



Office of Missouri State Auditor
Nicole Galloway, CPA

Iron County



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Missouri State Auditor

CITIZENS SUMMARY

Findings in the audit of Iron County

Sheriff's Controls and Procedures	The Sheriff has not adequately segregated accounting duties and does not ensure adequate supervisory reviews of detailed accounting and bank records are performed. The Sheriff's office does not prepare a monthly list of liabilities for the fee bank account, and consequently, liabilities are not reconciled to the available cash balance in the account. The Sheriff's office maintains an inactive commissary bank account and has not followed up on old outstanding checks or properly reconciled the bank account and determined the proper disposition of the account balance. The Sheriff's office does not properly account for bond forms and does not reconcile amounts per the forms to deposits in the bank account and transmittals to cities. The Sheriff's office does not timely disburse fees and other receipts from the fee account to the County Treasurer. The Sheriff does not have proper controls and procedures in place to ensure collection and transmittal of amounts billed and received for boarding of prisoners.
Tax Maintenance Fund	The County Collector made monthly salary payments of \$100 from the Tax Maintenance Fund to the Deputy County Collector to supplement the salary paid the deputy from the General Revenue Fund. Since these payments were not processed through the county payroll system, these payments were not reported on the employee's W-2 form, appropriate payroll taxes were not withheld, and the employer's share of payroll taxes were not paid.
Senate Bill 40 Tax Rate	The County Commission did not hold a public hearing and approve the Senate Bill 40 property tax rate.
Passwords	Employees in the office of the Recorder of Deeds and Sheriff are not required to use passwords for accessing office computers, and employees in the office of Prosecuting Attorney are not required to periodically change passwords.
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 of another office. The overall rating assigned to the county is intended to reflect the performance of the county as a whole. It does not indicate the performance of any one elected official or county office.

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

*The rating(s) cover only audited areas and do not reflect an opinion on the overall operation of the entity. Within that context, the rating scale indicates the following:

- Excellent:** The audit results indicate this entity is very well managed. The report contains no findings. In addition, if applicable, prior recommendations have been implemented.
- Good:** The audit results indicate this entity is well managed. The report contains few findings, and the entity has indicated most or all recommendations have already been, or will be, implemented. In addition, if applicable, many of the prior recommendations have been implemented.
- Fair:** The audit results indicate this entity needs to improve operations in several areas. The report contains several findings, or one or more findings that require management's immediate attention, and/or the entity has indicated several recommendations will not be implemented. In addition, if applicable, several prior recommendations have not been implemented.
- Poor:** The audit results indicate this entity needs to significantly improve operations. The report contains numerous findings that require management's immediate attention, and/or the entity has indicated most recommendations will not be implemented. In addition, if applicable, most prior recommendations have not been implemented.

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NICOLE GALLOWAY, CPA

Missouri State Auditor

County Commission
and
Officeholders of Iron County

We have audited certain operations of Iron County in fulfillment of our duties under Section 29.230, RSMo. In addition, Daniel Jones and Associates, Certified Public Accountants, was engaged to audit the financial statements of Iron County for the 2 years ended December 31, 2017. The scope of our audit included, but was not necessarily limited to, the year ended December 31, 2017. The objectives of our audit were to:

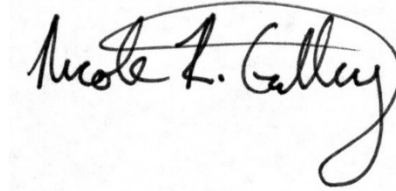
1. Evaluate the county's internal controls over significant management and financial functions.
2. Evaluate the county's compliance with certain legal provisions.
3. Evaluate the economy and efficiency of certain management practices and procedures, including certain financial transactions.

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

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

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

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

A handwritten signature in black ink that reads "Nicole R. Galloway". The signature is written in a cursive style with a large, looping flourish at the end of the name.

