

The seal of the Missouri State Auditor is circular and features a central figure holding a scale and a sword. The text around the seal reads "SEAL OF THE STATE AUDITOR" at the top, "JUSTICE WE STAND DIVIDED" in the middle, and "1820 MISSOURI 1892" at the bottom.

Nicole Galloway, CPA

Missouri State Auditor

**Clay County Collector and
Property Tax System**

Report No. 2022-107

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Missouri State Auditor

CITIZENS SUMMARY

Findings in the audit of the Clay County Collector and Property Tax System

Property Tax System Controls and Procedures	The County Clerk did not prepare the back tax, land and personal tax, or railroad and utility tax aggregate abstracts for 2020 or 2021. The County Clerk did not maintain an account book or other records summarizing property tax charges, transactions, and changes and no other review or reconciliation process was in place to verify this information.
Tax Billing and Collection Services	The County Collector does not have current written contracts with all cities and villages for tax billing and collection services.
Liabilities	The County Collector does not prepare a monthly list of liabilities for the tax sales account, and consequently, liabilities are not agreed to the reconciled bank balance.

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.

Clay County Collector and Property Tax System

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NICOLE GALLOWAY, CPA

Missouri State Auditor

County Commission
and
County Collector
Clay County, Missouri

We have audited the County Collector and Property Tax System of Clay County. Section 52.150, RSMo, requires the State Auditor to audit the office of the County Collector after being notified of a vacancy in that office. On July 28, 2021, a vacancy occurred in the office of the County Collector of Clay County. A successor was appointed and sworn into office effective July 29, 2021. The scope of our audit included, but was not necessarily limited to, the period of March 1, 2021, to July 28, 2021, and the year ended February 28, 2021. The objectives of our audit were to:

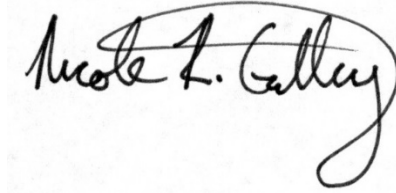
1. Evaluate the county's internal controls over significant property tax functions.
2. Evaluate the county's compliance with certain legal provisions.

Our methodology included reviewing written policies and procedures, financial records, and other pertinent documents; interviewing various personnel of the county, as well as certain external parties; and performing sample testing using judgmental selection. The results of our sample testing cannot be projected to the entire populations from which the test items were selected. We obtained an understanding of internal control that is significant to the audit objectives and planned and performed procedures to assess 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 Collector and county management and was not subjected to the procedures applied in our audit of the County Collector and Property Tax System.

Section 52.150, RSMo, requires the County Commission to accept the State Auditor's report and, if necessary, to take certain specific actions if the State Auditor finds any funds owed to the county or the former County Collector. For the areas audited, we identified (1) deficiencies in internal controls and (2) noncompliance with legal provisions. The accompanying Management Advisory Report presents our findings arising from our audit of the County Collector and Property Tax System of Clay 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 of the word "Galloway".

Nicole R. Galloway, CPA
State Auditor

Clay County Collector and Property Tax System Management Advisory Report State Auditor's Findings

1. Property Tax System Controls and Procedures

Controls and procedures over the property tax system need improvement. The County Collector's office collected approximately \$460.5 million in property taxes and other miscellaneous receipts during the year ended February 28, 2021.

1.1 Aggregate abstracts

The County Clerk did not prepare the back tax, land and personal tax, or railroad and utility tax aggregate abstracts for 2020 or 2021. The County Clerk indicated that she missed completing these aggregate abstracts and thought the Department of Revenue would send a notice if they were not completed.

Section 137.295, RSMo, requires the County Clerk to prepare these reports and forward them to the Department of Revenue and State Tax Commission upon completion of current and delinquent tax books.

1.2 Review of property taxes

The County Clerk did not maintain an account book or other records summarizing property tax charges, transactions, and changes and no other review or reconciliation process was in place to verify this information. As a result, there is an increased risk of loss, theft, or misuse of property tax money going undetected, and less assurance the annual settlements are complete and accurate. The County Clerk indicated she was unaware of the need for an account book.

Section 51.150.1(2), RSMo, requires the County Clerk to maintain accounts with all persons chargeable with money payable into the county treasury. An account book or other records summarizing all taxes charged to the County Collector, monthly collections, delinquent credits, additions and abatements, and protested amounts would help 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 accuracy and completeness of the County Collector's annual settlements and delinquent tax books. Such procedures are intended to establish checks and balances related to the collection of property taxes.

Recommendations

1.1 The County Clerk prepare the back tax, land and personal tax, and railroad and utility tax aggregate abstracts and timely file them with the Department of Revenue and State Tax Commission.

1.2 The County Clerk maintain an account book with the County Collector for use in reviewing County Collector records.

Auditee's Response

1.1 *The County Clerk currently prepares tax books for back tax, land and personal tax, and railroad and utility tax. The County Clerk will make sure to file the corresponding aggregate abstracts timely.*



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Management Advisory Report - State Auditor's Findings

1.2 *The County Auditor currently audits all Collector disbursements and accounting. The County Clerk will add account book procedures for collections as an additional check and balance.*

2. Tax Billing and Collection Services

The County Collector does not have current written contracts with all cities and villages for tax billing and collection services. The County Collector indicated new contracts were sent to all 25 cities and villages in 2021. The new contracts included certain increased commission percentages; however, not all cities and villages agreed to the increased commissions and did not sign the new contracts. The County Collector indicated that it is expensive and cumbersome to have more than 1 commission percentage in the property tax system for the municipalities. As a result, although 12 cities and villages had signed new contracts, the County Collector continued to collect commission percentages at the 2012 contract rates. The County Collector indicated, that based on discussion with the County Commission, the County Counselor is reviewing the contract wording before any further updated contracts will be issued. The office collected approximately \$64 million in property taxes and other miscellaneous receipts for cities and villages during the year ended February 28, 2021.

