



Thomas A. Schweich

Missouri State Auditor

Knox County

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Missouri State Auditor

CITIZENS SUMMARY

Findings in the audit of Knox County

Financial Condition	As noted in our prior audit, the General Revenue Fund and the Special Road and Bridge Fund remain in poor financial condition. Disbursements have generally exceeded receipts for both funds and are projected to do so again in fiscal year 2012. The county made some poor financial decisions which impacted the county's financial condition.
Property Taxes	As noted in our prior audits, procedures over property tax additions and abatements are not properly segregated or monitored, and the County Clerk does not prepare or verify the accuracy of the current or delinquent tax books. The County Clerk does not maintain an account book with the County Collector, and there are no procedures to review the accuracy of the County Collector's monthly or annual settlements. The method of payment for property tax receipts is not recorded in the property tax system.
Sales Taxes	The ballots, court orders, and county procedures supporting the capital improvement sales tax do not comply with state law. The county violated state law when it attempted to pass a second law enforcement sales tax twice in less than 12 months, and the tax would have exceeded the lawful limit if it had passed. The overall county sales tax records are insufficient.
Property Tax Levy Reductions	The county made several errors when calculating and reporting property tax levy reductions, which negatively impacted the county's general revenue property tax receipts. The county misclassified a 2010 general revenue property levy tax reduction resulting in less property tax revenues, and the 2011 property tax reduction was not sufficient to offset sales taxes received.
County Procedures	As noted in prior audits, the county lacks adequate controls and procedures over fuel and vehicle use, and it does not maintain centralized records of leave balances for all county employees. Compensatory time for Sheriff's department employees is not calculated in accordance with county policy. The county was required to pay \$4,160 because it failed to timely protest the former County Clerk's unemployment claim.
Road and Bridge Materials and Receipting Procedures	As noted in prior audits, the county does not adequately document or monitor monies due from material sales and rock purchases, making it difficult to ensure the county is receiving all monies it is due and paying only for rock actually received. The County Commission and County Clerk's receipting procedures are not adequate.

Prosecuting Attorney's Controls	Accounting duties are not adequately segregated, and the Prosecuting Attorney does not provide adequate oversight of financial functions and records. Receipts are not always deposited timely, receipt slips are not always issued, and accounting records are not adequately reconciled to deposits. Bad check and court-ordered restitution fees are not disbursed to the County Treasurer timely, and checks are not always issued in numerical sequence. As noted in our prior audit, liabilities have not been identified and reconciled with cash balances, and some restitution receipts had not been disbursed at the time of our review. The Prosecuting Attorney frequently reduces charges filed on traffic tickets in exchange for a defendant's donation to the county, but this does not appear to be allowed by Missouri law.
Sheriff's Controls	A Sheriff's deputy was terminated and arrested for theft of seized property, but the Sheriff has not changed seized property procedures. Audit staff identified numerous control weaknesses in its review of receipts and deposits, though most weaknesses were resolved when these duties were assigned to the Sheriff's current bookkeeper.
Computer Controls	As noted in prior audits, passwords are not required to log on to some county computer systems, and passwords for some computer systems are not changed on a periodic basis. None of the county computers have security controls to detect or prevent incorrect log-on attempts, and some county officials do not store backup data at an off-site location.
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 **Poor**.*

American Recovery and Reinvestment Act (Federal Stimulus)	Knox County did not receive any federal stimulus monies during the audited time period.
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*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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THOMAS A. SCHWEICH

Missouri State Auditor

To the County Commission
and
Officeholders of Knox County

We have audited certain operations of Knox County in fulfillment of our duties under Section 29.230, RSMo. In addition, Casey-Beard-Boehmer PC, Certified Public Accountants, was engaged to audit the financial statements of Knox County for the 2 years ended December 31, 2011. The scope of our audit included, but was not necessarily limited to, the 2 years ended December 31, 2011. The objectives of our audit were to:

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

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

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

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

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



Thomas A. Schweich
State Auditor

The following auditors participated in the preparation of this report:

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Knox County Management Advisory Report State Auditor's Findings

1. Financial Condition

As noted in our prior audit, the financial condition of the General Revenue (GR) Fund and the Special Road and Bridge (SRB) Fund remains poor. The following tables reflect actual receipts, disbursements, and ending cash balances of these funds for the last 3 years and anticipated amounts for 2012, according to the approved county budgets and audited financial statements.

General Revenue Fund	2012 Budgeted*	2011 Actual**	2010 Actual**	2009 Actual*
Beginning Balance, January 1	\$ 141,721	7,728	49,705	76,708
Receipts	685,081	809,305	709,480	670,035
Disbursements	736,607	675,312	751,457	697,038
Ending Balance, December 31	\$ 90,195	141,721	7,728	49,705

Special Road and Bridge Fund	2012 Budgeted*	2011 Actual**	2010 Actual**	2009 Actual*
Beginning Balance, January 1	\$ 337,670***	454,815	216,241	236,135
Receipts	1,208,825	1,572,905	1,269,737	1,175,705
Disbursements	1,522,144	1,661,404	1,031,163	1,195,599
Ending Balance, December 31	\$ 24,351	366,316	454,815	216,241

* Amounts were obtained from county budget documents.

** Amounts were obtained from audited financial statements.

*** The 2012 beginning balance differs from the 2011 ending balance due to audit adjustments to 2011 receipts in the county's financial statement audit.

GR Fund and SRB Fund disbursements have generally exceeded receipts and are projected to again exceed receipts during 2012. The County Commission indicated it is aware of the concern and is continually trying to reduce disbursements and maximize receipts. However, we noted several instances where the county made poor financial decisions which impacted the county's financial condition and showed a disregard for statutory provisions and restricted funds.