Nicole R. Galloway, CPA
State Auditor

The following auditors participated in the preparation of this report:

Director of Audits:	Randall Gordon, M.Acct., CPA, CGAP
Audit Manager:	John Lieser, CPA
In-Charge Auditor:	James M. Applegate, MBA
Audit Staff:	Terese Summers, MSAS, CPA Sherrye Lesmes

Iron County

Management Advisory Report

State Auditor's Findings

1. Sheriff's Controls and Procedures

Controls and procedures in the Sheriff's office need improvement. The Sheriff's office processed receipts for civil paper service, prisoner transportation reimbursement, commissary commissions, and other miscellaneous receipts totaling approximately \$31,000 through the fee account, and bond receipts totaling approximately \$22,000 through the bond account during the year ended December 31, 2017.

1.1 Segregation of duties

The Sheriff has not adequately segregated accounting duties and does not ensure adequate supervisory reviews of detailed accounting and bank records are performed.

The Administrative Assistant is responsible for receipting, recording, and depositing monies; making disbursements; and preparing the monthly bank reconciliations for both bank accounts. The Sheriff does not review accounting records to ensure monies received have been properly recorded, deposited, and disbursed to the appropriate parties.

Proper segregation of duties is necessary to ensure transactions are accounted for properly and assets are adequately safeguarded. Internal controls would be improved by segregating the duties of receiving, recording, depositing, disbursing, and reconciling monies. If proper segregation of duties cannot be achieved, documented independent or supervisory reviews of detailed accounting and bank records are essential and should include comparing daily receipt activity to deposits and disbursements to supporting documentation.

1.2 Liabilities

The Sheriff's office does not prepare a monthly list of liabilities for the fee bank account, and consequently, liabilities are not reconciled to the available cash balance in the account. We determined liabilities to be 3 months of undistributed collections (see section 1.5) totaling \$7,566, as of December 31, 2017. The reconciled bank balance of \$9,090 at December 31, 2017, exceeded the identified liabilities, resulting in an unidentified balance of \$1,524.

Regular identification and comparison of liabilities to the available cash balance is necessary to ensure accounting records are in balance, all amounts received are disbursed, and monies are available to satisfy all liabilities. Differences should be adequately investigated and explained. Various statutory provisions provide for the disposition of unidentified monies.

1.3 Commissary account

The Sheriff's office maintains an inactive commissary bank account and has not followed up on old outstanding checks or properly reconciled the bank account and determined the proper disposition of the account balance. The account has been inactive since January 2017 when the county began contracting for the commissary operations. Upon our request, the Sheriff's office prepared a bank reconciliation as of April 30, 2018. The reconciled bank balance of \$4,129 exceeded the book balance of \$3,549 by \$580 and the outstanding checks listing included 8 checks totaling \$1,188 that had been



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outstanding for more than 1 year. According to the Administrative Assistant, the payee for one outstanding check for \$1,000 has been recently located, a stop payment order was issued for the check, and a new check was issued. Also, according to the Administrative Assistant, the book balance consists of undistributed commissary net proceeds and interest earned on the bank account; however, there is no documentation to support the book balance amount.

Maintaining an inactive account increases the risk of loss, theft, or misuse of funds. Proper follow-up procedures on old outstanding checks are necessary to ensure monies are appropriately disbursed to the payee or as otherwise required by state law. Various statutory provisions provide for the disposition of unclaimed monies. If appropriate distribution of the account balance cannot be determined, the Sheriff should dispose of it in accordance with state law and close the account.

1.4 Bonds

The Sheriff's office does not properly account for bond forms and does not reconcile amounts per the forms to deposits in the bank account and transmittals to cities. The numerical sequence of bond forms is not accounted for and some bond forms were not issued in numerical order. Additionally, while most cash bonds received are deposited into the bond account, some cash bonds received are held until transmitted to the cities for whom the arrest was made, and the Sheriff's office does not obtain a receipt slip from the cities for the bonds transmitted.

To reduce the risk of loss, theft, or misuse of bond monies received, and to provide assurance bond monies are accounted for properly, prenumbered bond forms should be issued in numerical order and the numerical sequence of bond forms should be accounted for properly. In addition, receipt slips should be obtained from cities for bonds transmitted directly to the cities, and bond forms should be reconciled to deposits and also to transmittals to the cities.

1.5 Disbursements

The Sheriff's office does not timely disburse fees and other receipts from the fee account to the County Treasurer. The Sheriff's office made disbursements to the County Treasurer approximately every 2 to 3 months, and those disbursements ranged from \$4,089 to \$8,725.

