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Missouri State Auditor

Vernon County

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Missouri State Auditor

CITIZENS SUMMARY

Findings in the audit of Vernon County

County Collector-Treasurer Procedures	The County Collector-Treasurer's accounting and reporting procedures do not provide adequate assurance all property tax receipts and disbursements are accounted for properly. The Collector-Treasurer does not maintain a book balance and bank reconciliation procedures are not adequate. Audit staff prepared a bank reconciliation and determined the bank balance was \$1,345 less than the identified liabilities at December 31, 2011. In addition, accounting duties are not adequately segregated, which increases the risk that unsupported or unauthorized changes can be made in the property tax system, and controls in the computerized property tax system are not adequate to ensure all monies are properly recorded.
Prosecuting Attorney Procedures	As noted in our prior report, bad check receipts are not recorded immediately upon receipt and are not deposited timely. In addition, the payee is not always written in on money orders lacking a payee and money orders mistakenly made out to the Prosecuting Attorney are endorsed over to the victim instead of being deposited and disbursed by check. Receivables can be written-off without formal approval of a person independent of the postings, making it difficult to ensure they are legitimate, and adequate documentation is not always maintained to support the reasons for the write-off.
County Procedures and Disbursements	State law requires contracts of political subdivisions to be in writing, but the county has not always entered into formal written agreements for services provided to or by the Sheriff's office. In addition, the Sheriff's office does not maintain adequate documentation to ensure rates charged for housing prisoners are reasonable or to document why various entities were charged different rates. As of May 2012, Jasper County owes Vernon County \$5,040 for prisoner board, which Vernon County has not been able to collect. The Sheriff's office entered into a written agreement with a phone company which was not approved by the County Commission or maintained by the County Clerk. The county paid \$207,000 in 2010 and \$179,000 in 2011 based upon a written agreement for its share of dispatching services provided by the Western Missouri 911 Dispatch Center, but these payments were not based on actual or estimated current costs to operate the Center. Computer system passwords are shared among county employees and officials in the Prosecuting Attorney's and County Collector-Treasurer's offices, and user accounts in the County Collector-Treasurer's office are not required to be disabled or removed after an employee termination.
Closed Meetings	Some open County Commission meeting minutes did not indicate a closed meeting occurred, and open meeting minutes did not always document specific reasons for closing the meeting, the specific section of law that allows for a closed meeting, or the roll call vote to close the meetings. Also, closed meeting minutes were not available for 7 of the 19 closed meetings held in calendar years 2010 and 2011.

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.
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In the areas audited, the overall performance of this entity was **Fair**.*

American Recovery and Reinvestment Act (Federal Stimulus)	Vernon 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 Vernon County

We have audited certain operations of Vernon County in fulfillment of our duties under Section 29.230, RSMo. In addition, McBride, Lock and Associates, Certified Public Accountants, was engaged to audit the financial statements of Vernon 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 Vernon County.



Thomas A. Schweich
State Auditor

The following auditors participated in the preparation of this report:

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Vernon County

Management Advisory Report

State Auditor's Findings

1. County Collector-Treasurer Procedures

The County Collector-Treasurer's accounting and reporting procedures do not provide adequate assurance all property tax receipts and disbursements are accounted for properly. The office of the County Collector-Treasurer processed property taxes averaging \$12.7 million annually for the 2 years ended February 29, 2012.

1.1 Bank reconciliations

Bank reconciliation procedures are not adequate. The County Collector-Treasurer does not reconcile the bank balance to the book balance because no book balance is maintained. In addition, liabilities are not identified and reconciled with cash balances.

According to the County Collector-Treasurer, he reconciled the bank balance to identified liabilities prior to April 2010. However, he has not been able to reconcile liabilities to the bank balance since that time, and the reconciling differences varied each month. According to the County Collector-Treasurer, these variances occurred after the county began accepting credit card payments, which do not always post to the bank account timely. In April 2011 the County Collector-Treasurer modified his bank reconciliation process by starting with the beginning bank balance each month and ending with the ending bank balance to ensure all deposits and disbursements have properly cleared.

