



Susan Montee, JD, CPA
Missouri State Auditor

Daviess County



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Office of the
Missouri State Auditor
Susan Montee, JD, CPA

February 2010

The following findings were included in our audit report on Daviess County.

Unauthorized disbursements totaling \$24,700 were made by the former Treasurer of the Developmentally Disabled Board to herself, and were not detected timely due to poor oversight by the Board and a lack of controls over the disbursement process. The fraudulent transactions occurred between 2005 and 2008. Charges were filed and the former Treasurer pled guilty to felony stealing and forgery in the Daviess County Circuit Court in November 2008, and was sentenced to probation and 90 days in prison, and ordered to pay restitution totaling \$24,700. Monthly financial reports were either not prepared or were not presented to the Board for review at Board meetings consistently, and bank reconciliations were not performed. No record of the cash balance available was maintained and bank statements were not reviewed by the Board. The Board did not always ensure bids were solicited or retain bid documentation for purchases. In addition, adequate documentation is not retained to support some disbursements.

Physical inventories of capital assets owned by the county are not performed annually. The county does not have formal procedures for disposing of county owned property. In addition, the road and bridge department and the Sheriff's office do not maintain any records of vehicle or equipment usage/mileage or fuel and maintenance costs. Individual fuel tickets are not submitted to the County Clerk's office for comparison to the vendor billings before payments.

The Prosecuting Attorney does not adequately perform bank reconciliations, no book balance is maintained, and a liabilities list is not prepared and reconciled to the available cash balance in the checking account. In addition, monies received are not always deposited timely, and the composition of receipts slips issued is not compared to the composition of bank deposits.

Accounting duties are not adequately segregated in the Sheriff's office, and adequate controls over seized property have not been established.

The Central Dispatch Emergency Services Board approved incentive payments totaling \$700 and \$590 to employees during December 2008 and 2007, respectively. In addition, employee timesheets are not approved and signed by employee supervisors, and property tags are not affixed to some assets and all information applicable to an item is not included in the records.

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YELLOW SHEET

DAVIESS COUNTY

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STATE AUDITOR'S REPORT



SUSAN MONTEE, JD, CPA
Missouri State Auditor

To the County Commission
and
Officeholders of Daviess County

We have audited certain operations of Daviess County in fulfillment of our responsibilities under Section 29.230, RSMo. In addition, Kevin G. Hudson, Certified Public Accountant, has been engaged to audit the financial statements of Daviess County for the 2 years ended December 31, 2008. The scope of our audit included, but was not necessarily limited to, the 2 years ended December 31, 2008. 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. 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, 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. 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 Daviess County.



Susan Montee, JD, CPA
State Auditor

The following auditors participated in the preparation of this report:

Director of Audits:	Alice M. Fast, CPA, CIA, CGFM
Audit Manager:	Todd M. Schuler, CPA
In-Charge Auditor:	Julie A. Moulden, MBA, CPA
Audit Staff:	Karla Swift, MBA

MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

DAVIESS COUNTY
MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

1. Developmentally Disabled Board

Unauthorized disbursements totaling \$24,700 were made by the former Board Treasurer to herself and were not identified due to poor oversight by the Developmentally Disabled Board and a lack of internal controls. In addition, financial reports were not prepared consistently and presented to the Board, bank reconciliations were not performed, and documentation for bid selection or support for all disbursements was not maintained.

- A. The former Treasurer processed payments of \$24,700 directly to herself without Board approval, and due to a lack of controls over the disbursement process, these payments were not detected. Reviews of disbursements by the Board did not ensure disbursements were valid and properly approved. In April 2008, the Board was contacted by its bank and informed that the signatures of two of its members had been forged on some checks. The Board voted to remove former Treasurer Michelle Allen on April 15, 2008. The fraudulent transactions made by the former Treasurer occurred between 2005 and 2008. Although the Board's bank account requires two signatures, the former Treasurer falsified signatures on numerous checks made payable to herself. Charges were filed and she pled guilty to felony stealing and forgery in the Daviess County Circuit Court in November 2008, and was sentenced to probation and 90 days in prison, and ordered to pay restitution totaling \$24,700.

