes the importance of timely reconciliations and has prioritized them moving forward. All bank activity will be compared to book activity through the end of each*



Phelps County
Management Advisory Report - State Auditor's Findings

month, which should resolve any potential timing differences. Any balance remaining in the account will be reviewed and resolved.

Checks will be issued on or about the 1st and 18th of each month. Checks not cashed within 60 days of issuance will be followed up on to determine any issues. Checks returned as non-deliverable will receive additional attention and efforts to locate the payee. Unclaimed checks, and interest on the account, will be turned over to the state as required by law.

All payments received each day will be logged into a spreadsheet, with a total for the day printed at 4:00 p.m. daily. Payments after 4:00 p.m. will roll over to the following day. Daily totals will be compared to the weekly deposits made each Friday (or sooner if a larger payment is received).

3. County Procedures

The County Commission's procedures over the Unemployment Fund and personnel policies need improvement.

3.1 Unemployment Fund

As similarly noted in our 2 prior audit reports, the County Commission does not maintain documentation supporting the annual transfer from the Unemployment Fund to the General Revenue Fund for administrative costs for maintaining the Unemployment Fund and processing unemployment claims.

As allowed by state law, the county elects to not pay quarterly unemployment contributions to the Missouri Department of Labor and Industrial Relations (DLIR) 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 voluntarily elected to set money aside in the Unemployment Fund to pay claims.

The following table shows the activity of the Unemployment Fund for the years 2011 through 2019. Since 2017, the county set the annual transfer amount at 10 percent of the beginning balance of the Unemployment Fund.

	2011	2012	2013	2014	2015	2016	2017	2018	2019
Beginning balance,									
January 1	\$ 257,447	289,534	270,118	250,040	218,004	177,803	171,430	151,791	133,797
Transfers in ¹	67,392	1,209	0	0	0	0	0	0	0
Claims paid ²	(25,305)	(10,625)	(10,078)	(22,036)	(201)	(6,373)	(2,496)	(2,815)	(2,545)
Transfers out ³	(10,000)	(10,000)	(10,000)	(10,000)	(40,000)	0	(17,143)	(15,179)	(13,380)
Ending balance,									
December 31	\$ 289,534	270,118	250,040	218,004	177,803	171,430	151,791	133,797	117,872

¹ Transfers into the Unemployment Fund were made from all county funds from which employees are paid, including the restricted-use Special Road and Bridge, Assessment, Health Department, and Law Enforcement Sales Tax Funds.

² Claims paid through the Unemployment Fund consist of reimbursements to the DLIR for any unemployment benefits paid to eligible former county employees.

³ Transfers out from the Unemployment Fund consist of annual administrative transfers to the General Revenue Fund.



Phelps County Management Advisory Report - State Auditor's Findings

As noted in our prior audit report, the county still does not maintain documentation supporting the annual transfer from the Unemployment Fund to the General Revenue Fund and no documentation is available analyzing the impact of this transfer on the Unemployment Fund. In response to our prior audit recommendation, the County Commissioners indicated they would evaluate the Unemployment Fund, establish a target balance, and determine if a transfer was needed based on the target balance. They further indicated any transfers made would be based on a percentage of the fund and they would maintain documentation to support that determination and calculation. However, the county has not established a target balance, and although county officials now base the determination of the annual transfer amount on a percentage of the fund balance, no one could provide documentation or an explanation to support how the percentage was determined.

In addition, as demonstrated in the table, since at least 2017, the administrative transfers from the Unemployment Fund are disproportionate to the claims paid from the fund. The county changed the determination method and increased the annual transfer amount from the Unemployment Fund during the years 2017-2019, when unemployment claims totaled less than any previous year except 2015. Transferring higher amounts to the General Revenue Fund for administrative costs when actual unemployment claims are lower indicates it is unlikely the transfer amount reflects the administrative costs incurred for maintaining the Unemployment Fund.

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.

3.2 Personnel policies

The County Commission has not established a comprehensive county personnel policy manual covering all county employees. In addition, vacation leave policies developed for the Road and Bridge department are not always followed.

Comprehensive personnel policy manual

The County Commission has not established a comprehensive county personnel policy manual. Personnel policies typically address employment issues such as workplace conduct, personnel records, employee benefits, use of county property, etc. Some county departments have prepared their own personnel policies covering certain aspects of employment. For example, the County Commission has policies for the Road and Bridge department, and the Sheriff has policies for the Sheriff's office. However, these policies are not comprehensive.

A complete and comprehensive personnel policy manual benefits both county officials and employees by providing a basic understanding between the parties regarding rights and responsibilities, provides guidance should questions or disputes arise, and helps ensure county policies are fairly and consistently applied to all employees.



