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FOLLOW-UP REPORT ON AUDIT FINDINGS

Callaway County Collector and Property Tax System

Report No. 2019-062

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Missouri State Auditor

County Commission
and
County Collector
Callaway County, Missouri

We have conducted follow-up work on audit report findings contained in Report No. 2018-097, *Callaway County Collector and Property Tax System* (rated as Poor), issued in September 2018, pursuant to the Auditor's Follow-Up Team to Effect Recommendations (AFTER) program. The objectives of the AFTER program are to:

1. Identify audit report findings for which follow up is considered necessary, and inform the county about the follow-up review on those findings.
2. Identify and provide status information for each recommendation reviewed. The status of each recommendation reviewed will be one of the following:
 - Implemented: Auditee fully implemented the recommendation, either as described in the report or in a manner that resolved the underlying issue.
 - In Progress: Auditee has specific plans to begin, or has begun, to implement and intends to fully implement the recommendation.
 - Partially Implemented: Auditee implemented the recommendation in part, but is not making efforts to fully implement it.
 - Not Implemented: Auditee has not implemented the recommendation and has no specific plans to implement the recommendation.

As part of the AFTER work conducted, we reviewed documentation provided by county officials and held discussions with county officials to verify the status of implementation for the recommendations. Documentation provided by the county included bank records, financial records, and other pertinent documents. This report is a summary of the results of this follow-up work, which was substantially completed during May 2019.

Nicole R. Galloway, CPA
State Auditor

Callaway County Collector and Property Tax System

Follow-Up Report on Audit Findings

Status of Findings

1. Misappropriated Monies The audit identified misappropriated monies totaling at least \$316,758 between January 1, 2016, and March 15, 2018.

Recommendation The County Commission and the County Collector work with law enforcement officials regarding criminal prosecution related to the misappropriated monies and take the necessary actions to obtain restitution.

Status **Implemented**

In March 2019, the former County Collector was sentenced to 30 months in prison and ordered to pay approximately \$380,000 in restitution. The County Commission filed a claim against the County Collector's surety bond and received a payment for \$316,758 in November 2018.

2. Questionable Transactions The County Collector made questionable disbursements totaling \$8,414 from the County Collector's general operating account (general account). No documentation could be provided by County Collector's office personnel to support the purpose of these checks. In addition, each of these checks was subsequently redeposited into the general account and used to substitute for cash shortages in deposits made to the general account. The County Collector also improperly abated a protested tax bill for \$7,208 after the appeal had been dismissed and the monies distributed. No documentation could be provided by County Collector's office personnel to support why the abatement occurred and why the County Collector had marked the tax payment for refund, or if a refund for this tax payment had been paid.

Recommendation The County Collector should review the questionable transactions to ensure they were appropriately handled and should also ensure sufficient documentation is maintained to support all transactions.

Status **Implemented**

The County Collector reviewed the questionable disbursements. She agreed they were improper and resulted in cash deposit shortages. With the surety bond proceeds received as discussed in the status comments of finding number 1, the County Collector determined no additional action was necessary regarding these disbursements. The County Collector is working to determine how to resolve the improperly abated protested tax bill. The County Collector indicated she is now ensuring sufficient documentation is maintained to support all transactions.



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3. Property Tax System Controls and Procedures
- We noted significant weaknesses in controls and procedures over the county's property tax system.
- 3.1 Annual settlements
- The County Collector's annual settlements for the years ended February 28, 2018, and 2017, were not complete and accurate.
- Recommendation
- The County Collector prepare complete and accurate annual settlements.
- Status
- Implemented**
- The County Collector filed an annual settlement for the year ended February 28, 2019, on March 21, 2019. However, she said she subsequently determined the settlement was not accurate and prepared an amended annual settlement. We reviewed a draft of the amended settlement and determined delinquent railroad charges of approximately \$30,000 for 2016 and 2017 were omitted. The County Collector made the necessary corrections for these unreported charges and filed the amended annual settlement on June 5, 2019.
- 3.2 Tax books
- The County Clerk did not prepare the current tax books and did not verify the accuracy of the current tax books.
- Recommendation
- The County Clerk prepare the current tax books, or at a minimum, verify the accuracy of the tax books prior to charging the County Collector with the property tax amounts to be collected. Procedures performed should be adequately documented.
- Status
- In Progress**
- The former County Clerk did not prepare or verify the accuracy of the tax books prior to charging the County Collector with the property tax amounts to be collected for the 2018 tax year. The current County Clerk took office January 1, 2019. She indicated she plans to verify the accuracy of the tax books for the 2019 tax year by selecting at least one personal property tax bill and one real estate property tax bill for each taxing authority and manually recalculating the tax bills to ensure each tax levy is calculating correctly. In addition, the County Clerk and the County Auditor indicated they will recalculate the tax books in total by aggregating the total due for each taxing authority.
- 3.3 Review of property taxes
- The financial activities of the County Collector were not adequately reviewed by the County Clerk, the County Auditor, or the County Commission. Neither the County Clerk nor the County Auditor maintained an account book or other records summarizing property tax charges, transactions, and changes as required by state law. In addition, the County Clerk, the County Auditor, and



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the County Commission did not perform procedures to verify the accuracy and completeness of the County Collector's annual settlements.

