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Missouri State Auditor

Shelby County



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Office Of The
State Auditor Of Missouri
Susan Montee, CPA

October 2008

The following findings were included in our audit report on Shelby County:

Numerous control weaknesses were noted during our review of the County Collector's procedures. Accounting duties are not adequately segregated, the composition of receipts is not reconciled to the composition of bank deposits, bank reconciliations are not prepared, and voided checks are not maintained. Procedures to prepare monthly and annual settlements are not adequate, and the annual settlement for the year ended February 29, 2008, contained errors and omissions. The County Collector does not have written agreements with the cities for which he performs property tax collection services and does not distribute some commissions in accordance with state law. The former County Collector used Tax Maintenance Fund monies to purchase computer equipment used by another county official.

The County Collector does not prepare listings of open items (liabilities) and does not reconcile open items to the cash balance. Upon our request, the County Collector attempted to reconcile the cash balance to liabilities, and at February 29, 2008, liabilities exceeded the cash balance by approximately \$2,900. The County Collector should follow up on the difference between the cash balance and liabilities, and reimburse his official account for any shortages in the account.

Property tax system procedures and computer controls need improvement. Reports of changes made to the tax records are not prepared. Neither the County Clerk nor the County Commission adequately review property tax additions and abatements. The County Clerk's account book with the County Collector is incomplete, and the County Collector's annual settlement is not reviewed for accuracy. Also, computer system security and backup procedures are not adequate.

The financial condition of the General Revenue and Special Road and Bridge Funds has declined in the past two years. The county cannot continue to spend more than is received in these funds as the cash balances are steadily declining. Consideration should be given to finding ways to increase receipts and decrease disbursements to improve the financial condition of these funds.

Also included in the report are recommendations related to capital asset records and procedures, controls over fuel usage, cellular phone policies, written contracts with organizations that receive county funds, sale of road and bridge materials, and bidding procedures.

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

YELLOW SHEET

SHELBY COUNTY

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STATE AUDITOR'S REPORT



SUSAN MONTEE, CPA
Missouri State Auditor

To the County Commission
and
Officeholders of Shelby County

We have audited certain operations of Shelby County in fulfillment of our responsibilities under Section 29.230, RSMo. In addition, Charles Buchanan CPA, PC, Certified Public Accountants, has been engaged to audit the financial statements of Shelby County for the two years ended December 31, 2007. The scope of our audit included, but was not necessarily limited to, the two years ended December 31, 2007. The objectives of our audit were to:

1. Determine if the county has adequate internal controls over significant management and financial functions.
2. Determine if the county has complied with certain legal provisions.
3. Evaluate the economy and efficiency of certain management practices and operations, including certain revenues and expenditures.
4. Determine the extent to which recommendations included in our prior audit report were implemented.

Our methodology included reviewing minutes of meetings, written policies and procedures, financial records, and other pertinent documents; interviewing various personnel of the county, as well as certain external parties; and testing selected transactions.

We obtained an understanding of internal controls that are significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. However, providing an opinion on the effectiveness of internal controls was not an objective of our audit and accordingly, we do not express such an opinion.

We obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contract, grant agreement, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting

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

We conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis.

The accompanying History, Organization, and Statistical Information is presented for informational purposes. This information was obtained from the county's management and was not subjected to the procedures applied in our audit of the county.

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



Susan Montee, CPA
State Auditor

The following auditors participated in the preparation of this report:

Director of Audits:	Alice M. Fast, CPA
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MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

SHELBY COUNTY
MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

1. County Collector's Accounting Controls and Records

Numerous control weaknesses were noted during our review of the County Collector's procedures. Accounting duties are not adequately segregated, the composition of receipts is not reconciled to the composition of bank deposits, bank reconciliations are not prepared, and voided checks are not maintained. Procedures to prepare monthly and annual settlements are not adequate, and the annual settlement for the year ended February 29, 2008, contained errors and omissions. Monthly listings of open items (liabilities) are not prepared. The County Collector does not have written agreements with the cities for which he performs property tax collection services and does not distribute some commissions in accordance with state law. The former County Collector used Tax Maintenance Fund monies to purchase computer equipment used by another county official.

The current County Collector's term of office began effective March 1, 2007, and collections for the year ended February 29, 2008, totaled approximately \$4.8 million.

- A. Accounting duties are not adequately segregated. The Deputy Collector is primarily responsible for performing all daily functions, such as receiving monies and recording receipts into the computer system, preparing deposits, and reconciling the computer system's receipts summary (daily abstracts) to deposits. There are no independent reviews of the work performed by this employee.

