



Susan Montee, CPA

Missouri State Auditor

December 2007

Butler County, Missouri

Years Ended

December 31, 2006 and 2005



Office of
Missouri State Auditor
Susan Montee, CPA

December 2007

IMPORTANT: The Missouri State Auditor is required by state law to conduct audits once every four years in counties, such as Butler, that do not have a county auditor. In addition to a financial audit of county funds, the State Auditor's statutory audit covers additional areas of county operations, as well as the elected county officials, as required by the Missouri Constitution.

The county has not established cash management procedures to ensure minimal time elapses between its receipt of federal project monies and the distribution of such monies to contractors. The county did not have procedures to ensure that vendors complied with federal grant guidelines. In addition, the county does not have adequate procedures in place to track federal awards for the preparation of the Schedule of Expenditures of Federal Awards.

The County Commission's budget preparation procedures do not ensure that the budget documents reasonably reflect anticipated financial activity and cash balances. The ending cash balance was significantly underestimated for some county funds and actual disbursements exceeded budgeted amounts for many funds.

Supporting documentation related to some expenditures was insufficient to ensure that amounts paid or allocated to various funds had a reasonable basis. Examples included transfers from the 911 Fund to the Law Enforcement Complex Fund and allocations of insurance premiums. The County Commission has not performed a cost/benefit analysis to determine if mileage reimbursements for personal vehicles are the most cost effective method of providing for employees' travel. Monitoring of county fuel purchases is not adequate to ensure fuel is properly used only in county vehicles.

The County Commission did not adequately document the process of selecting a site for the new juvenile justice center, efforts to determine that the lease/purchase price entered into and the cost of renovating the structure chosen were reasonable, or maintain adequate support for expenditures made to prepare the site for the county's use.

Payroll expenditures are not always properly supported by time sheets prepared and signed by employees, or reviewed and approved by supervisors. In addition, some county policies for sick and vacation leave, compensatory time, and commuting in county vehicles are not adequate or may need clarification. The County Clerk's office does not maintain centralized records of leave or compensatory balances. Recordkeeping procedures varied among the other county offices. Some of the records maintained were not adequate and some leave accruals and balances were not always properly supported by time sheets or leave records.

(over)

YELLOW SHEET

The Board for the Care of the Handicapped is not adequately monitoring the use of monies provided to the various not-for-profit agencies. The annual funding agreements do not establish minimum levels of service necessary to earn the monies budgeted and the Board does not obtain periodic reports or other information from the agencies that would allow the Board to monitor that agency goals are being met. In addition, actual disbursements exceeded budgeted amounts for 2005 and Board minutes are not consistently signed by the preparer, the Board President, or a designated member to attest to their completeness and accuracy.

Also included in the audit are recommendations related to collateral securities and county property records. The audit also suggests improvements in the procedures of the County Collector, Prosecuting Attorney, Public Administrator, Sheriff and Senior Citizen's Board.

All reports are available on our Web site: www.auditor.mo.gov

BUTLER COUNTY, MISSOURI

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FINANCIAL SECTION

State Auditor's Reports



SUSAN MONTEE, CPA
Missouri State Auditor

INDEPENDENT AUDITOR'S REPORT ON THE BASIC FINANCIAL
STATEMENTS, REQUIRED SUPPLEMENTARY INFORMATION, AND
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

To the County Commission
and
Officeholders of Butler County, Missouri

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Butler County, Missouri, as of and for the years ended December 31, 2006 and 2005, which collectively comprise the county's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the county's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed more fully in Note 1, the county prepares its financial statements on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position—cash basis of the governmental activities, each major fund, and the aggregate remaining fund information of Butler County, Missouri, as of December 31, 2006 and 2005, and the respective changes in financial position—cash basis thereof for the years then ended in conformity with the basis of accounting discussed in Note 1.

As discussed more fully in Note 1, the county implemented applicable provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures*, and Statement No. 46, *Net Assets Restricted by Enabling Legislation*, for the years ended December 31, 2006 and 2005.

In accordance with *Government Auditing Standards*, we also have issued our report dated September 27, 2007, on our consideration of the county's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, Schedule of Funding Progress for Missouri Local Government Employees Retirement System, and budgetary comparison information as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the GASB to accompany those financial statements. We have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the county's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying History, Organization, and Statistical Information is presented for informational purposes. This information was obtained from the management of Butler County, Missouri, and was not subjected to the auditing procedures applied in the audit of the basic financial statements. Accordingly, we express no opinion on the information.



Susan Montee, CPA
State Auditor

September 27, 2007

The following auditors participated in the preparation of this report:

Director of Audits:	Thomas J. Kremer, CPA
Audit Manager:	Douglas J. Porting, CPA
In-Charge Auditor:	Gayle A. Garrison
Audit Staff:	Ryan M. King
	Jeanette M. Samson
	Toni N. Wade



SUSAN MONTEE, CPA
Missouri State Auditor

INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the County Commission
and
Officeholders of Butler County, Missouri

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Butler County, Missouri, as of and for the years ended December 31, 2006 and 2005, which collectively comprise the county's basic financial statements, and have issued our report thereon dated September 27, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of Butler County, Missouri, we considered the county's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of providing an opinion on the effectiveness of the county's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the county's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the county's ability to initiate, authorize, record, process, or report financial data reliably in accordance with applicable accounting principles such that there is more than a remote likelihood that a misstatement of the county's financial statements that is more than inconsequential will not be prevented or detected by the county's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the county's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of Butler County, Missouri, are free of material misstatement, we performed tests of the county's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted certain matters which are described in the accompanying Management Advisory Report.

This report is intended for the information and use of the management of Butler County, Missouri; federal awarding agencies and pass-through entities; and other applicable government officials. However, pursuant to Section 29.270, RSMo, this report is a matter of public record and its distribution is not limited.



Susan Montee, CPA
State Auditor

September 27, 2007

Management's Discussion and Analysis

BUTLER COUNTY, MISSOURI
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED DECEMBER 31, 2006 AND 2005

This discussion and analysis of Butler County's financial performance provides an overview of the county's financial activity for the years ended December 31, 2006 and 2005. The information below, prepared by the county's management, should be read in conjunction with the financial statements that immediately follow.

OVERVIEW OF THE FINANCIAL STATEMENTS

The contents of this report comply with the presentation requirements of Statement No. 34 of the Governmental Accounting Standards Board, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, as applicable to the cash basis of accounting. The county's basic financial statements consist of government-wide financial statements, fund financial statements, and notes to the financial statements. The notes are an integral part of the government-wide and fund financial statements and provide more detail about the information presented in the statements. This report also contains other financial information in addition to the basic financial statements.

The county has elected to present its financial statements on the cash basis of accounting, a basis of accounting other than accounting principles generally accepted in the United States of America. "Basis of accounting" refers to when financial events are recorded. Under the cash basis of accounting, revenues are recorded when received rather than when earned, and expenditures are recorded when paid rather than when the related liabilities are incurred. Therefore, when reviewing the financial information and discussion in this report, the reader should recall the limitations resulting from use of the cash basis of accounting.

Government-Wide Financial Statements

The Government-Wide Statement of Net Assets and the Government-Wide Statement of Activities report information about the county as a whole. These statements present the county's net assets and show how they have changed. Over time, increases or decreases in the county's net assets are one indicator of whether its financial health or position is improving or deteriorating. However, to assess the county's overall financial health, the reader needs to consider additional nonfinancial factors. The government-wide financial statements report only governmental activities—activities such as general government operations, public safety, and health and welfare that are usually financed through taxes and intergovernmental receipts. The county has no business-type activities—activities financed wholly or partially by fees charged to external parties for goods or services.

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds—not the county as a whole. Some funds are required to be established by state law or by bond covenants. However, the County Commission establishes other funds to help it control and

manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, or other sources of receipts. The fund financial statements include only governmental funds, which focus on the flow of money into and out of those funds and the balances left at year-end that are available for spending. The governmental fund statements provide a detailed view of the county's general government operations and the basic services it provides. Governmental fund information helps the reader determine whether more or fewer financial resources can be spent in the near future to finance the county's programs.

The County as Trustee

The county is the trustee, or fiduciary, for its trust and agency funds that are used to account for assets held by the county's elected officials in a trustee capacity or as an agent for individuals, private organizations, other governments, or other funds. The county's fiduciary assets are reported in a separate Statement of Fiduciary Net Assets. Fiduciary funds are excluded from the county's other financial statements because the county cannot use these assets to finance its operations. The county is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Other Information

The report also includes as required supplementary information this Management's Discussion and Analysis, the Schedule of Funding Progress for Missouri Local Government Employees Retirement System, and the Budgetary Comparison Schedule - General Fund and Major Special Revenue Funds - Cash Basis. Such information is intended to supplement the government-wide financial statements, fund financial statements, and notes to the financial statements but is not a part of those statements.

In addition, the report includes the following components that are not a required part of the financial statements: the Schedule of Expenditures of Federal Awards, required for audits of federal program expenditures conducted in accordance with Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the History, Organization, and Statistical Information.

FINANCIAL HIGHLIGHTS

At December 31, 2005 the County's Governmental Net Assets were \$4,443,884 and had increased to \$4,458,670 by December 31, 2006. In both years, receipts were more than disbursements. Significant activities unique to the two years ended December 31, 2006 and 2005 which will not recur in future years include the receipt and expenditure of election improvement grant funds and the expenditure of general revenue funds for the acquisition of a new facility for juvenile detention and supervision and for emergency sirens.

The Emergency Fund Budget was not used because there were no significant emergencies or disasters that required county funds.

THE COUNTY AS A WHOLE

The county as a whole has done well for the two years reflected in this report. Net Assets increased in both years.

The following chart gives a brief overview of the last three years.

	Year Ended December 31,		
	2006	2005	2004
Net Assets	\$ 4,458,670	4,443,884	3,932,812
Program Receipts	4,603,774	4,124,561	3,804,309
General Receipts	7,645,622	7,463,411	8,469,459
Disbursements	12,234,610	11,052,951	11,423,847
Change in Net Assets	14,786	535,021	849,921

THE COUNTY'S FUNDS

Expenses increased in General Fund from 2005 to 2006 in part because of election equipment and warning siren purchases, election costs, insurance premium increases, and retirement benefit increases. The increased insurance premiums and benefit increases also affected the Special Road and Bridge, Law Enforcement Complex, and Assessment funds.

There were no significant increases or decreases in expenses or revenues for the other non-major funds.

General Fund Budgetary Highlights

Butler County does not routinely amend the annual budget. For the two years reflected in this report, there were no significant budget overruns that need to be mentioned other than Road and Bridge failed to budget for the longevity pay for their employees.

CAPITAL ASSET AND DEBT ADMINISTRATION

The Jail and Justice Center was financed in 1999 with Leasehold Refunding Revenue Bonds for the amount of \$6,095,000. The bonds carry interest rates from 3.25 to 4.40 percent. The bonds are payable annually through the year 2013. In 2006 and 2005, the principal and interest payments were \$400,000 and \$157,525, and \$375,000 and \$172,150, respectively.

The Eastern and Western Capital Improvement funds currently finance new graders with annual leases. The number of graders being financed from year to year vary, but the number is not more than three being financed at the same time. These leases are paid through the sales tax receipts and expensed as new equipment.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

While population is expected to grow considerably in the next twenty years, it is not expected to increase dramatically in the next two or three years. Sales tax revenues reflect this slow but steady increase. The county will notice some increase in sales tax and property tax revenues but will be conservative in budgeting for it.

Future budgets for Butler County will reflect this conservatism while attempting to continue giving their employees increased wages and benefits.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

Questions about this report or requests for additional information should be addressed to:

Tonyi Deffendall
County Clerk
Butler County Courthouse
Room 202
Poplar Bluff, MO 63901

Basic Financial Statements

Government-Wide Financial Statements

Exhibit A-1

BUTLER COUNTY, MISSOURI
GOVERNMENT-WIDE STATEMENT OF NET ASSETS - CASH BASIS
DECEMBER 31, 2006

	<u>Governmental Activities</u>
ASSETS	
Cash (and investments)	\$ <u>4,458,670</u>
Total Assets	<u>4,458,670</u>
NET ASSETS	
Restricted	2,812,037
Unrestricted	<u>1,646,633</u>
Total Net Assets	<u>\$ <u>4,458,670</u></u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

Exhibit A-2

BUTLER COUNTY, MISSOURI
GOVERNMENT-WIDE STATEMENT OF NET ASSETS - CASH BASIS
DECEMBER 31, 2005

	<u>Governmental Activities</u>
ASSETS	
Cash (and investments)	\$ <u>4,443,884</u>
Total Assets	<u>4,443,884</u>
NET ASSETS	
Restricted	2,963,477
Unrestricted	<u>1,480,407</u>
Total Net Assets	<u>\$ <u>4,443,884</u></u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

Exhibit B-1

BUTLER COUNTY, MISSOURI
 GOVERNMENT-WIDE STATEMENT OF ACTIVITIES - CASH BASIS
 YEAR ENDED DECEMBER 31, 2006

		Program Receipts		Net (Disbursements) Receipts and Changes in Cash Balances
	Disbursements	Charges for Services	Intergovernmental	Primary Government Governmental Activities
GOVERNMENTAL ACTIVITIES				
General county government	\$ 2,723,922	964,636	640,605	(1,118,681)
Roads and bridges	4,779,547	0	1,595,449	(3,184,098)
Public safety	3,564,570	749,946	649,659	(2,164,965)
Health and welfare	624,490	0	3,479	(621,011)
Debt service	542,081	0	0	(542,081)
Total Governmental Activities	12,234,610	1,714,582	2,889,192	(7,630,836)
Total Primary Government	\$ 12,234,610	1,714,582	2,889,192	(7,630,836)
GENERAL RECEIPTS				
Taxes				
Property taxes				1,220,572
Sales taxes				5,531,059
911 Telephone Tax				152,489
Interest				237,833
Other				503,669
Total General Receipts				7,645,622
Change in Cash Balances				14,786
NET ASSETS, JANUARY 1				4,443,884
NET ASSETS, DECEMBER 31				\$ 4,458,670

The accompanying Notes to the Financial Statements are an integral part of this statement.

Exhibit B-2

BUTLER COUNTY, MISSOURI
 GOVERNMENT-WIDE STATEMENT OF ACTIVITIES - CASH BASIS
 YEAR ENDED DECEMBER 31, 2005

		Program Receipts		Net (Disbursements) Receipts and Changes in Cash Balances
	Disbursements	Charges for Services	Intergovernmental	Primary Government Governmental Activities
GOVERNMENTAL ACTIVITIES				
General county government	\$ 2,462,089	871,404	620,107	(970,578)
Roads and bridges	4,079,869	0	1,492,971	(2,586,898)
Public safety	3,400,977	579,441	557,925	(2,263,611)
Health and welfare	571,460	0	2,713	(568,747)
Debt service	538,556	0	0	(538,556)
Total Governmental Activities	11,052,951	1,450,845	2,673,716	(6,928,390)
Total Primary Government	\$ 11,052,951	1,450,845	2,673,716	(6,928,390)
GENERAL RECEIPTS				
Taxes				
Property taxes				1,257,230
Sales taxes				5,456,849
911 Telephone Tax				161,551
Interest				127,341
Other				460,440
Total General Receipts				7,463,411
Change in Cash Balances				535,021
NET ASSETS, JANUARY 1				3,908,863
NET ASSETS, DECEMBER 31				\$ 4,443,884

The accompanying Notes to the Financial Statements are an integral part of this statement.

Fund Financial Statements

Exhibit C-1

BUTLER COUNTY, MISSOURI
 GOVERNMENTAL FUNDS BALANCE SHEET - CASH BASIS
 DECEMBER 31, 2006

	General Fund	Special Road and Bridge Fund	Law Enforcement Complex Fund	Eastern Capital Improvement Fund	Western Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
ASSETS							
Cash (and investments)	\$ 1,646,633	124,544	891,691	139,240	273,128	1,383,434	4,458,670
Total Assets	<u>\$ 1,646,633</u>	<u>124,544</u>	<u>891,691</u>	<u>139,240</u>	<u>273,128</u>	<u>1,383,434</u>	<u>4,458,670</u>
FUND BALANCES							
Unreserved	\$ 1,646,633	0	0	0	0	0	1,646,633
Unreserved special revenue funds	0	124,544	891,691	139,240	273,128	0	1,428,603
Unreserved reported in nonmajor funds	0	0	0	0	0	1,383,434	1,383,434
Total Fund Balances	<u>\$ 1,646,633</u>	<u>124,544</u>	<u>891,691</u>	<u>139,240</u>	<u>273,128</u>	<u>1,383,434</u>	<u>4,458,670</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

Exhibit C-2

BUTLER COUNTY, MISSOURI
 GOVERNMENTAL FUNDS BALANCE SHEET - CASH BASIS
 DECEMBER 31, 2005

	General Fund	Special Road and Bridge Fund	Law Enforcement Complex Fund	Eastern Capital Improvement Fund	Western Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
ASSETS							
Cash (and investments)	\$ 1,480,407	297,412	663,379	267,090	467,155	1,268,441	4,443,884
Total Assets	<u>\$ 1,480,407</u>	<u>297,412</u>	<u>663,379</u>	<u>267,090</u>	<u>467,155</u>	<u>1,268,441</u>	<u>4,443,884</u>
FUND BALANCES							
Unreserved	\$ 1,480,407	0	0	0	0	0	1,480,407
Unreserved special revenue funds	0	297,412	663,379	267,090	467,155	0	1,695,036
Unreserved reported in nonmajor funds	0	0	0	0	0	1,268,441	1,268,441
Total Fund Balances	<u>\$ 1,480,407</u>	<u>297,412</u>	<u>663,379</u>	<u>267,090</u>	<u>467,155</u>	<u>1,268,441</u>	<u>4,443,884</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

BUTLER COUNTY, MISSOURI
 GOVERNMENTAL FUNDS STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH BALANCES
 YEAR ENDED DECEMBER 31, 2006

	General Fund	Special Road and Bridge Fund	Law Enforcement Complex Fund	Eastern Capital Improvement Fund	Western Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
RECEIPTS							
Property taxes	\$ 458,566	153,469	0	0	0	608,537	1,220,572
Sales taxes	1,936,104	829,759	1,382,599	691,299	691,298	0	5,531,059
911 telephone tax	0	0	0	0	0	152,489	152,489
Intergovernmental	494,218	1,595,449	213,340	0	0	586,185	2,889,192
Charges for services	970,136	0	282,151	0	0	462,295	1,714,582
Interest	104,327	10,372	30,218	12,591	12,591	67,734	237,833
Other	127,162	7,458	43,714	116,258	164,258	44,819	503,669
Total Receipts	4,090,513	2,596,507	1,952,022	820,148	868,147	1,922,059	12,249,396
DISBURSEMENTS							
General county government	2,135,521	0	0	0	0	588,401	2,723,922
Roads and bridges	0	2,769,375	0	947,998	1,062,174	0	4,779,547
Public safety	1,086,366	0	1,981,629	0	0	496,575	3,564,570
Health and welfare	2,400	0	0	0	0	622,090	624,490
Debt service	0	0	542,081	0	0	0	542,081
Total Disbursements	3,224,287	2,769,375	2,523,710	947,998	1,062,174	1,707,066	12,234,610
EXCESS OF RECEIPTS OVER (UNDER) DISBURSEMENTS	866,226	(172,868)	(571,688)	(127,850)	(194,027)	214,993	14,786
OTHER FINANCING SOURCES (USES)							
Transfers in	0	0	800,000	0	0	0	800,000
Transfers out	(700,000)	0	0	0	0	(100,000)	(800,000)
Total Other Financing Sources (Uses)	(700,000)	0	800,000	0	0	(100,000)	0
NET CHANGE IN CASH BALANCES	166,226	(172,868)	228,312	(127,850)	(194,027)	114,993	14,786
CASH BALANCES, JANUARY 1	1,480,407	297,412	663,379	267,090	467,155	1,268,441	4,443,884
CASH BALANCES, DECEMBER 31	\$ 1,646,633	124,544	891,691	139,240	273,128	1,383,434	4,458,670

The accompanying Notes to the Financial Statements are an integral part of this statement.

