



Thomas A. Schweich

Missouri State Auditor

Phelps County

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Missouri State Auditor

CITIZENS SUMMARY

Findings in the audit of the Phelps County

Unemployment Fund	The balance of the county Unemployment Fund is large enough to cover 5 years of expected unemployment claims. Keeping a large balance in this fund prevents these monies from being used for other purposes. In addition, because some of the monies in this fund come from restricted funds, the county should properly document the basis for administrative transfers from this fund to the General Revenue Fund.
Sheriff's Controls and Procedures	As noted in prior audits, the Sheriff's accounting controls and procedures need improvement. Jail commissary monies of approximately \$32,000 are missing, and the failure to segregate duties, reconcile liabilities to cash balances, timely transmit receipts to the County Treasurer, and conduct adequate supervisory reviews allowed the missing funds to go undetected.
Prosecuting Attorney's Controls and Procedures	The Prosecuting Attorney's accounting controls and procedures need improvement. Accounting duties are not adequately segregated, the bad check clerk makes adjusting entries to the accounting system without documented supervisory approval, and, as noted in prior audit reports, receiving and depositing procedures need improvement.
Additional Comments	Because counties are managed by several separately-elected individuals, an audit finding made with respect to one office does not necessarily apply to the operations in another office. The overall rating assigned to the county is intended to reflect the performance of the county as a whole. It does not indicate the performance of any one elected official or county office.

In the areas audited, the overall performance of this entity was **Good**.^{*} However, the audit revealed serious shortcomings within the Sherriff's Department.

^{*}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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American Recovery and
Reinvestment Act 2009
(Federal Stimulus)

Phelps County received the following Federal Stimulus monies:

A \$528,202 Homelessness Prevention and Rapid Re-housing Program grant, of which \$79,059 was spent in 2009, \$418,770 in 2010, and \$30,373 is expected to be spent in 2011.

A \$77,164 Recovery Act-Edward Byrne Memorial Justice Assistance Grant, of which \$66,107 was spent on crime control and prevention in 2010 and the remaining \$11,057 is expected to be spent in 2011.

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THOMAS A. SCHWEICH

Missouri State Auditor

To the County Commission
and
Officeholders of Phelps County

We have audited certain operations of Phelps County in fulfillment of our duties under Section 29.230, RSMo. In addition, Daniel Jones & Associates, P.C., Certified Public Accountants, was engaged to audit the financial statements of Phelps County for the 2 years ended December 31, 2010. The scope of our audit included, but was not necessarily limited to, the 2 years ended December 31, 2010. The objectives of our audit were to:

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

Our methodology included reviewing minutes of meetings, written policies and procedures, financial records, and other pertinent documents; interviewing various personnel of the county, 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 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.

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 Phelps County.



Thomas A. Schweich
State Auditor

The following auditors participated in the preparation of this report:

Director of Audits:	Alice M. Fast, CPA, CGFM, CIA
Audit Manager:	Mark Ruether, CPA
In-Charge Auditor:	Joyce Thomson
Audit Staff:	Terese Summers, MSAS, CPA Mariam Ahmedbani

Phelps County Management Advisory Report State Auditor's Findings

1. Unemployment Fund

The balance of the county Unemployment Fund has increased significantly over the past several years. In addition, the county makes annual administrative transfers from the Unemployment Fund to the General Revenue Fund but has not prepared any documentation to show that amounts transferred represent actual or estimated unemployment-related expenses incurred in the General Revenue Fund. Because the county transfers monies to the Unemployment Fund from various restricted-use funds, it is important that administrative transfers to the General Revenue Fund represent actual costs incurred.

As allowed by law, the county has elected to not pay quarterly unemployment contributions to the Missouri Department of Labor and Industrial Relations (DLIR) and instead is responsible for the payment of unemployment claims as they occur. Although there are no statutory or regulatory requirements to establish such a fund, the county has voluntarily elected to set monies aside in the Unemployment Fund to pay unemployment claims.

Annually, the county contacts the DLIR and obtains the rates which would be paid if the county was making quarterly unemployment contributions. The county computes the amounts which would be paid in quarterly unemployment contributions and transfers these amounts to the Unemployment Fund. The transfers are made from all county funds from which employees are paid, including the restricted-use Special Road and Bridge, Assessment, Health Department, and Law Enforcement Sales Tax Funds. The county uses this fund to reimburse the DLIR for any unemployment benefits paid to eligible former county employees.