To adequately document the review and approval of all disbursements, the numerical sequence of disbursements prepared by the Treasurer should be accounted for properly and a complete and detailed list of all checks issued should be prepared, signed or initialed by the Board to denote its approval, and retained with the official Board meeting minutes. The lack of adequate controls and the absence of proper oversight by the Board, as further discussed in this finding, allowed these payments to go undetected.

- B. Monthly financial reports were either not prepared or were not presented to the Board for review at Board meetings consistently the last several years. The lack of financial reporting deprived the Board of key information, such as available budget or cash balances, which are necessary when making various decisions regarding funding of proposals for services.

A complete and accurate financial report is necessary to make informed decisions and provides a basis for monitoring financial activity.

- C. The former Treasurer did not prepare bank reconciliations and did not maintain a checkbook balance. No other record of the cash balance was maintained and presented to the Board, nor were bank statements reviewed by the Board.

The maintenance of a checkbook balance and preparation of monthly bank reconciliations are necessary to ensure accounting records agree with bank records and errors are discovered on a timely basis. To safeguard against possible loss or misuse of funds, internal controls should provide reasonable assurance that transactions are accounted for properly and assets are adequately safeguarded. There should be an independent review of bank reconciliations and monthly financial reports. Any unusual items or discrepancies should be investigated and resolved promptly.

- D. Some checks were not issued in numerical sequence. In addition, voided checks are not maintained. To properly account for all disbursements, checks should be issued in numerical sequence and recorded in order on the check register, and voided checks should be mutilated and retained.

- E. While a review of the Board minutes indicated the Board reviewed bids for some items, the Board did not always ensure bids were solicited or retain bid documentation for purchases. In addition, the Board does not retain adequate documentation for disbursements. Board procedure is to provide funding to those in need upon application and proof that services were rendered, no other funding source was available, and bids were solicited if applicable. The following purchases were identified where proof of bid solicitation was not submitted and supporting documentation, such as an invoice, was not located:

<u>Item or Service</u>	<u>Cost</u>
Central air unit	\$6,380
Braille keyboard	4,890

Section 50.660, RSMo, provides guidance on bidding requirements and procedures. Routine use of a competitive procurement process (advertisement for bids, phone solicitations, written requests for proposals, etc.) for major purchases ensures the Board has made every effort to receive the best and lowest price and all interested parties are given an equal opportunity to participate in Board business. Documentation of the various proposals received, and the Board's selection process and criteria (including sole source procurement) should be retained to demonstrate compliance with the law and support decisions. In addition, to ensure purchases are proper disbursements of Developmentally Disabled Board funds, all disbursements should be supported by paid receipts or vendor-provided invoices.

A similar condition was noted in our prior report.

WE RECOMMEND the Developmentally Disabled Board:

- A. Verify the numerical sequence of disbursements, perform physical reviews of the checks written, and sign off on a complete and detailed list of bills approved that is retained with the official minutes.
- B. Ensure monthly financial reports are prepared and reviewed.
- C. Maintain a checkbook balance for the bank account and prepare and document monthly bank reconciliations. In addition, the Board should establish a documented periodic review of bank statements and monthly financial reports by an independent person.
- D. Issue checks in numerical order and retain all voided checks.
- E. Perform a competitive procurement process for all major purchases, maintain documentation of decisions made, and ensure adequate documentation is obtained to support all disbursements.

AUDITEE'S RESPONSE

The Developmentally Disabled Board provided the following responses:

- A&B. We have developed procedures for monthly financial reports to be prepared, including detailed disbursement information which is reviewed and approved monthly by the Board.*
- C. We now ensure monthly bank reconciliations are performed and a board member reviews and verifies the reconciled balance agrees to the checkbook balance monthly.*
- D. We have implemented this recommendation.*
- E. We will maintain bid documentation for items over the statutory threshold and will document reasons bids are not taken in the future. We will also ensure documentation is maintained to support all disbursements in the future.*

2. County Property Records and Procedures
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Procedures and records to account for capital assets are not adequate, and records of vehicle and fuel use are not maintained.