To safeguard against possible loss or misuse of funds, internal controls should provide reasonable assurance that all transactions are accounted for properly and assets are adequately safeguarded. Internal controls would be improved by segregating the duties of receiving and depositing monies from that of recording and reconciling receipts. If proper segregation of duties cannot be achieved, at a minimum, procedures for adequate independent review should be established.

- B. The composition of receipts is not reconciled to the composition of bank deposits. The County Collector stated payments received in cash are noted on the paid tax statements; however, the County Collector has no procedures to reconcile the composition of receipts to deposits. To ensure all monies are properly accounted for and deposited, the composition of receipts should be reconciled to the composition of the bank deposits.
- C. The County Collector does not maintain a checkbook balance and does not prepare bank reconciliations. In addition, voided checks are not maintained but are discarded by the County Collector. Upon our request, the County Collector computed the checkbook balance and prepared a bank reconciliation as of

February 29, 2008. The checkbook balance agreed to the reconciled bank balance.

The maintenance of a checkbook balance and preparation of monthly bank reconciliations are necessary to ensure accounting records agree with bank records and errors are discovered on a timely basis. In addition, to ensure all checks are properly accounted for, voided checks should be mutilated and retained.

- D. The County Collector's procedures for preparing monthly and annual settlements appear inadequate, and the annual settlement for the year ended February 29, 2008, contained errors and omissions.

Monthly, the County Collector enters the abstract totals from the computerized tax system into an Excel spreadsheet to create a monthly settlement of collections and distributions. The County Collector does not retain copies of daily or monthly abstract totals, and the computer system apparently cannot re-print these daily or monthly totals. As a result, it is difficult to verify the accuracy of the monthly settlements.

At the end of the year, the County Collector prints annual abstract totals recorded on the computerized tax system. He also prints an annual statement of collections and distributions compiled from the totals of the monthly settlements. The County Collector uses the information from these two annual reports to prepare the annual settlement; however, the information on these two annual reports did not agree. In addition, the County Collector did not adequately document how the amounts on the annual settlement were obtained from or agreed to his various records. Collections should agree to distributions on the annual settlement; however, reported distributions were \$2,786 more than reported collections.

Finally, some amounts were not reported on the annual settlement, including drainage district collections of \$2,059, forest crop land collections of \$1,703, and payments in lieu of taxes of \$1,272. License collections distributed to the County Employees' Retirement Fund (CERF) were double-counted and overstated by \$2,500 on the annual settlement.

The County Collector should adopt procedures to retain monthly abstract information and ensure monthly settlements agree to the monthly abstracts. In addition, the County Collector should ensure complete and accurate annual settlements are prepared and agreed to the applicable accounting records. Incomplete and/or inaccurate annual settlement information reduces the effectiveness of the settlement as a mechanism for accounting for all monies the collector was charged with collecting.

- E. Monthly listings of open items (liabilities) are not prepared. We requested the County Collector prepare a liabilities listing as of February 29, 2008. This

liabilities listing exceeded the reconciled cash balance by approximately \$2,900. As noted in Part D above, the County Collector's annual settlement reported that distributions were higher than collections by approximately \$2,800, so it appears the County Collector may have distributed more than he collected.

A complete and accurate listing of open items should be prepared monthly and reconciled to the cash balance to ensure records are in balance and sufficient funds are available for the payment of all liabilities. The County Collector should follow up on the difference between the cash balance and liabilities, and reimburse his official account for any shortages in the account.

F. The County Collector does not have current written agreements for city property tax collection services performed. In addition, the County Collector does not distribute commissions paid by taxpayers on delinquent city tax payments in accordance with state law. The County Collector personally retained city commissions totaling \$2,930 for the year ended February 29, 2008.

1. The County Collector collects city property taxes for the cities of Bethel, Clarence, and Hunnewell, and personally retains commissions for performing these services. The written agreements currently in effect were negotiated by the former County Collector in 2004 (Clarence) and 2005 (Bethel and Hunnewell).

Section 50.332, RSMo, allows county officials, subject to the approval of the county commission, to perform services for cities that they normally provide to the county for additional compensation. Section 432.070, RSMo, requires all such contracts be in writing.

2. A seven percent additional commission is paid by the taxpayers for delinquent city tax collections, and the County Collector retains the entire amount of these commissions. The collection and distribution of these commissions is not addressed in the former County Collector's written agreements.

Section 52.290, RSMo, provides the seven percent additional delinquent tax commission shall be distributed as follows: two-sevenths into the county General Revenue Fund, two-sevenths into the Tax Maintenance Fund, and three-sevenths into the CERF.

Current written contracts, signed by the cities, the County Collector, and the County Commission, should be prepared. The contracts with the cities should clearly define the amount of additional commissions to be assessed, and address the distribution of these commissions.