BUTLER COUNTY, MISSOURI
 GOVERNMENTAL FUNDS STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH BALANCES
 YEAR ENDED DECEMBER 31, 2005

	General Fund	Special Road and Bridge Fund	Law Enforcement Complex Fund	Eastern Capital Improvement Fund	Western Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
RECEIPTS							
Property taxes	\$ 481,959	167,332	0	0	0	607,939	1,257,230
Sales taxes	1,910,211	818,662	1,363,988	681,994	681,994	0	5,456,849
911 telephone tax	0	0	0	0	0	161,551	161,551
Intergovernmental	440,408	1,492,971	260,316	0	0	480,021	2,673,716
Charges for services	934,888	0	197,875	0	0	318,082	1,450,845
Interest	48,043	9,338	14,041	9,245	9,245	37,429	127,341
Other	48,608	18,633	38,003	140,547	154,264	60,385	460,440
Total Receipts	3,864,117	2,506,936	1,874,223	831,786	845,503	1,665,407	11,587,972
DISBURSEMENTS							
General county government	2,035,783	0	0	0	0	426,306	2,462,089
Roads and bridges	0	2,546,403	0	774,866	758,600	0	4,079,869
Public safety	1,008,635	0	1,809,507	0	0	582,835	3,400,977
Health and welfare	800	0	0	0	0	570,660	571,460
Debt service	0	0	538,556	0	0	0	538,556
Total Disbursements	3,045,218	2,546,403	2,348,063	774,866	758,600	1,579,801	11,052,951
EXCESS OF RECEIPTS OVER (UNDER) DISBURSEMENTS	818,899	(39,467)	(473,840)	56,920	86,903	85,606	535,021
OTHER FINANCING SOURCES (USES)							
Transfers in	0	0	800,000	0	0	0	800,000
Transfers out	(700,000)	0	0	0	0	(100,000)	(800,000)
Total Other Financing Sources (Uses)	(700,000)	0	800,000	0	0	(100,000)	0
NET CHANGE IN CASH BALANCES	118,899	(39,467)	326,160	56,920	86,903	(14,394)	535,021
CASH BALANCES, JANUARY 1	1,361,508	336,879	337,219	210,170	380,252	1,282,835	3,908,863
CASH BALANCES, DECEMBER 31	\$ 1,480,407	297,412	663,379	267,090	467,155	1,268,441	4,443,884

The accompanying Notes to the Financial Statements are an integral part of this statement.

Exhibit E-1

BUTLER COUNTY, MISSOURI
STATEMENT OF FIDUCIARY NET ASSETS - CASH BASIS
DECEMBER 31, 2006

ASSETS

Cash (and investments)	\$	<u>4,335,549</u>
Total Assets		<u>4,335,549</u>

NET ASSETS

Restricted		4,335,549
Unrestricted		<u>0</u>
Total Net Assets	\$	<u><u>4,335,549</u></u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

Exhibit E-2

BUTLER COUNTY, MISSOURI
STATEMENT OF FIDUCIARY NET ASSETS - CASH BASIS
DECEMBER 31, 2005

ASSETS

Cash (and investments)	\$	<u>4,549,204</u>
Total Assets		<u>4,549,204</u>

NET ASSETS

Restricted		4,549,204
Unrestricted		<u>0</u>
Total Net Assets	\$	<u><u>4,549,204</u></u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

Notes to the Financial Statements

BUTLER COUNTY, MISSOURI
NOTES TO THE FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

As Note 1.C. discusses further, the accompanying financial statements of Butler County, Missouri, are presented in conformity with the cash basis of accounting, a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is responsible for establishing generally accepted accounting principles for state and local governments. The significant accounting policies related to those principles and used by the county are described below.

A. Reporting Entity

A financial reporting entity consists of (1) the primary government, (2) component units, and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the primary government's financial statements to be misleading or incomplete. The primary government of Butler County consists of all funds, departments, offices, or organizations that are not legally separate from the county.

Component units are legally separate organizations for which the county government is financially accountable. The county is financially accountable for an organization if the county appoints a voting majority of the organization's governing board and (1) is able to significantly influence the programs or services provided or performed by the organization or (2) is legally entitled to and or can otherwise access the organization's resources, is legally obligated for or has otherwise assumed the obligation to finance the organization's deficits or provide financial support to it, or is obligated in some manner for the organization's debt. Component units also may include organizations that are fiscally dependent on the county because their budgets, tax levies, or debt issuances are approved by the county.

Based on application of the above criteria, the county has no component units.

B. Basis of Presentation

1. Government-Wide Financial Statements

The government-wide financial statements display information about the county as a whole. These statements include the financial activities of the primary government, except for the activities of fiduciary funds. The primary government's financial activities are required to be classified as governmental or business-type. Governmental activities generally are financed through taxes, intergovernmental receipts, and other non-exchange transactions. Business-type activities are financed wholly or partially by fees

charged to external parties for goods or services. For the years ended December 31, 2006 and 2005, the county had only governmental activities.

The Government-Wide Statement of Net Assets presents the financial condition of the county's governmental activities at year-end. The Government-Wide Statement of Activities presents a comparison between direct disbursements and program receipts for each program or function of the county's governmental activities. Direct disbursements are specifically associated with and clearly identifiable to a particular function. The county does not allocate indirect costs to those functions. Program receipts include (a) charges paid by the recipients of goods or services offered by the programs and (b) intergovernmental receipts that are restricted to meeting the operational or capital requirements of a particular program. Receipts not classified as program receipts, including all taxes, are presented as general receipts. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing or draws from the general receipts of the county.

2. Fund Financial Statements

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The county uses funds to segregate transactions related to certain functions or activities in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the county primary government at this detailed level. The fund financial statements focus on major funds. Each major fund is presented in a separate column, and non-major funds are aggregated and presented in a single column. Major funds include (a) the county's primary operating fund, (b) any fund for which total cash, receipts, or disbursements of an individual fund are at least 10 percent of the corresponding element total for all funds of that type, and (c) any other fund that county officials believe is particularly important to financial statement users.

The accompanying financial statements are structured into two categories of funds—governmental and fiduciary. Governmental funds are those through which most governmental functions typically are financed. Reporting for such funds focuses on the sources, uses, and balances of current resources. The county's major governmental funds are as follows:

General Fund: The General Fund is the primary operating fund of the county, accounting for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds

Special Road and Bridge Fund: This fund accounts for property tax collections and other receipts that are legally restricted to disbursements for road and bridge purposes.

Eastern Capital Improvement and Western Capital Improvement Funds: These funds account for sales tax collections that are legally restricted to disbursements for major capital improvements.

Law Enforcement Complex Fund: This fund accounts for sales tax collections that are legally restricted to disbursements for law enforcement purposes.

The county's non-major governmental funds are also special revenue funds.

The financial statements of the Butler County Health Center Fund, a special revenue fund, are not included in the accompanying financial statements for its years ended December 31, 2006 and 2005. Such financial statements have been audited and separately reported on by other independent auditors.

Fiduciary funds account for assets held by the county as a trustee or an agent for individuals, private organizations, other governments, or other funds. Fiduciary fund reporting focuses on net assets and changes in net assets; fiduciary assets are reported in a separate Statement of Fiduciary Net Assets because the county cannot use those assets to finance its operations. The county's fiduciary funds consist of agency funds, which report assets held in a purely custodial capacity and do not involve measurement of results of operations.

The agency funds include the County Collector's fund which has a fiscal year ending February 28; therefore, financial information for its reporting periods is included in the accompanying Statement of Fiduciary Net Assets.

C. Basis of Accounting

Basis of accounting refers to when transactions are recorded in the financial records and reported in the financial statements. The government-wide and fund financial statements are prepared on the cash basis of accounting; accordingly, amounts are recognized when received or disbursed in cash. Consequently, certain assets and their related revenues (such as accounts receivable and revenues billed but not yet collected for goods and services provided) and certain liabilities and their related expenditures (such as accounts payable and expenditures for goods and services received but not yet paid for) are not recorded in these financial statements. Generally accepted accounting principles for state and local governments require revenues to be recognized when they are earned or when they become available and measurable and expenditures or expenses to be recognized when the related liabilities are incurred.

The accounting treatment for specific account balances and transaction types is as follows:

Equity classifications: On the Government-Wide Statement of Net Assets, equity is classified as net assets and displayed in two components: restricted and unrestricted. The county applies restricted resources first when a disbursement is made for which both restricted and unrestricted net assets are available. Net assets are reported as restricted when limitations on their use are imposed either (1) by law through constitutional provisions or enabling legislation or (2) externally through restrictions by creditors, grantors, contributors, or other governments' laws and regulations. All other net assets are reported as unrestricted. Enabling legislation authorizes the county to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated by the legislation. At December 31, 2006 and 2005, net assets restricted by enabling legislation were \$2,812,037 and \$2,963,477, respectively, for governmental activities.

In the fund financial statements, equity is classified as fund balance and also may be displayed in two components: reserved and unreserved. Fund balance is reported as reserved to indicate that a portion of the fund balance is not available for appropriation or is legally segregated for a specific future use. When such restrictions do not exist, fund balance is reported as unreserved.

Inventories and capital assets: Inventories include office furniture, office equipment, supplies, etc. Capital assets consist of land, buildings, furniture, equipment, vehicles, and infrastructure such as roads and bridges. Both inventories and capital assets are recorded as disbursements when they are purchased or constructed.

Compensated absences: Butler County accrues vacation time for employees at the rate of 1 week vacation the first year worked, 2 weeks vacation for years 2 through 6 worked, 3 weeks vacation for years 7 through 14 worked and 4 weeks vacation for all subsequent years worked. After 20 years, 1 additional day is accrued per year to a maximum of 5 weeks. Sick leave accrues at 12 days per year worked. Compensatory time is handled by each office holder for their own departments.

Union employees (road and building maintenance staff) can sell vacation at any time. Sick leave can be sold upon retirement at 40% up to a maximum of 640 hours.

Vacation and sick leave amounts are reported as disbursements when they are paid. Accrued liabilities related to compensated absences and any employer-related costs earned and unpaid are not reflected in the government-wide or fund financial statements. The county has not restricted any net assets or reserved any fund balance for these commitments.

Other post employment benefits: The County does not provide post employment benefits except as mandated by the Consolidated Omnibus Budget Reconciliation Act (COBRA). Under the COBRA the county provides health care benefits to eligible former employees and their dependents. The premiums are paid by the former employees. The county incurs no cost for these benefits.

Long-term debt: Consistent with the cash basis of accounting, long-term debt is not reported in the government-wide or fund financial statements. Proceeds from debt issuances are reported when received, and payments of principal and interest are reported when disbursements are made.

D. Accounting Changes

For the years ended December 31, 2006 and 2005, the county implemented applicable provisions of the following GASB Statements:

Statement No. 40, *Deposit and Investment Risk Disclosures*: This Statement amends Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*. Statement No. 40 revises Statement No. 3's requirements regarding disclosure of custodial credit risk and establishes new requirements for disclosures regarding credit risk, concentration of credit risk, interest rate risk, and foreign currency risk.

Statement No. 46, *Net Assets Restricted by Enabling Legislation*: This Statement, an amendment of Statement No. 34, clarifies the meaning of "legally enforceable" as applicable to restrictions imposed on net asset use by enabling legislation and specifies the accounting and financial reporting requirements for those restricted net assets.

2. Deposits and Investments

Disclosures are provided below to comply with GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. For the purposes of these disclosures, deposits with financial institutions are demand, time, and savings accounts, including certificates of deposit and negotiable order of withdrawal accounts, in banks, savings institutions, and credit unions. Investments are securities and other assets acquired primarily for the purpose of obtaining income or profit.

Deposits

In addition to depositing in demand accounts, political subdivisions such as counties have the authority under Section 67.085, RSMo, to place excess funds in certificates of deposit. To protect the safety of county deposits, Section 110.020, RSMo, requires depositaries to pledge collateral securities to secure deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities must be of the types specified by Section 30.270, RSMo, for the collateralization of state funds and held by either the county or a financial

institution other than the depository bank. Section 67.085, RSMo, also requires certificates of deposit to be insured by the FDIC for 100 percent of their principal and accrued interest. Custodial credit risk is the risk that, if a depository bank fails, Butler County will not be able to recover its deposits or recover collateral securities that are in an outside party's possession.

The County Treasurer's and County Collector's bank balances are jointly collateralized by the county's depository bank. As a result, for the purpose of these risk disclosures, the adequacy of collateral was analyzed for both offices as of December 31, 2006 and 2005, although the County Collector's fiscal year-ends were February 28, 2007 and 2006. The December 31, 2006 and 2005, balances of the governmental funds and fiduciary funds held by the County Treasurer are included in Exhibits A and E, respectively, along with balances of funds held by other county officials. The February 28, 2007 and 2006, balances of fiduciary funds held by the County Collector are included in Exhibit E along with the December 31, 2006 and 2005, balances of other county officials.

The County Treasurer's and County Collector's deposits at December 31, 2006 and 2005, were not exposed to custodial credit risk because they were entirely covered by federal depository insurance or by collateral securities held by the county's custodial bank in the county's name.

Investments

Section 110.270, RSMo, based on Article IV, Section 15, Missouri Constitution, authorizes counties to place their funds, either outright or by repurchase agreement, in U.S. Treasury and agency obligations. In addition, Section 30.950, RSMo, requires political subdivisions with authority to invest in instruments other than depository accounts at financial institutions to adopt a written investment policy. Among other things, the policy is to commit a political subdivision to the principles of safety, liquidity, and yield (in that order) when managing public funds and to prohibit purchase of derivatives (either directly or through repurchase agreements), use of leveraging (through either reverse repurchase agreements or other methods), and use of public funds for speculation. The county has adopted such a policy.

Custodial credit risk is the risk that, if the counterparty to an investment transaction fails, Butler County will not be able to recover the investment's value or collateral securities that are in an outside party's possession. The County Treasurer's and County Collector's investments in overnight repurchase agreements are jointly collateralized by the county's depository bank. As a result, for the purpose of these risk disclosures, the adequacy of collateral was analyzed for both offices as of December 31, 2006 and 2005, although the County Collector's fiscal year-ends were February 28, 2007 and 2006. All of the securities underlying the county's \$12,437,627 and \$11,928,602 of investments in overnight repurchase agreements at December 31, 2006, and 2005, respectively, were held by the counterparty's trust department or agent but not in the county's name. The county's investment policy requires all collateral to be pledged to Butler County Funds in care of the Butler County Treasurer.

3. Property Taxes

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on September 1 and payable by December 31. Taxes paid after December 31 are subject to penalties. The county bills and collects its own property taxes and also taxes for most other local governments (except some cities). Collections for other governments and remittances to those governments are accounted for in various County Treasurer's agency funds.

4. Defined Benefit Pension Plan

Plan Description

Butler County participates in the Missouri Local Government Employees Retirement System (LAGERS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for local governments in Missouri. The LAGERS is a defined benefit pension plan which provides retirement, disability, and death benefits to plan members and beneficiaries. Created and governed by Sections 70.600 through 70.755, RSMo, the system is responsible for administering the law in accordance with the expressed intent of the Missouri General Assembly. The plan is qualified under Internal Revenue Code Section 401(a) and is tax-exempt. The LAGERS issues a publicly available financial report that includes financial statements and required supplementary information. Copies of the report may be requested from:

Missouri Local Government Employees Retirement System
P.O. Box 1665
Jefferson City, MO 65102

Funding Policy

Butler County's full-time employees do not contribute to the pension plan. The county is required to contribute at an actuarially determined rate; the current rate is 14.4 percent (general) and 9.8 percent (law enforcement) and 13.5 percent (Special Road and Bridge) of annual covered payroll. The contribution requirements of plan members are determined by the County Commission. The contribution provisions of the county are established by statute.

Annual Pension Cost

For 2006 and 2005, the county's annual pension cost of \$444,920 and \$326,895, respectively, was equal to the county's required and actual contributions. The required contributions were determined, respectively, as part of the February 28, 2005, February 29, 2004, and/or February 28, 2003, actuarial valuations using the entry age actuarial cost method.

The actuarial assumptions at February 28, 2006, included (a) an investment rate of return of 7.5 percent per year, compounded annually; (b) projected salary increases of 4 percent per year, compounded annually, attributable to inflation; (c) additional projected salary increases ranging from 0 to 6 percent per year, depending on age and division, attributable to seniority

or merit; (d) pre-retirement mortality based on the RP-2000 Combined Healthy Table; and (e) post-retirement mortality based on the 1971 Group Annuity Mortality Table projected to 2000, set back 1 year for men and 7 years for women.

The actuarial assumptions at February 28, 2005, included (a) an investment rate of return of 7.5 percent per year, compounded annually; (b) projected salary increases of 4 percent per year, compounded annually, attributable to inflation; (c) additional projected salary increases ranging from 0 to 4.2 percent per year, depending on age, attributable to seniority or merit; (d) pre-retirement mortality based on the 1983 Group Annuity Mortality Table; and (e) post-retirement mortality based on the 1971 Group Annuity Mortality Table projected to 2000, set back 1 year for men and 7 years for women.

For both 2006 and 2005 the actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a 5-year period. The un-funded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The amortization period at February 28, 2006 and 2005, was 15 years.

3-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
06/30/2004	\$ 317,540	100 %	\$ 0
06/30/2005	326,895	100	0
06/30/2006	444,920	100	0

5. Defined Benefit Pension Plan

Plan Description

Butler County contributes to the County Employees' Retirement System (CERS), a mandatory cost-sharing multiple-employer public employee retirement system for Missouri counties, excluding first-class counties with a charter form of government and any city not within a county. The CERS, a defined benefit plan, provides retirement and death benefits to its members and is administered in accordance with Sections 50.1000 through 50.1300, RSMo. Responsibility for the operation and administration of the system is vested in the CERS Board of Directors. The CERS issues a publicly available financial report that includes financial statements and required supplementary information. Copies of the report may be requested from:

County Employees' Retirement System
2121 Schotthill Woods Drive
Jefferson City, MO 65101

Funding Policy

Contribution rates are set by statute. Before January 1, 2003, members, except for those who participated in the LAGERS, were required to contribute 2 percent of their gross

compensation. Effective January 1, 2003, all members hired on or after February 25, 2002, are subject to an additional 4 percent contribution, which can be paid by the county on behalf of its employees or by the employees. If an employee terminates employment before attaining 8 years of creditable service, the CERS refunds the accumulated contributions to the employee.