- The county incorrectly certified a 2010 general revenue property tax reduction resulting in a reduced tax rate ceiling in 2011. We estimate the county has collected \$46,000 to \$79,000 less in 2011 property taxes than it would have if the reduction had been properly classified (see MAR finding number 4).
- During 2011, in an effort to reduce GR Fund expenditures, most fuel for Sheriff's department vehicles was paid from the SRB Fund. However, Section 137.555, RSMo, restricts expenditures from the SRB Fund to improvement and maintenance of county roads and bridges. As a result, monies are due from the GR Fund to the SRB Fund.



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- During 2010, the county began collecting donations to the GR Fund from defendants as a condition of reducing charges filed on traffic tickets; however, it appears the county lacks the authority to collect these funds (see MAR finding number 7). The county should be cognizant of this inappropriate funding source as future budgets are prepared.

In addition, in April and August 2010, the county attempted to pass a second 1/2-cent law enforcement sales tax. While an additional sales tax would have helped the county's financial condition, this tax would have violated state law (see MAR finding number 3).

It is essential the County Commission address the county's financial condition both in the immediate and long-term future. Reducing spending where possible, evaluating controls and management practices to ensure efficient use of county resources, maximizing all sources of revenue, and closely monitoring county budgets are necessary to improve the county's financial condition. The County Commission should ensure all decisions regarding county finances comply with state laws.

Recommendation

The County Commission perform long-term planning and closely monitor the county's financial condition and continue to take the necessary steps to improve the financial condition of the General Revenue Fund and Special Road and Bridge Fund. In addition, the County Commission should ensure compliance with state laws regarding restricted funds and transfers, and consider repaying the Special Road and Bridge Fund from the General Revenue Fund for Sheriff's department fuel costs.

Auditee's Response

The County Commission provided the following written response:

The Knox County Commission is constantly striving to improve the county's financial condition; however, this is becoming increasingly difficult given the ever increasing costs of necessary goods and equipment. We will continue to closely monitor the budget and take all the necessary steps to improve our finances while continuing to provide necessary services to the best of our abilities. The Knox County Commission will ensure future compliance with state law regarding restricted funds, and will consider repaying the Special Road and Bridge Fund for the Sheriff's department fuel costs.

2. Property Taxes

Controls and procedures over the property tax system need improvement. For the 2 years ended February 29, 2012, property taxes collected by the County Collector totaled approximately \$4 million each year. As of June 2012, a new property tax system was being developed for the county.



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2.1 Additions and abatements As similarly noted in our two prior audits, procedures over property tax additions and abatements are not properly segregated or monitored. Property tax additions and abatements totaled approximately \$215,000 during the year ended February 29, 2012, and \$322,000 during the year ended February 28, 2011.

The County Assessor prepares court orders for additions and abatements, the County Clerk approves the court orders, the County Collector posts the additions and abatements to the property tax system, and the County Commission approves an annual report of additions and abatements from the property tax system. A significant control weakness exists because the County Collector is responsible for collecting property taxes, approvals are only made annually, and there is no reconciliation of approved court orders to actual changes made to the property tax system. As a result, additions and abatements, which constitute changes to the amount of taxes the County Collector is charged with collecting, are not properly segregated or monitored, and errors or irregularities could go undetected. Currently, the County Clerk is unable to post corrections to the property tax system because she lacks such access. While developing the new property tax system, consideration should be given to both limiting and providing system access, as appropriate, based on user needs and good internal controls.

Sections 137.260 and 137.270, RSMo, assign responsibility to the County Clerk for making corrections to the tax books with the approval of the County Commission. If it is not feasible for the County Clerk to make corrections to the tax books, periodic reviews and timely approvals of court orders, along with an independent reconciliation of approved additions and abatements to corrections made to the property tax system, would help ensure changes are proper.

2.2 Account book and annual settlements Property tax collection activities of the County Collector are not adequately monitored. 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 procedures to verify the accuracy of the County Collector's monthly or annual settlements. As a result, there is less assurance property tax monies have been accounted for properly and the potential for loss, theft, or misuse to occur without detection is increased.

Section 51.150(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 record which summarizes 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 could also be used by the County Clerk and County



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Commission to verify the County Collector's monthly and annual settlements.

2.3 Tax books

As similarly noted in several of our prior audits, the County Clerk does not prepare or verify the accuracy of the current or delinquent tax books. The County Collector prepares the tax books from the computer system and there is no independent review performed by the County Clerk. Because the County Collector is responsible for collecting property tax monies, good internal controls require someone independent of that process be responsible for generating and testing the accuracy of the property tax books. Failure to perform reviews of the tax books by an independent person may result in errors or irregularities going undetected. A review of the tax books should include verification of individual entries in the tax books and recalculating total tax book charges.

Sections 137.290 and 140.050, RSMo, require the County Clerk to extend the current and delinquent tax books and charge the County Collector with the amount of taxes to be collected. If it is not feasible for the County Clerk to prepare the tax books, at a minimum, the accuracy of the tax books should be verified and approval of the tax book amounts to be charged to the County Collector should be documented.

2.4 Receipts

The method of payment (cash, check, or money order) for property tax receipts is not recorded in the property tax system. The County Collector indicated the property tax system lacks the functionality to record this information. The County Collector compensates for this system weakness by documenting the method of payment on the individual paid tax statements and on spreadsheets detailing each receipt and method of payment created when deposits are prepared, and reconciling the composition of receipts per the spreadsheets to the composition of deposits. While developing the new property tax system, the County Collector should work with the computer programmer to ensure the system provides for recording the method of payment for each receipt and the generation of a deposit report containing the composition of receipts. These enhancements would provide for the reconciliation of receipts recorded in the system to deposits and eliminate the need to prepare the spreadsheets.