We prepared a bank reconciliation and identified liabilities for the County Collector-Treasurer's main collection account at December 31, 2011. Identified liabilities exceeded the reconciled bank balance by \$1,345. While the County Collector-Treasurer could not determine the reasons for the difference between liabilities and the reconciled bank balance, distributions related to insufficient checks could have contributed to the differences.

Adequate and accurate bank reconciliations are necessary to ensure all receipts and disbursements are accounted for properly. Without a regular comparison of liabilities to the reconciled cash balance, there is less likelihood errors will be identified and the ability to resolve errors is diminished. Differences must be adequately investigated and explained to provide assurance that bank and book amounts have been properly reconciled, and that book balances are accurately stated.

1.2 Segregation of duties

An employee in the County Clerk's office, who is responsible for posting additions and abatements to the property tax system, also receives and records monies in the Collector-Treasurer's office during November and December each year. Because the employee is responsible for collecting tax monies and has the ability to alter or delete individual tax information, there is an increased risk that unsupported or unauthorized changes can be made in the property tax system. Although the County Commission reviews and approves court-ordered addition and abatement printouts from the computerized tax system in total on a monthly basis, there is no comparison



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of these printouts to original documents from the Assessor's office to ensure only valid additions and abatements were entered into the system.

Without adequate segregation of duties, there is an increased risk of loss, theft, misuse, and errors occurring and going undetected. Good internal controls require incompatible duties be properly segregated, or periodic independent reviews of the addition and abatement records be performed when proper segregation cannot be achieved.

1.3 Computer system controls

Controls in the computerized property tax system are not adequate to ensure all monies are properly recorded.

- The computerized property tax system allows users to change the date received and the receipt transaction number, thereby allowing for the possible manipulation of receipt data which would be difficult to identify because the numerical sequence cannot be accounted for accurately.
- The system does not retain the method of payment entered for each receipt recorded in the system. Instead, the system only retains the method of payment in total by day. While the Collector-Treasurer stated he compares the composition in total when preparing the deposit, without knowing the composition of each receipt, it is difficult to identify the reasons for differences and it does not provide for an effective audit trail.

To properly account for all monies received, receipt transactions should be dated and numbered in sequential order. To provide controls over receipt information and to ensure an audit trail is maintained in the system, consideration should be given to modifying the software program to add control features to prevent receipt transaction number and date changes and to maintain the individual composition of receipts.

Recommendations

The County Collector-Treasurer:

- 1.1 Prepare bank reconciliations and lists of liabilities monthly. Any discrepancies between the accounting records and reconciliations should be investigated and resolved.
- 1.2 Work with the County Clerk to adequately segregate accounting duties.
- 1.3 Ensure receipt transactions are properly dated and sequentially numbered in the property tax system. In addition, the County Collector-Treasurer should ensure the method of payment is retained for all individual receipt transactions.



Auditee's Response

The County Collector-Treasurer provided the following written responses:

- 1.1 *Complete bank reconciliations have been performed on a monthly basis since April 2012 and I am comparing it to a list of liabilities with any differences being noted. This office is now using a spreadsheet that will improve accounting practices and identify these differences.*
- 1.2 *This office will no longer share an employee of the clerk's office that posts additions and abatements into the property tax system. However the employee we did share worked in the satellite office that accepted checks only. No cash is kept in that office.*
- 1.3 *This office will work with our software providers to ensure that sequential receipt numbers are provided on all receipts and that method of payment shows on daily checkout reports. The only receipts that were post dated are protested taxes which we do not receive very often. We post date them but they show up in our reports as if they were delinquent. This seems to work best in our computer system for record keeping and audit trail.*

The County Clerk provided the following written response:

- 1.2 *The County Clerk after discussion with the County Commission and Collector-Treasurer will no longer have an employee working in the Collector's office during tax season. This will allow segregation of duties to remain intact within in each office while performing the duties of tax additions, abatements and collection.*

The County Clerk is now reviewing all court orders prepared by the Assessor's office for tax additions, abatements and splits with changes entered into the computerized system by Clerk's office staff. This allows a comparison of each original document besides the review of totals by the County Commission.

2. Prosecuting Attorney Procedures

Procedures related to receipts and deposits, and receivable write-offs need improvement. Prosecuting Attorney receipts totaled approximately \$88,100 in 2011 and \$105,200 in 2010.