G. During February 2007, the former County Collector spent \$1,600 from the Tax Maintenance Fund on computer equipment for use by the County Treasurer.

Sections 52.312 and 52.315, RSMo, restrict the use of Tax Maintenance Fund monies for costs and expenses incurred in the office of the County Collector. The use of these restricted funds to purchase equipment benefiting an office other than the County Collector does not appear to comply with state law.

WE RECOMMEND the County Collector:

- A. Adequately segregate duties or establish procedures for documented supervisory reviews.
- B. Reconcile the composition of receipts to the composition of bank deposits.
- C. Maintain a checkbook balance for the bank account, prepare and document monthly bank reconciliations, and retain all voided checks.
- D. Retain monthly abstract totals and agree them to the monthly settlements of collections and distributions. In addition, the County Collector should prepare complete and accurate annual settlements and ensure the amounts reported on the settlements agree to the applicable accounting records.
- E. Prepare monthly listings of liabilities and reconcile the listings to the cash balance. Any unidentified differences should be investigated and resolved, and the County Collector should reimburse his official account for any shortages.
- F. Work with the County Commission to obtain current written agreements with the cities for tax collections. The agreements should address the collection of delinquent tax commissions, and the County Collector should ensure these commissions are distributed in accordance with state law.
- G. Ensure all expenditures from the Tax Maintenance Fund are reasonable and in accordance with state law.

AUDITEE'S RESPONSE

The County Collector provided the following response:

- A. *Segregation of duties is not possible with our limited staff; therefore, I will implement an independent review of the Deputy Collector's work.*
- B&C. *We agree and will implement these recommendations.*
- D. *We agree and will implement this recommendation. In addition, we have begun retaining copies of the daily and monthly abstracts.*

- E. *We agree and will implement this recommendation. In addition, we are thoroughly reviewing all transactions and re-creating all abstracts from tax year 2007 in order to reconcile and investigate the unidentified differences noted in the audit report.*
- F. *We agree to work with the County Commission to obtain current written agreements with all cities. We will investigate the proper disposition of the delinquent commissions and take up the matter with the cities.*
- G. *The Tax Maintenance Fund is taxpayer money and will be used to the taxpayers' benefit.*

2. Property Tax System and Computer Controls

Property tax system procedures and computer controls need improvement. Reports of changes made to the tax records are not prepared. Neither the County Clerk nor the County Commission adequately review property tax additions and abatements. The County Clerk's account book with the County Collector is incomplete, and the County Collector's annual settlement is not reviewed for accuracy. Also, computer system security and backup procedures are not adequate. For the year ended February 29, 2008, taxes charged to the County Collector totaled approximately \$5.1 million.

- A. A change report, which reflects changes to tax records, is not generated by the County Collector. While taxes added or abated are reflected in the computer system, there is no record of other changes made to a tax record. For example, when the bank returns a check as unpaid due to insufficient funds, the County Collector marks a previously paid tax record as unpaid in the system. After such a change is made to a tax record, there is no record of the information previously recorded in the file. This reduces control over the collection of taxes and could result in undetected misstatements of collections or delinquent taxes.
- B. Controls over property tax additions and abatements are not adequate. Addition and abatement requests are prepared by the County Assessor and submitted to the County Collector and County Clerk. The County Collector enters the changes to the computerized property tax records and provides a copy of the changed property tax record to the County Clerk. However, the County Clerk does not use the records provided to her by the County Assessor and County Collector to perform an independent and subsequent review of the actual changes made to the property tax system.

In addition, the County Commission does not review or approve addition and abatement requests as they are submitted to the County Clerk. For the year ended February 28, 2007, the former County Collector filed a yearly report of total additions and abatements generated by the County Collector which was approved by the County Commission. The current County Collector was unaware of this procedure and did not file a yearly report for the year ended February 29, 2008. As a result, additions and abatements, which constitute changes to the amount of

taxes the County Collector is charged with collecting, are not properly monitored and errors or irregularities could go undetected.

Sections 137.260 and 137.270, RSMo, assign responsibility to the County Clerk for making changes to the tax books with the approval of the County Commission. If this is not feasible given the county's property tax system setup and procedures, the County Clerk should periodically reconcile approved additions and abatements to actual changes made to the system.

- C. The County Clerk's account book does not include tax charges or additions and abatements, and cannot be used to adequately verify the County Collector's annual settlement. In addition, the County Clerk and County Commission indicated they do not review the County Collector's annual settlement for accuracy. As noted in Management Advisory Report (MAR) 1, the County Collector's annual settlement for the year ended February 29, 2008, contained errors and omissions.