- A. Physical inventories of county capital assets are not performed annually, procedures for disposing of capital assets need improvement, and the lists of assets currently available are not complete. Results of annual physical inventories are not submitted to the County Clerk by all offices. While the County Clerk

indicated lists of assets were distributed to each department head in 2008, no follow up was performed to ensure all lists were submitted. Physical inventories were only performed and submitted by two offices in 2008. The last inventories submitted by each official are as follows:

<u>Official</u>	<u>Inventory</u>
Sheriff	2008
Treasurer/Collector	2008
Associate Court	2007
Assessor	2007
Circuit Clerk	2005
Prosecuting Attorney	2005
Recorder	2005

The county does not maintain adequate documentation when disposing of county owned property. Currently, when an item is no longer needed or useful, the officeholder or department head will dispose of the property or place an item in storage without obtaining written approval from the County Commission. As a result, the County Commission and the County Clerk are not always aware of the disposal and may not remove the item from the capital asset records. In addition, neither the lists submitted by department heads nor the County Clerk's master capital asset list include all information applicable to the item. Information such as serial numbers, acquisition/disposition dates, and purchase price or value is not always recorded for each item.

Adequate capital asset records are necessary to secure better internal control over county property, meet statutory requirements, and provide a basis for determining proper insurance coverage required on county property. Annual physical inventories of county property are necessary to ensure the asset records are accurate, identify any unrecorded additions and deletions, detect theft of assets, and identify obsolete assets. Written authorization for the disposal of property is necessary to reduce the possibility of misuse and to provide adequate support for changes to the capital asset records. In addition, Section 49.093, RSMo, provides that the officer or the officer's designee of each county department is responsible for performing periodic inspections and inventories of county property used by that department and for submitting an inventory report to the County Clerk.

A similar condition was noted in our prior report.

- B. Records of vehicle usage/mileage and fuel and maintenance costs are not maintained for the road and bridge department vehicles and equipment or the Sheriff's department vehicles. In addition, individual fuel tickets are not submitted to the County Clerk's office for comparison to the vendor billing before payment.

The road and bridge department and the Sheriff do not maintain any records of vehicle or equipment usage/mileage or fuel and maintenance costs. Fuel purchases by the road and bridge department and Sheriff's department totaled approximately \$54,600 and \$49,700 in 2008 and 2007, respectively. Additionally, fuel for the road and bridge department and the Sheriff's department is purchased on a charge account at the local service station in Gallatin, but the individual fuel tickets, signed by employees making the purchases, are not submitted to the County Clerk's office and reviewed by the County Commission for reasonableness prior to payment.

Maintaining and reviewing vehicle and equipment logs and comparing log information to fuel and maintenance purchases, is necessary to prevent paying vendors for improper billing amounts and reduces the risk of theft or misuse of fuel or other maintenance items occurring without detection. Vehicle and equipment logs may include the date, driver or operator, purpose and destination of each trip, and the daily beginning and ending odometer or hour meter readings for vehicles and equipment, as well as fuel purchased and maintenance services performed. Requiring individual fuel tickets be submitted and compared to the items charged on the monthly vendor billing will help provide assurance that all fuel billed was actually charged and used by county employees.

WE RECOMMEND the County Commission:

- A. Ensure capital assets are accounted for in accordance with state law.
- B. Require vehicle and equipment usage logs be maintained and periodically reviewed. In addition, individual fuel tickets should be submitted to the County Clerk for comparison to the vendor billings and fuel logs.

AUDITEE'S RESPONSE

The County Commission provided the following responses:

- A. *We will discuss the need for updated capital asset lists with elected officials at budget time. During 2010, we will ensure the various audit recommendations related to capital assets are implemented.*
- B. *We will develop policies for tracking vehicle fuel usage and maintenance data, and ensure this data is periodically reviewed. By March 1, 2010, we will ensure fuel tickets are submitted and reviewed before the vendor is paid.*

3. Prosecuting Attorney Procedures

Our review of the Prosecuting Attorney's office identified numerous internal control and procedural weaknesses. A liabilities list is not prepared to account for the reconciled

balance in the account and adequate procedures to process receipts and account for receipt and disbursement activity of the office are not in place.