Recommendations

- 2.1 The County Commission and the County Clerk ensure procedures are adequately segregated and all property tax additions and abatements are properly and timely approved and monitored, and work with the computer programmer to design the new property tax system so the County Clerk can enter additions and abatements.
- 2.2 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



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and completeness of the County Collector's monthly and annual settlements.

- 2.3 The County Clerk prepare the current and delinquent tax books or, at a minimum, verify the accuracy of the tax books prior to charging the County Collector with property tax amounts.
- 2.4 The County Collector work with the computer programmer to ensure the new property tax system provides for the recording of the method of payment for each receipt and the generation of a deposit report containing the composition of receipts.

Auditee's Response

The County Commission provided the following written responses:

- 2.1 *At this time, the County Commission looks over and approves property tax additions and abatements on a monthly basis. We are currently working with our programmer to develop a program that allows the Clerk to enter additions and abatements.*
- 2.2 *The County Commission will comply with this recommendation.*

The County Clerk provided the following written responses:

- 2.1 *I have already implemented this. I am monitoring the abatements and additions by keeping an excel spreadsheet of these.*
- 2.2 *I have already implemented this. I am currently keeping an account with the Collector. I plan to balance with the Collector twice a year.*
- 2.3 *Presently, I enter the levies for the current year's tax book. I have implemented the procedure to check the Collector's computer calculation.*

The County Collector provided the following response:

- 2.4 *The mode of payment is now recorded in the new system. We will work with the computer programmer to include the mode and cash/check totals on the daily abstract of collections report.*

3. Sales Taxes

Various concerns related to county sales taxes were identified. For many years, the county has had four 1/2-cent sales tax levies: two general sales tax levies which do not expire, one of which has a property tax levy reduction requirement; a renewable 4-year capital improvement sales tax levy; and, a law enforcement sales tax levy which does not expire. For each of these sales taxes, the county collected a total of approximately \$285,000 during the 2 years ended December 31, 2011.



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3.1 Capital improvement sales tax

The ballots, court orders, and county procedures supporting the capital improvement sales tax do not comply with state law. Every 4 years since 1985, county voters have renewed the capital improvement sales tax levy, and the county deposits the related tax receipts into the SRB Fund.

Section 67.700, RSMo, allows counties to impose a sales tax for any capital improvement purpose designated by the county in a ballot submitted to voters, and requires the monies received from the sales tax be deposited in a separate fund and used solely for the designated capital improvement purpose. However, the April 2008 and 2012 ballots did not indicate the tax was a capital improvement tax or identify a capital improvement purpose, and incorrectly stated the sales tax was to be used "for the purpose of the General Revenue Fund." While the April 2012 court order correctly stated the sales tax was passed under Section 67.700, RSMo, the 2008 court order incorrectly cited Section 67.547, RSMo, a statute related to general sales taxes. Ballots and/or court orders previous to 2008 correctly indicated the tax was for road and bridge capital improvement purposes. Further, the county deposits the capital improvement sales tax receipts in the SRB Fund and does not separately account for receipts, disbursements, or balances of these monies. The County Clerk and County Commission indicated the April 2008 and 2012 ballots and court orders were written in error. As a result, the county submitted a ballot proposal to voters in August 2012 to clarify the purpose of the sales tax and voters approved the revised ballot which clarified the tax was for the purpose of road and bridge building, repair, maintenance, and general capital improvement.

Procedures should be implemented to ensure monies received from the capital improvement sales tax are tracked and spent in accordance with state law. In addition, the County Commission should consult with legal counsel regarding the ballot language supporting future sales taxes proposed to voters.

3.2 Law enforcement sales tax

In April and August 2010, the county attempted to pass a second 1/2-cent law enforcement sales tax levy. This additional levy would have exceeded the statutory maximum by 1/2-cent. In addition, the county violated state law when resubmitting the proposed tax to voters in August 2010. Section 67.582, RSMo, allows counties to impose a law enforcement sales tax of up to 1/2-cent, but prohibits counties from submitting a sales tax proposal to voters sooner than 12 months from the date of the last proposal. Since the law enforcement sales tax did not pass, the statutory maximum levy was not exceeded.

County officials indicated they attempted to pass the additional sales tax to help cover law enforcement expenses currently funded by the GR Fund and improve the county's financial condition; however, they were unaware of the statutory limits and requirements for law enforcement sales taxes. Prior to



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submitting any future sales taxes to voters for approval, the county should research the statutory requirements for current and proposed sales taxes to ensure sales tax rates and proposal frequency comply with statutory provisions.

3.3 Sales tax records

County sales tax records are insufficient. County officials could not locate ballots or court orders supporting sales taxes voted on prior to 2010. At our request, the County Clerk obtained copies of these records from the Missouri Department of Revenue. In addition, the county does not maintain a summary record of various sales taxes imposed and collected. Such a record should include statutory authority, rates, effective and expiration dates, and property tax levy reduction and renewal requirements. Because of the lack of records, the county does not have the information necessary to ensure sales taxes are handled in accordance with state law.

Comprehensive records of county sales taxes, identifying all sales taxes and relevant details along with copies of related supporting documents (ballots, court orders), provide support should questions arise and for reference when developing ballots or considering the imposition of a new sales tax.