In addition, the CERS receives a portion of delinquent property tax penalties, penalties for late filing of personal property tax declarations, a portion of document recording fees, a portion of fees for merchants and manufacturers licenses, and any interest derived from the collection and investment of any part of the penalties and fees. The Office of Secretary of State also collects and remits fees for certain filing transactions to the system.

The county's contributions to the CERS for the years ended December 31, 2006, 2005, and 2004, were \$215,998, \$182,711, and \$175,620, respectively, equal to the required contributions for each year.

6. Defined Contribution and Deferred Compensation Plans

Plan Description

Butler County offers employees the opportunity to participate in the CERS defined contribution plan and Internal Revenue Code (IRC) Section 457 deferred compensation plan. The plans' provisions and contribution requirements are established and may be amended only by the Missouri General Assembly. Pension plan members are eligible to participate.

Contributions

Pension plan members who are not LAGERS members are required to contribute 0.7 percent of gross compensation to the defined contribution plan. Contributions of \$70 and \$197 were made during the years ended December 31, 2006 and 2005, respectively. Participation in the deferred compensation plan is voluntary, and the employee elects the contribution level, subject to the limitations of IRC Sections 401(a) and 457. The CERS Board of Directors decides if matching contributions from the pension plan trust funds for a calendar year will be made to the defined contribution plan accounts of those who participated in the deferred compensation plan. The amount of any matching contribution is determined by the Board and is limited to 50 percent of a non-LAGERS member's (25 percent of a LAGERS member's) voluntary contributions to the deferred compensation plan, up to 3 percent of the non-LAGERS member's (2.5 percent of the LAGERS member's) compensation. Matching contributions for the years ended December 31, 2006 and 2005, were \$11,267 and \$9,404, respectively.

Administration

Maintenance of individual member accounts and custody of assets have been contracted to a third-party administrator and investment custodian, respectively. The counties send member

contributions directly to the third-party administrator. Members have several options for investing their contributions and respective share of matching contributions.

7. Inter-fund Transfers

Inter-fund transfers, the flow of assets from one fund to another when repayment is not expected, are reported as transfers in and out. The county made the following inter-fund transfers:

	Year Ended December 31, 2005
	Transfers In:
	Law Enforcement Complex Fund
Transfers Out:	
General Fund	\$ 700,000
Non-major Governmental Funds	100,000

	Year Ended December 31, 2006
	Transfers In:
	Law Enforcement Complex Fund
Transfers Out:	
General Fund	\$ 700,000
Non-major Governmental Funds	100,000

Inter-fund transfers occurred primarily because they were statutorily required or allowed. The General Fund also contributed monies to certain other funds when fund receipts were insufficient for specific purposes.

8. Prior Period Adjustment

The Health and Dental Escrow Fund's cash balance of \$23,950 at January 1, 2004, was previously reported but has been removed from the column for governmental funds. The fund is now reported as a fiduciary fund.

9. Risk Management

The county carries commercial insurance for various risks of loss to which it is exposed, including risks related to torts; theft of, damage to, or destruction of assets; natural disasters; errors and omissions; injuries to employees; and employees' health and life. No significant reductions in coverage were made since December 31, 2004, and settlements have not exceeded coverage in the past 3 years.

10. Commitments and Contingencies

A. Contracts

On January 1, 1999, Butler County refinanced the Revenue Bond for the Jail Project for \$6,095,000. Annual principal payments will increase each year as well as interest rates. The bond will be paid off December 1, 2013. At December 31, 2006 the outstanding principal obligation was \$3,280,000.

On July 28, 2005 the Butler County Board for the Care of the Handicapped and the Manufacturers Assistance Group, Inc. (MAG) entered into a payment agreement with the United States Department of Agriculture Rural Development Agency (USDA-RD). MAG obtained a loan in the amount of \$1,518,000 from the USDA-RD, guaranteed by the Board, for the construction of a new sheltered workshop facility. The interest rate for the loan is 4.125% and annual principal and interest payments of \$89,137 are required for a term of 30 years.

B. Litigation

As of December 31, 2006, the county's legal counsel indicated three pending cases. One case involved a lawsuit filed against the county by an inmate of the jail and the potential liability to the county cannot be determined at this time. The other lawsuits, one filed against the County Coroner regarding a death investigation and one filed against several sheriffs by a group of bail bondsmen regarding denial of permission to write bail bonds, were both dismissed during 2007.

The county's legal counsel also indicated that two additional lawsuits were filed against the county in 2007. One of the lawsuits was filed by a group of former county employees alleging wrongful termination and the other lawsuit was filed by the family of an inmate who died in county custody and alleges lack of proper care. The potential liability to the county cannot be determined at this time.

11. Subsequent Event

In 2005, Butler County was awarded \$300,000 in Community Development Block Grant funds for a new MAG Building. Construction work was started in 2007 with an expected completion date of February 2008.

Required Supplementary Information

Schedule 1

BUTLER COUNTY, MISSOURI
 SCHEDULE OF FUNDING PROGRESS FOR
 MISSOURI LOCAL GOVERNMENT EMPLOYEES RETIREMENT SYSTEM

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL)— Entry Age (b)	Unfunded AAL (UAAL) (b-a) or (Excess of Assets over AAL) (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c] or (Excess as a Percentage of Covered Payroll) [(a-b)/c]
02/29/2004	\$ 3,969,710	\$ 4,624,511	\$ 654,801	86	% \$ 3,069,242	\$ 21 %
02/28/2005	4,080,818	4,944,575	863,757	83	2,736,697	32
02/28/2006	4,700,607	5,492,187	791,580	86	3,211,426	25
02/28/2006*	4,700,607	5,711,278	1,010,671	82	3,211,426	31

* These amounts are after changes in actuarial assumptions.

See related Note 4 (Defined Benefit Pension Plan) to the financial statements.

Schedule 2

BUTLER COUNTY, MISSOURI
 BUDGETARY COMPARISON SCHEDULE - GENERAL FUND AND MAJOR SPECIAL REVENUE FUNDS - CASH BASIS

	Year Ended December 31,							
	2006				2005			
	Budgeted Amounts		Actual	Variance with	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget-- Favorable (Unfavorable)	Original	Final	Cash Basis	Final Budget-- Favorable (Unfavorable)
GENERAL REVENUE FUND								
RECEIPTS								
Property taxes	\$ 482,500	482,500	458,566	(23,934)	467,000	467,000	481,959	14,959
Sales taxes	1,900,000	1,900,000	1,936,104	36,104	1,850,000	1,850,000	1,910,211	60,211
Intergovernmental	513,000	513,000	494,218	(18,782)	378,900	378,900	440,408	61,508
Charges for services	937,250	937,250	970,136	32,886	901,000	901,000	934,888	33,888
Interest	40,000	40,000	104,327	64,327	8,000	8,000	48,043	40,043
Other	47,650	47,650	127,162	79,512	246,500	246,500	48,608	(197,892)
Total Receipts	3,920,400	3,920,400	4,090,513	170,113	3,851,400	3,851,400	3,864,117	12,717
DISBURSEMENTS								
County Commission	122,600	122,600	117,447	5,153	119,000	119,000	111,981	7,019
County Clerk	165,278	165,278	168,252	(2,974)	154,862	154,862	146,492	8,370
Elections	191,500	191,500	222,102	(30,602)	164,500	164,500	170,681	(6,181)
Buildings and grounds	401,500	401,500	267,157	134,343	392,500	392,500	270,306	122,194
Employee fringe benefits	546,200	546,200	454,617	91,583	518,700	518,700	494,405	24,295
County Treasurer	85,632	85,632	78,863	6,769	82,618	82,618	79,797	2,821
County Collector	172,101	172,101	152,039	20,062	157,888	157,888	142,140	15,748
Recorder of Deeds	193,364	193,364	186,605	6,759	176,424	176,424	174,867	1,557
Circuit Clerk	110,500	110,500	57,492	53,008	98,100	98,100	42,148	55,952
Court administration	10,350	10,350	4,783	5,567	9,350	9,350	5,851	3,499
Public Administrator	116,318	116,318	111,842	4,476	109,574	109,574	111,464	(1,890)
Prosecuting Attorney	243,100	243,100	262,249	(19,149)	244,196	244,196	236,635	7,561
Juvenile Officer	254,200	254,200	237,009	17,191	201,450	201,450	170,913	30,537
County Coroner	74,900	74,900	52,126	22,774	65,574	65,574	51,671	13,903
Support Enforcement (IV-D)	269,121	269,121	260,618	8,503	267,566	267,566	273,564	(5,998)
Youth services grant	64,480	64,480	72,576	(8,096)	76,000	76,000	61,140	14,860
Civil Defense	161,874	161,874	169,720	(7,846)	91,043	91,043	127,923	(36,880)
Other general county government	120,000	120,000	121,331	(1,331)	118,500	118,500	107,984	10,516
Insurance	67,000	67,000	77,952	(10,952)	60,000	60,000	63,430	(3,430)
Grants	10,400	10,400	4,909	5,491	25,400	25,400	11,222	14,178
Other	110,547	110,547	110,130	417	98,650	98,650	103,013	(4,363)
Health and welfare	2,800	2,800	2,400	400	2,800	2,800	800	2,000
Juvenile justice center	42,000	42,000	32,068	9,932	101,500	101,500	86,791	14,709
Transfers out	700,000	700,000	700,000	0	714,000	714,000	700,000	14,000
Emergency Fund	350,000	350,000	0	350,000	300,000	300,000	0	300,000
Total Disbursements	4,585,765	4,585,765	3,924,287	661,478	4,350,195	4,350,195	3,745,218	604,977
Net Change in Cash Balances	(665,365)	(665,365)	166,226	831,591	(498,795)	(498,795)	118,899	617,694
CASH BALANCE, JANUARY 1	1,480,407	1,480,407	1,480,407	0	1,361,508	1,361,508	1,361,508	0
CASH BALANCE, DECEMBER 31	\$ 815,042	815,042	1,646,633	831,591	862,713	862,713	1,480,407	617,694

Schedule 2

BUTLER COUNTY, MISSOURI
 BUDGETARY COMPARISON SCHEDULE - GENERAL FUND AND MAJOR SPECIAL REVENUE FUNDS - CASH BASIS

	Year Ended December 31,							
	2006				2005			
	Budgeted Amounts		Actual	Variance with	Budgeted Amounts		Actual	Variance with
	Original	Final	Cash Basis	Final Budget-- Favorable (Unfavorable)	Original	Final	Cash Basis	Final Budget-- Favorable (Unfavorable)
<u>SPECIAL ROAD AND BRIDGE FUND</u>								
RECEIPTS								
Property taxes	\$ 170,000	170,000	153,469	(16,531)	170,000	170,000	167,332	(2,668)
Sales taxes	800,000	800,000	829,759	29,759	775,000	775,000	818,662	43,662
Intergovernmental	1,463,250	1,463,250	1,595,449	132,199	1,452,000	1,452,000	1,492,971	40,971
Interest	8,000	8,000	10,372	2,372	2,500	2,500	9,338	6,838
Other	16,100	16,100	7,458	(8,642)	31,250	31,250	18,633	(12,617)
Total Receipts	2,457,350	2,457,350	2,596,507	139,157	2,430,750	2,430,750	2,506,936	76,186
DISBURSEMENTS								
Salaries	1,150,000	1,150,000	1,200,134	(50,134)	1,135,000	1,135,000	1,064,685	70,315
Fringe benefits	575,000	575,000	578,769	(3,769)	551,000	551,000	512,052	38,948
Supplies	525,000	525,000	562,094	(37,094)	445,000	445,000	522,200	(77,200)
Insurance	80,000	80,000	70,290	9,710	80,000	80,000	62,616	17,384
Materials	92,000	92,000	43,580	48,420	87,000	87,000	78,027	8,973
Equipment repairs	30,000	30,000	19,029	10,971	30,000	30,000	27,876	2,124
Rentals	3,000	3,000	373	2,627	3,000	3,000	3,348	(348)
Equipment purchases	10,000	10,000	4,115	5,885	10,000	10,000	0	10,000
Construction, repair, and maintenance	242,500	242,500	268,708	(26,208)	242,500	242,500	257,883	(15,383)
Other	32,500	32,500	22,283	10,217	32,500	32,500	17,716	14,784
Total Disbursements	2,740,000	2,740,000	2,769,375	(29,375)	2,616,000	2,616,000	2,546,403	69,597
Net Change in Cash Balances	(282,650)	(282,650)	(172,868)	109,782	(185,250)	(185,250)	(39,467)	145,783
CASH BALANCE, JANUARY 1	297,412	297,412	297,412	0	336,879	336,879	336,879	0
CASH BALANCE, DECEMBER 31	\$ 14,762	14,762	124,544	109,782	151,629	151,629	297,412	145,783
<u>LAW ENFORCEMENT COMPLEX FUND</u>								
RECEIPTS								
Sales taxes	\$ 1,300,000	1,300,000	1,382,599	82,599	1,300,000	1,300,000	1,363,988	63,988
Intergovernmental	241,000	241,000	213,340	(27,660)	240,000	240,000	260,316	20,316
Charges for services	180,500	180,500	282,151	101,651	189,000	189,000	197,875	8,875
Interest	10,000	10,000	30,218	20,218	4,500	4,500	14,041	9,541
Other	33,000	33,000	43,714	10,714	49,000	49,000	38,003	(10,997)
Transfers in	825,000	825,000	800,000	(25,000)	800,000	800,000	800,000	0
Total Receipts	2,589,500	2,589,500	2,752,022	162,522	2,582,500	2,582,500	2,674,223	91,723
DISBURSEMENTS								
Sheriff/salaries	700,891	700,891	681,497	19,394	610,626	610,626	620,890	(10,264)
Jail/salaries	338,984	338,984	325,440	13,544	314,189	314,189	315,610	(1,421)
Fringe benefits	389,500	389,500	388,360	1,140	377,200	377,200	330,393	46,807
Sheriff's expense	225,000	225,000	257,117	(32,117)	243,500	243,500	221,075	22,425
Jail expense	181,000	181,000	140,251	40,749	174,600	174,600	156,505	18,095
Building and grounds	208,378	208,378	183,261	25,117	217,000	217,000	156,771	60,229
Evidence technology	9,000	9,000	5,703	3,297	9,000	9,000	8,263	737
Debt service	551,000	551,000	542,081	8,919	551,000	551,000	538,556	12,444
Total Disbursements	2,603,753	2,603,753	2,523,710	80,043	2,497,115	2,497,115	2,348,063	149,052
Net Change in Cash Balances	(14,253)	(14,253)	228,312	242,565	85,385	85,385	326,160	240,775
CASH BALANCE, JANUARY 1	663,379	663,379	663,379	0	337,219	337,219	337,219	0
CASH BALANCE, DECEMBER 31	\$ 649,126	649,126	891,691	242,565	422,604	422,604	663,379	240,775

Schedule 2

BUTLER COUNTY, MISSOURI
 BUDGETARY COMPARISON SCHEDULE - GENERAL FUND AND MAJOR SPECIAL REVENUE FUNDS - CASH BASIS

	Year Ended December 31,							
	2006				2005			
	Budgeted Amounts		Actual	Variance with	Budgeted Amounts		Actual	Variance with
	Original	Final	Cash Basis	Final Budget-- Favorable (Unfavorable)	Original	Final	Cash Basis	Final Budget-- Favorable (Unfavorable)
<u>EASTERN CAPITAL IMPROVEMENT FUND</u>								
RECEIPTS								
Sales taxes	\$ 650,000	650,000	691,299	41,299	650,000	650,000	681,994	31,994
Interest	5,000	5,000	12,591	7,591	3,000	3,000	9,245	6,245
Shared project reimbursements	50,000	50,000	26,000	(24,000)	0	0	38,650	38,650
Used equipment sales	102,000	102,000	90,258	(11,742)	98,000	98,000	87,064	(10,936)
Miscellaneous reimbursements	10,000	10,000	0	(10,000)	10,000	10,000	14,833	4,833
Total Receipts	817,000	817,000	820,148	3,148	761,000	761,000	831,786	70,786
DISBURSEMENTS								
Asphalt	150,000	150,000	212,132	(62,132)	150,000	150,000	160,193	(10,193)
Bridges, culverts, and blades	200,000	200,000	216,651	(16,651)	200,000	200,000	142,122	57,878
Equipment purchases	300,000	300,000	306,516	(6,516)	300,000	300,000	265,758	34,242
Gravel	150,000	150,000	212,699	(62,699)	150,000	150,000	197,644	(47,644)
Other	20,000	20,000	0	20,000	20,000	20,000	9,149	10,851
Total Disbursements	820,000	820,000	947,998	(127,998)	820,000	820,000	774,866	45,134
Net Change in Cash Balances	(3,000)	(3,000)	(127,850)	(124,850)	(59,000)	(59,000)	56,920	115,920
CASH BALANCE, JANUARY 1	267,090	267,090	267,090	0	210,170	210,170	210,170	0
CASH BALANCE, DECEMBER 31	\$ 264,090	264,090	139,240	(124,850)	151,170	151,170	267,090	115,920
<u>WESTERN CAPITAL IMPROVEMENT FUND</u>								
RECEIPTS								
Sales taxes	\$ 650,000	650,000	691,298	41,298	650,000	650,000	681,994	31,994
Interest	5,000	5,000	12,591	7,591	3,000	3,000	9,245	6,245
Shared project reimbursements	50,000	50,000	74,000	24,000	0	0	67,200	67,200
Used equipment sales	102,000	102,000	90,258	(11,742)	98,000	98,000	87,064	(10,936)
Miscellaneous reimbursements	20,000	20,000	0	(20,000)	10,000	10,000	0	(10,000)
Total Receipts	827,000	827,000	868,147	41,147	761,000	761,000	845,503	84,503
DISBURSEMENTS								
Asphalt	150,000	150,000	216,497	(66,497)	150,000	150,000	187,144	(37,144)
Bridges, culverts, and blades	400,000	400,000	293,570	106,430	200,000	200,000	121,542	78,458
Equipment purchases	300,000	300,000	333,016	(33,016)	300,000	300,000	265,758	34,242
Gravel	150,000	150,000	219,091	(69,091)	150,000	150,000	176,006	(26,006)
Other	20,000	20,000	0	20,000	20,000	20,000	8,150	11,850
Total Disbursements	1,020,000	1,020,000	1,062,174	(42,174)	820,000	820,000	758,600	61,400
Net Change in Cash Balances	(193,000)	(193,000)	(194,027)	(1,027)	(59,000)	(59,000)	86,903	145,903
CASH BALANCE, JANUARY 1	467,155	467,155	467,155	0	380,252	380,252	380,252	0
CASH BALANCE, DECEMBER 31	\$ 274,155	274,155	273,128	(1,027)	321,252	321,252	467,155	145,903

The accompanying Notes to the Financial Statements are an integral part of this statement

Note to the Required Supplementary Information

BUTLER COUNTY, MISSOURI
NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION

Budgets and Budgetary Practices

The County Commission and other applicable boards are responsible for the preparation and approval of budgets for various county funds in accordance with Sections 50.525 through 50.745, RSMo, the county budget law. These budgets are adopted on the cash basis of accounting.