An account book should summarize all taxes charged to the County Collector, monthly collections, delinquent credits, additions and abatements, and protested amounts. A complete account book would enable the County Clerk to ensure the amount of taxes charged and credited to the County Collector each year is complete and accurate and could also be used by the County Commission to verify the County Collector's annual settlement. Such procedures are intended to establish checks and balances related to the collection of property taxes.

- D. Access to the property tax system is not adequately restricted as follows:
- User identifications and passwords are not used in the County Collector's office. The lack of an effective system of user identifications and passwords may allow unauthorized access and/or changes to the system. To establish individual responsibility, as well as help preserve the integrity of computer programs and data files, access to information should be limited to authorized individuals through the use of user identifications and passwords. A unique user identification and password should be assigned to each user of a system. These should be kept confidential and passwords should be changed periodically to help limit unauthorized access to computer files.
 - No security system is in place to detect and prevent incorrect log-on attempts. To help protect computer files, a security system should be implemented to stop incorrect log-on attempts after a certain number of tries. Such a system should produce a log of the incorrect attempts, which should be reviewed periodically by an authorized official.
 - No security system is in place to shutdown the computer system after a certain period of inactivity, and the County Collector does not shut down

the computer system on a daily basis. To help protect computer files, a security system should be implemented to shut down the system after a certain period of inactivity and the County Collector should ensure the system is shut down each evening to prevent unauthorized access to the office's program and data files.

- E. Backup disks of information, which could be used to provide a means of recreating destroyed master disks, are not stored offsite. As a result, damage to these computer systems could make it difficult, or even impossible, to retrieve or recreate lost program modifications and/or data. Preparation of backup disks, along with offsite storage, would provide increased assurance that methods are available to restore any lost data or program modifications.

WE RECOMMEND the County Commission:

- A. And the County Collector review the possibility of generating periodic change reports. In addition, the change reports should be reviewed by an independent party and any unusual items investigated.
- B. And the County Clerk develop procedures to ensure all property tax additions and abatements are properly approved and monitored as they occur.
- C. And the County Clerk maintain a complete account book with the County Collector, and use the account book to verify the accuracy of the County Collector's annual settlement.
- D. And the County Collector consult with the computer programmer and establish procedures to restrict access to computer files, including the use of unique user identifications and passwords to authorized individuals, security systems to stop and report incorrect log-on attempts after a certain number of attempts, and shut-down of the system after a certain period of inactivity. In addition, the County Collector should shut down the system daily.
- E. And the County Collector ensure that backup disks are prepared and stored in a secure offsite location.

AUDITEE'S RESPONSE

The County Commission and County Clerk provided the following response:

- A. *We will discuss this matter with the County Collector to review the possibility of implementing this recommendation.*
- B. *We will review additions and abatements on a monthly basis and ensure they agree with the records provided to the County Clerk.*

- C. *The County Clerk has all of the data necessary to implement this recommendation. We will compile the data to maintain a complete account book that can be used to verify the accuracy of the County Collector's annual settlements.*
- D. *We will discuss this recommendation with the County Collector and take it into consideration.*
- E. *We agree and will work with the County Collector to implement this recommendation.*

The County Collector provided the following response:

- A. *We agree and will work with the County Commission to review the possibility of implementing this recommendation.*
- D. *We will discuss this with the County Commission and determine the feasibility of making the suggested changes.*
- E. *We agree and will implement this recommendation.*

3.	Financial Condition
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The financial condition of the General Revenue and Special Road and Bridge Funds has declined in the past two years. The following table reflects the receipts, disbursements, and cash balances of these funds for the two years ended December 31, 2007:

		Year Ended December 31,	
		2007	2006
General Revenue Fund			
Cash Balance, January 1	\$	231,796	286,295
Receipts		1,062,962	1,051,736
Disbursements		(1,101,574)	(1,106,235)
Cash Balance, December 31	\$	193,184	231,796
Special Road and Bridge Fund			
Cash Balance, January 1	\$	99,052	110,239
Receipts		960,449	1,446,413
Disbursements		(1,004,862)	(1,457,600)
Cash Balance, December 31	\$	54,639	99,052

Based on the 2008 budget, it appears the financial condition of the funds will not improve during the current year. The 2008 General Revenue Fund budget reflects anticipated receipts of \$1,118,499 and appropriated disbursements of \$1,221,578, resulting in an estimated ending cash balance of \$90,105. The 2008 Special Road and Bridge Fund budget reflects anticipated receipts of \$963,500 and appropriated disbursements of \$965,346, resulting in an estimated ending cash balance of \$52,793.