2.1 Receipts and deposits

We noted the following concerns regarding receipting and depositing procedures:

- Bad check receipts are not recorded immediately upon receipt, and are not deposited timely. For example, a check dated November 23, 2011,



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was not recorded or deposited until December 15, 2011. Deposits typically occurred one to three times per month and often exceeded \$1,000.

A similar condition was noted in our prior report.

- The payee is not always written in by Prosecuting Attorney office personnel on the money orders accepted for payment of bad checks or restitution when the line has been left blank by the payer. In addition, the Prosecuting Attorney indicated money orders mistakenly made payable to the Prosecuting Attorney for bad check charges are sometimes endorsed over to the victim instead of being deposited and disbursed to the victim by check. By not depositing all monies made payable to the Prosecuting Attorney's office, there is an increased risk of receipts not being accounted for properly.

Failure to implement adequate recording and depositing procedures increases the risk that loss or misuse of monies received will go undetected.

2.2 Receivable write-offs

Write-offs of receivables are not formally approved by a person independent of the postings of such transactions to ensure they are legitimate, and adequate documentation is not always maintained to support the reasons for the write-offs. In addition, some write-offs are entered into the computerized system as receipts instead of as adjustments.

Write-offs are adjustments to reduce account balances to \$0 to remove uncollectible accounts from the system for various reasons, such as inability to locate individuals and lack of sufficient information to pursue the case. Currently, two clerks in the Prosecuting Attorney's office can make adjustments without an independent documented approval. Although the Prosecuting Attorney reviews a monthly list of write-offs entered as adjustments in the system, he does not review a complete list of write-offs because some write-offs are entered as receipts in the system. Office personnel do not know how to generate reports of these other types of write-offs. In addition, entering write-offs as receipts in the system causes recorded receipts to be higher than deposits, making it difficult to ensure all monetary receipts are actually deposited.

Proper authorization of adjustments, adequate documentation which fully explains the reason for the adjustments to accounts receivable balances, and proper adjustment entry into the computerized system are necessary to ensure only the proper accounts and amounts are adjusted and to reduce the risk of loss, theft, or misuse of funds.



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Recommendations

The Prosecuting Attorney:

- 2.1 Issue pre-numbered receipt slips for all monies received immediately upon receipt and ensure the payee is indicated on all money orders. In addition, receipts should be deposited in a timely manner and all disbursements should be made by check.
- 2.2 Ensure adequate documentation is maintained to support all write-offs and write-offs are properly entered into the computerized system. In addition, an independent review and approval of all write-offs should be performed and documented.

Auditee's Response

The Prosecuting Attorney provided the following responses:

- 2.1 *We will issue pre-numbered receipt slips immediately for all monies received. However, we will continue our practice of endorsing money orders over to the victim instead of depositing and disbursing by check. We do not intend to open an additional checking account in the Prosecuting Attorney's office.*
- 2.2 *We will talk with the software contractor to determine if adjustments can be entered into the system rather than as a receipt. In addition, we will talk to the software contractor to determine if there is a report to show all adjustments. I agree to perform a review of all adjustments.*

3. County Procedures and Disbursements

Procedures related to written agreements and reasonableness of costs, are not adequate. In addition, controls over computer systems are not sufficient to prevent unauthorized access.

3.1 Agreements

The county has not always entered into formal written agreements for services provided to or by the Sheriff's office, and the County Commission did not approve one contract entered into by the Sheriff. In addition, the Sheriff's office has not maintained adequate documentation to ensure the rates other entities are charged for housing prisoners are reasonable.

- The county has not entered into written agreements with other counties and municipalities for housing prisoners in the county jail. In addition, the Sheriff's office has not maintained adequate documentation to ensure the rates charged are reasonable or to document why various entities are charged different rates. The county received \$393,582 in 2011 and \$331,557 in 2010 for housing prisoners and the county currently charges between \$35 and \$70 per day for housing costs.



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Jasper County, which had prisoners housed in the jail in 2011, has failed to pay, and as of May 2012, owes \$5,040 for prisoner board. Vernon County has been unsuccessful in its attempts to obtain payment.

- The Sheriff entered into a written agreement with a phone company which provides for the county to receive commissions from use of the phones by the prisoners in the county jail; however, the agreement was not approved by the County Commission or maintained by the County Clerk. The county received approximately \$41,300 in phone commissions during the 2 years ended December 31, 2011.