Increasing fund balance

The balance of the Unemployment Fund has increased significantly over the past 4 years:

		<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Beginning balance, January 1	\$	222,193	190,624	150,282	101,430
Transfers in from various funds		69,930	87,288	69,499	69,362
Claims paid		(24,676)	(45,720)	(19,158)	(10,510)
Administrative transfers out		<u>(10,000)</u>	<u>(10,000)</u>	<u>(10,000)</u>	<u>(10,000)</u>
Ending balance, December 31	\$	<u>257,447</u>	<u>222,193</u>	<u>190,624</u>	<u>150,282</u>

While the county budgeted \$55,000 in unemployment claims for 2011, the county expects the balance of the fund to increase to \$270,000 at the end of 2011. However, unemployment claims averaged about \$25,000 annually from 2007 to 2010. Even if annual claims increase to \$55,000, the expected balance of the fund at the end of 2011 would be sufficient to pay expected claims expenses for up to 5 years.



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Management Advisory Report - State Auditor's Findings

Administrative transfers

Since 1997, the county has transferred monies from the Unemployment Fund to the General Revenue Fund to cover administrative costs incurred in the General Revenue Fund. The amount transferred annually has been \$10,000 since 2000 (as approved in the annual budgets); however, no calculation is performed to support the amount transferred. The County Clerk indicated a calculation was prepared many years ago, but the county has no documentation to support the \$10,000 annual transfer.

While it is commendable for the county to set aside monies for the payment of unemployment claims, maintaining large balances in the Unemployment Fund does not allow these funds to be used for other purposes. In addition, the county transfers funds restricted for various purposes, such as road and bridge, assessment, health department, and law enforcement, to the Unemployment Fund. To ensure these restricted funds are used properly, administrative transfers from the Unemployment Fund should approximate administrative costs incurred in the General Revenue Fund.

Recommendation

The County Commission and County Clerk review the Unemployment Fund balance and determine methods to reduce the balance in the fund. In addition, calculations of the costs associated with the administrative functions related to the handling of the Unemployment Fund should be prepared to support administrative transfers from the Unemployment Fund.

Auditee's Response

The County Commission provided the following written response:

The balance of the Unemployment Fund has increased in recent years due to nearly doubling employee payroll when the new jail opened. The County Commission will review this matter during the 2012 budget process and either cease contributions to the fund as necessary to reduce the balance, or return a portion of the funds proportionately to the contributing funds. The administrative transfers to the General Revenue Fund have been made for many years. During the 2012 budget process, the County Commission will review this practice and either tie the transfer directly to expenses, or assess a percentage, such as that allowed for road & bridge administration in the future.

2. Sheriff's Controls and Procedures

As similarly noted in prior audits, the Sheriff's accounting controls and procedures need improvement. Due to inadequate supervisory review, lack of segregation of duties, no reconciliation between liabilities and cash balances, and inadequate implementation of prior findings, missing jail commissary monies of approximately \$32,000 were not detected on a timely basis. The Sheriff's office discovered the missing monies in March 2011, and the employment of the Jail Administrative Assistant was terminated. The Missouri State Highway Patrol is conducting a criminal investigation of this matter.



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The Sheriff's department maintains three bank accounts and received fees, seized monies, and commissary proceeds totaling approximately \$370,000 and \$297,000 for the years ended December 31, 2010 and 2009, respectively.

2.1 Segregation of duties

Accounting duties are not adequately segregated, and adequate supervisory reviews of the accounting records are not performed. Prior to March 2011, the Jail Administrative Assistant was primarily responsible for receiving, recording, and depositing commissary monies, preparing and signing checks, and reconciling the commissary bank account.

The Sheriff's Administrative Assistant assumed responsibility for both the fee account and commissary account in March 2011, and performs most of the accounting duties with very little supervisory review of her work. There are quarterly independent reviews of the fee account bank reconciliations and receipts and deposits. There are periodic (not regular) independent reviews of commissary receipts and deposits, but no reviews of the commissary account bank reconciliations.

Proper segregation of duties helps ensure all transactions are accounted for properly and assets are safeguarded. Internal controls would be improved by segregating accounting duties among available employees or by implementing monthly documented independent or supervisory reviews of the accounting records.

2.2 Liabilities

Procedures do not exist to identify month-end liabilities and reconcile liabilities to cash balances for the commissary account. Sheriff's personnel indicated they were unaware the commissary computer system was capable of producing liabilities lists; however, upon our request, the Sheriff's office generated a liabilities list as of December 31, 2010. The total of this list was approximately \$48,625 and the cash balance was \$16,493. Therefore, liabilities exceeded the commissary account cash balance by approximately \$32,000, which was caused by the missing commissary monies described above. Had proper reconciliations of liabilities and cash balances been performed, the missing monies could have been prevented or detected more timely.

Identification and reconciliation of month-end liabilities is necessary to ensure the accounting records are in balance and sufficient funds are available for payment of all liabilities.