Phelps County
Management Advisory Report - State Auditor's Findings

Department policy
compliance

Leave balances for some Road and Bridge department employees are not in accordance with the department's leave policy. The department policy only allows employees to carry forward the vacation time earned in one year, and hours in excess of the allowed carryover amount will be forfeited if not used before December 31. An employee's carryover amount is based on his/her length of employment.

Our review of leave records for department employees identified 7 of the 17 employees (41 percent) with vacation hours exceeding their allowed carryover amount. For instance, one 15-year employee had a 394 hour vacation leave balance as of December 31, 2019, which exceeded his allowed one year accrual by 234 hours. These excess vacation leave hours were not forfeited after December 31 in accordance with the policy.

By not complying with personnel policies, the county may be paying more in accumulated vacation leave than required when an employee leaves employment, resulting in a greater financial burden to the county. In addition, compliance with personnel policies is necessary to ensure equitable treatment of employees.

Recommendations

The County Commission:

- 3.1 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.
- 3.2 Establish a complete and comprehensive employee personnel policy manual and ensure compliance with all policies.

Auditee's Response

- 3.1 *We will consider the methodology for making administrative transfers from the Unemployment Fund and ensure any transfers are adequately supported.*
- 3.2 *We concur with the recommendation. We are looking into developing a comprehensive employee personnel policy manual. We also agree it is important to follow policies and will take steps to remedy the situation by ensuring all Road and Bridge department employees and supervisors are aware of the leave policy and it is enforced.*

**4. County
Commission
Meeting Minutes**

The County Clerk and the County Commission do not ensure minutes of all County Commission meetings are prepared and approved timely. As of March 12, 2020, minutes were not available for the 20 open commission meetings held since January 1, 2020.



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Management Advisory Report - State Auditor's Findings

Section 610.020.7, RSMo, requires minutes of open and closed meetings be maintained as a record of business conducted and to provide an official record of actions and decisions. Section 610.023.2, RSMo, requires the county make records available to the public for inspection and copying. Without timely preparation and approval of meeting minutes, the public records of open County Commission meetings cannot be made available to the public within a reasonable time period.

Recommendation

The County Commission ensure meeting minutes are prepared and approved timely, and maintained for all open and closed sessions.

Auditee's Response

We are pleased to report that our meeting minutes are now prepared and approved timely and we plan to continue this practice.

**5. Senate Bill 40
Board Employee
Bonuses**

The Senate Bill 40 Board paid bonuses to employees in violation of the Missouri Constitution. Sections 205.968 through 205.972, RSMo, allow counties to establish a Senate Bill 40 Board and related tax levy to establish or contract to provide a sheltered workshop, residence facility, or related services for the care and/or employment of persons with a disability. The Board for Phelps County is known as the Phelps County Board for the Developmentally Disabled (PCBDD).

In July 2018, the PCBDD paid \$500 bonuses to 16 salaried employees totaling \$8,000. In January 2020, the PCBDD paid bonuses to 14 salaried employees totaling \$16,146. The Board based the bonus amount paid to each employee in 2020 on a percentage of the employee's annual salary, with the percentage determined by the employee's performance appraisal rating.

These bonuses represent additional compensation for services previously rendered and, as such, are in violation of Article III, Section 39, the Missouri Constitution, and contrary to Attorney General's Opinion No. 72-1955 (June 14, 1955), which states, "... a government agency which derives its power and authority from the Constitution and laws of this state would be prohibited from granting extra compensation in the form of bonuses to public officers or servants after the service has been rendered."

Recommendation

The Phelps County Board for the Developmentally Disabled discontinue the practice of paying bonuses.

Auditee's Response

The Board has agreed and implemented the process that any/all pay raises will be given as a cost to continue and not as a bonus, as bonuses are prohibited.

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. In addition to elected officials, the county employed 156 full-time employees and 25 part-time employees on December 31, 2019.

In addition, county operations include a Senate Bill 40 Board (Phelps County Board for the Developmentally Disabled), Senior Companions 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	2020	2019
Randy Verkamp, Presiding Commissioner	\$	39,161
Gary W. Hicks, Associate Commissioner		37,080
Larry J. Stratman, Associate Commissioner		37,080
Robin Kordes, Recorder of Deeds		56,182
Pamela K. Grow, County Clerk		56,182
Brendon Fox, Prosecuting Attorney		140,586
Richard Lisenbe, Sheriff		64,921
Carol Green, County Treasurer		56,182
Andy Davis, County Coroner		19,976
Kathleen S. Oliver, Public Administrator		56,182
Faith Ann Barnes, County Collector (1), year ended February 29,	66,319	
Bill Stoltz, County Assessor (2), year ended August 31,		68,182
Terris L. Cates, County Surveyor (3)		

(1) Includes \$9,904 of commissions earned for collecting city property taxes.

(2) Includes \$12,000 of annual compensation for Emergency 911 addressing services.

(3) Compensation on a fee basis.