Section 50.740, RSMo, prohibits expenditures in excess of the approved budgets. However, expenditures exceeded budgeted amounts for the Special Road and Bridge Fund, Eastern Capital Improvement Fund, and Western Capital Improvement Fund in 2006.

Other Supplementary Information

Schedule 3

BUTLER COUNTY, MISSOURI
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Federal CFDA Number	Federal Grantor/Pass-Through Grantor/Program Title	Pass-Through Entity Identifying Number	Federal Expenditures	
			Year Ended December 31,	
			2006	2005
U. S. DEPARTMENT OF AGRICULTURE				
Direct programs:				
10.766	Community Facilities Loans and Grants	N/A	\$ 10,145	0
Passed through state Office of Administration -				
10.665	Schools and Roads - Grants to States	N/A	102,599	0
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
Passed through state Department of Social Services -				
14.231	Emergency Shelter Grants Program	ERO 1640	5,826	6,386
U.S. DEPARTMENT OF JUSTICE				
Direct programs:				
16.592	Local Law Enforcement Block Grants Program	2003-LBBX-0570	0	1,438
		2004-LBBX-0847	0	6,093
	Program total		<u>0</u>	<u>7,531</u>
16.580	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	2005-DJBX-0779	13,322	0
Passed through:				
State Department of Public Safety -				
16.523	Juvenile Accountability Incentive Block Grants	2003-JAIBG_LG-06	0	14,032
		2002-SUP_JABG-01	0	33,516
	Program total		<u>0</u>	<u>47,548</u>
Missouri Sheriffs' Association -				
16	Domestic Cannabis Eradication/Suppression Program	N/A	1,609	1,366
U. S. DEPARTMENT OF TRANSPORTATION				
Passed through state:				
Highway and Transportation Commission -				
20.205	Highway Planning and Construction	BRO12-(21)	0	9,299
		BRO12-(22)	16,743	175,009
		BRO12-(24)	9,927	48,643
		BRO12-(25)	168,362	0
		BRO12-(26)	47,525	0
	Program total		<u>242,557</u>	<u>232,951</u>

Schedule 3

BUTLER COUNTY, MISSOURI
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Federal CFDA Number	Federal Grantor/Pass-Through Grantor/Program Title	Pass-Through Entity Identifying Number	Federal Expenditures	
			Year Ended December 31,	
			2006	2005
Department of Public Safety -				
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	HMEM-04-04-5130	1,876	0
		HMEM-04-04-5120	0	1,876
	Program total		<u>1,876</u>	<u>1,876</u>
GENERAL SERVICES ADMINISTRATION				
Passed through state:				
Office of Administration -				
39.003	Donation of Federal Surplus Personal Property	N/A	197	1,601
Office of Secretary of State -				
39.011	Election Reform Payments	N/A	103,750	122,646
ELECTIONS ASSISTANCE COMMISSION				
Passed through state Office of Secretary of State -				
90.401	Help America Vote Act Requirements Payments	N/A	0	8,065
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Passed through state Department of Social Services -				
93.563	Child Support Enforcement	N/A	178,980	168,808
U.S. DEPARTMENT OF HOMELAND SECURITY				
Passed through state Department of Public Safety:				
97.004	State Domestic Preparedness Equipment Support Program	2004-GE-T4-0049	19,702	20,580
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	N/A	3,562	3,473
97.042	Emergency Management Performance Grants	2006-EM-E6-0037	25,570	0
		2005-GE-T5-0022	0	23,156
	Program total		<u>25,570</u>	<u>23,156</u>
	Total Expenditures of Federal Awards		<u>\$ 709,695</u>	<u>645,987</u>

N/A - Not applicable

The accompanying Notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

Notes to the Schedule of
Expenditures of Federal Awards

BUTLER COUNTY, MISSOURI
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

1. Summary of Significant Accounting Policies

A. Purpose of Schedule and Reporting Entity

The accompanying Schedule of Expenditures of Federal Awards has been prepared to comply with the requirements of OMB Circular A-133. This circular requires a schedule that provides total federal awards expended for each federal program and the Catalog of Federal Domestic Assistance (CFDA) number or other identifying number when the CFDA information is not available.

The schedule includes all federal awards administered by Butler County, Missouri, except for the programs accounted for in the Health Center Fund. Federal awards for that fund have been audited and separately reported on by other independent auditors for its years ended December 31, 2006 and 2005.

B. Basis of Presentation

OMB Circular A-133 includes these definitions, which govern the contents of the schedule:

Federal financial assistance means assistance that non-Federal entities receive or administer in the form of grants, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance, but does not include amounts received as reimbursement for services rendered to individuals. . . .

Federal award means Federal financial assistance and Federal cost-reimbursement contracts that non-Federal entities receive directly from Federal awarding agencies or indirectly from pass-through entities. It does not include procurement contracts, under grants or contracts, used to buy goods or services from vendors.

Accordingly, the schedule includes expenditures of both cash and noncash awards.

C. Basis of Accounting

Except as noted below, the schedule is presented on the cash basis of accounting, which recognizes amounts only when disbursed in cash.

Amounts for the Donation of Federal Surplus Personal Property (CFDA number 39.003) represents the estimated fair market value of property at the time of receipt.

2. Subrecipients

Of the federal expenditures presented in the schedule, the county provided federal awards to subrecipients as follows:

Federal CFDA Number	Program Title	Amount Provided	
		Year Ended December 31, 2006	2005
14.231	Emergency Shelter Grants Program	\$ 5,826	6,386
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	1,876	1,876
97.036	Disaster Grants – Public Assistance (Presidentially Declared Disasters)	3,562	3,473

FEDERAL AWARDS -
SINGLE AUDIT SECTION

State Auditor's Report



SUSAN MONTEE, CPA
Missouri State Auditor

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the County Commission
and
Officeholders of Butler County, Missouri

Compliance

We have audited the compliance of Butler County, Missouri, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the years ended December 31, 2006 and 2005. The county's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the county's management. Our responsibility is to express an opinion on the county's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the county's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the county's compliance with those requirements.

As described in finding number 06-1 in the accompanying Schedule of Findings and Questioned Costs, Butler County, Missouri, did not comply with requirements regarding cash management that are applicable to its Highway Planning and Construction program. Compliance

with such requirements is necessary, in our opinion, for Butler County, Missouri, to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, Butler County, Missouri, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the years ended December 31, 2006 and 2005. The results of our auditing procedures also disclosed another instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as finding number 06-3.

Internal Control Over Compliance

The management of Butler County, Missouri, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the county's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of the county's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the county's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A control deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the county's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the county's internal control. We consider the deficiencies described as finding numbers 06-1 and 06-2 in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over compliance.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the county's internal control. However, we consider the significant deficiencies referred to above, finding numbers 06-1 and 06-2, to be material weaknesses.

The responses of Butler County, Missouri, to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the county's responses and, accordingly, we express no opinion on them.

This report is intended for the information and use of the management of Butler County, Missouri; federal awarding agencies and pass-through entities; and other applicable government officials. However, pursuant to Section 29.270, RSMo, this report is a matter of public record and its distribution is not limited.



Susan Montee, CPA
State Auditor

September 27, 2007

Schedule

BUTLER COUNTY, MISSOURI
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 (INCLUDING MANAGEMENT'S PLAN FOR CORRECTIVE ACTION)
 YEARS ENDED DECEMBER 31, 2006 AND 2005

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weaknesses identified? yes x no
- Significant deficiencies identified that are not considered to be material weaknesses? yes x none reported

Noncompliance material to the financial statements noted? yes x no

Federal Awards

Internal control over major programs:

- Material weakness identified? x yes no
- Significant deficiency identified that is not considered to be a material weakness? yes x none reported

Type of auditor's report issued on compliance for major programs: Unqualified for CFDA Number 93.563
Qualified for CFDA Number 20.205

Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133? x yes no

Identification of major programs:

<u>CFDA or Other Identifying Number</u>	<u>Program Title</u>
20.205	Highway Planning and Construction
93.563	Child Support Enforcement

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as a low-risk auditee? _____ yes x no

Section II - Financial Statement Findings

This section includes no audit findings that *Government Auditing Standards* requires to be reported for an audit of financial statements.

Section III - Federal Award Findings and Questioned Costs

This section includes the audit finding(s) that Section .510(a) of OMB Circular A-133 requires to be reported for an audit of federal awards.

06-1. Highway Planning and Construction Grants – Cash Management

Federal Grantor:	U.S. Department of Transportation
Pass-Through Grantor:	State Highway and Transportation Commission
Federal CFDA Number:	20.205
Program Title:	Highway Planning and Construction
Pass-Through Entity	
Identifying Number:	BRO-012(21), (22), (24), (25), and (26)
Award Years:	2006 and 2005
Questioned Costs:	Not Applicable

The county has not established cash management procedures to ensure minimal time elapses between its receipt of federal project monies and the distribution of such monies to contractors. Of 6 reimbursements reviewed, 4 reimbursements totaling \$88,926 were received and held for more than 2 business days before the related payment was made to the contractor. These reimbursements included two reimbursements totaling \$86,221 held 4 days. The County Clerk's office indicated they retrieve unpaid BRO vendor invoices and process expenditures for the County Commission's approval when they receive notice from the County Treasurer's office that payment has been received from the state. Although the County Treasurer notifies the County Clerk's office daily of all receipts and the County Clerk processes expenditures for the County Commission's signature two or three times per week, these payments do not appear to comply with federal guidelines.

The county contracts with the Missouri Department of Transportation (MoDOT) for bridge replacement and rehabilitation under the Highway Planning and Construction Program. Section .300(c) of Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, requires the auditee to “comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs”. Section XII of the MoDOT Local Public Agency Manual provides that local agencies must develop cash

management procedures to ensure payment is made to the contractor/consultant within 2 business days of receipt of funds from MoDOT.

WE RECOMMEND the County Commission establish procedures to minimize the time between the receipt of federal monies and disbursement of such funds to comply with federal and contractual requirements.

AUDITEE’S RESPONSE AND PLAN FOR CORRECTIVE ACTION

We have now improved communication of the receipt of BRO funds between the County Treasurer and the County Clerk. The County Clerk will improve efforts to issue disbursements within the two day time frame.

06-2. Highway Planning and Construction Grants – Procurement, Suspension, and Debarment
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Federal Grantor:	U.S. Department of Transportation
Pass-Through Grantor:	State Highway and Transportation Commission
Federal CFDA Number:	20.205
Program Title:	Highway Planning and Construction
Pass-Through Entity	
Identifying Number:	BRO-012(21), (22), (24), (25), and (26)
Award Years:	2006 and 2005
Questioned Costs:	Not Applicable

When procuring engineering services for BRO projects, the county did not ensure that the engineering firm had not been suspended or debarred according to the federal list and did not require the engineering firm to certify that they had not been suspended or debarred. The county expended approximately \$226,000 in the two years ended December 31, 2006 for BRO project engineering services.

At our request, the county reviewed the federal suspension and debarment listing and determined that the county's engineering services contractor was neither suspended nor debarred. Federal grant guidelines require the grant recipient to ensure that vendors and contractors are neither suspended nor debarred. Controls should be established to review the federal suspension and debarment listing and/or obtain suspension and debarment certifications from parties to ensure compliance with federal regulations.

WE RECOMMEND the County Commission review the federal suspension and debarment listing and/or obtain certifications from parties awarded contracts that the organization and its principals are not suspended or debarred.

AUDITEE'S RESPONSE AND PLAN FOR CORRECTIVE ACTION

The County Clerk will review for suspension and debarment of vendors who submit annual statements of qualification.

06-3. Schedule of Expenditures of Federal Awards

Federal Grantor: U.S. Department of Transportation
Pass-Through Grantor: State Highway and Transportation Commission
Federal CFDA Number: 20.205
Program Title: Highway Planning and Construction
Pass-Through Entity
Identifying Number: BRO-012(21), (22), (24), (25), and (26)
Award Years: 2006 and 2005
Questioned Costs: N/A

Federal Grantor: U.S. Department of Health and Human Services
Pass-Through Grantor: State Department of Social Services
Federal CFDA Numbers: 93.563
Program Title: Child Support Enforcement
Pass-Through Entity
Identifying Number: Not Applicable
Award Years: 2006 and 2005
Questioned Costs: Not Applicable

The county does not have adequate procedures in place to track federal awards for the preparation of the Schedule of Expenditures of Federal Awards (SEFA), and as a result, the county's SEFA contained several errors and omissions. Expenditures were overstated by \$71,000 and \$140,000 for the years ended December 31, 2006 and 2005, respectively.

Section .310(b) of Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, requires the county to prepare a SEFA for the period covered by the county's financial statements. The county is required to submit the SEFA to the State Auditor's Office as a part of the annual budget.

Expenditures relating to several federal grants were reported incorrectly or not included on the schedule. For example, in 2006 and 2005 the County Clerk failed to include federal expenditures of \$131,000 under the Election Reform Payments Program, but included \$195,000 in 2006 and 2005 under a Juvenile Justice and Delinquency Prevention – Allocation to the States Program which represented contract reimbursements that are not considered federal awards. In addition, the County Clerk included federal monies of \$102,000 in 2005 under a Schools and Roads – Grants to States Program which were not expended until the following year and \$142,000 in 2006 and 2005 under a Child Support Enforcement Program which represented the county's share of program expenditures. The

County Clerk indicated the office had not developed a formal method for identifying and tracking federal program expenditure activity.

Compilation of the SEFA requires consulting county financial records and requesting information from other departments and/or officials. The County Commission should take steps to ensure all departments and/or officials properly track federal awards to ensure all federal awards are properly accounted for on the SEFA.

Without an accurate SEFA, federal financial activity may not be audited and reported in accordance with federal audit requirements which could result in future reductions of federal awards.

Similar conditions were noted in prior reports. Although the County Commission and County Clerk indicated they would implement the recommendations, the county has not adequately improved these controls and procedures.

WE AGAIN RECOMMEND the County Commission and County Clerk work to ensure the SEFA is complete and accurate.

AUDITEE'S RESPONSE AND PLAN FOR CORRECTIVE ACTION

The County Clerk has now implemented a ledger to track federal grant monies received in calendar year 2007 that will require reporting. This schedule will be utilized to ensure federal reporting is complete and accurate.

Follow-Up on Prior Audit Findings for an
Audit of Financial Statements Performed in Accordance
With *Government Auditing Standards*

BUTLER COUNTY, MISSOURI
FOLLOW-UP ON PRIOR AUDIT FINDINGS FOR AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS*

The prior audit report issued for the two years ended December 31, 2004, included no audit findings that *Government Auditing Standards* requires to be reported for an audit of financial statements.

Summary Schedule of Prior Audit Findings
in Accordance With OMB Circular A-133

BUTLER COUNTY, MISSOURI
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
IN ACCORDANCE WITH OMB CIRCULAR A-133

Section .315 of OMB Circular A-133 requires the auditee to prepare a Summary Schedule of Prior Audit Findings to report the status of all findings that are relative to federal awards and included in the prior audit report's Schedule of Findings and Questioned Costs. The summary schedule also must include findings reported in the prior audit's Summary Schedule of Prior Audit Findings, except those listed as corrected, no longer valid, or not warranting further action.

Section .500(e) of OMB Circular A-133 requires the auditor to follow up on these prior audit findings; to perform procedures to assess the reasonableness of the Summary Schedule of Prior Audit Findings; and to report, as a current year finding, when the auditor concludes that the schedule materially misrepresents the status of any prior findings.

The prior audit report issued for the two years ended December 31, 2004, included no audit findings that Section .510(a) of OMB Circular A-133 requires to be reported for an audit of federal awards.

MANAGEMENT ADVISORY REPORT SECTION

Management Advisory Report -
State Auditor's Findings

BUTLER COUNTY, MISSOURI
MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Butler County, Missouri, as of and for the years ended December 31, 2006 and 2005, which collectively comprise the county's basic financial statements, and have issued our report thereon dated September 27, 2007. We also have audited the compliance of Butler County, Missouri, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the years ended December 31, 2006 and 2005, and have issued our report thereon dated September 27, 2007. That report expressed a qualified opinion on the county's compliance with those types of requirements for the Highway Planning and Construction program (CFDA number 20.205).

Because the Health Center Board is audited and separately reported on by other independent auditors, the related fund is not presented in the financial statements. However, we reviewed those audit reports and other applicable information.

This Management Advisory Report (MAR) presents any findings arising from our review of the county board referred to in the preceding paragraph. In addition, this report includes findings other than those, if any, reported in the accompanying Schedule of Findings and Questioned Costs. These MAR findings resulted from our audit of the financial statements of Butler County or of its compliance with the types of compliance requirements applicable to each of its major federal programs but do not meet the criteria for inclusion in the written reports on compliance (and other matters, if applicable) and on internal control over financial reporting or compliance that are required for audits performed in accordance with *Government Auditing Standards* and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Butler County's responses to the findings also are presented in this MAR. We did not audit the county's responses and, accordingly, we express no opinion on them.

1.	Budgets and Planning
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Budgets prepared for some county funds contained unreasonable estimates. The county's financial monitoring procedures are ineffective and resulted in excess expenditures.

- A. The County Commission's budget preparation procedures do not ensure that the budget documents reasonably reflect the County Commission's, other county officials', or other county boards' anticipated financial activity and cash balances, and lessen the effectiveness of the budget as a tool for monitoring or controlling county disbursements.

Because of inaccurate budget estimates, the estimated ending cash balance was significantly under estimated for some county funds, as follows:

Fund	Year Ended December 31,	
	2006 Budgeted Cash Balance (Under) Stated	2005 Budgeted Cash Balance (Under) Stated
General Revenue	\$ (831,591)	(617,694)
Special Road and Bridge	(109,782)	(145,783)
Assessment	(50,404)	(96,475)
Bad Check	(53,288)	N/A
Law Enforcement Complex	(242,565)	(240,775)
Eastern Capital Improvement	N/A	(115,920)
Western Capital Improvement	N/A	(145,903)
Recorder User Fee	(116,221)	(169,656)
Sheriff Civil-Revolving	(24,415)	N/A
Collectors Tax Maintenance	(86,856)	(34,215)
Senior Citizens	(28,158)	(29,041)

The County Commission has historically estimated revenues conservatively and expenditures less conservatively. This generally provides a cash surplus when actual revenues exceed estimates and actual expenditures are less than estimated. In addition, as noted below, the County Commission does not amend budgets when it would appear appropriate and prudent to do so.

By not reasonably estimating expected receipts and disbursements, it is more difficult for the County Commission to analyze operations and monitor the county's financial condition.

B. Actual disbursements exceeded budgeted amounts for many funds, as follows:

Fund	Year Ended December 31,	
	2006	2005
Special Road and Bridge	\$ 29,375	N/A
Law Enforcement Training	2,215	943
Bad Check	9,607	10,356
Eastern Capital Improvement	127,998	N/A
Western Capital Improvement	42,174	N/A
36th JJC Escrow	N/A	324,415
Commissary	4,606	N/A
DARE	1,860	13
Sheriff Drug	2,244	556
Special Election	52,260	N/A
911	14,003	8,989
Sheriff Civil-Revolving	1,969	606
Law Library	1,917	12,230
Law Enforcement Restitution	7,261	N/A

The County Commission receives quarterly budget to actual comparison reports for some but not all funds. However, there was little evidence in the commission meeting minutes of discussions regarding the budget status. Budget to actual comparison reports for other county officials are not produced on a regular basis and provided to other county officials. The information which is provided to other county officials is not routinely used to evaluate spending decisions. In addition, the County Commission does not amend budgets to reflect significant new revenue sources or other significant financial changes that arise after the original budget is prepared.

