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Missouri State Auditor

Adair County



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YELLOW SHEET

Findings in the audit of Adair County

Financial Condition	<p>The Special Road and Bridge (SRB) Fund has experienced a declining cash balance over the past several years. The SRB Fund had a cash balance of \$726,039 at January 1, 2003. However, by 2006, the SRB Fund did not have sufficient funds to meet obligations. Also, SRB Fund disbursements exceeded receipts in 5 of the last 6 years. In addition, actual disbursements exceeded budgeted disbursements by approximately \$128,000 in 2008. The SRB Fund reliance on transfers and loans from the General Revenue Fund could negatively impact the financial condition of the GR Fund and services provided by that fund. The County Commission indicated it is aware of the financial condition of this fund and is monitoring it through preparation and review of monthly budget reports and quarterly budget reviews.</p>
Property Tax System	<p>Neither the County Commission nor the County Clerk provide a review of the activities of the County Collector. The County Clerk does not maintain an account book or other record summarizing property tax transactions and changes. In addition, no evidence was provided to indicate procedures are performed by the County Clerk or the County Commission to verify the County Collector's monthly or annual settlements. The County Clerk does not prepare or verify the accuracy of the current or delinquent tax books.</p>
Collector's Procedures	<p>The method of payment is not consistently recorded on paid tax statements, and the composition of receipts is not reconciled to the composition of deposits. Reconciled bank account balances are not compared to existing liabilities. The County Collector is improperly withholding and personally retaining an additional commission on railroad and utility taxes pertaining to cities.</p>
Prosecuting Attorney's Procedures	<p>Accounting duties are not adequately segregated. The secretary who is responsible for all bad check receipting, recording, and disbursing functions also reconciles the bank accounts, and has the ability to post account adjustments to the system without documented independent approval of the adjustments. Procedures to identify month-end liabilities and reconcile the liabilities to the cash balance of the restitution bank account are not sufficient.</p>
Sheriff's Procedures	<p>Receipt slips are not issued for payments received in the mail or for paper services fees, multiple receipt slip books are in use at the same time, and the numerical sequence of receipt slips is not accounted for properly. Checks and money orders are not restrictively endorsed immediately upon receipt. Bank reconciliations for the commissary bank account are not performed. In addition, procedures do not exist to identify month-end liabilities and reconcile liabilities to the commissary bank account. Procedures do not exist to ensure all fees received are disbursed.</p>

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To the County Commission
and
Officeholders of Adair County

We have audited certain operations of Adair County in fulfillment of our responsibilities under Section 29.230, RSMo. In addition, McBride, Lock & Associates, Certified Public Accountants, has been engaged to audit the financial statements of Adair County for the 2 years ended December 31, 2009. The scope of our audit included, but was not necessarily limited to, the 2 years ended December 31, 2009. 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 revenues and expenditures.

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 also tested certain of those controls to obtain evidence regarding the effectiveness of their design and operation. However, providing an opinion on the effectiveness of internal controls was not an objective of our audit and accordingly, we do not express such an opinion.

We 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. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. Abuse, which refers to behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary given the facts and circumstances, does not necessarily involve noncompliance with legal provisions. Because the determination of abuse is subjective, our audit is not required to provide reasonable assurance of detecting abuse.

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.

The accompanying Management Advisory Report presents our findings arising from our audit of Adair County.



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The following auditors participated in the preparation of this report:

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Adair County Management Advisory Report State Auditor's Findings

1. Financial Condition

The Special Road and Bridge (SRB) Fund has experienced a declining cash balance over the past several years. The following table shows the actual activity of the SRB Fund since 2007 and the projected activity for 2010, as reflected on the county budgets.