Recommendations

The County Commission and County Clerk:

- 3.1 Implement procedures to ensure monies received from the capital improvement sales tax are tracked and spent in accordance with state law. In addition, the County Commission should consult with legal counsel regarding ballot language supporting future sales taxes proposed to voters.
- 3.2 Research the statutory requirements for current and proposed sales taxes and ensure sales tax levies do not exceed statutory limits prior to submitting any future sales tax proposals to voters for approval.
- 3.3 Maintain a comprehensive record of all county sales taxes and all supporting documents.

Auditee's Response

The County Commission and the County Clerk provided the following written responses:

- 3.1
- &3.2 *Revenue from the capital improvement sales tax will be budgeted separately from the Special Road and Bridge Fund on the 2013 budget. We will seek legal counsel in the future to look over ballot language before placing any issue on the ballot.*
- 3.3 *This has been implemented.*



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4. Property Tax Levy Reductions

Errors in reporting and calculating property tax levy reductions negatively impacted the county's general revenue property tax receipts and compliance with property tax levy reduction requirements. Effective January 1, 1981, Knox County voters enacted a 1/2-cent sales tax with a provision to reduce property taxes by 50 percent of sales taxes collected.

For 2008 through 2011, the county certified to the State Auditor's office, sales tax and voluntary reductions to general revenue property tax levies as follows:

	2011	2010	2009	2008
Tax rate ceiling	\$.3341	.4239	.4239	.4273
Sales tax reduction	.0442	.0000	.1304	.1273
Voluntary reduction	.0000	.1264	.0000	.0000
Actual tax levy	\$.2899	.2975	.2935	.3000

2010 reduction

The county incorrectly certified a 2010 general revenue property tax levy reduction to the State Auditor's office as a voluntary reduction rather than a sales tax reduction. In previous and subsequent years, the county reported these reductions as sales tax reductions, and the County Clerk indicated the 2010 reduction was incorrectly classified.

The error was made during a non-reassessment year (even year), resulting in a reduced tax rate ceiling during the subsequent reassessment year. The property tax rate ceiling in the subsequent year would have increased if the rollback classification error had not occurred. As a result, the amount of property taxes the county collected was significantly impacted. We estimate the county could have collected \$46,000 to \$79,000 more in 2011 property taxes if the 2010 property levy reduction had been properly classified. The County Clerk and Commission indicated they did not realize the impact of the error. After we brought these errors to the attention of the County Clerk, the County Commission held a public hearing and prepared a resolution to return the status of the reduction to mandatory instead of voluntary, and necessary corrections were made by the State Auditor's office to reinstate the county tax rate ceiling for 2012.

2011 reduction

Because the 2011 tax rate ceiling was significantly reduced, the county made only a small sales tax reduction to the actual property tax levy. As a result, the county's 2011 property tax levy reduction was not sufficient to offset sales taxes received by approximately \$26,500. While the county's minimum required property tax reduction for 2011 was approximately \$57,800, the actual reduction was only approximately \$31,300. The county's 2011 property tax reduction worksheet contains several errors and discrepancies, some of which could not be explained by County Clerk office personnel, and does not support the reductions and tax rates information reported to the State Auditor's office.



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Section 67.505, RSMo, requires the county to reduce property taxes for a percentage of sales taxes collected. The county is required to estimate the annual property tax levy to meet a 50 percent reduction requirement, and certify to the State Auditor's office the annual property tax levy including the amount the levy is required to be reduced for sales tax collections, as well as any voluntary reductions. To ensure property tax levies are properly set and property tax levy ceilings are maintained, the County Clerk should ensure property tax levies are adequately reduced by 50 percent of sales tax revenue and property tax levy reductions are accurately classified when reported to the State Auditor's office.

Recommendation

The County Commission and the County Clerk properly distinguish between sales tax and voluntary reductions on certified property tax levy forms and ensure property tax levies are adequately reduced by 50 percent of sales tax revenue as required by state law. In addition, the county should develop a plan to correct for the excess 2011 property tax collections.

Auditee's Response

The County Commission and the County Clerk provided the following written response:

This issue has been corrected and we will monitor this more closely in the future. We will consider adjusting for the excess property tax collections when we set future rates.

5. County Procedures

Procedures related to fuel and vehicle use, employee leave records and compensatory time, and unemployment claims are in need of improvement.

5.1 Fuel and vehicle use

As noted in our two prior audits, improvement is needed in controls and procedures over fuel and vehicle use. Accounting records indicate fuel purchases for the road and bridge and Sheriff's departments totaled approximately \$150,000 in 2011 and \$125,000 in 2010.

The road and bridge department maintains two bulk fuel tanks and the Sheriff's department maintains one bulk fuel tank. These fuel tanks, which are located at the road and bridge department shed, are locked and metered; and gallons of fuel pumped are recorded on fuel use logs. The logs are submitted to the County Clerk's office for all road and bridge and Sheriff's department vehicles and equipment, but do not provide sufficient data and are not reviewed or reconciled to fuel purchase records. Fuel logs maintained by the Sheriff's department lacked some mileage information and are not maintained separately by vehicle. Fuel logs maintained by the road and bridge department did not contain mileage or hour information. Without sufficiently detailed fuel logs, the County Clerk's office is unable to effectively monitor fuel use and vehicle and equipment use. Failure to account for fuel purchases could result in loss, theft, and misuse going undetected.



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To ensure the reasonableness and propriety of fuel use and disbursements, procedures should be established to monitor fuel use and reconcile the amount of fuel used to fuel purchased and on hand. Complete and accurate mileage and fuel logs are necessary to support fuel charges and to document the appropriate use of vehicles and equipment.