The county cannot continue to spend more than is received in these funds as the cash balances are steadily declining. Consideration should be given to finding ways to increase receipts and decrease disbursements to improve the financial condition of these funds.

One area of consideration for the General Revenue Fund is the various restricted special revenue funds administered by elected officials. Many of these funds have accumulated balances significantly in excess of 2007 actual disbursements or 2008 anticipated disbursements. Consideration should be given to working with these officials to use these monies to fund the respective office's expenses, within the restrictions set forth by state law, which are currently funded by the General Revenue Fund.

The County Commission indicated they are aware of the concern and are monitoring the county's financial condition through preparation and review of monthly budget reports. To improve the financial condition of the General Revenue Fund and Special Road and Bridge Fund, the County Commission should review disbursements and reduce discretionary spending as much as possible, evaluate controls and management practices to ensure efficient use of resources available to the county, and attempt to maximize all sources of revenues.

WE RECOMMEND the County Commission closely monitor the county's financial condition and take the necessary steps to improve the financial condition of the General Revenue and Special Road and Bridge Funds by reviewing disbursements and reducing discretionary spending where practical and maximizing all sources of revenue.

AUDITEE'S RESPONSE

We are aware of the financial condition of the county and will continue to actively monitor the situation. In addition, we discussed the county's financial condition with all county officials during the most recent budget cycle.

4.

Capital Asset Records and Procedures

Procedures to account for county-owned property should be improved to ensure the applicable records are complete and accurate.

The County Commission or its designee, generally the County Clerk, is responsible for maintaining a complete, detailed record of county property. Each county official or their designee is responsible for performing periodic inventories and inspections. Beginning in 2007, the County Clerk created a computerized capital asset listing based on the 2006 annual physical inventory performed by each official. However, as of June 2008, the computerized listing was still not complete. The listing did not include information for some assets, such as serial number, make, model, identification number, acquisition by fund, acquisition date, and the date and method of disposal. In addition, some assets are not numbered, tagged, or otherwise identified as county property. Also, the County Clerk

does not reconcile each office holder's annual physical inventory count to the prior inventory count, equipment purchases, or disposals.

Adequate capital asset records are necessary to secure better internal control over county property, meet statutory requirements, and provide a basis for determining adequate insurance coverage on county property.

Similar conditions were noted in prior audit reports. Although some of our prior recommendations were implemented, improvement is still needed over capital asset records.

WE AGAIN RECOMMEND the County Clerk ensure the capital asset records are accurate and complete. In addition, asset purchases should be reconciled to additions on the inventory records, and all assets should be tagged or identified as county-owned property.

AUDITEE'S RESPONSE

I now have everything updated in the computerized capital asset listing and will continue to maintain updated records.

5. Controls Over Fuel Usage

The county does not have adequate procedures to reconcile fuel purchased to fuel usage. The county spent approximately \$116,000 and \$89,000 in 2007 and 2006, respectively, on fuel for the Road and Bridge Department, and approximately \$19,000 and \$16,000 in 2007 and 2006, respectively, on fuel for the Sheriff's Department.

- A. The Road and Bridge Department maintains one bulk tank for gasoline and one bulk tank for diesel fuel. Employees maintain records of when road and bridge vehicles are fueled, including the date and mileage of the vehicles. The Road and Bridge Supervisor stated he reviews these usage records for reasonableness; however, no one reconciles the amount of fuel purchased to the usage records.
- B. Sheriff's deputies purchase gasoline for county-owned vehicles using gas cards assigned to them. When fuel is purchased for these vehicles, the deputies document the date, mileage of the vehicle, and number of gallons purchased on a daily log. The gasoline purchases from the daily logs are compiled into a monthly report and reviewed by the Sheriff for reasonableness; however, no one reconciles the fuel purchase invoices to the daily logs or monthly reports.

To ensure the validity and propriety of fuel disbursements and to detect fuel loss or misuse on a timely basis, the county should adopt procedures to ensure fuel usage is reconciled to fuel purchased.

WE RECOMMEND the County Commission work with the Road and Bridge Supervisor and the Sheriff to adopt procedures to reconcile fuel purchased to fuel usage.

AUDITEE'S RESPONSE

We have discussed this recommendation with the Road and Bridge Supervisor and will follow up to ensure it has been implemented. In addition, we will work with the Sheriff to implement this recommendation.

6. Various County Concerns

There are no written policies for the use of county cellular telephones. The County Commission distributed monies to various organizations but did not enter into written contracts with any of the organizations or obtain financial information from some of the organizations documenting the actual use of the monies. The county sells excess road and bridge materials to county residents but does not collect sales tax on these items. The county did not solicit or retain bid documentation for some purchases.