Case law provides that strict compliance with county budget laws is required by county officials. If there are valid reasons which require excess disbursements (i.e., emergencies, unforeseen occurrences, and statutorily required obligations), amendments should be made following the same process by which the annual budget is approved, including holding public hearings and filing the amended budget with the State Auditor's office. To improve the effectiveness of the budgets as a planning tool and ensure compliance with state law, budget to actual comparison reports need to be reviewed periodically and used when making spending decisions throughout the year.

A condition similar to B was also noted in our two prior reports.

WE RECOMMEND the County Commission:

- A. Work with other county officials to ensure that budgets provide reasonable estimates of anticipated financial activity.
- B. Work with other county officials to ensure timely budget to actual reports are available and reviewed carefully, and refrain from approving disbursements which exceed budgeted amounts or amend the budgets as appropriate.

AUDITEE'S RESPONSE

- A. *We agree and will work with other county officials to ensure that budgets provide reasonable estimates.*
- B. *We agree and have now implemented quarterly budget progress meetings with the other county officials. We will consider making budget amendments when necessary.*

2. Expenditures

The County Commission approves some expenditures without obtaining appropriate supporting documentation, has not determined the most cost effective method of providing

vehicles to employees, and does not have adequate methods of ensuring fuel purchased by the county is properly used only in county vehicles.

A. Supporting documentation related to some expenditures was insufficient to ensure amounts paid or allocated to various funds had a reasonable basis.

- The County Commission approved transfers of \$100,000 each year from the 911 Fund to the Law Enforcement Complex Fund (LECF) to reimburse the LECF for salaries related to 911 dispatching. However, the County Commission did not document the salaries which were reimbursed or other data to support the basis for the amount of the transfers.

Monies in the 911 Fund and LECF represent revenues which are restricted by statute to providing emergency dispatching services and law enforcement services, respectively. Costs paid by each fund should be clearly related to the services allowed by law and documentation retained to demonstrate the disbursements comply with the statutory restrictions.

- The County Commission approved payments during the two years ended December 31, 2006 totaling approximately \$300,000 for insurance premiums which were allocated between the General Revenue, Road and Bridge, Assessment, and Law Enforcement Complex Funds. However, there was no documentation of the method or reasonableness of the allocation of the expenditure to the various funds.

The monies in these funds represent public funds, some of which are subject to restricted purposes, and county officials have a fiduciary responsibility to ensure expenditures are appropriate, reasonable, and supported with adequate documentation. Without documentation that transfers and allocations of expenditures are made on a reasonable, supported basis, the County Commission does not have adequate assurance that funds are spent appropriately.

B. The County Commission has not performed a cost/benefit analysis to determine if mileage reimbursements for personal vehicles, totaling over \$146,000 from the Law Enforcement Complex Fund and the Sheriff's Fee Account are the most cost effective method of providing for employees' travel. The county previously paid mileage to all deputies for the use of their personal vehicles while patrolling. Although the county now provides vehicles which deputies use when performing general patrolling, the county still reimburses mileage for personal vehicles to the Sheriff for mileage incurred on official business and to reserve deputies for serving civil and criminal papers and transporting prisoners. The reserve deputies are not paid salaries for the duties they perform.

- Mileage reimbursements from the Law Enforcement Complex Fund to two reserve deputies who transport prisoners and serve criminal papers for the Sheriff's Department totaled over \$100,000 during the two years ended December 31, 2006. In addition, one of the reserve deputies was also paid

over \$28,000 from the Sheriff's Fee Account as mileage reimbursements for civil and garnishment paper service.

- Mileage reimbursements from the Law Enforcement Complex Fund to the County Sheriff for mileage he incurs using a personal vehicle totaled over \$18,000 during the two years ended December 31, 2006. The Sheriff receives reimbursements for actual mileage up to a maximum of \$850 per month and all but three of the 23 payments made to the Sheriff were at the monthly maximum amount. Even though the miles reimbursed is capped at approximately 1,900 miles per month, it may still be more cost beneficial for the county to provide a car rather than paying for mileage. In addition, mileage logs submitted by the Sheriff only indicate total number of miles driven per day and do not include other necessary details.

Given the significant amount of monies being spent for mileage reimbursements, the county should determine whether it would be more economical to purchase additional county vehicles, incur fuel and maintenance costs, and pay part-time salaries to the reserve deputies. A formal cost/benefit analysis would provide the County Commission with data to make informed decisions and ensure the economical use of county resources. Vehicle usage logs should include trip information (i.e., dates used, beginning and ending odometer readings, destination, and purpose).

- C. The Sheriff's Department and Road and Bridge Department do not have adequate methods of monitoring fuel purchased by the county to ensure it is properly used only in county vehicles. Disbursements for fuel reflected on the Law Enforcement Sales Tax and Road and Bridge funds' expenditure records totaled approximately \$78,000 and \$650,000, respectively, during the two years ended December 31, 2006.

- Sheriff's Department employees purchase fuel for county owned vehicles by charging at a local gas station. When fuel is purchased for these vehicles, the store clerk verifies the sale amount on the charge ticket and the deputies are to document the vehicle number, badge number, odometer reading, gallons purchased, and price per gallon on the charge ticket. The charge tickets are retained by the vendor and submitted to the Sheriff's Department each month with the monthly billing statement.

While the Sheriff's Department clerks summarize the charge tickets by badge number and match the charge tickets to the monthly billing, the department performs no analysis to determine if the fuel purchases reported for each vehicle are reasonable in comparison to the mileage incurred by the vehicle. In addition, the charge tickets do not always include all necessary information to allow the clerks to perform a complete analysis. We attempted to do such an analysis for one month, but due to the inaccurate and incomplete records, the results were not useable.

- The Road and Bridge Department employees dispense fuel into the county's equipment and vehicles from bulk fuel tanks located at the maintenance shed. Employees record the date, employee name, vehicle number, and gallons pumped on a log maintained at the shed. However, the log does not contain vehicle odometer or equipment hour meter readings which would be necessary to perform analysis of usage. The maintenance supervisor submits delivery tickets and periodic billings to the County Clerk for payment when the vendor fills the bulk fuel tanks.

A complete inventory record of bulk fuel showing purchases, usage, and fuel on hand is not maintained and periodic reconciliations of fuel usages and purchases to the calculated fuel on hand are not performed. In addition, the fuel usage logs are not routinely reviewed by the road and bridge supervisor or County Commission to determine if the fuel dispensed to each vehicle or piece of equipment is reasonable in comparison to the mileage or usage incurred by the vehicle. Currently such a review is not possible due to the information missing in the log.

Complete fuel inventory records and usage information are needed to provide data required to perform effective reviews and reconciliations. To monitor the reasonableness and propriety of fuel usage and expenditures, fuel inventory balances should be reconciled to fuel on hand and records of fuel dispensed to vehicles or equipment should be compared to usage information such as miles driven or hours operated. Failure to account for and analyze fuel usages could result in theft, or misuse.

WE RECOMMEND the County Commission:

- A. Ensure there is adequate documentation to support the amount and allocation of all expenditures from county funds.
- B. Work with the Sheriff to perform a cost-benefit analysis to determine the most economical method for providing employee travel when performing official duties. In addition, obtain sufficiently detailed vehicle usage logs for personal mileage reimbursed to county employees.
- C. Work with the Sheriff to ensure vehicle fuel usage is analyzed for reasonableness and the Road and Bridge department maintains complete usage logs and fuel inventory records which are periodically reconciled to fuel purchased and on hand.

AUDITEE'S RESPONSE

The County Commission provided the following responses:

- A. *We will strive to provide adequate documentation to support the amount and allocation of all expenditures from county funds.*
- B. *We will work with the Sheriff to perform such an analysis and request that the Sheriff maintain sufficient documentation of personal mileage reimbursed by the county.*
- C. *We will work with the Sheriff and the Road and Bridge department to implement this recommendation.*

The Sheriff provided the following responses:

- B. *I agree with this recommendation and will work on performing a cost-benefit analysis and I will maintain more detailed mileage records.*
- C. *My department has revised fuel tracking procedures and will develop additional procedures to analyze usage by vehicle.*

3. Juvenile Justice Center

The County Commission did not adequately document the processes of selecting a site for a juvenile justice center, efforts to determine that the lease/purchase price entered into and the cost of renovating the structure chosen were reasonable, or adequate support for expenditures made to prepare the site for the county's use.

The County Commission acquired real estate that the county planned to use as a juvenile justice center. Expenditures, future lease payments and other consideration given by the county for the property and renovations totaled approximately \$576,000. The proposed lease/purchase agreement for the property dated August 2004 required the owner: to submit plans to be approved by the county for renovation of the existing building on the property, perform exterior tuck pointing and roof coating, warranty the building and heating/cooling systems for one year, and provide a buyout option to the county of \$1 at the end of the lease term. The county agreed to: provide all equipment and fixtures needed to prepare the building for the county's use, enter into a lease/purchase agreement to transfer title of the property, and compensate the owner for costs of renovations necessary to prepare the building for county use. The county also agreed to reduce the cash down payment to the owner by \$130,000 if the owner was the successful bidder at \$130,000 on several properties that the county planned to sell through sealed bids.

- The former Presiding Commissioner indicated that the Circuit Judge assisted the commission in locating and securing a property for use as the juvenile justice center.

The county had determined that two separate facilities in use for juvenile detention and custody activities were no longer suitable for county occupancy due to safety and building code concerns. County officials indicated that prior to August 2004, the county considered approximately ten different sites, narrowed the list of potential sites down to three and then consulted with an architect to further review the feasibility of the three properties. After discussing the properties with the architect, the county determined that one property was most feasible and proceeded with negotiations to acquire the property and perform the necessary renovations to prepare the property for county use. However, the County Commission minutes and county records do not document the efforts to locate potential sites, reports or other information submitted by the architect, the criteria used or reasons for accepting or rejecting the possible sites, or the process of negotiating the proposed lease agreement for the selected site.

- The County Commission agreed to a lease/purchase price for the selected site totaling \$324,000 which included a \$50,000 down payment, a property trade valued at \$130,000, and \$144,000 in future monthly lease payments. In addition, under separate agreement, the county acquired approximately 2 acres of adjacent land from the owner for \$30,000. The county also agreed to compensate the owner \$180,000 for renovation costs. Although the former Presiding Commissioner and the Circuit Judge indicated that they consulted the County Assessor and other real estate experts qualified to estimate the value of the acquisition and proposed renovations, the commission minutes and county records do not document the county's efforts to determine reasonableness of the amounts incurred by the county to acquire and prepare the building for county use.
- The lease/purchase proposal did not provide sufficient details on the renovation activities the owner was responsible for completing in order to receive the \$180,000 payment for renovations. Although the proposal provided broad guidelines regarding the scope of the renovations and required written renovation plans, there is no evidence that the county received the detailed written plans. The former Presiding Commissioner and the Circuit Judge indicated that the renovation details were verbally negotiated and were not formally documented by the county or the owner. In addition, the County Commission approved additional renovation payments to the owner totaling approximately \$42,000.

Due to the lack of documentation of the detailed items to be covered under the original \$180,000 in renovation costs, it is unclear why the additional \$42,000 in costs fell outside the scope of the original anticipated work. Of the total renovation costs, only \$17,000 included in the additional payments was competitively bid.

These monies represent public funds and officials have a fiduciary responsibility to ensure disbursements are appropriate and reasonable, and supported with adequate documentation. Documentation of the County Commission's activities and decision processes are necessary to provide support for the commission's decisions and actions. Adequate supporting documentation should include information on the criteria used and judgments made during

selection of real estate for acquisition as well as efforts to substantiate the reasonableness of amounts negotiated. Also, agreements should contain sufficient details of the scope of work to be performed and support for related payments should demonstrate that the scope was met.

WE RECOMMEND the County Commission adequately document activities related to purchases of real estate, including the processes used to select the property and to determine the fair value of related contracts. In addition, agreements for construction or services should contain sufficient details of the scope of work and related invoices should clearly demonstrate how the payment relates to the agreed upon scope of work.

AUDITEE'S RESPONSE

We agree with this recommendation and will improve our recordkeeping. We will ensure that contracts are adequately detailed.

4. Payroll Procedures

The County Clerk's office does not have sufficient time records to support payroll expenditures or leave and compensatory balance liabilities. Recordkeeping procedures varied among the other county offices and some of the records maintained were not adequate. Finally, the county's personnel and union employee policies do not address necessary leave accrual and compensatory time issues and existing policies are not always followed. During the two years ended December 31, 2006, Butler County expended over \$7.5 million for payroll costs. The County Commission is responsible for approving payroll related expenditures, and the County Clerk is responsible for maintaining adequate records to support these expenditures.

A. Payroll expenditures are not always properly supported by time sheets which have been prepared and signed by employees or reviewed and approved by supervisors. In addition, time sheets do not always accurately report actual time worked by employees.

- The Chief Juvenile Officer and a Juvenile Office employee received pay from multiple funding sources during the two years ended December 31, 2006. Timesheets to support these payments were inadequate.

The Chief Juvenile Officer received a full time salary from the state for managing and supervising the activities of the Juvenile Office 35 hours per week. In addition, the county paid her approximately \$10,000 each year during 2005 and 2006 to work approximately seven hours per week as the detention center supervisor. The Chief Juvenile Officer indicated these additional duties were usually performed during the week in addition to the state paid duties.

Another Juvenile Office employee received a full time salary from the state for performing secretarial duties 35 hours per week. In addition, the county paid her approximately \$6,500 during a three month period in 2005 for temporarily filling a vacant position monitoring and mentoring probationary juvenile offenders 40 hours per week. The two full time positions were held concurrently by the employee. The Chief Juvenile Officer indicated this employee generally worked 35 daytime hours and 20 evening hours during the week and an additional 20 hours on the weekends.

Separate state and county time sheets were prepared for each position showing total hours worked each day. However, the time sheets did not include time periods worked to demonstrate when the reported hours were actually worked. In addition, the county only received a copy of the time sheet related to county payroll and was not able to verify the validity of time reported for county payroll in relationship to other duties performed by these employees.

- The Road and Bridge Department employees, Sheriff's deputies, and the County Treasurer's deputy do not prepare and submit time sheets to the County Clerk's office. The Road and Bridge Department and Sheriff's Department supervisors maintain records of employee work attendance and prepare a payroll summary for the County Clerk's office indicating pay due or other required changes for each employee. The Road and Bridge Supervisor maintains a daily log and calendar sheet for each employee when they call in to report for work and obtain their daily assignments. The Sheriff's office prepares a log for each deputy which is prepared primarily from the dispatching records that track when deputies radio in to indicate the start and end of their shift. The employees do not review the accuracy of the time summaries prepared by the supervisors. The County Treasurer verbally communicates information to the County Clerk's office for required changes in the Deputy Treasurer's salaried pay.
- Time sheets prepared by employees in some other county offices are not signed by the employees to certify the accuracy and/or are not signed by the supervisors to indicate review and approval of the employees' time worked.
- Employees in several offices record time worked each day as eight hours although the actual time worked on a normal day is seven hours. Failure to record actual time worked prevents an accurate record of overtime worked and comp time accrued.

Detailed time sheets document hours actually worked; provide information necessary to monitor overtime worked, leave and compensatory time usage and balances; and, are beneficial in demonstrating compliance with county policy and federal Fair Labor Standards Act (FLSA) requirements. Time sheets should be signed by all

employees, verified for accuracy, approved by the applicable supervisor, and filed with the County Clerk's office.

B. County policy for sick and vacation leave allows leave to be used by county employees before it is earned. In addition, the county has not developed a policy related to commuting in county owned vehicles, and the union employee compensatory time policy does not specify various issues related to compensatory time.

- County policy for sick and vacation leave allows a full year's accrual to be credited to the employee's leave balance as of the beginning of the calendar year. Employees' leave balances may be used before the employee works the appropriate pay periods to earn the leave. Employees could potentially use all available leave balances, including unearned leave, and terminate prior to the end of the year. As a result, the county risks incurring unnecessary leave liability expense.
- The county has not developed a policy for commuting in county owned vehicles although three employees of the Road and Bridge Department commute (as defined by IRS code) to and from work in county vehicles on a daily basis. These employees are not required to maintain and submit appropriate documentation to account for commuting mileage or to allow for proper reporting of fringe benefits as required by the IRS code. Taxes on commuting benefits are not withheld from the employees' paychecks.
- The Road and Bridge department's union employee contract allows for approved overtime and defines who is eligible to work overtime, when the overtime calculation starts, and minimum overtime hours earned per incident. However, the policy does not address compensatory time accrual, usage, balance carry over, or payout policies.

County policy should provide for the fair and equitable accrual of earned leave to employees' leave balances and should restrict the use of leave to earned leave balances. Additional policies should provide for commuting and compensatory time procedures and the county should ensure these policies are in compliance with federal law. Failure to provide such policies and ensure compliance by county employees exposes the county to unnecessary leave expenses and non-compliance with federal requirements for reporting fringe benefits.

C. The County Clerk's office does not maintain centralized records of leave or compensatory balances or the associated liabilities. Recordkeeping procedures varied among the other county offices and some of the records maintained were not adequate. In addition, vacation, sick, and compensatory leave accruals and balances were not always properly supported by time sheets or leave records.

- Leave records were not maintained by the Juvenile Office or the Public Administrator's office. In addition, while leave records documenting leave earned and used were prepared in all other county offices, the records in some offices did not always include information on cumulative balances available to employees.
- The former County Clerk estimated compensatory time accruals for employees that worked overtime. The accruals were not always supported by the employees' time and attendance records.
- The Sheriff automatically credited the deputies' leave balances with 7.5 hours of compensatory time each month during the two years ended December 31, 2006 and 2005 regardless of actual time worked or amounts reported in time and attendance records maintained by the supervisor. This arrangement did not ensure that employees were properly compensated for additional hours worked.

Centralized records are needed to ensure that employees are meeting expectations of county employment, that policies are being uniformly followed, and that potential leave and/or compensatory time liabilities are being monitored. In addition, such records are needed in the event disputes arise and to demonstrate compliance with the federal Fair Labor Standards Act (FLSA).

Conditions similar to A, B, and C were also noted in our two prior reports.

WE AGAIN RECOMMEND the County Commission:

- A. Require all county employees to prepare time sheets documenting actual time worked. These time sheets should be prepared and signed by the employee, approved by the applicable supervisor, and filed with the County Clerk.
- B. Revise county policy to ensure leave is available to employees only when earned and revise union employee policy to include procedures for compensatory time. In addition, develop a policy defining the allowability and reporting of commuting in county vehicles.
- C. Require leave and compensatory records be maintained for all county employees. These leave and compensatory records should be filed with the County Clerk and should be reviewed for accuracy and potential liability. In addition, the County Commission should ensure leave and compensatory time records are supported by time sheet and attendance records.