5.2 Employee leave records and compensatory time

Controls over employee leave records and compensatory time need improvement.

Centralized records

As noted in our three prior audits, centralized records of leave balances and leave used and earned are not maintained for all employees. The County Clerk records and tracks leave balances for all county employees, except employees of the Assessor's and County Collector's offices. While these employees record their leave balances on their timesheets submitted to the County Clerk's office, the County Clerk does not review the balances for accuracy and compliance with county policy. Without centralized leave records, the County Commission cannot ensure employee vacation, sick, and compensatory leave balances are accurate and in compliance with county policy.

Compensatory time

The county does not calculate compensatory time for Sheriff's department employees in accordance with county policy. In October 2011, County Clerk personnel began incorrectly calculating compensatory time earned by Sheriff's department employees. These employees currently accrue compensatory time when they work more than 40 hours in a week; however, the county's policy requires law enforcement personnel to work more than 171 hours in a 28-day period before compensatory time is earned. We noted a Sheriff's deputy earned 34.5 hours of compensatory time from October 2011 through December 2011 based on working more than 40 hours in a week; however, if county policy had been followed, compensatory time earned would have been 6 hours. According to the County Clerk, procedures were changed due to a change in office personnel.

By not following county policy related to compensatory time, the county may be paying more than required resulting in a greater financial burden for the county. Although compensatory time is not paid out unless an employee leaves employment, employees are able to use the compensatory time in lieu of accumulated vacation and sick leave. Accurate compensatory time calculation procedures are necessary to ensure compliance with county policy and equitable treatment of county employees.



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5.3 Unemployment claims

The county failed to timely protest the former County Clerk's claim for unemployment benefits to the Missouri Department of Labor and Industrial Relations (DLIR), Division of Employment Security. The county was mailed notice of the claim on June 6, 2011, and was given a deadline of June 16, 2011, to protest the claim; however, the county submitted the protest to the DLIR on August 17, 2011. The DLIR concluded the county failed to timely protest the claim and lacked good cause to extend the time to file the protest. As a result, the county was required to pay the former County Clerk's unemployment claim totaling \$4,160.

To ensure the county does not incur unnecessary costs from unemployment benefit claims, procedures should be established to review and address claims on a timely basis.

Recommendations

The County Commission and County Clerk:

- 5.1 Require complete mileage and fuel logs be maintained for the road and bridge and Sheriff's departments, and these logs be reviewed for accuracy and reconciled to fuel purchases. Any significant discrepancies should be investigated.
- 5.2 Maintain centralized leave records for all county employees, and the County Commission ensure Sheriff employees accrue compensatory time in accordance with county policy.
- 5.3 Ensure all unemployment benefit claims are reviewed and addressed on a timely basis.

Auditee's Response

The County Commission provided the following written responses:

- 5.1 *We are currently working on a solution to efficiently reconcile fuel usage, and hope to have a system in place by 2013.*
- 5.2 *This has been implemented.*
- 5.3 *This issue has been addressed and all future claims will be addressed in a timely manner.*

The County Clerk provided the following written responses:

- 5.1 *The Commissioners are working on a solution to efficiently reconcile fuel usage. We hope to have it in place by 2013.*
- 5.2 *This has been implemented.*



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5.3 *This issue has been addressed. All mail is opened and reviewed the day it is received.*

The Sheriff provided the following response:

5.1 *We will start maintaining fuel logs separately by vehicle and ensure the logs are complete.*

6. Road and Bridge Materials and Receipting Procedures

Procedures related to road and bridge materials and receipting procedures continue to need improvement. Prior audits have addressed weaknesses in these procedures; however, improvements have not been made.

The county purchases rock for both county roads and its cost-sharing rock program where public purchases of rock are equally matched and placed on county roads by the road and bridge department. The rock program begins March 1 of each year, and ends when designated funding is exhausted. In addition, the public may purchase culverts to be installed for private purposes. The county spent approximately \$649,800 on rock and \$77,000 on culverts during the 2 years ended December 31, 2011. Sales of rock totaled approximately \$215,000 and sales of culverts totaled approximately \$30,000, during this period. In addition to material sales receipts, the County Clerk receives monies for sales of plat books, notary commission fees, liquor license fees, and auctioneer license fees. County Clerk receipts, other than material sales, totaled approximately \$8,200 during the 2 years ended December 31, 2011.

6.1 Material sales

As similarly noted in our three prior audits, material sales are not adequately documented or monitored to ensure all monies due the county are received.

The material sales and receipts process is not centralized. Orders can be taken by the County Commission or the County Clerk and receipts can be collected by the County Commission, County Clerk, or County Treasurer. A bill of sale is not typically prepared for each sale and receipt slips are not always issued. Although county procedure is for customers to pay for the materials prior to delivery, a receipt slip or other proof of payment is not required for the customer to receive materials from the road and bridge department. Once orders for rock or culverts are received, the County Commission or the County Clerk direct the road and bridge supervisor to deliver the requested materials. The County Commission maintains notebooks documenting requests received, while the County Clerk maintains no records other than any receipt slips issued. Our review of the notebooks and available receipt slips noted that pertinent details of each sale, such as the amount of rock purchased, size and cost of culverts, and culvert installation charges, are typically not documented.



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Because complete and accurate records are not maintained and customers are not required to request materials from a centralized location and present proof of payment, the county does not have a complete record of all sales and has little assurance all monies due to the county have been received.