	2010 Budgeted	2009 Actual	2008 Actual	2007 Actual
Cash Balance, January 1	\$ 230,136	430,304	30,635	13,311
Receipts	1,656,295	1,553,174	1,912,258	2,255,848
Transfers In From General Revenue Fund	120,000	0	220,000	61,000
Disbursements	(1,932,797)	(1,603,342)	(1,732,589)	(2,299,524)
Transfers Out To General Revenue Fund	(70,000)	(150,000)	0	0
Cash Balance, December 31	\$ 3,634	230,136	430,304	30,635

The SRB Fund had a cash balance of \$726,039 at January 1, 2003. However, by 2006, the SRB Fund did not have sufficient funds to meet obligations so transfers with no repayment requirement totaling \$69,000 in 2006 and \$61,000 in 2007 were made from the General Revenue (GR) Fund to the SRB Fund. In October 2008, the County Commission approved extending a \$400,000 interest-free line of credit from the GR Fund to the SRB Fund, and by the end of the year, \$220,000 had been loaned to the SRB Fund. As of December 31, 2009, \$150,000 had been repaid by the SRB Fund leaving a balance due of \$70,000, which was repaid in 2010. Another loan of \$120,000 from the GR Fund to the SRB Fund was made in 2010. Without the influx of monies from the GR Fund, the SRB Fund would have had a cash balance of approximately \$30,000 as of December 31, 2009.

SRB Fund disbursements exceeded receipts (excluding transfers in) in 5 of the last 6 years. In addition, actual disbursements exceeded budgeted disbursements by approximately \$128,000 in 2008. The SRB Fund also incurred unexpected costs as a result of several significant weather events, including a tornado in 2009 and flooding in 2008. The County Commission indicated reimbursements are still due to the county from the federal government for some of these costs.

In 2009, the County Commission changed its "cash rock" policy, which allowed county residents to purchase road rock, and began paying only 25 percent instead of 50 percent of the cost. This policy, which cost the county approximately \$71,000 in 2009 and \$177,000 in 2008, was discontinued in 2010.

The County Commission indicated it is aware of the financial condition of this fund and is monitoring it through preparation and review of monthly budget reports and quarterly budget reviews. To improve the financial



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condition of the SRB Fund, the County Commission should review disbursements and evaluate management practices to ensure the efficient use of available resources. It is essential the County Commission address the financial condition both in the immediate and long-term future. The SRB Fund must be able to operate without relying on transfers and loans from the GR Fund. Continuing to make transfers from the GR Fund to help the SRB Fund could negatively impact the financial condition of the GR Fund and other services provided by that fund.

Recommendation

The County Commission review disbursements and discretionary spending of the SRB Fund and evaluate management practices to ensure the efficient use of available resources.

Auditee's Response

The County Commission provided the following response:

We are looking at various options including various revenue sources to improve the SRB Fund financial condition. We are reviewing disbursements and spending and also evaluating management practices. We have been monitoring this and will continue to monitor this.

2. Property Tax System

The County Clerk and the County Commission do not provide adequate monitoring of property tax system activities. Failure to perform reviews of the tax books may result in errors and irregularities going undetected. For the 2 years ended February 28, 2010, the county assessed approximately \$14 million annually in property taxes.

2.1 Account book

Neither the County Commission nor the County Clerk provide a review of the activities of the County Collector. The County Clerk does not maintain an account book or other record summarizing property tax transactions and changes. In addition, no evidence was provided to indicate procedures are performed by the County Clerk or the County Commission to verify the County Collector's monthly or annual settlements.

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 records which summarize all taxes charged to the County Collector, monthly collections, delinquent credits, additions and abatements, and protested amounts should be maintained by the County Clerk. Such records would help the County Clerk ensure taxes charged and credited to the County Collector each year are complete and accurate and could also be used by the County Clerk and County Commission to verify the County Collector's monthly and annual settlements. Such procedures are intended to establish checks and balances related to the collection of property taxes.



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2.2 Tax books

The County Clerk does not prepare or verify the accuracy of the current or delinquent tax books. The County Collector extends and prints the tax books and tax statements and verifies the accuracy of amounts to be collected. The County Clerk does review a few of the tax statements selected by the Collector to see if the tax amounts are properly calculated. 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. 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. Failure to perform reviews of the tax books may result in errors or irregularities going undetected.

Similar conditions previously reported

Similar conditions were noted in our two prior audit reports.