AUDITEE'S RESPONSE

- A. *We agree with this recommendation. We and the County Clerk will request signed and approved time sheets for all county employees.*

B. *We will review county leave policies with other officials and make necessary changes. We will review tax laws and work to develop an appropriate county policy for commuting in county vehicles.*

C. *We agree with this recommendation.*

5. Collateral Securities

The County Treasurer, County Collector, and Circuit Clerk do not have adequate procedures in place to monitor the sufficiency of collateral amounts and collateral pledged for some of the County Treasurer's and County Collector's deposits are subject to a higher level of risk.

A. The County Treasurer, County Collector, and Circuit Clerk do not monitor their bank account balances to ensure they are sufficiently collateralized. Each official relies on the depository bank to monitor bank balances and adjust the amount of pledged collateral accordingly.

A portion of the County Treasurer's and County Collector's deposits is swept daily into repurchase agreements which have their own collateral security. The depository bank pledges collateral for the remaining combined deposits of the County Treasurer and County Collector. The bank pledges collateral separately for the deposits of the Circuit Clerk. Although the County Treasurer's and County Collector's deposits totaling \$1,674,481 and \$1,796,628 at December 31, 2006 and 2005, respectively, and the Circuit Clerk's deposits totaling \$240,189 and \$648,817 at December 31, 2006 and 2005, respectively, appeared to be adequately collateralized, the county would not have known if collateral balances had been insufficient because of the lack of monitoring.

Section 110.020, RSMo, provides the value of the securities pledged shall at all times be not less than 100 percent of the actual amount of deposit less the amount insured by the FDIC. To ensure collateral pledged is adequate, county officials should develop procedures to routinely monitor bank account balances and the related collateral security.

B. Some deposits of the County Treasurer and County Collector are not collateralized by the depository bank with securities pledged in the county's name and the depository agreement does not clearly protect the county's investments. The bank performs a daily analysis of the County Treasurer's and County Collector's bank accounts and sweeps amounts in excess of the county's current needs into overnight repurchase agreements. The combined repurchase agreements totaled \$12,437,627 and \$11,928,602 at December 31, 2006 and 2005, respectively. The bank pledges separate collateral for each repurchase agreement daily and the county is notified the following business day of the repurchase agreement transactions and the related collateral that has been pledged. While the collateral is held by an independent

custodial bank, the securities are not pledged in the county's name. It appears the collateral is not held in the county's name due to the difficulty the bank would have in obtaining the county's authorization to release the collateral when these transactions are made at the end of each day.

The county's depository agreement with the bank requires all collateral for deposits to be held under joint custodial receipt in the name of the county and the depository bank and also requires the county's authorization for release. However, the agreement does not specifically address the sweep overnight repurchase agreements and the related collateral issues. It may be impractical for the repurchase agreement collateral to be held in the county's name and to require the county's prior authorization for release. However, to adequately protect county funds the depository agreement should create a contractual obligation by clearly addressing the repurchase agreement transactions and requiring the bank to commit in writing to maintaining adequate collateral pledged for the benefit of the county.

Inadequate monitoring of collateral securities and the failure to ensure the collateral is pledged specifically to the county could leave the county's funds unsecured and subject to loss in the event of a bank failure.

Conditions similar to A were also noted in our two prior reports.

WE RECOMMEND:

- A. The County Treasurer, County Collector, and Circuit Clerk develop procedures to monitor the adequacy collateral securities pledged. Documentation of these efforts should be maintained.
- B. The County Treasurer and County Collector work with the bank to amend the depository agreement to include the repurchase agreement transactions. The agreement should ensure the bank is committed in writing to maintaining adequate collateral securities pledged for the benefit of the county.

AUDITEE'S RESPONSE

The County Treasurer provided the following responses:

- A. *I will develop procedures to monitor the adequacy of collateral securities pledged and document those efforts.*
- B. *I will work with the bank to amend the banking services agreement to address all services and ensure the county's deposits are adequately secured.*

The County Collector provided the following responses:

- A. *I am willing to work with the County Treasurer to ensure adequate collateral is pledged.*

B. *I agree with this recommendation.*

The Circuit Clerk provided the following response:

A. *I agree with this recommendation. I have now implemented a comparison of the bank's monthly reports of collateral to the bank balance. I will document these reviews. My office will monitor daily deposits and will notify the bank of large deposits to ensure adequate collateral is received.*

6. County Property Records and Procedures
--

Procedures and records to account for county property are not adequate. The County Commission has not established a written policy related to the handling and accounting for fixed assets. The County Clerk has not implemented adequate procedures to ensure that the county's property records are complete, accurate, sufficient to meet statutory requirements, and provide a basis for determining proper insurance coverage.

The County Clerk does not maintain overall county property records and does not ensure that all county departments perform and submit annual inventory lists. Annually, the County Clerk sends each department a memo requesting the inventory lists. Although most county departments had submitted inventory lists, the County Commission and the Sheriff's Department had not submitted the required lists and the County Clerk had not performed any follow up to attempt to obtain the missing lists or to ensure the accuracy or completeness of the lists that were submitted by other departments.

The departments' inventory lists serve as the county's overall property control records; however, many lists do not include sufficient details to identify additions; acquisition dates or source; property values; deletions; method and authorization of disposition, reason and amount received for disposal, or beginning and ending balances which could be reconciled to the additions and deletions during the year. Although some department inventory lists showed property items were disposed of since the previous reporting period, no explanation was attached to identify pertinent details, such as reasons for disposal, authorization for disposal, method of disposal, to whom disposed, and amount received.

The County Clerk's office issues property tags at the request of the county departments to be affixed to newly acquired property. However, the property addition is not recorded on the County Clerk's copy of the departments' inventory lists at the time the tag is issued. In addition, the County Clerk does not have a procedure to track property purchases throughout the year and compare to inventory lists submitted by the various departments.

Based on the recordkeeping and reporting problems noted above, it is clear that the county has not complied with statutory provisions. Additionally, the completeness and accuracy of the overall county property records is questionable. These problems increase the possibility

of undetected theft and inadequate insurance coverage.

Section 49.093, RSMo requires counties to account for personal property costing \$1,000 or more, assigns responsibilities to each county department officer, and describes details to be provided in the inventory records.

Adequate county property records and procedures are necessary to ensure effective internal controls, meet statutory requirements, and provide a basis for determining proper insurance coverage. Physical inventories and proper tagging of county property items are necessary to evaluate the accuracy of the records, and deter and detect theft.

A similar condition was noted in our two prior reports.

WE RECOMMEND the County Commission establish a written policy related to the handling and accounting for capital assets. In addition the County Clerk should develop and maintain complete and accurate county property records and develop procedures to ensure accurate and complete physical inventories are conducted and inventory lists submitted by all county departments. Finally the County Clerk should implement a procedure for tagging and tracking property purchases throughout the year, and follow up on discrepancies identified during the annual physical inventory process.

AUDITEE'S RESPONSE

We will establish a written policy and encourage compliance by other county officials.

7. Collector's Accounting Controls and Procedures
--

The County Collector's procedures related to cash receipts are in need of improvement and the Collector's annual settlements did not properly reflect all tax collections. The County Collector's office processed property taxes totaling in excess of \$18.3 million and \$17.5 million during the years ended February 28, 2007 and 2006, respectively.

- A.1. The County Collector accepts cash, checks, and money orders for the payment of property taxes. Although the tax receipts are marked paid, the method of payment is not noted on the tax receipts and the composition of tax receipts is not reconciled to the composition of deposits. In addition, cash refunds were also made for some small overpayments of taxes and licenses which were originally paid by check; however, the refunds were not noted on the tax receipts. See part A.2. below. Without recording the method of payments on tax receipts and reconciling the method of payments to the composition of deposits, the Collector cannot ensure all monies collected are ultimately recorded and deposited. Tax receipts should indicate the method of payment (i.e., cash, checks, or money orders) and the composition should be reconciled to the bank deposits. Refunds should be made by check or should be marked on the tax receipts if made by cash.

2. Monies received are not always deposited intact. During our review, we noted the following concerns:

- Monies received for partial payments of property taxes are held in cash in envelopes in the County Collector's vault until full payment is received. If the original form of payment is by check, the check is deposited and cash from other collections is withheld from the daily deposit and placed in the vault. The collector normally stamps payments on the tax bills and the tax book with a mechanical stamping machine that maintains a consecutive numerical sequence. However, the stamp is not applied to the tax bills or the tax book when partial payments are accepted. A cash count performed on June 12, 2007 showed partial payments of \$7,213 in cash on hand.
- Regular daily cash receipts are used to cash personal checks for county employees.

To adequately account for collections and reduce the risk of loss or misuse of funds, all monies received should be stamped with a payment number and deposited intact. In addition, personal checks should not be cashed for county employees.

B. The County Collector records partial payments on the tax book, the Collector's and taxpayers' copies of the tax bills, and on individual envelopes in which the taxpayer's cash is held in the vault. The partial payment is not recorded in the Collector's tax system software due to conflicts that occur with month-end reporting. There are no partial payment ledgers or monthly open items listings maintained which document partial payment funds held.

Maintaining a partial payment ledger and monthly open items listings that are reconciled to the payments held could be used to document that partial payment balances are properly accounted for and that sufficient cash is available to pay all liabilities. The ledger and open items listings could also be used to account for the monies whether they were deposited and held in the Collector's bank account rather or if maintained in cash.

C. The County Collector's annual settlements did not reflect drainage district tax collections totaling approximately \$370,000 for each of the years ended February 28, 2007 and 2006. In addition, the annual settlement for the year ended February 28, 2006 did not reflect undistributed interest receipts on protested taxes totaling \$2,075. The County Collector did not provide justification for not including the drainage district taxes on the settlements. The County Collector also indicated since protested tax interest is not allowed to be distributed until after the protested case is settled, she believed she was unable to add the protested tax interest to the settlement without distributing it.

Section 139.160, RSMo, requires the County Collector to report on all monies received. Incomplete annual settlement information reduces the effectiveness of the settlement as a mechanism for accounting for all monies the collector was charged with collecting.

Conditions similar to A and C were also noted in our two prior reports.

WE RECOMMEND the County Collector:

- A.1. Record the method of payment on tax receipts and reconcile the composition of tax receipts to deposits. Issue refunds of overpayments by check or mark the refund on the tax receipts if made by cash.
- 2. Receipt stamp partial payments, deposit partial payments intact, and discontinue cashing personal checks for county employees.
- B. Develop a partial payment ledger and monthly listing of open items and reconcile the open items listings to the undistributed partial payments held for taxpayers.
- C. Prepare complete and accurate annual settlements.

AUDITEE'S RESPONSE

- A.1. *I am considering new tax system software that would provide this capability. I will ensure composition of receipts is recorded and agreed to deposits. Refunds will be issued by check.*
- A.2. *I will either receipt stamp and deposit partial payments or discontinue accepting partial payments. If employee personal checks are cashed, I will ensure that the transaction is documented.*
- B. *I will either develop a partial payment ledger and deposit partial payments or discontinue accepting partial payments.*
- C. *I will include drainage district receipts and disbursements on the annual settlements.*

8.**Prosecuting Attorney's Controls and Procedures**

Accounting duties are not segregated, receipts are not processed timely and are not properly controlled until deposit or transmittal, bad checks are not adequately accounted for, and documentation is not obtained to verify restitution payments are passed through to victims. The Prosecuting Attorney collects, and distributes restitution and fees for bad checks and court ordered restitution. Restitution and fee receipts totaled approximately \$560,000 and \$640,000 for the years ended December 31, 2006 and 2005, respectively.

A. Accounting duties have not been adequately segregated in the Prosecuting Attorney's Office.

- One individual issues receipt slips for court ordered restitution and records the transactions to accounts receivable records. A second individual prepares the deposits, reconciles the composition of receipts to deposits, makes disbursements, prepares the open items listing, and reconciles the account balance to the bank statement and the open items listing. There are no other documented supervisory reviews of the court ordered restitution duties to ensure all monies receipted were deposited and disbursements were appropriate.
- The bad check bank reconciliations are performed by the office manager; however, all other duties are performed by one individual with no documented supervisory reviews of the completeness and composition of receipts to deposits, disbursements, or posting of transactions to the accounts receivable records.

Internal controls would be improved by segregating the duties of receiving and depositing monies from recording and reconciling receipts. If proper segregation of duties cannot be achieved, at a minimum, periodic supervisory reviews of the records should be performed and documented.

B. Monies received are not always deposited or transmitted intact or in a timely manner and are not properly controlled until deposit or transmittal. Monies are normally collected each business day, but deposits and transmittals are usually made only five to seven times per month. In addition, bad check receipts are not always posted to the accounts receivable records in the order received and are not deposited until after being posted, resulting in some monies not being deposited intact.

- The court ordered restitution account bank records for seven months from 2006 and 2005 indicated that deposits were made approximately five times per month and averaged approximately \$1,400.

- The bad check account bank records for seven months from 2006 and 2005 indicated that deposits were made approximately seven times per month and averaged approximately \$1,800.
- The Bad Check Fund receipt records for 2006 indicate the Prosecuting Attorney's office transmitted bad check fees to the County Treasurer approximately one time per week and the transmittals averaged approximately \$2,000.

The Prosecuting Attorney's bank records indicate that approximately seventy percent of criminal restitution and sixty percent of bad check restitution collections deposited are in the form of cash. In addition, checks and money orders are not restrictively endorsed immediately upon receipt and monies are not held in a safe or other secure location until deposited or transmitted.

Deposits or transmittals should be made intact on a timely basis and checks and money orders should be restrictively endorsed immediately upon receipt. Deposits should be more frequent if significant amounts of cash are collected and monies should be secured in a safe or other secure location until deposited or transmitted.

- C. An adequate review of the system to account for all bad checks received by the Prosecuting Attorney's office as well as the subsequent disposition of these bad checks has not been established. Currently, merchants complete an unnumbered complaint form at the time the bad check is turned over to the Prosecuting Attorney for collection. Information from the complaint form is entered into the computer system. In addition, the complaint form and information regarding the handling of each case is maintained in the individual case files and all pending case files are stored together. The computer system assigns a sequential case number to the complaint forms as they are entered and allows information related to collection, court proceedings, and disposition to be recorded on each case. However, the Prosecuting Attorney's staff has not generated and used reports available from the system to account for the numerical sequence of all cases or to ensure cases are appropriately collected or prosecuted as applicable.

To ensure all bad checks turned over to the Prosecuting Attorney are handled and accounted for properly, periodic reports of the complaints entered on the computer system should be generated and reviewed. This review should ensure the numerical sequence of each case is accounted for and that the status or disposition of each case in the computer system is appropriate.

- D. Money orders received for repayment of bad checks or court ordered restitution are not always deposited but may be forwarded directly to the victim and documentation is not obtained from the merchant to ensure payments are received. Good internal control procedures require that documentation, such as a receipt slip, be obtained when monies are transmitted via a money order. Failure to do so increases the risk that loss or misappropriation of funds will not be detected on a timely basis.

Conditions similar to A, B, and C were also noted in our two prior reports.

WE RECOMMEND the Prosecuting Attorney:

- A. Segregate accounting duties to the extent possible and ensure periodic supervisory reviews are performed and documented.
- B. Deposit or transmit all monies intact on a timely basis, restrictively endorse checks and money orders immediately upon receipt, and adequately secure monies until deposited or transmitted.
- C. Generate and review reports that account for the completeness and handling of all bad check complaints.
- D. Obtain documentation when money orders are turned over directly to the victim.

AUDITEE'S RESPONSE

- A. *We have now implemented additional segregations of duties and supervisory reviews to ensure the accuracy of accounting records.*
- B. *We are now depositing receipts daily and we ensure receipts are deposited intact when possible. All monies held overnight are now secured in the safe. In addition, checks and money orders made payable to the Prosecuting Attorney or County Treasurer are now restrictively endorsed when received.*
- C. *We are now generating reports of bad checks in complaint number order which are used by an independent employee to monitor for payment or filing of charges. The Assistant Prosecuting Attorney now receives and reviews monthly reports of case statuses.*
- D. *We do not feel it would be feasible to obtain receipts from victims due to the large volume of activity, limited staff, and low probability of receiving responses from all victims when money is remitted to them. We will take this recommendation under consideration.*

9. Public Administrator's Controls and Procedures
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Annual settlements are not filed timely, there is no policy to direct the type of accounts that wards' monies are deposited into, and some wards' funds are not adequately secured. The Public Administrator acts as the court-appointed personal representative for wards of the Circuit Court and is responsible for receiving, disbursing, holding and accounting for the assets of those individuals. As of December 31, 2006, the Public Administrator maintained bank accounts for approximately 230 wards.

- A. Annual settlements were not always filed in a timely manner. For each ward, the Public Administrator is required to file an annual settlement with the court which reflects a detailed list of assets held as well as financial activity for the year. The court notifies the Public Administrator of approaching settlement due dates; however, settlements were still filed late. We reviewed annual settlements due in 2005, 2006, or 2007 for five cases. Seven settlements were filed between two to twelve months after the due date. Two more settlements that had not yet been filed as of the date of our review were four months delinquent.

Section 473.540, RSMo, requires the Public Administrator to file with the court an annual settlement for each ward on the anniversary of the date of becoming the personal representative. Timely settlements are necessary for the court to properly oversee the administration of cases and reduce the possibility that errors or misuse of funds will go undetected.

- B. Neither the Circuit Court nor the Public Administrator have established a policy to direct the type of accounts that wards' monies are deposited into. The Public Administrator conducted the court ordered sale of a ward's real estate in December 2005 and deposited the proceeds totaling \$256,275 in a non-interest bearing checking account. The account balance was not transferred to an interest bearing account until May 2007. Potential interest earned on the deposit over the seventeen month period could have totaled almost \$11,000 had the Public Administrator secured an interest rate for the deposit of 3%.

Sections 473.333 and 475.190, RSMo direct the Public Administrator to invest surplus monies in direct obligations of the United States, obligations unconditionally guaranteed by the United States, or federally insured savings accounts. Failure to invest surplus monies deprives wards of potential income.

- C. The Public Administrator has not established adequate procedures to ensure all client balances are adequately secured. The Public Administrator maintained funds of up to several hundred thousand dollars for some clients which significantly exceeded the Federal Deposit Insurance Corporation (FDIC) coverage of \$100,000. No collateral securities were pledged by the depository banks to cover the monies in excess of the FDIC coverage.

Section 110.020, RSMo, provides the value of the securities pledged shall at all times be not less than 100 percent of the actual amount on deposit less the amount insured by the FDIC. Inadequate collateral securities leave funds unsecured and subject to loss in the event of a bank failure.

A condition similar to A was also noted in our prior report.

WE RECOMMEND:

- A. The Public Administrator ensure annual settlements are filed in a timely manner.

- B. The Circuit Court and Public Administrator ensure monies held on behalf of wards of the court are adequately invested in accordance with state law.
- C. The Public Administrator ensure adequate collateral securities are pledged for all funds on deposit in excess of FDIC coverage.

AUDITEE'S RESPONSE

- A. *The current case load of the office does not allow for timely filing of settlements. I have now requested authorization for an additional part-time employee to help us get caught up.*
- B. *I will work with the Judge to develop an investment policy to ensure large balances are appropriately invested.*
- C. *I will discuss obtaining collateral or other security agreements with the applicable depository banks.*

10.	Sheriff's Controls and Procedures
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The Sheriff Department's procedures related to accounting duties, processing of monies, and open item reconciliations are in need of improvement. Department personnel indicated they processed approximately \$330,000 and \$380,000 during the years ended December 31, 2006 and 2005, respectively, in inmate monies, prisoner board bill payments, civil and criminal case fees, bonds, and gun permits.