Section 432.070, RSMo, requires all contracts to be in writing. Current, clear, and detailed written contracts are necessary to ensure all parties are aware of the services to be performed and the compensation to be paid for the services.

A similar condition was noted in our prior audit report, *Clay County Collector*, Report No. 2020-114, issued in December 2020.

Recommendation

The County Collector work with the County Commission to obtain current written contracts with all cities and villages for tax billing and collection services.

Auditee's Response

The county is working to obtain written contracts with all cities and villages for tax billing and collection services.

3. Liabilities

The County Collector does not prepare a monthly list of liabilities for the tax sales account, and consequently, liabilities are not agreed to the reconciled bank balance. At our request, the County Collector prepared a list of liabilities as of June 30, 2021. The reconciled bank balance as of June 30, 2021, was \$56,155 while the list of liabilities totaled \$57,862, resulting in a shortage of \$1,707. The County Collector indicated the difference between liabilities and the reconciled bank balance was due to an accounting error before 2020.

Preparing monthly lists of liabilities and reconciling them to the available cash balances is an important control to ensure sufficient cash is available for the payment of amounts due and all money in the bank accounts can be



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identified. Prompt follow up on discrepancies is necessary to resolve errors and ensure money is properly disbursed.

Recommendation

The County Collector prepare monthly lists of liabilities and reconcile the lists to the available cash balances. Any differences should be promptly investigated and resolved. Any unidentified money should be disposed of in accordance with state law.

Auditee's Response

The County Collector has implemented procedures to balance the tax sale account after each transaction is processed. The liabilities report, along with the monthly bank reconciliation, is provided to the County Auditor.

Clay County Collector and Property Tax System Organization and Statistical Information

The County Collector bills and collects property taxes for the county and most local governments in the county. Pursuant to Section 52.015, RSMo, the term for which collectors are elected expires on the first Monday in March of the year in which they are required to make their last final settlement for the tax book collected by them. Annual settlements are to be filed with the county commission for the fiscal year ended February 28 (29).

Lydia McEvoy served as County Collector until July 28, 2021. In addition, she continued working for the county to assist with the transition until August 27, 2021. Barbara O'Riley was appointed the Clay County Collector and sworn into office on July 29, 2021.

The County Collector received compensation of \$33,396 for the period March 1, 2021, through July 28, 2021. The County Collector also received an additional \$4,554 in compensation for work performed after her resignation to assist with the transition. During the year ended February 28, 2021, the County Collector received compensation of \$78,937. Compensation was in accordance with statutory provisions.



Appendix
Clay County Collector and Property Tax System
Former County Collector Response

The former County Collector provided the following comments by email in response to the overall report.

I cannot speak to the Clerk fulfilling her duties or the Commission fulfilling its duties. Throughout my entire 10 years in office, the Clerk had our software installed on a computer in the office so the Clerk or Clerk's employees could dig as deeply as needed at any time to generate the reports needed to document and track collections.

The excessive amount of manual manipulation, and the inherent risks that come with that, are issues that every elected Auditor and Collector in Clay County have noted for decades. During my time in office, the Assessor and I formed a historic bond to work for 3 years trying to find a software product that would allow data to flow from her office to mine, reducing manual manipulation by the Collector, correctly calculate and bill taxes, and contain a bank reconciliation module that pulled data from the system. After countless hours of work and hundreds of thousands of dollars from our respective budgets, we determined that the 2 largest technology companies in the world were unable to create a product that could do everything we needed with the robust functionality necessary for Clay County tax collection and distribution. Software that may serve our needs was in development at the time, but it was not ready for us.

Because the manual processes in the Collector's office do carry such inherent risk, we strictly followed a complex set of checks and balances, and maintained mountains of paperwork, documenting our work, and protecting the taxpayers and taxing jurisdictions of Clay County from errors or fraud. I stand behind that documentation to this day, and I am certain that an audit of transactions rather than an audit of processes would have revealed an extraordinarily high level of accuracy for such manual work.

I trust that this audit report will keep the issue of software front of mind for future Collectors, Assessors, and Commissions. Under the new form of Clay County government, the Collector will need full support of other offices in order to find and implement the appropriate integrated software. I warn future Commissions and appointed Collectors that they should have no illusions that this process is simple. Two very knowledgeable and highly cooperative elected officials made a sincere effort to get this done, and were completely unable to do so. It is a complex problem that requires a sophisticated approach. However, I am confident that future governments will continue to work the problem until a better solution can be found.

I appreciate the audit found that the Collector owes no money to the county, and I have full confidence that same level of accuracy and honesty will continue with subsequent Collectors.



Appendix
Clay County Collector and Property Tax System
Former County Collector Response

Following the state audit finding in 2020, that the County Collector's office did not have signed city contracts with every city in Clay County, I sought new contracts and appropriate approvals. That update process was ongoing when I left office.

During my tenure all books and accounts were reconciled to the day and to the month, and all reports were reviewed by the County Auditor. Once an accounting error occurs, it is a better practice to carry that error on the books for the purposes of transparency then to write it off the books. Therefore, carrying forward an error for several years is reflective of a best practice more than anything else. When collecting and distributing \$400 million, errors will occur. The best way to assure the taxpayers of Clay County that they are protected is to keep accurate records of all transactions, even errors.