2.3 Outstanding checks

Procedures have not been established to investigate and resolve outstanding checks in a timely manner. At December 31, 2010, approximately \$2,100 in checks dating back to 2008 were outstanding in the fee account. Many of the checks were small; however, there was one larger check totaling \$2,024 issued in December 2008 which was still outstanding.



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Proper follow-up procedures are necessary to prevent the accumulation of old outstanding checks and ensure monies are appropriately disbursed to the payee or as otherwise provided by state law. Old outstanding checks should be voided and reissued to those payees who can be readily located, and amounts remaining unclaimed should be disposed of in accordance with state law.

2.4 Monthly transmittals

The Sheriff does not transmit commissary profits to the County Treasurer on a timely basis. In 2010, only one transmittal totaling \$14,885 for commissary profits was turned over to the County Treasurer. Section 50.370, RSMo, requires every county official who receives fees for official services to pay such monies monthly to the County Treasurer.

Recommendations

The Sheriff:

- 2.1 Segregate accounting duties to the extent possible, or at a minimum, ensure independent or supervisory reviews of the accounting records are performed and documented on a monthly or more frequent basis.
- 2.2 Prepare monthly lists of liabilities for the commissary account and reconcile the lists to the bank account balance.
- 2.3 Establish procedures to routinely follow up and reissue old outstanding checks and dispose of unclaimed monies in accordance with state law.
- 2.4 Transmit commissary profits monthly to the County Treasurer.

Auditee's Response

The Sheriff provided the following written response:

- 2.1 *Accounting duties are segregated to the fullest possible extent. Upon the auditor's suggestion, independent reviews of receipts, deposits, and bank reconciliations are now performed monthly instead of quarterly.*
- 2.2 *From this point forward, a monthly listing of liabilities for the commissary account will be prepared each month and reconciled to the bank balance.*
- 2.3 *Outstanding checks related to the fee account are now followed up on, voided, and reissued if necessary. Since March 2011, old outstanding checks on the commissary account have been voided, reissued, or added back to the account. There is an ongoing process of closing out old inmate accounts and turning the related funds over to the State Unclaimed Property Section.*



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2.4 *Commissary profits since March 2011 are being turned over as required and in a timely manner. Past amounts will be turned over upon receipt of funds deposited into the commissary account that cover the missing money.*

Although the issues brought to light by this audit primarily address the administration prior to me taking office, we believe we have adequately addressed the auditor's recommendations which illustrates this department's willingness to meet all guidelines related to adequate controls and procedures.

In a further effort to implement stricter internal controls, a kiosk has been installed in the jail lobby to allow visitors/family to deposit monies directly into the inmates' account thereby reducing the need for employees to handle money. This process will also include armored car service. Additionally, a booking kiosk will be installed and jail staff will deposit the inmates' money directly into the kiosk. All transactions will be recorded via video monitoring.

3. Prosecuting Attorney's Controls and Procedures

The Prosecuting Attorney's accounting controls and procedures need improvement. The Prosecuting Attorney's office deposited and disbursed approximately \$285,000 and \$314,000 in 2010 and 2009, respectively, in bad check fees and court-ordered restitution. In addition, the office reported over \$56,000 in 2010 of delinquent taxes collected for the Missouri Department of Revenue (DOR).

3.1 Segregation of duties

Accounting duties are not adequately segregated, and adequate supervisory reviews of accounting records are not performed and documented. The bad check clerk is primarily responsible for receiving, recording, and depositing monies; and preparing checks. Office personnel indicated some of the accounting records are reviewed by other individuals, but there are no documented supervisory reviews of the accounting records.

Proper segregation of duties helps ensure all transactions are accounted for properly and assets are safeguarded. Internal controls would be improved by segregating accounting duties among available employees or by implementing documented independent or supervisory reviews of the accounting records.

3.2 Receipts and deposits

As noted in prior audits, receipting and depositing procedures continue to need improvement.

- Receipts are not deposited timely and money orders and cashier checks are not restrictively endorsed immediately upon receipt. Deposits in 2010 were generally made every 2 weeks. While the current Prosecuting Attorney implemented weekly deposits in 2011,



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more frequent deposits appear necessary since monies are generally received daily and deposits average between \$2,500 and \$5,000.

- The numerical sequence of computer-generated receipt slips is not accounted for properly. Our review noted several receipt slip numbers were skipped and not issued, mainly due to adjusting entries in the computer system. A list of these adjustments is not prepared, making it difficult to ensure all receipt slip numbers are accounted for adequately.
- Receipts are not reconciled to deposits. Manual prenumbered receipt slips are prepared by the receptionist when payments are received at the reception window, and these monies are transmitted to the bad check clerk for deposit. The bad check clerk issues computer-generated receipt slips for mail receipts and prepares all bank deposits. There are no documented reconciliations between receipt slips and deposits, making it difficult to trace specific receipts to deposits.
- For delinquent taxes collected, receipt slips are not prepared and the monies are not turned over to the DOR on a timely basis. These monies are not deposited into the Prosecuting Attorney's bank account and are transmitted to the DOR approximately once a month.