Recommendations

- 2.1 The County Commission and the County Clerk monitor property tax system activities and perform a thorough review of the County Collector's settlements. In addition, the County Clerk should maintain a complete and accurate account book with the County Collector.
- 2.2 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 the property tax amounts.

Auditee's Response

The County Commission provided the following response:

- 2.1 *We will monitor the property tax system and review the County Collector's annual settlement.*

The County Clerk provided the following responses:

- 2.1 *An account book will be kept with the County Collector, the property tax system will be monitored, and the County Collector's annual settlement will be reviewed.*
- 2.2 *The accuracy of the tax books will be verified.*



3. Collector's Procedures

Receipting and reconciling procedures need improvement. Additional commissions are personally retained by the County Collector on the cities' portion of railroad and utility taxes.

3.1 Method of payment

The method of payment is not consistently recorded on paid tax statements, and the composition of receipts is not reconciled to the composition of deposits.

To ensure all monies are accounted for and deposited properly, the method of payment should be indicated on all paid tax statements, and the composition of receipts should be reconciled to the composition of bank deposits.

3.2 Liabilities

Reconciled bank account balances are not compared to existing liabilities. Four bank accounts are maintained for regular collections, and collections are distributed monthly, except for interest earnings which are distributed annually.

Upon our request, the County Collector prepared a liabilities list for each account as of February 28, 2010. A comparison of the lists to the reconciled bank balances of the two money market accounts showed an unidentified overage of approximately \$2,200 in one account while the other account showed a shortage of approximately \$4,100 for a net shortage of \$1,900. The two checking accounts reconciled cash balance was \$0 as of February 28, 2010. Upon our request, the County Collector investigated these differences and discovered approximately \$1,830 of the difference was a check returned by the bank, but the monies had been included in the monthly distribution.

To ensure records are in balance, errors are detected and corrected on a timely basis, and sufficient cash is available for the payment of all amounts due, liabilities should be identified monthly and reconciled to cash balances. Failure to routinely investigate and resolve unidentified differences increases the possibility of loss, theft, and misuse of funds.

3.3 City commissions

The County Collector is improperly withholding and personally retaining an additional commission on railroad and utility taxes pertaining to cities. Section 151.180, RSMo, requires the County Collector to collect all railroad and utility taxes, and Section 151.280, RSMo, allows the County Collector a 1 percent commission for collecting these taxes. The 1 percent commission is turned over to the county's General Revenue Fund. In addition, the County Collector withholds and personally retains a 1.5 percent commission from the portion of railroad and utilities taxes pertaining to cities. This additional commission was approximately \$1,000 for the railroad and utilities taxes distributed in February 2010. The County Collector has written agreements with four cities for property tax collection services,



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which in part provide for him to personally retain a 1.5 percent commission on current taxes collected for the city. However, the collection of railroad and utility taxes is a part of the County Collector's statutorily required duties, and it appears the County Collector should not receive additional compensation for collecting these monies.

Recommendations

The County Collector:

- 3.1 Indicate the method of payment on all paid tax statements and reconcile the composition of receipts to the composition of deposits. Any differences should be investigated and resolved.
- 3.2 Prepare monthly lists of liabilities, reconcile the lists to the reconciled bank balances, investigate any unreconciled differences, and make the appropriate adjustments to correct any differences noted.
- 3.3 Discontinue withholding and retaining additional commissions on the cities' portion of railroad and utility taxes and consider making repayment to the cities for improper commissions withheld.

Auditee's Response

The County Collector provided the following responses:

- 3.1 *The software programmer has been asked to make it easier to enter the method of payment on the computer. The system currently has the capacity to record the method of payment, but it is more difficult than we would like. Then the daily reports will have the total cash and total checks amounts and these amounts will be reconciled to the composition of the deposit. Additional training will be held with the staff to remind them to record the method of payment on the paid tax statement.*
- 3.2 *The monthly reconciliation form has been changed to include a cash reconciliation section to identify liabilities and this reconciliation is done monthly. The liabilities noted as of February 28, 2010, have been resolved.*
- 3.3 *We will abide by the terms of the contract until it is changed, and the contract indicates a commission can be withheld on city taxes.*

4. Prosecuting Attorney's Procedures

Accounting duties are not adequately segregated, adjustments are not supported, and reconciliation procedures are not sufficient.