- A. The County Commission has not developed a written policy regarding cellular telephone usage. During the two years ended December 31, 2007, the Road and Bridge Supervisor, Sheriff and Chief Deputy, Prosecuting Attorney, Associate Circuit Judge, County Assessor, and E-911 Director utilized cellular telephones. The county spent approximately \$2,500 and \$2,000 for cellular telephone usage in 2007 and 2006, respectively. A written policy is necessary to prevent misuse of county assets and to ensure there is no misunderstanding within the county regarding county cellular telephone usage. This policy should provide criteria for determining which employees should be assigned a cellular telephone and proper use of the telephones. In addition, the policy should establish billing review procedures.

- B. The county did not enter into written contracts related to distributions made to the Shelbina Special Road District, University Extension Council, OATS, Shelby County Soil & Water Conservation District, Shelby County Economic Development Board, or Shelby County Senior Citizens Association. In addition, the county did not obtain financial information to document the actual use of the monies from some of the organizations. The county distributed a total of approximately \$41,000 and \$38,000 to these organizations in 2007 and 2006, respectively. Section 432.070, RSMo, requires contracts of political subdivisions to be in writing. A written contract, signed by the parties involved, should specify the services to be rendered and the manner and amount of compensation to be paid, and provide a means for the county to monitor compliance with the contract terms. Written contracts are necessary to ensure all parties are aware of their duties and responsibilities and to provide protection to both parties.

- C. The county sells excess road and bridge materials, such as culverts, gravel, and iron, to Shelby County residents at cost and does not collect sales taxes on these sales. Sales for these items totaled approximately \$33,000 and \$35,000 in 2007 and 2006, respectively. The county should not allow such sales to be incurred using its sales tax-exempt status. Doing so violates the terms of the county's sales tax exemption letter.
- D. Documentation was not always retained of bids solicited for purchases made by various county officials. Examples of items purchased for which bid documentation was not maintained included the following:
- The Sheriff stated he solicits bids for prisoner meals every three years; however, documentation for the most recent solicitation was not retained. Prisoner meals totaled approximately \$14,255 and \$18,197 in 2007 and 2006, respectively.
 - The Sheriff purchased two vehicles costing \$7,000 each in 2006 from two different vendors. Bid documentation was not retained from one of the vendors. In addition, bid documentation from the other vendor was dated approximately three weeks after the bill of sale on the vehicle.
 - The Circuit Clerk purchased a moving file system totaling \$8,520 in 2006 to aid in the consolidation of the Circuit, Associate Circuit, and Probate Courts. The Circuit Clerk stated she solicited bids from two companies; however, bid documentation of only one company was retained.

Bidding procedures for major purchases provide a framework for economical management of county resources and help assure the county that it receives fair value by contracting with the lowest and best bidder. In addition, competitive bidding ensures all interested parties are given an equal opportunity to participate in county business. Section 50.660, RSMo, requires the advertisement of bids for all purchases of \$6,000 or more (\$4,500 or more prior to August 28, 2007) and bidding on any purchase of \$4,500 or more made from any one person, firm, or corporation during any period of 90 days. Retaining bid documentation provides evidence the county complied with all aspects of state bid laws.

WE RECOMMEND the County Commission:

- A. Develop a written policy regarding cellular telephone usage and establish billing statement review procedures.
- B. Obtain written contracts which specifically state what services are to be provided to the county for the distribution of monies to these organizations. In addition, the written contracts should allow the County Commission to monitor the expenditures of the county monies.

- C. Refrain from selling excess road and bridge materials to county residents which results in the avoidance of the payment of sales taxes.
- D. Ensure bids are solicited for major purchases and documentation of bids is retained. If it is not practical to obtain bids in a specific instance, or if sole source procurement is necessary, the circumstances should be thoroughly documented.

AUDITEE'S RESPONSE

- A. *We will review this matter with the Prosecuting Attorney and draft a policy on county cellular telephone usage.*
- B. *We will work to implement this recommendation. In addition, we will request all entities submit sufficient financial information to monitor the expenditure of county monies.*
- C. *We will take this recommendation under advisement.*
- D. *We will work with the other county officials to ensure applicable bid documentation is retained.*

FOLLOW-UP ON PRIOR AUDIT FINDINGS

SHELBY COUNTY
FOLLOW-UP ON PRIOR AUDIT FINDINGS

In accordance with *Government Auditing Standards*, this section reports the auditor's follow-up on action taken by Shelby County on findings in the Management Advisory Report (MAR) of our prior audit report issued for the 2 years ended December 31, 2003. The 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. Payroll and Personnel Policies and Procedures

- A. The county was paying certain benefits to a seasonal part-time employee of the County Collector's office. The county's personnel manual stated a person employed on a limited basis was not eligible for employee benefits unless specifically negotiated with the County Commission and the office holder for whom they work.
- B. The former Sheriff authorized the payment of additional compensation totaling \$1,192 to five employees. Documentation to support these payments consisted of statements signed by the former Sheriff that the payments were for "extra duty", but did not include any documentation of extra time worked beyond that recorded on the time sheets.