Timely disbursement of fees and other receipts is necessary to provide adequate controls over account balances and increase the likelihood discrepancies are promptly detected. Section 50.370, RSMo, requires all county officials who receive fees or any other remuneration for official services to pay such monies monthly to the County Treasurer. In addition, pursuant to Section 50.380, RSMo, the Sheriff may be subject to penalties for failure to timely disburse monies.



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1.6 Prisoner boarding

The Sheriff does not have proper controls and procedures in place to ensure collection and transmittal of amounts billed and received for boarding of prisoners. During 2017, the Sheriff's office did not track all board bills sent or payments received. As a result, the Sheriff's office is unable to monitor billed amounts to ensure payments are received and transmitted to the County Treasurer. County records indicate amounts transmitted to the County Treasurer for board bills totaled approximately \$1,300 in 2017, and unpaid billings totaled approximately \$12,800 as of June 2018. In addition, the Sheriff has not entered into written agreements with the surrounding counties and cities for the boarding of prisoners detailing the housing rate to be paid, the services to be provided, or any required notification for emergency or non-routine situations.

Procedures such as independent reconciliations of billing records to jail records and payments received should be established to ensure prisoner housing is properly billed, collected, recorded, and transmitted to the County Treasurer. Proper records and follow-up procedures are also necessary to safeguard against possible loss, theft, or misuse of funds going undetected.

Section 432.070, RSMo, requires contracts for political subdivisions to be in writing. Written agreements, 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.

Similar conditions
previously reported

A condition similar to section 1.1 was noted in our 2 prior audit reports, while conditions similar to sections 1.2, 1.3, and 1.6 were noted in our prior audit report.

Recommendations

The Sheriff:

- 1.1 Segregate accounting duties or ensure adequate independent or supervisory reviews of detailed accounting and bank records are performed and documented.
- 1.2 Prepare a monthly list of liabilities for the fee account and reconcile it to the available cash balance. Any differences should be promptly investigated and resolved. After sufficient efforts are made to resolve differences, any remaining unidentified monies should be disposed of in accordance with state law.
- 1.3 Dispose of monies held in the inactive commissary bank account in accordance with state law and close the account. Old outstanding checks should be voided and reissued to payees that can be readily located. If the payee cannot be located the amount should be disbursed in accordance with state law.



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- 1.4 Account for the numerical sequence of prenumbered bond forms. Additionally, receipt slips should be obtained from cities for bonds transmitted to cities, and bond forms should be reconciled to deposits and transmittals to cities.
- 1.5 Disburse fees and other receipts to the County Treasurer monthly in accordance with state law.
- 1.6 Develop procedures to ensure collections of costs for boarding prisoners and the proper recording and transmittal of payments received. In addition, the Sheriff should work with the County Commission to obtain written agreements with other counties and cities for the boarding of prisoners.

Auditee's Response

- 1.1 *The County Treasurer has begun reviewing the office's financial records quarterly. In addition, I will begin reviewing accounting records with the Administrative Assistant monthly.*
- 1.2 *I will have the Administrative Assistant prepare a monthly list of liabilities, and she and I will reconcile the list to the cash balance. I will consult the Prosecuting Attorney regarding disposition of unidentified monies.*
- 1.3 *This account was closed in October 2018, and the balance was turned over to the County Treasurer for deposit into the Inmate Prisoner Detainee Security Fund. We will contact payees of old outstanding checks, and reissue checks as applicable. We will dispose of remaining unidentified funds in accordance with state law.*
- 1.4 *The Circuit Court recently required the bond forms be revised; however, the printer did not prenumber the new forms. We will attempt to order new prenumbered bond forms. If prenumbered forms cannot be obtained, we will number the existing forms manually and account for the numerical sequence of the forms when issued. Additionally, we now deposit all city bonds and disburse those bonds by check.*
- 1.5 *This recommendation has been implemented.*
- 1.6 *We are developing a contract document that will be approved by the Circuit Judge and then presented to the cities for signature and execution. Additionally, we will reconcile billings to payments received by the County Treasurer monthly and we will follow-up on unpaid billings and notify the Circuit Judge about unpaid billings.*



2. Tax Maintenance Fund

The County Collector made monthly salary payments of \$100 from the Tax Maintenance Fund to the Deputy County Collector to supplement the salary paid to the deputy from the General Revenue Fund. These payments totaled \$1,200 during the year ended February 28, 2018. Since these payments were not processed through the county payroll system, these payments were not reported on the employee's W-2 form, appropriate payroll taxes were not withheld, and the employer's share of payroll taxes were not paid. The Internal Revenue Code indicates individuals treated as employees should have all compensation reported on W-2 forms.