The weaknesses in procedures noted above provide less assurance that receipts are adequately safeguarded and properly recorded and deposited.

3.3 Accounting adjustments

The bad check clerk makes adjusting entries to the computerized accounting system without documented supervisory approval. Our review noted adjustments to increase receipts were posted to the system. While the system has the capability to print all adjusting entries, there are no procedures to require supervisory approval of the adjustments. Lack of supervisory approval of adjusting entries increases the possibility of improper recording and handling of receipts.

Recommendations

The Prosecuting Attorney:

- 3.1 Segregate accounting duties to the extent possible, or at a minimum, ensure independent or supervisory reviews of the accounting records are performed and documented.
- 3.2 Restrictively endorse checks and money orders immediately upon receipt, deposit all monies intact and in a timely manner, account for the numerical sequence of receipt slips, and reconcile receipt slips issued to deposits. In addition, receipt slips should be issued



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for delinquent tax receipts and monies transmitted to the DOR on a timely basis.

- 3.3 Require supervisory review and approval for all accounting adjustments and retain adequate documentation to support adjustments.

Auditee's Response

The Prosecuting Attorney provided the following written response:

- 3.1 *As of January 1, 2011, I or the office manager have signed all checks issued, after verifying them against a printed spreadsheet from the computer system. We have now implemented the office manager verifying reconciliations of the account. Our receptionist has always prepared receipts for any payments being made in person, but we now also have receipts issued by the receptionist for all payments received, whether by mail or in person. Any adjustments made by the bad check clerk are also approved by the office manager and initialed accordingly.*
- 3.2 *As stated above, receipts have been issued by the receptionist for any payments made in person since January 1, 2011. We have now taken the additional step of having the receptionist issue receipts for all payments received. Those payments are immediately restrictively endorsed and given, along with the receipt, to the bad check clerk. Due to the size of our office staff, it is not practical to make deposits more than weekly, but we do endeavor to make additional deposits when a substantial payment is received. We are also now transmitting DOR payments twice a month. If the amount of those payments should increase, we will begin to submit them weekly.*
- 3.3 *Although adjustments and the corresponding documentation were reviewed by the office manager after I took office, those adjustments and attachments are now initialed as well. The documentation is retained indefinitely.*

Phelps County

Organization and Statistical Information

Phelps County is a county-organized, third-class county. The county seat is Rolla.

Phelps 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. The county employed 167 full-time employees and 33 part-time employees on December 31, 2010.

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	2011	2010
Randy Verkamp, Presiding Commissioner	\$	37,640
Charles (Bud) Dean, Associate Commissioner		35,640
Larry J. Stratman, Associate Commissioner		35,640
Robin Kordes, Recorder of Deeds		54,000
Carol Bennett, County Clerk		54,000
Courtney M. George, Prosecuting Attorney		96,000
Richard Lisenbe, Sheriff		62,400
Carol Green, County Treasurer		54,000
Larry Swinfard, County Coroner		19,200
Kathleen S. Oliver, Public Administrator		54,000
Davis R. Haas, County Collector (1), year ended February 28,	61,780	
Kevin D. Rasmussen, County Assessor, year ended August 31, (2)		60,400
Louis Gilbert, County Surveyor (3)		

- (1) Includes \$5,567 of commissions earned for collecting city property taxes.
- (2) Includes \$4,375 of annual compensation for E911 addressing services.
- (3) Compensation on a fee basis.



Phelps County
Organization and Statistical Information

American Recovery and
Reinvestment Act 2009
(Federal Stimulus)

According to county personnel, the county was awarded the following American Recovery and Reinvestment Act of 2009 funding during the 2 years ended December 31, 2010:

- A Homelessness Prevention and Rapid Re-housing Program grant was awarded by the U.S. Department of Housing and Urban Development to the Missouri Department of Social Services and \$528,202 was passed through to Phelps County. The county spent \$418,770 and \$79,059 in 2010 and 2009, respectively, on this program which provides homelessness prevention assistance to households that would otherwise become homeless and rapid re-housing assistance to persons who are homeless. The remaining \$30,373 is planned to be spent in 2011.
- A Recovery Act - Edward Byrne Memorial Justice Assistance Grant was awarded by the U.S. Department of Justice to the Missouri Department of Public Safety and \$77,164 was passed through to Phelps County. The county spent \$66,107 during 2010 on crime control and prevention and to improve the criminal justice system. The remaining \$11,057 is planned to be spent in 2011.