The Prosecuting Attorney's office collected bad check restitution and fees, delinquent taxes, and court-ordered restitution totaling approximately



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\$204,000 and \$264,000 during the years ended December 31, 2009 and 2008.

4.1 Segregation of duties and adjustments

The secretary who is responsible for all bad check receipting, recording, and disbursing functions also reconciles the bank accounts, and has the ability to post account adjustments to the system without documented independent approval of the adjustments. While the Prosecuting Attorney indicated he reviews the bank reconciliation, his review is not documented. In addition, adequate documentation of adjustments was not always retained. Adjustments totaled approximately \$37,000 in 2009 and \$88,000 in 2008.

Proper segregation of duties is necessary to ensure all transactions are accounted for properly, adjustments are valid, and assets are adequately safeguarded. If proper segregation of duties cannot be achieved, at a minimum, periodic supervisory reviews of accounting records and adjustments should be performed and documented by the Prosecuting Attorney. In addition, proper supporting documentation should be maintained for adjustments.

4.2 Bank account and liabilities

Procedures to identify month-end liabilities and reconcile the liabilities to the cash balance of the restitution bank account are not sufficient. An electronic accounting system is used which does not provide information regarding the cash balance and a manual check register is no longer maintained for this bank account. Bank reconciliations performed are not complete, and only transactions that have cleared the bank are considered. Using the various reports the secretary regularly generates and the bank statements, we determined the reconciled cash balance for this account totaled \$15,019 at December 31, 2009, while identified liabilities totaled \$14,875, leaving an unidentified balance of \$144.

Without regular identification and comparison of liabilities to the reconciled cash balance, and performing a complete bank reconciliation, there is less likelihood errors will be identified and the ability to both identify liabilities and resolve errors is diminished. Such procedures are necessary to ensure monies are properly disbursed to individuals and/or entities for which the monies were collected. Amounts that cannot be identified should be disposed of in accordance with state law.

Recommendations

The Prosecuting Attorney:

- 4.1 Adequately segregate accounting duties to the extent possible or ensure supervisory reviews of accounting records and adjustments are performed and documented, and ensure adequate documentation is retained to support adjustments.



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- 4.2 Identify liabilities and reconcile to the cash balance on a monthly basis, and ensure a complete bank reconciliation is performed. Any unidentified differences should be investigated and resolved.

Auditee's Response

The Prosecuting Attorney provided the following responses:

- 4.1 *We have started reviewing and documenting the review of the bank reconciliation. We have started reviewing each non-monetary adjustment, and we are reviewing the monthly non-monetary adjustment report to ensure all individual non-monetary adjustments have been reviewed.*
- 4.2 *We will check with the software company and discuss these issues with them. We will ensure a complete bank reconciliation is performed and that liabilities are identified and any differences investigated.*

5. Sheriff's Procedures

Procedures for processing monies and performing periodic reconciliations are not adequate.

Receipts totaled approximately \$406,000 in 2009 and \$303,000 in 2008 for bonds, civil and criminal fees, and other miscellaneous receipts. In addition, inmate commissary account receipts were approximately \$36,500 in both 2009 and 2008.

5.1 Receipts

Receipt slips are not issued for payments received in the mail or for paper services fees. Multiple receipt slip books are in use at the same time and the numerical sequence of receipt slips is not accounted for properly. In addition, checks and money orders are not restrictively endorsed immediately upon receipt.

To adequately account for all collections, receipt slips should be issued for all monies received and the numerical sequence accounted for properly. In addition, prompt restrictive endorsement of checks and money orders decreases the possibility of theft or misuse of funds.

A similar condition was noted in our prior audit report.

5.2 Commissary bank account

Bank reconciliations for the commissary bank account are not performed. In addition, procedures do not exist to identify month-end liabilities and reconcile liabilities to the commissary bank account.

As of December 31, 2009, based on reports generated at our request, we determined the reconciled cash balance to be approximately \$4,800. This amount along with the approximately \$5,650 in monies turned over to the county from the old account in October 2009, total approximately \$10,450.