- A. Bank reconciliations are not adequately performed. While a reconciled bank balance is calculated monthly, it is not reconciled to a book balance because no book balance is maintained. In addition, a liabilities list is not prepared and reconciled to the available cash balance in the checking account. At December 31, 2008, the reconciled balance of the account was \$14,279. Some of these monies are a result of monies turned over by the previous Prosecuting Attorney that were not identified. The majority of the accounting records from the former Prosecuting Attorney's tenure are missing. Although monthly registers of activity are maintained, the Prosecuting Attorney was unable to prepare a current liabilities list from those registers.

To ensure all funds are accounted for properly, the Prosecuting Attorney should identify the cases associated with the monies still on hand from the prior Prosecuting Attorney and disburse the funds. Further, an attempt should be made to locate or obtain the prior Prosecuting Attorney's records. Preparing a liabilities list is necessary to ensure records are in balance and sufficient cash is available to pay all liabilities. To provide assurance that all transactions are properly recorded, a book balance should be maintained and reconciled to the bank balance each month.

- B. Monies received are not always deposited timely. Deposits are normally made only twice per month and average approximately \$1,000. To adequately account for collections and reduce the risk of loss or misuse of funds, deposits should be made on a timely basis.
- C. The composition of receipt slips issued is not reconciled to the composition of deposits. While the method of payment is indicated on all receipt slips, the deposit slips are not prepared in a manner to determine whether the items listed are cash or check. To ensure receipts are deposited intact, the composition of receipt slips issued should be reconciled to the composition of bank deposits.
- D. The Prosecuting Attorney does not account for the numerical sequence of checks issued. A monthly register of receipt slips and checks issued is prepared; however, some checks issued at the beginning and end of the month were not included on this register. To ensure all checks are accounted for properly and issued only for authorized disbursements, the numerical sequence of all checks should be accounted for properly and reviewed for reasonableness.

WE RECOMMEND the Prosecuting Attorney:

- A. Maintain a running book balance and reconcile it to the bank balance monthly. In addition, attempt to locate the missing accounting records and reconcile a list of liabilities to the bank balance periodically.

- B. Deposit all monies on a timely basis.
- C. Reconcile the composition of receipt slips issued to the composition of deposits.
- D. Account for the numerical sequence of checks issued.

AUDITEE'S RESPONSE:

The Prosecuting Attorney provided the following response:

- A. *This recommendation has been implemented. We are in the process of going through old records to identify the remaining payees for monies on hand when I took office. We have exhausted all efforts to locate any other missing records from the prior administration.*
- B&C. *These have been implemented.*
- D. *I make every effort to account for the numerical sequence of checks and believe they have been adequately accounted for in the past. If the auditors identified any check numbers missing from my ledgers this was simply an oversight. Currently, the numerical sequence of checks is accounted for adequately.*

4. Sheriff's Controls and Procedures

Accounting duties are not adequately segregated and procedures to account for seized property are not adequate.

- A. Accounting duties are not adequately segregated. The bookkeeper is responsible for receipting, recording, and depositing monies received; performing bank reconciliations; and preparing checks. Additionally, there is no indication an independent review of the accounting records is performed by the Sheriff or another employee independent of the accounting duties.

To safeguard against possible loss or misuse of funds, internal controls should provide reasonable assurance all transactions are accounted for properly and assets are adequately safeguarded. Internal controls could be improved by segregating accounting duties among available employees or by implementing an independent documented review of records by another employee or the Sheriff.

A similar condition was noted in our prior report.

- B. Adequate controls over seized property have not been established. Under current procedures, each deputy is responsible for bringing in seized items and posting them to the log. All officers have access to the vault and seized property room where items are stored, and there are no procedures in place to keep track of who

enters the room. Periodic physical inventories of the property on hand are not documented.