- A. Cash custody and recordkeeping duties have not been adequately segregated in the Sheriff's Department. Although jail staff receive inmate and bond monies, only the bond monies are immediately receipted in the jail while inmate monies are receipted by the jail administrator on the following business day. The jail administrator also prepares deposits, disburses monies, and prepares bank reconciliations for the inmate and bond bank accounts. In addition, an office clerk bills and collects civil and criminal monies, prepares receipts and deposits, disburses monies, and prepares bank reconciliations for the civil and criminal bank account. There are no documented independent reviews of the accounting records performed by the office supervisor or the Sheriff.

Internal controls would be improved by segregating the duties of receiving and depositing monies from recording and reconciling receipts. If proper segregation of duties cannot be achieved, at a minimum, periodic supervisory reviews of the records should be performed and documented.

- B. Prenumbered receipt slips are not issued for inmate monies at the time they are initially received. Jail staff receive inmate monies; record the date, amount, and name of the inmate on an envelope; and place the monies inside the envelope and into a locked collection box. The jail administrator retrieves the inmate monies each

business day from the collection box, completes prenumbered receipt slips, and prepares the bank deposits. In addition, although prenumbered receipts are issued by the jail staff at the time bonds are received, an independent person does not account for the numerical sequence of either the inmate or bond receipt slips or reconcile the composition of either type of receipt slips issued to the composition of related deposits.

Internal controls would be improved by issuing receipt slips immediately upon receipt of all monies and providing for an independent accounting for the numerical sequence of receipt slips and a reconciliation of the composition of receipt slips issued to the composition of the deposits. Without issuing and accounting for prenumbered receipt slips for all monies collected, including the method of payment, the Sheriff's Department cannot ensure all monies collected are ultimately recorded and deposited.

- C. Open items listings are not prepared for the inmate funds account. Although the daily receipt and disbursement activity is reconciled to the inmate funds ledger maintained in the jail data base, the inmate balances from the fund ledger are not periodically compared to the checking account balance. At our request, the Sheriff's Department prepared an open items listing during August 2007 and attempted to reconcile the listing to the reconciled bank balance. However, the open items list may not have contained all accounts with open balances. For example, negative inmate accounts were excluded from the open items report and only accounts for currently incarcerated inmates or inmates with release dates in 2006 or 2007 were included in the open items listing. The Sheriff's Department believes that some inmates' balances from prior years are not accurate.

Accurate open items listings prepared on a regular basis and reconciled to cash balances are necessary to properly document all known liabilities and to detect and correct errors timely. Reconciling the cash balances to an open items listing is necessary to ensure underlying records are in balance and that sufficient cash is available to pay all liabilities. The Sheriff's Department should investigate any differences noted in these reconciliations and take appropriate action.

Conditions similar to C were also noted in our prior reports dating back to the two years ended December 31, 1998 and in our special review of the Butler County Sheriff's Inmate and Commissary Accounts dated November 10, 1999 which also reported missing monies. Immediate improvements in controls over inmate funds are necessary to ensure that inmate funds are properly accounted for.

WE RECOMMEND the Sheriff:

- A. Segregate accounting duties to the extent possible and ensure periodic supervisory reviews are performed and documented.

- B. Require prenumbered receipt slips be issued for all monies immediately upon receipt. In addition, ensure an independent person accounts for the numerical sequence of the receipt slips and reconciles the composition of receipt slips to deposits.
- C. Ensure inmate fund open items listings are accurately prepared monthly and reconciled to the account balances.

AUDITEE'S RESPONSE

A&B. I agree with these recommendations.

C. We will continue to work on inmate account open item reconciliations.

11. Board for the Care of the Handicapped

The Board for the Care of the Handicapped does not adequately monitor budgets or expenditures and minutes of board meetings are not signed by the Board's president or secretary to indicate approval. The Board receives income from property taxes and other miscellaneous sources and contracts with three not-for-profit (NFP) agencies to provide sheltered workshop, residential, and transportation services to handicapped Butler County citizens. During 2006 and 2005, the Board paid the NFPs approximately \$407,000 and \$360,000, respectively, for various services. The County Treasurer serves as custodian for the Care of the Handicapped Fund.

- A. The Board is not adequately monitoring the use of monies provided to the various NFP agencies. The Board meets only two times per year to approve funding for the various agencies. The Board then relies on the County Commission to approve periodic payments to the agencies based upon schedules established by the annual budget or periodic requests received. The agencies' payment requests do not provide any supporting documentation of the services provided or use of Board funds. The ongoing master contracts with the agencies require them to submit information regarding the projects and goals undertaken and monthly financial reports or other documentation that would enable the Board to monitor the use of monies provided to the agencies. However, there was no documentation that the Board received any of the information required by the contracts.

The agencies submit annual funding requests to the Board which indicate anticipated revenues by source, including Board funds, and anticipated expenditures, but not beginning and projected ending amounts of cash balances on hand. The Board approves an annual amount of funding for each agency based on a review of the funding proposal. The Board funding provides a subsidy to each agency rather than paying for specific services and the annual funding agreements do not establish minimum levels of service necessary to earn the monies budgeted. As noted above, the Board does not obtain periodic reports or other information from the agencies

which would allow the Board to compare the budgeted activity to ongoing actual revenues and expenditures.

The Board does not have adequate assurance that funds provided to the agencies by the Board are spent appropriately due to inadequate monitoring efforts and inadequate supporting documentation for funds disbursed to the NFP's. The Board has a fiduciary responsibility to the citizens of Butler County to provide and document adequate oversight to ensure funds are expended appropriately and for the benefit of Butler County residents.

- B. Actual disbursements exceeded budgeted amounts for 2005 for the Care of the Handicapped Fund by approximately \$35,000. Expenditures were made during 2005 to two not-for-profit (NFP) agencies in excess of the NFPs' proposals for services which were approved by the Board in December 2004 and included in the Board's annual budget for 2005.

The Board's funds are held by the County Treasurer and disbursed by the County Clerk upon request by the NFPs after approval by the County Commission. The Board meets twice a year and the July 2005 board minutes indicate that the Board approved \$8,600 in additional expenditures for one NFP agency. However, the board minutes do not document the Board's discussion of additional expenditures of the other NFP agency totaling approximately \$27,700. In addition, the Board did not formally amend the budget for excess expenditures to either NFP, which would have required holding public budget hearings and filing an amended budget with the State Auditor's office.

Case law provides that strict compliance with county budget laws is required by county officials. If there are valid reasons which require excess disbursements (i.e., emergencies, unforeseen occurrences, and statutorily required obligations), amendments should be made following the same process by which the annual budget is approved, including holding public hearings and filing the amended budget with the State Auditor's office. To improve the effectiveness of the budgets as a planning tool and ensure compliance with state law, budget to actual comparison reports need to be reviewed and used when making spending decisions throughout the year.

- C. Board minutes are not consistently signed by the preparer. In addition, the minutes are not signed by the Board President or a designated member to attest to their completeness and accuracy. Minutes should be signed by the preparer and the Board President or a designated member to show that the minutes have been reviewed and accurately reflect the discussions held and actions taken in the previous meeting.

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

WE RECOMMEND the Board for the Care of the Handicapped:

- A. Ensure the master contracts or annual funding agreements establish minimum levels of service to be provided. In addition, obtain and review periodic reports of NFP

agency financial activity and project progress reports to ensure that public funds are expended for appropriate purposes.

- B. Review budget to actual reports carefully and refrain from approving disbursements which exceed budgeted amounts. If valid reasons necessitate excess disbursements, the original budget should be formally amended and filed with the State Auditor's Office.
- C. Ensure the minutes are signed by the preparer and the Board President or a designated member to attest to their completeness and accuracy.

AUDITEE'S RESPONSE

- A. *We have discussed this issue, agree with this recommendation, and will work with the contracting agencies to document expected levels of services to be provided to the board. We will establish requirements for reporting of services provided by the agencies and will review these reports for compliance with contractual requirements and annual funding agreements.*
- B. *We agree with this recommendation and will improve our documentation of budget review discussions. In addition, we are now planning on meeting on a quarterly basis and will perform budget reviews at those meetings. We will ensure the board's budget is formally amended and reported to the County Clerk and State Auditor's Office when necessary.*
- C. *We agree with this recommendation.*

12.

Senior Citizen's Board Controls and Procedures

The Senior Citizen's Board does not consistently require service providers to document how funds provided by the Board are spent. The Board received approximately \$207,000 and \$204,000 in 2006 and 2005, respectively, from property taxes, interest income, and other miscellaneous receipts. The Board provided funding in 2006 and 2005 to various service providers for nutrition, home health, transportation, and support services.

The Board's written contracts to provide funding require service providers to maintain documentation of how Board funds are spent and make those records available to the Board; however, the Board does not obtain or review this information from all the service providers. In addition, the contracts do not specify minimum levels of service or the information to be submitted by providers when requesting payment. While some service providers submit sufficient details to support payment requests such as copies of invoices, other service providers only submit summary totals for expenses such as number of individuals served, type and amount of services provided, wages, and mileage.

To ensure Board funds are properly expended, contracts should establish minimum levels of service expected and the documentation required to support payments requested. In addition, the detailed supporting records of the service providers should be reviewed periodically by the Board for agreement with payment requests.

WE RECOMMEND the Senior Citizen's Board should ensure the contracts establish minimum levels of services and documentation required to support payments requested. In addition, periodically review detailed supporting records documenting how funds provided by the Board are spent by the service providers and ensure agreement with the service providers' payment requests.

AUDITEE'S RESPONSE

We agree with this recommendation and will ensure contracts establish expected levels of services and will obtain monthly reports from the service providers to document actual services provided. We will compare services provided to expected levels of services.

Follow-Up on Prior Audit Findings

BUTLER COUNTY, MISSOURI
FOLLOW-UP ON PRIOR AUDIT FINDINGS

In accordance with *Government Auditing Standards*, this section reports the auditor's follow-up on action taken by Butler County, Missouri, on findings in the Management Advisory Report (MAR) of the audit report issued for the two years ended December 31, 2002. Any prior recommendations which have not been implemented, but are considered significant, are repeated in the current MAR. Although the remaining unimplemented recommendations are not repeated, the county should consider implementing those recommendations.

1. Officials' Salaries

- A. The county had not taken action on mid-term salary increases given to some elected officials in 1997, which appeared invalid based on a 2001 Missouri Supreme Court decision.
- B. The Prosecuting Attorney did not receive compensation equal to that of an Associate Circuit Judge as required by state law for a full-time prosecutor. This resulted in the Prosecuting Attorney receiving \$3,499, \$3,849, and \$7,460 less than the Associate Circuit Judge in 2002, 2001, and 2000, respectively.

Recommendations:

The County Commission:

- A. Review the impact of the decision and develop a plan for obtaining repayment of the salary overpayments.
- B. Review the salary payments made each year to the Prosecuting Attorney.

Status:

- A. Partially implemented. The County Commission indicated they consulted with the Prosecuting Attorney and decided not to pursue repayment of the salary overpayments.
- B. Implemented. The county paid the Prosecuting Attorney an agreed upon amount of \$12,000 in additional salary in 2004 in satisfaction of a total liability of \$17,740 for calendar years 2000 through 2003.

2. Budgetary Procedures

- A. Formal budgets were not prepared for various county funds and budgets were not obtained from other county officials for some county funds held outside the county treasury.
- B. Actual expenditures exceeded budgeted amounts in various funds.

- C. The county's published financial statements did not include appropriate revenue and expenditure detail as required by state law and did not include the financial activity of two county funds.

Recommendations:

The County Commission:

- A. Ensure financial information for all county funds is included in the budgets and that separate budgets are prepared for each fund.
- B. Not authorize expenditures in excess of budgeted amounts.
- C. Publish financial statements in accordance with state law and ensure all required financial information for all county funds is properly reported in the annual financial statements.

Status:

- A. Partially implemented. The County Commission has prepared or obtained budgets for all county funds held by the County Treasurer and most county funds held outside the county treasury. Budgets were not obtained for the Circuit Court's Interest and Time Payment Fee Funds during the audit period; however, a 2007 budget had been obtained for the Interest Fund and the County Clerk was working with the Circuit Clerk to obtain a 2007 budget for the Time Payment Fee Fund. Although not repeated in the current MAR, our recommendation remains as stated above.
- B. Not implemented. See MAR finding number 1.
- C. Implemented.

3. Payroll Procedures

- A. Centralized records were not maintained of time sheets or annual leave, sick leave, and compensatory time earned, taken, and accumulated for all county employees. As a result, a payroll check was issued in error for approximately \$596 to a part-time employee in the Collector's office but no effort had been made to recover the amount of the check. In addition, the Road and Bridge department supervisor tracked the time worked by the Road and Bridge employees and submitted time summaries to the County Clerk's office, however, the employees did not prepare individual time sheets or review the time summaries prepared by the supervisor.

- B. For the fourth quarter of 2002 and 2001 the County Clerk's office under-reported medicare wages and under-paid medicare taxes to the applicable taxing authorities.
- C. Procedures had not been established to ensure that IRS regulations regarding fringe benefits were followed. Three Road and Bridge employees and a Sheriff employee were allowed to use county vehicles to commute to and from work. The County Commission indicated those employees were considered on-call 24 hours a day for emergency situations; however, this policy was not documented in the employee manual.
- D. The Sheriff and deputies were not required to submit invoices or an itemized expense report to support the uniform allowance, nor were uniform allowances reported on W-2 forms.

Recommendations:

The County Commission:

- A. Require centralized records be maintained by the County Clerk's office of time worked, vacation, sick leave, and overtime earned, used, and accumulated. Consider action to recover the payroll check of \$596 that was issued in error to the part-time employee of the Collector's office. Require time sheets to be prepared and signed by Road and Bridge employees and properly reviewed and approved by the Road and Bridge supervisor prior to being submitted to the County Clerk's office.
- B. Implement payroll procedures to ensure that all payroll and payroll tax reporting is complete and correct and ensure a supervisory review is completed and documented.
- C. Comply with IRS guidelines for reporting fringe benefits related to county-owned vehicles. In addition, the county should establish a written policy for road and bridge employees regarding the appropriate use of county vehicles for commuting purposes.
- D. Require employees to submit invoices or itemized expense reports for uniform allowances or report the payments as other income on the employees' W-2 forms.

Status:

- A. Partially implemented. The county obtained repayment of the check issued in error. However, the county still has not established centralized records of leave and compensatory time and timesheets are still not prepared by some employees. See MAR finding number 4.
- B. Implemented.
- C. Partially implemented. The Sheriff's employee is no longer allowed to commute in a county vehicle. However, the county has still not developed a policy establishing the

allowability and reporting of commuting activity by the Road and Bridge Department personnel. See MAR finding number 4.

- D. Uniform allowances are no longer paid to the Sheriff and his deputies. The county now purchases all uniforms needed.

4. County Treasurer's Procedures

- A. The County Treasurer maintained twelve checking accounts. In addition, old outstanding checks dating back to 1999 totaled \$910 at December 31, 2002. A large number of bank accounts and old outstanding checks caused additional and unnecessary record keeping and increased the likelihood that errors would occur in recording transactions.
- B. Although the County Treasurer formally documented bank reconciliations for the county's bank accounts, unreconciled differences fluctuated between months and she did not always investigate significant differences noted.
- C. The County Treasurer used various methods to allocate interest earned to various funds she believed were required per statute to receive interest earned on balances, however, she did not retain documentation of how the allocation was computed. In addition, some significant funds were not included in the interest allocation process.

Recommendations:

The County Treasurer:

- A. Consider reducing the number of bank accounts maintained, and attempt to resolve the old outstanding checks and establish routine procedures to investigate checks outstanding for a considerable time.
- B. Reconcile the fund ledger to the county's bank accounts. Investigate and correct identified differences. Finally, consult the County Commission to determine the proper correcting entry for all unexplained differences.
- C. Retain documentation of interest distributions.

Status:

- A. Partially implemented. While the County Treasurer still maintains eleven bank accounts, the old outstanding checks have been resolved and routine procedures have been established to investigate checks outstanding for a considerable time. Although not repeated in the current MAR, our recommendation remains as stated above.
- B. Implemented. As of August 31 2007, the current County Treasurer has identified the reasons for approximately \$11,000 of unreconciled differences and related fund ledger posting errors, plans to make corrections to the fund ledgers where necessary,

and plans to seek approval from the County Commission for disposition of the remaining unidentified cash balance.

- C. Not implemented. Interest calculations are still not documented but are now based on the individual funds' balances as a percentage of the total fund balance. The methodology appears to be consistently applied and the calculations can easily be reproduced. Interest is not allocated to any fund with less than a \$10,000 balance. Although not repeated in the current MAR, our recommendation remains as stated above.

5. Collateral Securities

Collateral securities pledged by the county's depository bank to cover deposits of the County Treasurer and County Collector were insufficient. The county apparently had not adequately monitored the level of bank activity.

Recommendation:

The County Commission ensure adequate collateral securities are pledged to protect county funds. This can be done by monitoring bank activity and providing timely notice to the depository banks of the need for additional collateral securities.

Status:

Partially implemented. Collateral securities were sufficient to cover county deposits of the County Collector and County Treasurer at December 31, 2006 and 2005. However, the officials have not developed procedures to monitor the adequacy of collateral pledged by the bank. See MAR finding number 5.

6. Property Tax System and Computer Controls

- A. The County Clerk did not maintain an account book with the County Collector as a means for the County Clerk and the County Commission to verify the County Collector's annual settlements.
- B. The County Clerk did not verify the current and back tax books for accuracy.
- C.1. Access to the property tax programs and data files was not adequately restricted and passwords were not changed on a periodic basis to ensure confidentiality.
 - 2. The Treasurer and the County Clerk backed up the financial data; however, the backup disks were not stored at an off-site location.

Recommendations:

The County Commission work with the applicable county officials to:

- A. Ensure the County Clerk maintains an account book with the County Collector.
- B. Ensure the County Clerk formally verifies the accuracy of the tax books.
- C.1. Ensure access to specific computer programs/data files is restricted to authorized individuals through a system of passwords and security codes. Passwords should be unique by individual and changed periodically.
- 2. Ensure backup disks are prepared and stored in a secure, off-site location.

Status:

- A. Partially implemented. As of September 2007, the current County Clerk has established an account book with the collector for tax year 2007 and has charged the County Collector with the monies payable into the county treasury. The County Clerk indicated she plans to use the account book to verify the collections, delinquent credits, abatements, additions, and protested amounts reported by the County Collector for tax year 2007 on the annual settlement that will be submitted after the close of the tax year on February 29, 2008. Although not repeated in the current MAR, our recommendation remains as stated above.
- B. Partially implemented. The current County Clerk has implemented procedures to verify the accuracy of tax books. The back tax book totals have been verified and the County Clerk plans to verify the 2007 tax books when they become available. Although not repeated in the current MAR, our recommendation remains as stated above.
- C.1. Partially implemented. Access to the assessment and tax program data is properly restricted to the County Collector and County Assessor's offices, respectively. The County Assessor's office has established unique passwords which are changed annually; however, passwords are not periodically changed in the County Collector's office. Although not repeated in the current MAR, our recommendation remains as stated above.
- 2. Implemented.