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Identified liabilities at December 31, 2009, total \$5,650 for a difference of \$4,800. Part of the difference could be due to commissary profits. The Sheriff has requested help from the commissary vendor to determine the amount of commissary profits.

Without preparing monthly bank reconciliations and reconciliations of liabilities and individual inmate balances to the reconciled cash balance, there is little assurance cash receipts and disbursements have been properly handled and recorded or bank or book errors will be detected and corrected in a timely manner.

5.3 Fees bank account

Procedures do not exist to ensure all fees received are disbursed. All fees received are normally disbursed by the end of each month; however, on December 31, 2009, the account, opened in January 2009, had an unidentified balance of \$2,831.

To ensure errors are corrected and monies are handled properly, procedures should be adopted to reconcile all receipts and deposits to amounts disbursed. If any receipts cannot be disbursed at the end of the month, these amounts should be identified and reconciled to the bank balances.

A similar condition was noted in our prior audit report.

Recommendations

The Sheriff:

- 5.1 Issue receipt slips for all monies received, limit the number of receipt slips books in use at one time, and account for the numerical sequence of receipt slips. In addition, checks and money orders should be restrictively endorsed immediately upon receipt.
- 5.2 Ensure monthly bank reconciliations are prepared and a list of liabilities, including individual inmate balances, is reconciled to the reconciled cash balance on a monthly basis. In addition, the Sheriff should determine the proper disposition of the \$4,800 difference.
- 5.3 Ensure all receipts are disbursed each month. Any receipts that cannot be disbursed by the end of the month should be documented and reconciled to the bank balance. Amounts which cannot be identified should be investigated, and any monies remaining unclaimed should be disposed of in accordance with state law.

Auditee's Response

The Sheriff provided the following written responses:

- 5.1 *The Adair County Sheriff's Office has already implemented some of the suggested changes in our receipting process. All monies that are accepted including the money from the Adair County Court is now*



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received in our receipt system. All checks and money orders are now endorsed immediately upon receipt in our office. The Adair County Sheriff's Office is looking at receipting options for our office to help issue receipts in a numerical sequence. At this time we have limited the number of receipt books down to try to help control this issue until we are able to find the proper solution.

- 5.2 *The Adair County Sheriff's Office has worked with the commissary provider to correct all the issues encountered. There has been great success in clearing up these issues and will be introducing new methods of receiving monies and ordering for inmates. Reports have been printed and placed in 2008 and 2009 files for these systems. Bank reconciliations and a list of liabilities are being prepared and reconciled monthly. The \$4,800 difference has been resolved and properly accounted for.*
- 5.3 *The Adair County Sheriff's Office worked during this audit to identify all the unidentified balances found by the Auditors. We were able to find errors made in a couple of county payments and have made the corrections needed to reconcile these unidentified monies. The Adair County Sheriff's Office is working on finding the proper system needed to adequately reconcile the Fees Account each month and to provide the proper reports for County payments. All Accounts are now reconciled per Auditors recommendations.*

Adair County

Organization and Statistical Information

Adair County is a county-organized, third-class county and is part of the Second Judicial Circuit. The county seat is Kirksville.

Adair 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.

Elected Officials and Their Compensation Paid

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

Officeholder	2010	2009
Gary W. Jones, Presiding Commissioner	\$	29,390
Carson Adams, Associate Commissioner		27,390
Mark Thompson, Associate Commissioner		27,390
Pat Shoush, Recorder of Deeds		41,500
Sandra Collop, County Clerk		41,500
Mark L. Williams, Prosecuting Attorney		109,366
Robert T. Hardwick, Sheriff		46,000
Lori J. Smith, County Treasurer		41,500
Brian C. Noe, County Coroner		14,000
Jeannette Gregory, Public Administrator		41,500
David O. Erwin, County Collector (1), year ended February 28,	60,372	
Donnie Waybill, County Assessor, year ended August 31,		41,327
Edward A. Cleaver, County Surveyor (2)		

(1) Includes \$19,277 of commissions earned for collecting city property taxes.

(2) Compensation on a fee basis.