Considering the often sensitive nature of the seized property, adequate internal controls are essential and would significantly reduce the risk of theft or misuse of the stored items. In addition, periodic physical inventories should be performed and the results compared to the inventory records to ensure seized property is accounted for properly.

WE RECOMMEND the Sheriff:

- A. Adequately segregate accounting duties to the extent possible or ensure periodic supervisory reviews are performed and documented.
- B. Limit access to the seized property room, and perform periodic physical inventories and compare the results to inventory records.

AUDITEE'S RESPONSE

The Sheriff provided the following written responses:

- A. *As a newly elected Sheriff, steps have been implemented to review monthly accounting records by the Sheriff.*
- B. *Again, as the newly elected Sheriff, when I took office the property room was disarrayed. Steps were taken and the property room has been organized and inventoried. A property room sign-in sheet was implemented to track who and when the property room was entered.*

5. Central Dispatch for Emergency Services Board

The Central Dispatch for Emergency Services (CDES) Board approved incentive payments in both 2007 and 2008. Additionally, concerns were noted regarding timesheets and capital asset records.

- A. The CDES Board approved and paid continuing employment incentives totaling approximately \$700 and \$590 to employees during December 2008 and 2007, respectively. Each individual employed on the first of December each year received a payment equal to 8 hours of pay at his/her regular pay rate. While these incentive payments were approved by the Board, they are not part of formal pay plans.

To ensure the incentive plan is in compliance with state and federal laws and all employees are treated equitably, the provisions of the incentive plan should be clearly defined in a formal policy and reviewed by legal counsel.

- B. Employee timesheets are not approved and signed by employee supervisors. Timesheets should be signed by a supervisor to provide supporting documentation to the Board that payroll disbursements are valid and proper.
- C. While capital asset records are maintained, property tags are only affixed to some assets and the records do not include all information applicable to the item. Information such as serial numbers, acquisition/disposition dates, tag number, and purchase price or value is not always recorded for each item.

Adequate capital asset records are necessary to secure better internal control over CDES Board property and provide a basis for determining proper insurance coverage required on property. In addition, property control tags should be affixed to all capital assets to help improve accountability over these items.

Conditions similar to B and C were noted in our prior report.

WE RECOMMEND the Central Dispatch for Emergency Services Board:

- A. Establish formal pay plans for employees which document any incentives available to employees and how they will be earned and consult with legal counsel regarding the plan.
- B. Ensure all timesheets are approved by an appropriate supervisor.
- C. Establish adequate records to account for capital assets and affix property control tags to all capital asset items.

AUDITEE'S RESPONSE

The 911 Administrator provided the following written responses:

A. *I understand this issue, and will discuss with the Board the need to establish these incentives formally through a pay agreement, which will be kept in each employees personnel file.*

B&C. *I understand these issues and agree.*

ORGANIZATION AND
STATISTICAL INFORMATION

DAVIESS COUNTY
ORGANIZATION AND STATISTICAL INFORMATION

Daviess County is a township-organized, third-class county and is part of the Forty-Third Judicial Circuit. The county seat is Gallatin.

Daviess 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. The townships maintain county roads. Principal functions of these other officials relate to judicial courts, law enforcement, property assessment, property tax collections, conduct of elections, and maintenance of financial and other records important to the county's citizens.

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

Officeholder	2009	2008
County-Paid Officials:		
Lance Critten, Presiding Commissioner	\$	30,349
David Holcomb, Associate Commissioner		27,593
Danny Heldenbrand, Associate Commissioner		27,593
Georgia Maxwell, Recorder of Deeds		39,768
Linda Steward, County Clerk		42,544
Andrea Gibson, Prosecuting Attorney		50,590
Kevin Heldenbrand, Sheriff		46,438
David McWilliams, County Coroner		12,073
Vicki J. Corwin, Public Administrator		21,707
Reta Rains, County Collector-Treasurer, year ended March 31,	41,298	
Betty Harmison, County Assessor (1), year ended August 31,		43,080

(1) Includes \$688 annual compensation received from the state.

State-Paid Officials:

Sue Bird, Circuit Clerk	52,668
Daren Adkins, Associate Circuit Judge	107,641