Recommendation:

The County Commission:

- A. And the County Collector document their approval for benefits provided to the part-time employee, as required by the county's employee manual.
- B. And the Sheriff discontinue paying compensation to employees unless it is supported by time and attendance records.

Status:

- A. In January 2005, the personnel manual was updated to state only full-time employees will receive benefits. The current audit noted no instances where the county deviated from the personnel manual regarding this situation.
- B. Implemented.

2. Computer Controls

- A. Passwords and other procedures were not in place to limit access to the various data files and programs utilized by the various county officials.
- B. A security system was not in place to detect or prevent incorrect log-on-attempts.

- C. Backup disks of information were only prepared weekly and were not stored at a secure off-site location.

Recommendation:

The County Commission:

- A. Establish procedures to restrict access to computer files, including the use of unique passwords for the network and computer programs, to authorized individuals.
- B. Implement a security system to detect and report incorrect log-on attempts after a certain number of tries.
- C. Ensure backup disks are prepared more frequently and stored in a secure, off-site location.

Status:

Implemented for the County Clerk's and County Treasurer's system; however, the current audit noted weaknesses in controls for the property tax system. See MAR finding number 2.

3. Road and Bridge Maintenance Plan

A formal maintenance plan for county roads and bridges had not been prepared.

Recommendation:

The County Commission prepare and document a road and bridge maintenance plan at the beginning of the calendar year and periodically update the plan throughout the year. In addition, the County Commission should review the progress made in the repair and maintenance of roads and bridges to make appropriate decisions on future projects.

Status:

Partially implemented. While the County Commission did not prepare and document a formal road and bridge maintenance plan, projects are tracked in relation to amounts budgeted. In addition, the County Commission indicated the repair of bridges is generally only performed when grant funding is available due to budget constraints; therefore, the tracking of all bridge repair projects is performed in conjunction with the grant tracking process. Although not repeated in the current MAR, our recommendation remains as stated above.

4. General Fixed Assets Records and Procedures

The county did not have written policies related to the handling and accounting for general fixed assets, and various concerns were noted regarding the county's procedures and accounting records for general fixed assets.

Recommendation:

The County Commission establish written policies related to the handling and accounting for general fixed assets which include procedures to ensure compliance with state law. In addition, all fixed assets purchases and additions should be recorded as they occur, fixed asset purchases should be reconciled to additions on the inventory records, and all fixed assets should be tagged or identified as county-owned property.

Status:

Partially implemented. The County Commission established written policies related to the handling and accounting for capital assets; however, the various control procedures and records are still in need of improvement. See MAR finding number 4.

5. County Collector's Controls and Procedures

- A. A change report, which reflects changes to the computerized tax records, was not generated by the County Collector.
- B. Partial payments were retained in the County Collector's vault and were not deposited until full payment was received.
- C. The County Collector made changes to the property tax system throughout the year based on addition and abatement forms prepared by the County Assessor. At the end of the year, the County Collector presented total amounts by type of tax for additions and outlawed personal property taxes, as well as a detailed list of other abatements, to the County Commission for their review and approval.

Recommendation:

The County Collector:

- A. Review the possibility of generating periodic change reports. In addition, the change reports should be reviewed by an independent party and any unusual items investigated.
- B. Record all monies received for partial payments and deposit intact daily.
- C. And the County Commission ensure additions and abatements are prepared by the County Assessor, retained by the County Clerk, and periodically reconciled to

property tax book charges and credits. The County Commission should review and approve all additions and abatements on a timely basis and the County Clerk should make the necessary changes to the tax books.

Status:

A&C. Not implemented. See MAR finding number 2.

B. The current County Collector no longer accepts partial payments.

6. Prosecuting Attorney's Controls and Procedures

A. Accounting duties were not adequately segregated.

B. The Prosecuting Attorney had custody of an old bank account in which restitution and bad check fees had been deposited by the prior officeholder. This account had a balance of \$3,463 which had not been identified to specific cases.

C. Summary listings of court-ordered restitution owed to the Prosecuting Attorney were not prepared, and monitoring procedures related to unpaid restitution were not sufficient.

Recommendation:

The Prosecuting Attorney:

A. Adequately segregate accounting duties or perform and document reviews of the accounting records and bank reconciliations.