6.2 Rock reconciliations

As noted in our two prior audits, the County Clerk does not compare individual rock delivery tickets received by road and bridge department personnel to purchase statements. Without such comparison, the county has no assurance it is paying only for rock actually received. The County Clerk implemented a reconciliation procedure in March 2012, after we brought this matter to her attention.

6.3 Receipts

The County Commission and County Clerk's procedures for receipting monies are in need of improvement.

County Commission material sales receipts

Receipt slips were not issued by the County Commission for monies received for material sales prior to April 2011, and the method of payment (cash, check, or money order) is not always indicated on receipt slips. In addition, receipts are not always transmitted to the County Treasurer in a timely manner.

County Clerk receipts

As similarly noted in our two prior audits, the County Clerk continues to lack adequate receipt records and procedures.

- Receipt slips were not issued for all monies received, but instead were issued only when requested. In addition, the County Clerk does not account for the numerical sequence of receipt slips issued.
- The method of payment (cash, check, or money order) is not consistently or accurately indicated on receipt slips. As a result, the composition of receipt slips cannot be compared to the composition of monies transmitted to the County Treasurer.
- Checks and money orders are not restrictively endorsed when received. Endorsements are applied upon transmittal to the County Treasurer.
- Receipts are not always transmitted intact or in a timely manner. For example, monies collected on March 21, 2011, were held from two subsequent transmittals before being transmitted to the County Treasurer on April 11, 2011.
- Monthly reports of monies collected were not prepared.



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After we brought these control weakness to her attention, the County Clerk began issuing receipt slips for all monies received and preparing transmittal reports in March 2012.

To safeguard receipts and reduce the risk of loss, theft, or misuse of funds, receipts should be adequately recorded and transmitted intact in a timely manner and receipt records should be reconciled to transmittals. In addition, Section 50.370, RSMo, requires county officials to prepare and file with the County Commission monthly reports of fees collected.

Recommendations

The County Commission and the County Clerk:

- 6.1 Develop centralized policies and procedures over sales of road and bridge materials to the public. Complete and detailed records of all sales should be maintained by the county and materials should only be delivered after customers present proof of payment.
- 6.2 Ensure rock delivery tickets are compared to purchase statements prior to payment.
- 6.3 Ensure prenumbered receipt slips are issued for all receipts; the method of payment is accurately indicated on all receipt slips; checks and money orders are endorsed immediately upon receipt; receipts are transmitted intact and in a timely manner; and receipt records, including the composition and numerical sequence of receipt slips issued, are reconciled to the composition of transmittals.

Auditee's Response

The County Commission and the County Clerk provided the following written responses:

- 6.1 *We are working to improve our procedures for sales of road and bridge materials, and no materials will be allowed to be picked up or delivered until payment is received in full.*
- 6.2&
6.3 *We have already implemented this.*

7. Prosecuting Attorney's Controls

Procedures related to supervisory review, receipts and deposits, disbursements, and donations are in need of improvement. The Prosecuting Attorney's office collected various fees related to bad check and court-ordered restitution and donations totaling approximately \$48,000 during the 2 years ended December 31, 2011.

7.1 Supervisory review

Accounting duties are not adequately segregated, and the Prosecuting Attorney does not provide adequate oversight of financial functions and



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records. One secretary is responsible for the duties of receipting, recording, depositing, preparing and signing checks, and preparing bank reconciliations. The Prosecuting Attorney performs a documented review of bank reconciliations; however, a more detailed review of the receipting, recording, and disbursing functions would help ensure monies received are properly deposited, recorded in the accounting system, and appropriately disbursed.

Thorough supervisory reviews help ensure transactions are accounted for properly and assets are adequately safeguarded. Such reviews would reduce the possibility of errors, theft, loss, or misuse of funds going undetected.

7.2 Receipts and deposits

Receipting and depositing procedures are in need of improvement. The Prosecuting Attorney's office issues manual receipt slips for bad check and court-ordered restitution payments received and enters these receipts into the computer system.

- Receipts are not always deposited timely. In 2011, deposits were made 0 to 3 times per month and averaged \$982. Our review noted instances where deposits were prepared and entered into the computer system up to 1 month prior to actual deposit, and one instance where monies were disbursed to a victim prior to deposit of the related payment.
- As similarly noted in our prior audit, receipt slips are not always issued as required. We noted instances where receipts were entered into the computer system, but a receipt slip was not prepared. In addition, receipt slips are not issued for donations received and transmitted to the County Treasurer.
- Manual receipt records are not reconciled to computerized receipt records, and manual and computerized receipt records are not reconciled to deposits. In addition, the numerical sequence of receipt slips issued is not accounted for properly.

The weaknesses in procedures noted above provide less assurance receipts are adequately safeguarded and properly recorded and deposited.

7.3 Disbursements

Disbursement procedures are in need of improvement.

- Bad check and court-ordered restitution fees are not disbursed to the County Treasurer in a timely manner. Fees were transmitted to the County Treasurer every 2 to 4 months during 2011. In addition, monies are not disbursed to victims in a timely manner. The Prosecuting Attorney's secretary indicated she typically disburses monies to victims after deposits are made.



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- Checks are not always issued in numerical sequence. The Prosecuting Attorney's secretary enters some checks to victims in the computer system when she receives the monies; however, she does not print and send the checks to the victims until after she has deposited the monies. Because the computer system dates the checks when entered, and deposits are not always timely, some checks are not dated accurately or issued in numerical sequence. For example, check records and copies of payment letters on file show two checks dated November 14, 2011, and December 7, 2011, were sent to victims on November 30, 2011, and January 31, 2012, or 16 and 55 days later. As a result, it is difficult to monitor the timeliness of disbursements and account for the numerical sequence of check numbers.