Section 432.070, RSMo, requires contracts of political subdivisions to be in writing. Written contracts, signed by the parties involved, should specify the services to be rendered and the manner and amount of compensation to be paid. Written contracts are necessary to ensure all parties are aware of their duties and responsibilities and to prevent misunderstandings. Further, the County Commission should approve all contracts and the contracts should be maintained by the County Clerk. Periodic and documented analyses of prisoner boarding costs is necessary to ensure rates charged are reasonable.

3.2 Reasonableness of costs

The county has not ensured its overall share of costs for the services provided by the Western Missouri 911 Dispatch Center (the Center) are reasonable. The Center, which is administered by a joint board, was created in 2009 as a cooperative effort between the county and the City of Nevada to provide 911 dispatching services for these entities. It began operation in 2010.

The county paid \$207,000 in 2010 and \$179,000 in 2011 to the Center for its share of dispatching services based on a written agreement. However, these payments were not based on actual or estimated current costs to operate the Center. Instead, the amounts were based on total costs incurred by the county for its 2009 dispatching services, which were incurred prior to the Center's establishment, with 2011 costs being lower based on the pro-rata share of calls.

To ensure the amount paid is reasonable and represents the true cost of the services, the county should work with the Western Missouri 911 Center to annually reassess overall costs of the Center and determine the appropriate share of costs for each entity.

3.3 Passwords

Computer system passwords are shared among county employees and officials in the Prosecuting Attorney's and County Collector-Treasurer's offices. In addition, user accounts in the County Collector-Treasurer's office are not required to be disabled or removed after an employee termination.



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The County Collector-Treasurer sometimes accesses another user's account to record transactions in the property tax accounting system. In addition, one former employee and two part-time seasonal employees (who had not worked since February 2012 and January 2012, respectively) have active user accounts in the County Collector-Treasurer's computer system as of June 2012. The County Collector-Treasurer stated he accesses other user accounts because it is easier than logging on to his own computer. In addition, he explained access was not removed for the part-time seasonal employees because the users will be performing duties at a later date.

The lack of an effective system of user identifications and passwords may allow unauthorized access and/or changes to the system. To establish individual responsibility, as well as help preserve the integrity of computer programs and data files, access to information should be limited to authorized individuals. Passwords should be kept confidential and changed periodically to help limit unauthorized access to computer files.

Recommendations

The County Commission:

- 3.1 Work with the Sheriff's office to ensure written agreements are obtained for all services and are properly reviewed and approved by the County Commission. In addition, the Sheriff should periodically review the costs of housing inmates and establish billing rates sufficient to recover costs.
- 3.2 Ensure the amount paid for 911 dispatching services is reasonable.
- 3.3 Work with the Prosecuting Attorney and the County Collector-Treasurer to require passwords be kept confidential. In addition, user identifications and passwords should be deleted after an employee termination or disabled for part-time employees after their work has ended for the season.

Auditee's Response

The County Commission provided the following written responses:

- 3.1 *The County will work with the Sheriff and other Elected Officials to ensure all contracts and agreements are approved by the County Commission as required by RSMo 50.660 and 432.070. Additionally, during the review process and before final approval, the Commission will review information provided by the Sheriff's department to determine if rates charged in such contracts and agreements are reasonable.*
- 3.2 *The Western Missouri 911 Dispatch Center according to the original contract under Article III Section 3.2 states that charges will be determined on a "pro rata basis which shall be applied to all participating governmental agencies and set forth in the annual*



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service agreement." The County has requested the 911 Dispatch Director provide such cost share estimates to all entities for budget consideration based on the 911 approved budget.