7. Expenditures

- A. Bids were not always solicited or advertised nor was bid documentation always retained for various purchases by the county.
- B. The County Commission approved payments to Poplar Bluff Industries, Inc. for economic development without apparently requiring or retaining adequate supporting documentation of services provided as identified in engagement letters and contracts.
- C. The county paid the Poplar Bluff Chamber of Commerce for their portion of a retail

study but the County had no supporting documentation for the payment and a copy of the retail study had to be obtained directly from the Poplar Bluff Chamber of Commerce. In addition, there was no contract documenting the rights and obligations of each party and no documentation to support the county's share of the project costs.

- D. The County Commission obtained a loan, payable over a three-year period, to purchase road and bridge equipment. Given the terms, the loan may have constituted long-term debt which the County had no legal authority to incur.

Recommendations:

The County Commission:

- A. Solicit bids for all purchases in accordance with state law and maintain documentation of bids. If bids cannot be obtained and sole source procurement is necessary, the official commission minutes should reflect the necessitating circumstances.
- B. Obtain adequate supporting documentation for all payments to vendors and require detailed documentation to ensure payments are reasonable.
- C. Enter into written agreements for all services which specify all duties to be performed and the compensation to be paid.
- D. Ensure monies are borrowed in accordance with the provisions of state law.

Status:

- A. Partially implemented. While county minutes and bid files indicated the county bids numerous items, the county did not always document the reasons for considering purchases sole source, attempts to locate other vendors, or efforts made to ensure amounts paid to sole source vendors were reasonable. We noted 3 sole source purchases for which the reasons and other information were not adequately documented. Although not repeated in the current MAR, our recommendation remains as stated above.
- B. Implemented.
- C. Partially implemented. While contracts were noted for most applicable disbursements, the county made a \$2,500 payment to a company and a \$15,000 payment to the City of Poplar Bluff for economic development services for which contracts could not be located. Although not repeated in the current MAR, our recommendation remains as stated above.
- D. Implemented.

8. General Fixed Assets

Each county official was responsible for maintaining an inventory listing of the fixed assets in their office. Inventories were not always completed annually, and the inventory listings did not always include applicable information. Also, additions to the inventory listing were not reconciled to equipment expenditures to ensure all fixed assets were properly recorded.

Recommendation:

The County Commission establish a written policy related to the handling and accounting for general fixed assets. In addition to providing guidance on accounting and record keeping, the policy could include necessary definitions, address important dates, discuss procedures for the handling of asset dispositions, and any other concerns associated with county property.

Status:

Not implemented. See MAR finding number 6.

9. Board for the Care of the Handicapped

- A. The Board did not adequately monitor the use of monies provided to various not-for-profit (NFP) organizations. The Board met only one time a year to approve funding for the various organizations. In addition, minutes of the one meeting were not signed attesting to their accuracy.
- B. Actual expenditures exceeded budgeted amounts for the year ended December 31, 2002. As the board met only annually, it appeared they did not periodically monitor expenditures.

Recommendations:

The Board for the Care of the Handicapped:

- A. Adequately monitor the use of monies provided to NFP organizations. In addition, ensure board minutes are signed by the secretary as preparer and by the Board President to attest to their completeness and accuracy.
- B. Ensure the annual budget includes reasonable estimates of expenditures and keep expenditures within budgetary limits. Extenuating circumstances should be fully documented and budgets properly revised.

Status:

A&B. Not implemented. See MAR finding number 11.

10. County Collector's Accounting Controls and Procedures

- A. The tax receipts, while marked paid by the County Collector, did not indicate the method of payment. In addition, the composition of tax receipts was not reconciled to the composition of bank deposits.
- B. The County Collector did not deposit receipts intact. Monies received for partial payments of property taxes were held in cash in the County Collector's vault until full payment was received. Also, cash receipts were used to cash personal checks for county employees and cash refunds were made for overpayments of taxes and licenses paid by check.
- C. The County Collector's annual settlements did not reflect some drainage district tax collections and the annual settlement filed for the year ended February 28, 2003 showed collections exceeded distributions by approximately \$4,500.
- D. The County Collector indicated she had informal agreements to collect taxes and retain fees for five drainage districts created by the Circuit Court. However, state law would appear to require a contract with the county and that it be in writing.

Recommendations:

The County Collector:

- A. Indicate the method of payment on all paid tax statements. In addition, reconcile the composition of paid tax statements to the composition of deposits.
- B. Deposit all monies received for partial payments intact daily and ensure deposits are reconciled to the daily abstracts. In addition, the County Collector should discontinue the practice of cashing personal checks from tax receipts, and make refunds by check.
- C. File complete and accurate annual settlements.
- D. Enter into a written agreement for the collection of taxes and the amount of fees to be retained. In addition, the contract should address any county costs involved in the tax collection process.

Status:

A, B

&C. Not implemented. See MAR finding number 7.

D. Not implemented. While no written contracts have been obtained, the commissions being collected and retained comply with the amounts required in state statutes. Although not repeated in the current MAR, our recommendation remains as stated

above.

11. Prosecuting Attorney

- A. Accounting duties for bad check processing were not adequately segregated and a documented supervisory review was not performed by the Prosecuting Attorney.
- B. An adequate system to account for all bad check complaints received by the Prosecuting Attorney's office, timely processing, and the subsequent disposition of these complaints had not been established.
- C.1. Receipt slips were not issued for some monies received by the bad check office.
 - 2. Bad check and court-ordered restitution payments and fees were not deposited in the Prosecuting Attorney's bank accounts or transmitted to the County Treasurer on a timely basis. In addition, partial payments were sometimes held until payment was received in full.
 - 3. Cashiers checks and money orders received were not restrictively endorsed immediately upon receipt but instead were endorsed at the time the payments were processed into the bad check computer system.
- D. The Prosecuting Attorney's two bad check restitution checking accounts had old outstanding checks over one year old.
- E. The Prosecuting Attorney had not established a formal policy specifying when the court should be notified of unpaid cases. In addition, specific procedures had not been established to ensure follow-up collection efforts were adequate.

Recommendations:

The Prosecuting Attorney:

- A. Adequately segregate accounting duties to the extent possible or ensure periodic supervisory reviews are performed and documented in the bad check office.
- B. Implement procedures to adequately account for bad checks received, process bad checks in a timely manner, and account for the ultimate disposition.
- C.1. Issue pre-numbered receipt slips for all monies received and account for the numerical sequence of receipt slips.
 - 2. Deposit or transmit restitution and bad check fees daily or when accumulated receipts exceed \$100 and retain a listing documenting the monies that were transmitted or deposited.

- 3. Restrictively endorse cashiers checks and money orders immediately upon receipt.
- D. Attempt to contact the payees of old outstanding checks. If the payees cannot be located, the balance should be distributed in accordance with applicable statutory provisions and close the old bad check restitution bank account.
- E. Maintain a complete and accurate listing of delinquent unpaid court ordered restitution and bad check restitution and fees. In addition, written procedures should be established and implemented for pursuing the collection of such delinquent amounts.

Status:

- A. Partially implemented. While reconciliations of the bad check bank account are now performed by an independent individual, all other duties are performed by one individual with no documented supervisory review. See MAR finding number 8.

B&

- C.3. Not implemented. See MAR finding number 8.

C.1.

- &D. Implemented.

- C.2. Partially implemented. The Prosecuting Attorney's office documents monies included in each transmittal or deposit. However, transmittals and deposits are not made timely. See MAR finding number 8.

- E. Partially implemented. Written court ordered restitution collection procedures and listings of delinquent unpaid bad check cases and court ordered restitution cases have been developed. The Prosecuting Attorney's office is currently reviewing old bad check cases to determine if additional action or dismissal of the cases should be pursued with the court. However, collection procedures for bad check restitution and fees have not been formalized in writing. Although not repeated in the current MAR, our recommendation remains as stated above.

12. Sheriff's Accounting Controls and Procedures

- A. The Sheriff had not established a formal policy for follow up collection efforts for unpaid incarceration costs billed to other political subdivisions.
- B. The county housed prisoners for various political subdivisions and did not have any written contracts.
- C. The total of the prisoners' monies in the Sheriff's commissary checking account was not reconciled to the total of the individual prisoner balances maintained on computer files.

- D. Checks received were not always restrictively endorsed immediately upon receipt. .
- E.1. Documentation was not always adequate to support mileage reimbursements paid to the Sheriff for patrolling in his personal vehicle.
 - 2. Civil service fees and mileage was paid directly to the deputies who performed the paper service from the sheriff's fee account. Mileage relating to criminal cases such as transporting prisoners, criminal service, and patrolling was paid to the deputies from the county's General Revenue Fund monthly. There were no procedures in place to ensure that reimbursements paid directly to the deputies for civil mileage had not already been reimbursed by the General Revenue Fund.

Recommendations:

The County Commission and Sheriff:

- A. Establish written procedures for pursuing the collection of such delinquent amounts.
- B. Establish a billing rate appropriate for housing inmates in the County jail, and enter into written contracts as required by law.
- C. Reconcile the individual prisoner and commissary balances to the total of the monies in the account on a monthly basis.
- D. Restrictively endorse all checks immediately upon receipt.
- E.1. Maintain adequate documentation to support mileage claims.
 - 2. Establish procedures to ensure that mileage costs paid for civil paper service from the Sheriff's fee account have not already been reimbursed by the General Revenue Fund. Consider requiring all paper service fees to be remitted to the County Treasurer and discontinue reimbursing mileage costs from the Sheriff's fee account.

Status:

- A. Not implemented. A policy has not been established for pursuing collection of delinquent billings for incarceration costs. Billings totaling \$4,500 were written off in December 2006. However, the billing, monitoring, and write off duties have been segregated from collection duties and unpaid bills are maintained in a separate file until paid or written off. Although not repeated in the current MAR, our recommendation remains as stated above.
- B. Partially implemented. While the Sheriff has obtained written contracts with two counties for which he regularly houses prisoners at a reduced rate of \$30 per day, he does not have a written contract with the City of Poplar Bluff which pays a flat

quarterly fee of \$3,650. During 2006, about 69% of the approximately \$57,000 in prisoner boarding received from parties other than the state came from these three entities. In addition, the Sheriff has billed \$45 per day for incarceration of individuals for other political subdivisions for a number of years, but he has still not performed a review of the cost of incarcerating individuals to determine an appropriate billing rate. Although not repeated in the current MAR, our recommendation remains as stated above.

C. Not implemented. See MAR finding number 10.

D&

E.2. Implemented.

E.1. Not implemented. See MAR finding number 2.

13. Circuit Clerk's Accounting Controls

The open items listing of liabilities did not reconcile to the cash balance and old open items dating back to 1999 and prior were still being held.

Recommendation:

The Circuit Clerk reconcile the open items listings to the cash balance monthly. An attempt should be made to investigate the unidentified monies. In addition, establish procedures to routinely review the status of old open items. Any unclaimed or unidentified monies should be disposed of in accordance with state law.

Status:

Partially implemented. The Circuit Clerk has identified and resolved old open items. Open item reconciliations were discontinued upon conversion to the state's JIS accounting software in September 2005 but were resumed in May 2007 during our review. A reconciliation prepared for December 2006 indicated a \$1 unreconciled difference and no significant differences were noted with subsequent open items reconciliations performed by the Circuit Clerk. Although not repeated in the current MAR, our recommendation remains as stated above.

14. Probate Division's Accounting Controls and Procedures

A. Accounting duties were not adequately segregated and there was no documentation that an independent review of deposits and accounting records was performed.

B. Monies received were not deposited on a timely basis. In addition, the method of payment was not indicated on the one-write receipt slips and reconciled to the composition of the amounts deposited.

- C. While monthly listings of open items were prepared, the Probate reconciled bank balance exceeded the open items listing. In addition, the unidentified amount often varied from month to month.

Recommendations:

The Probate Division:

- A. Segregate accounting duties to the extent possible or ensure periodic independent reviews are performed and documented.
- B. Deposit receipts intact daily or when accumulated receipts exceed \$100. In addition, ensure the method of payment is indicated on all receipt slips and reconcile the composition of receipts to the composition of bank deposits.
- C. Determine reason for all unidentified cash balances and investigate fluctuations in the unidentified balance. After final review, all unidentified balances should be disposed of in accordance with the unclaimed property statutes.

Status:

A, B,

- &C. The Butler County Probate Division Court consolidated with the Butler County Circuit Court as of January 2005. All accounting controls and procedures of the Probate Division are now the responsibility of the Butler County Circuit Clerk. The prior issues identified appear to have been addressed and implemented within the Circuit Clerk's operations.

15. Public Administrator's Controls and Procedures

Annual settlements were not always filed in a timely manner by the Public Administrator.

Recommendation:

The Public Administrator ensure annual settlements are filed on a timely basis.

Status:

Not implemented. See MAR finding number 9.

16. Senior Citizens' Service Board

- A. The Senior Citizens' Service Board budgets did not include a comparative statement of actual receipts and disbursements for the two previously completed fiscal years, and the beginning and ending cash balance information was not provided. In addition, the Board did not perform a reconciliation of prior year's beginning cash,

receipts, and disbursements to the ending cash balance.

- B. The board minutes were prepared and signed by the Board Secretary, but the minutes were not signed by the Board President.

Recommendations:

The Senior Citizens' Service Board:

- A. Ensure budgets are complete and accurate.
- B. Ensure board minutes are signed by the Board President to attest to their completeness and accuracy.

Status:

A&B. Implemented.

STATISTICAL SECTION

History, Organization, and
Statistical Information

BUTLER COUNTY, MISSOURI
HISTORY, ORGANIZATION,
AND STATISTICAL INFORMATION

Organized in 1849, the county of Butler was named after William O. Butler, a Mexican War General. Butler County is a county-organized, third-class county and is part of the Thirty-Sixth Judicial Circuit. The county seat is Poplar Bluff.

Butler County's government is composed of a three-member county commission and separate elected officials performing various tasks. 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 approximately 1,100 miles of county roads and 365 county bridges, and performing miscellaneous duties not handled by other county officials. 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 county's population was 37,693 in 1980 and 40,867 in 2000. The following chart shows the county's change in assessed valuation since 1980:

		Year Ended December 31,					
		2006	2005	2004	2003	1985*	1980**
		(in millions)					
Real estate	\$	328.4	319.3	279.6	253.2	131.7	49.3
Personal property		121.3	123.9	110.0	109.6	20.8	17.7
Railroad and utilities		23.9	25.4	25.5	22.5	21.3	17.9
Total	\$	473.6	468.6	415.1	385.3	173.8	84.9

* First year of statewide reassessment.

** Prior to 1985, separate assessments were made for merchants' and manufacturers' property. These amounts are included in real estate.

Butler County's property tax rates per \$100 of assessed valuations were as follows:

		Year Ended December 31,			
		2006	2005	2004	2003
General Revenue Fund	\$.0995	.0995	.1100	.1300
Special Road and Bridge Fund		.0342	.0342	.0400	.0600
Health Center Fund		.0935	.0932	.0975	.0979
Developmentally Disabled Fund		.0935	.0932	.0975	.0979
Senior Citizen's Service Fund		.0466	.0465	.0487	.0489

Taxes collected were distributed as follows:

	Year Ended February 28 (29),			
	2007	2006	2005	2004
State of Missouri	\$ 137,479	131,336	121,589	115,262
General Revenue Fund	460,129	442,713	449,087	427,326
Special Road and Bridge Fund	155,244	149,775	159,948	152,001
Assessment Fund	253,811	242,545	223,779	177,496
Health Center Fund	422,804	403,756	389,707	372,364
Developmentally Disabled Fund	422,800	403,739	389,656	372,018
School districts	13,353,491	12,750,767	11,794,398	11,219,524
Community college	1,052,295	1,006,513	952,419	905,867
Ambulance district	69,992	65,940	66,150	63,876
Fire protection districts	603,489	580,156	546,799	523,586
Senior Citizen Board	210,679	201,395	194,598	186,028
Drainage districts	363,921	360,210	367,682	373,443
Tax Sales Surplus Fund	12,342	3,680	11,914	655
Cities	20,348	12,811	17,410	16,643
County Clerk	1,177	1,141	1,224	1,210
Publication fees	7,710	5,720	8,610	8,991
Tax Maintenance Fund	44,546	42,211	47,211	45,983
County Employees' Retirement	96,255	91,864	99,189	90,615
Surtax	265,079	260,656	253,489	228,342
Interest on investments	37,292	27,836	15,333	6,398
Commissions and fees:				
General Revenue Fund	296,287	284,641	270,975	258,069
County Collector	8,141	7,954	8,192	8,466
Total	\$ 18,295,311	17,477,359	16,389,359	15,554,163

Percentages of current taxes collected were as follows:

	Year Ended February 28 (29),				
	2007	2006	2005	2004	
Real estate	91	92	93	90	%
Personal property	89	91	90	91	
Railroad and utilities	100	100	100	100	

Butler County also has the following sales taxes; rates are per \$1 of retail sales:

		Rate	Expiration Date	Required Property Tax Reduction	
General	\$.0050	None	50	%
Road and Bridge Capital Improvements		.0025	None	None	
Butler County Corrections Center		.0025	None	None	

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

Officeholder	2007	2006	2005	2004	2003
County-Paid Officials:	\$				
Joe Humphrey, Presiding Commissioner		37,438	35,965	34,917	33,980
Jeffrey Darnell, Associate Commissioner		35,076	33,695	32,713	31,836
Robert Myers, Associate Commissioner		35,076	33,695	32,713	31,836
Debby Lundstrom, Recorder of Deeds		53,278	51,179	49,888	48,242
John Dunivan, County Clerk		53,278	51,179	49,689	48,242
Kevin Barbour, Prosecuting Attorney (1)		96,000	96,000	108,000	93,068
Mark L. Dobbs, Sheriff		57,428	55,167		
Bill R. Heaton, Sheriff				53,560	52,124
Bonita Conover, County Treasurer		49,698	47,740	46,350	45,107
Larry Cotrell, County Coroner		18,896	18,152	17,624	17,151
Sharron Payne, Public Administrator		53,278	51,179	49,689	48,242
Brenda Fox, County Collector (2), year ended February 28 (29),	61,689	59,456	58,110	56,930	
Marion Tibbs, County Assessor (3), year ended August 31,		53,239	51,351	49,953	49,102

- (1) The amount for 2004 includes a payment of \$12,000 to compensate for salary underpayments in previous years.
- (2) Includes \$8,141, \$7,954, \$8,192, and \$8,466, respectively, of commissions earned for collecting drainage district property taxes.
- (3) Includes \$688, \$688, \$765, and \$900 annual compensation received from the state in 2006, 2005, 2004, and 2003, respectively.

State-Paid Officials:

Betty Scott, Circuit Clerk	49,470	46,479		
Jane Shain-Bucy, Circuit Clerk			47,850	13,796
Wanda Ellsworth, Circuit Clerk				33,504
John Bloodworth, Associate Circuit Judge	96,000	96,000	96,000	96,000
William Clarkson, Associate Circuit Judge	96,000	96,000	96,000	96,000