Recommendation

The County Clerk and the County Auditor work together to maintain an account book with the County Collector. In addition, the County Clerk, the County Auditor, and the County Commission should use the account book to review the accuracy and completeness of the County Collector's annual settlements.

Status

In Progress

The County Auditor is currently in the process of creating an account book with the County Collector. The County Auditor indicated the account book will be used to compile information for the 2019 tax year, and available for use by herself, the County Clerk, and the County Commission to verify the accuracy and completeness of the County Collector's next annual settlement.

3.4 Property tax system changes

The County Commission and the County Clerk do not adequately review changes (e.g., additions, abatements, and deletions) entered into the property tax system. In addition to the County Collector having access in the property tax system to make changes such as additions, abatements, and deletions, she could also make corrections or changes to information entered into the property tax system.

Recommendation

The County Commission and the County Clerk develop procedures to ensure all property tax changes are properly approved and monitored. In addition, the County Collector should ensure property tax system access rights are limited to only what is needed for the users to perform their job duties and responsibilities.

Status

Implemented

The County Commission purchased a new property tax system for the County Collector's office. The system was implemented on June 1, 2019. For personal property, this system is now integrated with the County Assessor's system and all personal property tax changes are completed by the County Assessor's office. The County Collector's office no longer has access rights to make personal property tax changes to the property tax system. However, for real estate property, the new system is not integrated with the County Assessor's system and all real estate property tax changes are still entered by the County Collector's office. Since implementation of the new property tax system, the County Clerk is reconciling real estate property tax changes made by the County Collector's office in it with changes recorded in the County Assessor's system. In addition, the County Commission reviews and approves a monthly report of personal property tax changes and real estate property tax changes.



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4. County Collector's Controls and Procedures	Significant weaknesses existed in the County Collector's accounting controls and procedures.
4.1 Segregation of duties	Accounting duties were not adequately segregated and independent reviews of accounting and bank records were not performed.
Recommendation	The County Collector segregate accounting duties and ensure documented independent reviews of detailed accounting and bank records are performed.
Status	In Progress
	The County Collector has segregated some accounting duties but is currently responsible for preparing all monthly bank reconciliations and disbursements and reviewing the work performed by other office personnel. The County Collector indicated with the recent implementation of the new property tax system, she intends to train staff to prepare and process monthly electronic disbursements and perform monthly bank reconciliations which she will then review and approve.
4.2 Unrecorded property tax collections	The County Collector did not record property tax collections totaling \$217,936, in the property tax records. These monies were also not subsequently disbursed in accordance with state law and the various political subdivisions did not receive their share of these tax collections. In addition, because these property tax collections were not recorded in the property tax records, some taxpayers did not receive credit for their tax payments.
Recommendation	The County Collector ensure all property tax collections are promptly and accurately recorded in the property tax records and disbursed in accordance with state law. In addition, the property tax accounts relating to the taxpayers with the unrecorded collections should be reviewed to ensure taxpayer balances are accurate.
Status	Implemented
	The County Collector has now recorded the property tax collections not recorded by the former County Collector, and used surety bond proceeds to disburse these collections to the appropriate political subdivisions. The County Collector also made corrections to the property tax accounts of affected taxpayers as needed to ensure accurate balances. In addition, we reviewed the tax distribution of all railroad and utility tax collections for the 2018 tax year and noted no problems. The County Collector indicated all property tax collections are now promptly and accurately recorded in the property tax records and disbursed in accordance with state law.



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Follow-up Report on Audit Findings
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4.3 Unsupported transfers

The County Collector made unsupported transfers totaling \$76,778 from the general account to the County Collector's installment payment plan bank account between January 2018 and March 2018. These transfers were electronically processed from the general account to the installment account, and no independent review or approval was required for these transfers. The County Collector's office had not established procedures for electronic transfers and office personnel could not provide an explanation as to why these transfers were made.

Recommendation

The County Collector establish review and approval procedures to ensure transfers are necessary and adequately documented.