To ensure all disbursements are accounted for properly and reduce the risk of loss, theft, or misuse of funds, bad check and court-ordered restitution payments should be disbursed in a timely manner, checks should be issued in numerical sequence, and the numerical sequence of check numbers should be accounted for properly. In addition, Section 50.370, RSMo, requires every county official who receives fees for official services to pay such monies monthly to the County Treasurer.

7.4 Liabilities and unidentified balances

As similarly noted in our prior audit, liabilities have not been identified and reconciled with cash balances, and some restitution receipts had not been disbursed at the time of our review. Upon our request, the Prosecuting Attorney's office prepared a list of liabilities which totaled \$2,199 at February 29, 2012. Included in this amount was \$599 in restitution for five cases which should have been disbursed in March 2008, March and October 2011, and January and February 2012. The Prosecuting Attorney's office disbursed these funds in March 2012. A comparison of identified liabilities to the reconciled bank balance indicated an unidentified amount of \$203 in the bank account at February 29, 2012.

Without regular identification and comparison of liabilities to the reconciled cash balance, there is less likelihood errors will be identified and the ability to identify liabilities and resolve errors is diminished. In addition, timely follow up is necessary to ensure all restitution received is disbursed in a timely manner.

7.5 Donations

Donations collected by the Prosecuting Attorney's office are not distributed in accordance with state law.

The Prosecuting Attorney frequently reduces charges filed on traffic tickets by requiring defendants to make a donation, ranging from \$100 to \$400, as a condition of reducing the charges. Since early 2011, all donations are deposited to the GR Fund. During 2010, donations were deposited to either



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the GR or Restitution Funds. According to county accounting reports, receipts from donations totaled approximately \$16,800 in 2011 and \$1,500, in 2010. Of these amounts, approximately \$14,200 was deposited in the GR Fund and \$4,100 in the Restitution Fund. Our review of the Prosecuting Attorney's spreadsheet of donations required for 2011 cases noted most were speeding violations, which state law specifically excludes as violations for which assessments can be collected and deposited into the Restitution Fund.

There appears to be no authority for the Prosecuting Attorney to require a donation to the GR Fund to reduce charges filed on traffic tickets. Article IX, Section 7, Missouri Constitution, states the proceeds of all penalties, forfeitures, and fines are to be distributed to the County School Fund. In addition, while Section 50.565, RSMo, provides for the deposit of certain assessments and payments into a county law enforcement restitution fund, the section provides that "No court may order the assessment and payment authorized by this section if the plea of guilty or finding of guilt is to the charge of speeding, careless and imprudent driving No assessment and payment ordered pursuant to this section may exceed three hundred dollars for any charged offense."

Recommendations

The Prosecuting Attorney:

- 7.1 Perform and document supervisory reviews of the receipting, recording, and disbursing functions.
- 7.2 Deposit all monies in a timely manner; issue receipt slips for all monies collected; account for the numerical sequence of receipt slips issued; and reconcile receipt records, including composition of receipt slips issued, to the composition of deposits.
- 7.3 Disburse all monies in a timely manner, issue checks in numerical sequence, and account for the numerical sequence of check numbers.
- 7.4 Prepare monthly liability lists and reconcile the lists to cash balances. In addition, the Prosecuting Attorney should ensure restitution amounts are disbursed in a timely manner, and any remaining unidentified or unclaimed amounts are disbursed in accordance with state law.
- 7.5 Reevaluate the practice of requiring donations to the county as part of reducing charges filed.



Auditee's Response

The Prosecuting Attorney provided the following responses:

- 7.1 *We have segregated the disbursement function and implemented a procedure to independently review receipts and deposits.*
- 7.2 *Deposits are now made weekly or when receipts reach \$100, receipt slips are issued for all monies collected other than donations, receipts for donations are recorded on a dated spreadsheet, the numerical sequence of receipt slips issued is accounted for, and manual receipt slips are reconciled to deposits. We will work to implement a procedure to reconcile manual receipt slips to computer records.*
- 7.3 *This recommendation has been implemented.*
- 7.4 *Monthly liability lists are prepared and reconciled to cash balances and any remaining balances at the end of 2012 will be turned over to Unclaimed Property.*
- 7.5 *At the next state Prosecutors meeting, we will discuss the practice of donations with representatives of the Missouri Association of Prosecuting Attorneys.*

8. Sheriff's Controls

The lack of adequate internal controls over seized property allowed a theft of seized property to occur; but no changes to seized property procedures were made as a result of the theft. In addition, due to significant control weaknesses prior to January 2011, there is no assurance all receipts were deposited and accounted for properly during 2010. Sheriff receipts totaled approximately \$13,600 in 2011 and \$10,600 in 2010.

8.1 Seized property

Adequate controls over seized property have not been established. The Sheriff's manual log of seized property has not been updated since November 2007. In addition, seized property is not always secured in the seized property rooms.

During December 2011, a Sheriff's deputy was terminated due to allegations of theft of seized property items from the Sheriff's department. The theft was investigated by the Missouri State Highway Patrol and the former deputy was arrested in October 2012. According to the Sheriff, these items were not stored in the locked seized property rooms to which only the Sheriff has access. Despite this theft of seized property items, improvement to records and procedures have not been made. Without complete and accurate inventory records, the extent of missing items cannot be determined.