To ensure all employee compensation is properly reported and taxed, all compensation should be paid through the normal county payroll process. The failure to properly report and tax all wages could result in penalty and interest charges assessed against the county.

A similar condition was noted in our prior audit report.

Recommendation

The County Collector ensure all employee compensation is paid through the county's normal payroll process, properly taxed, and reported to the Internal Revenue Service.

Auditee's Response

I have discussed this issue with the County Commission and we will begin processing the compensation through the county's normal payroll process.

3. Senate Bill 40 Tax Rate

The County Commission did not hold a public hearing to approve the Senate Bill 40 property tax rate. The property tax rate was approved by the Senate Bill 40 Board; however, the Senate Bill 40 Board does not have the legal authority to set the property tax rate.

Section 137.055, RSMo, states the county governing body shall hold a public hearing prior to approving the tax rates of the county. In addition, the Missouri Supreme Court issued an opinion in the case of *State ex rel. Indus. Services Contractors, Inc. v. County Comm'n of Johnson County*, 918 S.W.2d 252 (Mo. Banc 1996) that there is no statutory authority allowing Senate Bill 40 Boards to set the property tax levy.

Recommendation

The County Commission should approve the Senate Bill 40 property tax rate in accordance with state law.

Auditee's Response

We have implemented this recommendation with the August 2018 property tax rate setting process.

4. Passwords

The Recorder of Deeds, Sheriff, and Prosecuting Attorney have not established adequate password controls to reduce the risk of unauthorized access to computers and data. Employees in the office of the Recorder of Deeds and Sheriff are not required to use passwords for accessing office



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computers, and employees in the office of Prosecuting Attorney are not required to periodically change passwords.

Passwords are necessary to authenticate access to computers. However, since passwords are not used or do not have to be periodically changed in certain offices, there is less assurance access to computers and data files is limited to only those individuals who need access to perform their job responsibilities. Passwords should be confidential, contain a minimum number of characters, and be changed periodically to reduce the risk of a compromised password and unauthorized access to and use of computers and data.

Recommendation

The County Commission work with other county officials to require employees establish and maintain confidential passwords that must be periodically changed.

Auditee's Response

We will make revisions to our internal control policy to incorporate this recommendation.

Iron County

Organization and Statistical Information

Iron County is a county-organized, third-class county. The county seat is Ironton.

Iron County's government is composed of a three-member county commission and separate elected officials performing various tasks. All elected officials serve 4-year terms. The county commission has mainly administrative duties in setting tax levies, appropriating county funds, appointing board members and trustees of special services, accounting for county property, maintaining county roads and bridges, and performing miscellaneous duties not handled by other county officials. Principal functions of these other officials relate to law enforcement, property assessment, property tax collections, conduct of elections, and maintenance of financial and other records important to the county's citizens. In addition to elected officials, the county employed 38 full-time employees and 5 part-time employees on December 31, 2017.

In addition, county operations include the Senate Bill 40 Board.

Elected Officials

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

Officeholder	2018	2017
Jim Scaggs, Presiding Commissioner	\$	29,390
Joshua A. Campbell, Associate Commissioner		27,390
Dwayne Warncke, Associate Commissioner		27,390
Karen K. Reagan, Recorder of Deeds		41,500
Virginia Queen, County Clerk		41,500
Brian Parker, Prosecuting Attorney		51,000
Roger D. Medley, Sheriff		46,000
Carol Hardy, County Treasurer		41,500
Tim Harbison, County Coroner		14,000
Lisa Light, Public Administrator		41,500
Linda Kemp, County Collector, year ended February 28,	41,500	
David L. Huff, County Assessor, year ended August 31,		41,500

New Sales Tax

On April 4, 2017, Iron County voters approved a 1/2 of 1 percent general sales tax.