3.3 *The County Commission will work with IT to ensure computers automatically require periodic changing of passwords for logging onto the county servers. Office holders and employees will again be reminded user passwords are confidential as stated in the County's Internet/Electronic Mail Policy included in the county personnel handbook. User names and passwords will be addressed as related to temporary, part-time and seasonal employees being deleted upon their departure from employment and re-established upon re-hire.*

The Sheriff provided the following response:

3.1 *I currently have contracts signed but will meet with the Commission to approve the contacts. My Jail Administrator reviews expenditure data quarterly to determine estimated cost per prisoner. We will continue monitoring of our cost analysis, ensure documentation of this is retained, and update contracts as needed.*

The County Collector-Treasurer provided the following written response:

3.3 *This office will work with our IT person to insure passwords are changed or disabled and kept confidential.*

The Prosecuting Attorney provided the following response:

3.3 *We do not think this is feasible because if someone is gone we may need something on their computer. We are aware of the audit trail difficulties but we do not see a feasible solution.*

4. Closed Meetings

Some concerns were identified regarding documentation of closed County Commission meetings.

- Open meeting minutes did not always document specific reasons for closing the meeting, the specific section of law that allows for a closed meeting, or the roll call vote to close the meetings. In addition, there were some instances in which open meeting minutes provided no evidence a closed meeting occurred.
- Closed meeting minutes were not available for 7 of the 19 closed meetings held between January 1, 2010, and December 31, 2011.

The Sunshine Law, Chapter 610, RSMo, requires governmental bodies to prepare and maintain minutes of open and closed meetings, and requires



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records of votes, including roll call votes before closing a meeting. Additionally, the Sunshine Law requires open minutes document the reason for closing a meeting and limits discussions in closed meetings to only those specifically allowed by law.

Similar conditions were noted in our prior report.

Recommendation

The County Commission ensure minutes are prepared and comply with state law regarding closed meetings.

Auditee's Response

The County Commission provided the following written response:

The County Commission will make every effort to adhere to the Sunshine Law Chapter 610 RSMo. If a scheduled closed session is not required to be held, such absence of the hearing will be reflected in the Commission minutes.

The Prosecuting Attorney provided the following response:

I have instructed the Commission to comply with the open meetings law regarding closed session, and to at a minimum have minutes that reflect votes to go into and out of closed session, as well as any votes taken.

Vernon County

Organization and Statistical Information

Vernon County is a township-organized, third-class county. The county seat is Nevada.

Vernon County's government is composed of a three-member county commission and separate elected officials performing various tasks. All elected officials serve 4-year terms. The county commission has mainly administrative duties in setting tax levies, appropriating county funds, appointing board members and trustees of special services, accounting for county property, maintaining county bridges, and performing miscellaneous duties not handled by other county officials. Principal functions of these other officials relate to law enforcement, property assessment, property tax collections, conduct of elections, and maintenance of financial and other records important to the county's citizens. The county employed 49 full-time employees and 15 part-time employees on December 31, 2011. The townships maintain county roads.

Elected Officials

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

Officeholder	2012	2011
Bonnie M. McCord, Presiding Commissioner	\$	30,877
Kennon R. Shaw, Associate Commissioner		28,776
Neal F. Gerster, Associate Commissioner		28,776
Doug Shupe, Recorder of Deeds		43,600
Tammi S. Beach, County Clerk		43,600
Lynn M. Ewing III, Prosecuting Attorney		109,366
Ron Peckman, Sheriff		48,328
David L. Ferry, County Coroner		14,708
Tammy Bond, Public Administrator		43,600
Phil Couch, County Collector-Treasurer (1), year ended March 31,	69,515	
Cherie K. Roberts, County Assessor (2) , year ended August 31,		46,000
Jerry Wood, County Surveyor (3)		

(1) Includes \$25,915 of commissions earned for collecting city property taxes.

(2) Includes \$2,400 received from the City of Nevada for assessment of property within the city.

(3) Compensation is on a fee basis.

Financing Arrangements

In November 2007, the county entered into a 20-year lease purchase agreement with Southwest Trust Company, N.A. to pay for a capital improvement project for the jail and Sheriff's office. The terms of the agreement call for the trust company to issue Certificates of Participation totaling \$10 million and lease the new facility back to the county for lease payments equal to the principal and interest due on the outstanding



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certificates. Construction on the new facility was completed in 2009 and the lease is scheduled to be paid off in 2027. The principal and interest due on the lease at December 31, 2011, was \$8,905,000 and \$3,337,498, respectively. The lease will be paid with revenue generated from the Law Enforcement sales tax which was passed on April 3, 2007.

American Recovery and
Reinvestment Act 2009
(Federal Stimulus)

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