Status

In Progress

The County Collector completes all transfers and provides supporting documentation to the County Auditor. The County Collector plans to train office personnel to prepare transfers now that the new property tax system has been implemented. The County Collector indicated she will review and approve all transfers made by office personnel. We reviewed the March and April 2019 electronic disbursement transfers and a transfer by check from the installment account to the general account for disbursement of taxes and found no problems. The records indicated the County Collector completed all of the transfers reviewed and provided the documentation to the County Auditor. In addition, the County Auditor now compares online bank activity to County Collector's office documentation to ensure all transfers are necessary and adequately documented.

4.4 Receipting and cash controls

Receipt slips were not issued for railroad and utility property tax collections; and bankruptcy, installment, or partial payments. Payments received were often not deposited intact and the County Collector's office frequently cashed personal checks for county employees and other individuals. The method of payment was not always accurately recorded in the property tax system and the composition of receipts recorded in the property tax system was not reconciled to the composition of deposits. The change fund was not maintained at a constant amount and no records were maintained to support the use of the long/short fund. Employees shared multiple cash drawers during the busy tax season and one cash drawer the rest of the year.

Recommendation

The County Collector ensure all monies collected are properly receipted, record the method of payment accurately, and reconcile the composition of receipts to the composition of deposits. In addition, the County Collector should discontinue the practice of cashing personal checks, and improve cash handling procedures by maintaining the change fund at a constant amount, documenting the activity of the long/short fund, and limiting access to the cash drawers.



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Status

Partially Implemented

The County Collector discontinued the practice of cashing personal checks and each employee now has a separate assigned cash drawer that is balanced daily. However, office personnel are not always accurately recording the method of payment and do not reconcile the composition of receipts to the composition of deposits. We reviewed the composition of receipts and deposits for 5 days in April 2019 and found composition differences had not been reviewed or documented. For example, in one instance a check totaling \$8,250 was recorded as cash in the property tax system, and in another instance, \$190 paid with a combination of cash and check was recorded only as a check payment. In addition, while the change fund balance was set at \$850, the fund was not maintained at this amount. The County Collector used \$56 from the change fund to replace a cash shortage in a cash drawer that could not be identified; however, the balance of the change fund was not replenished. Also, while the activity of the long/short fund is now documented, some collections of copy monies and duplicate receipt fees were added to the long/short fund, rather than being deposited with other receipts. The County Collector indicated she plans to ensure the composition of receipts is reconciled to the composition of deposits in the future and any differences will be reviewed and documented.

4.5 Bank reconciliations

Bank reconciliations prepared by the County Collector for the general account were not always complete and accurate, and bank reconciliations for the installment account were not always complete, accurate or timely prepared. The book balance maintained for the general account combined the balance of the general account, the balance of a bank account used to record tax collections for a local city, and all protested tax certificates of deposit. Because the actual book balance of the general account was not tracked separately, this balance was not readily available and it was difficult to determine whether the available cash balance was sufficient to cover liabilities.

Recommendation

The County Collector prepare accurate and timely bank reconciliations and maintain an appropriate book balance for each bank account. Any differences should be investigated and promptly resolved.

Status

Implemented

The County Collector now prepares complete and accurate monthly bank reconciliations. We reviewed the April 30, 2019, bank reconciliations for the general and installment accounts and noted no significant differences. The general account book balance has been separated from the local city account book balance and the protested tax certificates of deposit, and the balances of the general account and the local city account are now reconciled independently.



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4.6 Liabilities

The lists of liabilities prepared by the County Collector for the general and installment accounts were not complete and accurate. In addition, the lists included unsupported reconciling items.

Recommendation

The County Collector prepare accurate lists of liabilities monthly and agree the reconciled bank balances to the liabilities lists. Any differences should be investigated and promptly resolved.

Status

In Progress

The County Collector prepares monthly lists of liabilities and has identified and resolved some old, unsupported reconciling items from the general account list of liabilities. At April 30, 2019, the available cash balance exceeded liabilities by approximately \$33,600 for the general account and liabilities exceeded the available cash balance by approximately \$16,000 for the installment account. The County Collector indicated she had not transferred restitution money from the general account to the installment account to replace the shortage created by the former County Collector. This transfer will primarily resolve the difference in the installment account. The County Collector is also continuing the process of investigating and identifying the remaining differences between the lists of liabilities and the cash balances for the general account.

4.7 Numerical sequence of checks

The County Collector did not issue checks in numerical sequence for the installment account.

Recommendation

The County Collector issue checks in numerical sequence and account for the numerical sequence of checks issued.

Status

Implemented

The County Collector has limited access to blank checks for the general and installment accounts to ensure checks are issued in numerical sequence. In addition, all checks issued by the County Collector's office are now also signed by the County Auditor, and the County Auditor is tracking the numerical sequence of checks issued for each account.