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Considering the often sensitive nature of seized property, adequate internal controls are essential and would significantly reduce the risk of loss, misuse, or theft of the stored items. To ensure seized property is secured and accounted for properly, all items should be stored in seized property rooms with limited access and adequately recorded. Inventory records should include information such as description, persons involved, current location, case number, date of seizure, and disposition of such property. In addition, periodic physical inventories should be performed and results compared to the inventory records.

8.2 Receipts and deposits

Numerous control weaknesses were noted in our review of receipts and deposits. Most weaknesses were resolved when receipting and depositing responsibilities were assigned to the Sheriff's current bookkeeper in January 2011.

Current procedures

As noted in our two prior audits, checks and money orders are not restrictively endorsed immediately upon receipt. The Sheriff's bookkeeper endorses checks and money orders when she prepares deposits.

Procedures prior to January 2011

Our review of receipt ledgers and deposits pertaining to 2010 noted instances where receipt slips were not issued immediately upon receipt, monies were receipted twice, and monies were not deposited intact and timely. In addition, the Sheriff's former bookkeeper did not account for the numerical sequence of receipt slips or compare the composition of receipts to the composition of deposits. Similar problems were not noted in our review of the Sheriff's current receipt and deposit records and procedures.

The lack of proper receipting and depositing procedures results in less assurance of proper handling of monies collected. To safeguard receipts and reduce the risk of loss, theft, or misuse of funds, receipts should be adequately recorded, endorsed, and deposited; the numerical sequence of receipt slips should be reviewed, and receipt records should be reconciled to deposits.

Recommendations

The Sheriff:

- 8.1 Establish procedures to ensure all seized property items are stored in seized property rooms, complete and accurate inventory records are maintained, and periodic physical inventories are performed.
- 8.2 Ensure checks and money orders are endorsed immediately upon receipt. In addition, the Sheriff should continue to ensure receipt slips are issued immediately upon receipt, monies are deposited intact and timely, the numerical sequence of receipt slips is reviewed, and the composition of receipt slips issued is reconciled to the composition of deposits.



Auditee's Response

The Sheriff provided the following responses:

- 8.1 *We have established a new evidence log and we now log all new evidence items received. All property is now stored in the seized property rooms. I will discuss with the new Sheriff the need to log existing property items and perform physical inventories.*
- 8.2 *We now restrictively endorse checks and money orders immediately upon receipt and will continue to ensure the other procedures regarding receipts and deposits are in place.*

9. Computer Controls

Controls over computer systems are not sufficient to prevent unauthorized access or to restore key systems in the event of disaster or system failure.

9.1 Passwords

As similarly noted in prior audits, passwords are not required to log on to the Recorder of Deeds' and Prosecuting Attorney's computer systems. In addition, passwords for the Assessor's and County Clerk's computer systems are not changed on a periodic basis.

To prevent unauthorized access and/or changes to computer systems, passwords should be utilized, kept confidential, and periodically changed.

9.2 Log-on attempts

None of the county computers have security controls in place to detect or prevent incorrect log-on attempts. An unauthorized individual could try an infinite number of times to log on to the system and, if successful, have unrestricted access to programs and data files. In addition, the computers are not locked after a certain period of inactivity.

To help protect computer files, security controls should be implemented to detect incorrect log-on attempts after a certain number of tries and lock computers after a certain period of inactivity. Such controls should produce a log of the incorrect attempts which should be reviewed periodically by an authorized official.

9.3 Backup data

As similarly noted in our two prior audits, backups are prepared by all county officials utilizing computer systems; however, the County Clerk and Prosecuting Attorney do not store backup data at an off-site location.

Failure to store computer backup data at a secure off-site location results in the backup data being susceptible to the same damage as the data on the computer.

Recommendations

The County Commission work with county officials to:

- 9.1 Require passwords, which are kept confidential and periodically changed, for all employees.



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- 9.2 Establish security controls to detect and report incorrect log-on attempts after a certain number of tries and which lock computers after a certain period of inactivity.
- 9.3 Ensure backup data is stored in a secure off-site location.

Auditee's Response

The County Commission provided the following written response:

The Knox County Commission will work with the other county officials to implement the Auditor's recommendations.

Knox County

Organization and Statistical Information

Knox County is a county-organized, third-class county. The county seat is Edina.

Knox County's government is composed of a three-member county commission and separate elected officials performing various tasks. All elected officials serve 4-year terms. The county commission has mainly administrative duties in setting tax levies, appropriating county funds, appointing board members and trustees of special services, accounting for county property, maintaining county roads and bridges, and performing miscellaneous duties not handled by other county officials. Principal functions of these other officials relate to law enforcement, property assessment, property tax collections, conduct of elections, and maintenance of financial and other records important to the county's citizens. The county employed 29 full-time employees and 6 part-time employees on December 31, 2011.

Elected Officials

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

Officeholder	2012	2011
Evan Glasgow, Presiding Commissioner	\$	25,351
Terry Red Callahan, Associate Commissioner		23,080
Terry Marble, Associate Commissioner		23,078
Sandy Woods, Recorder of Deeds		34,000
Marlene Spory, County Clerk		34,967
David M. Brown, Prosecuting Attorney		42,617
Mike Kite, Sheriff		41,533
Allen Gudehus, County Treasurer		34,000
Jeffrey Doss, County Coroner		9,834
Kathy J. Poore, Public Administrator		21,855
Brent Karhoff, County Collector, (1)		
year ended February 29,	36,509	
Anita James, County Assessor ,		
year ended August 31,		34,967

(1) Includes \$1,542 of commissions earned for collecting drainage district and city property taxes.

American Recovery and Reinvestment Act 2009 (Federal Stimulus)

Knox County did not receive any federal stimulus monies during the 2 years ended December 31, 2011.