B. Attempt to identify the monies held in the old bank account, dispose of unidentified and unclaimed monies in accordance with state law, and close the account.

C. Periodically prepare listings of unpaid court-ordered restitution, and adopt procedures to periodically follow up on unpaid amounts. The Prosecuting Attorney should also consider reviewing unpaid amounts with the applicable judges and obtaining court approval to write off amounts deemed uncollectible.

Status:

A. Implemented. The Prosecuting Attorney documents reviews of the accounting records and bank reconciliations.

B. Partially implemented. The Prosecuting Attorney identified and paid out approximately \$100 from the old bank account. However, the account is still open and had an unidentified balance of \$3,354 as of December 31, 2007. Although not repeated in the current MAR, our recommendation remains as stated above.

- C. Partially implemented. The Prosecuting Attorney does not prepare an overall listing of unpaid court-ordered restitution; however, procedures to track and follow up on unpaid amounts appear adequate. The Prosecuting Attorney stated he does not deem any amounts uncollectible; therefore, he will not consider writing off unpaid amounts. Although not repeated in the current MAR, our recommendation remains as stated above.

7. Health Center's Controls and Procedures

- A. The Health Center's budgets did not include some available resources.
- B. The county's annual published financial statements did not include the financial activity of the Health Center Fund.

Recommendation:

The Health Center Board:

- A. Include all beginning available resources and projected ending fund balances on the budgets.
- B. Ensure financial information for the Health Center Fund is properly reported in the annual published financial statements as required by state law.

Status:

The Health Center was not included in the scope of the current Shelby County audit pursuant to Attorney General's Opinion No. 87, 2007, to Montee.

8. Schedule of Expenditures of Federal Awards

The County Clerk and Health Center Administrator prepared schedules of expenditures of federal awards (SEFA) for the years ended December 31, 2003 and 2002; however, both the county and the Health Center under-reported federal expenditures.

Recommendation:

The County Clerk and Health Center Administrator adopt procedures to ensure complete and accurate schedules of expenditures of federal awards are prepared and submitted to the State Auditor's Office as part of the annual budget.

Status:

The SEFA prepared by the County Clerk for the year ended December 31, 2007, appeared complete and was submitted to the State Auditor's Office as part of the annual budget. The

Health Center was not included in the scope of the current Shelby County audit pursuant to Attorney General's Opinion No. 87, 2007, to Montee.

HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

SHELBY COUNTY
HISTORY, ORGANIZATION,
AND STATISTICAL INFORMATION

Shelby County is a county-organized, third-class county and is part of the Forty-First Judicial Circuit. The county seat is Shelbyville.

Shelby County's government is composed of a three-member county commission and separate elected officials performing various tasks. All elected officials serve 4-year terms. The county commission has mainly administrative duties in setting tax levies, appropriating county funds, appointing board members and trustees of special services, accounting for county property, maintaining county roads and bridges, and performing miscellaneous duties not handled by other county officials. Principal functions of these other officials relate to 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 6,799 in 2000. The assessed valuation for the year ended December 31, 2007, was:

Real estate	\$ 53,771,093
Personal property	25,616,972
Railroad and utilities	6,460,236
Total	<u>\$ 85,848,301</u>

Assessed valuations and tax rate levies for political subdivisions within the county are included in the annual review of property tax rates issued by the state auditor; see Report No. 2007-91.

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

	Rate	Expiration Date	Required Property Tax Reduction	
General	\$.0050	None	50	%
General and Special Road and Bridge	.0050	None	None	
Enhanced 911	.0050	None	None	
Local use tax	.0150	None	None	

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

Officeholder	2008	2007
County-Paid Officials:	\$	
Glenn Eagan, Presiding Commissioner		25,926
Maurice Shuck, Associate Commissioner		23,338
Kerry McCarty, Associate Commissioner		23,338
Audrey Grawe Buzzard, Recorder of Deeds		36,067
Tracy Smith, County Clerk		36,067
James McConnell, Prosecuting Attorney		43,493
Daniel Parshall, Sheriff		40,560
Jesse C. Burton, County Treasurer		36,067
Ralph Eagan, County Coroner		9,880
Susan C. Wilt, Public Administrator		20,800
John Chinn, County Collector (1), year ended February 28 (29),	39,115	
Billy E. Gibson, County Assessor (2), year ended August 31,		36,736
Martin T. Wasson, County Surveyor (3)		

(1) Includes \$2,930 of commissions earned for collecting city property taxes.

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

(3) Compensation on a fee basis.

State-Paid Officials:

Rosalie (Rose) Shively, Circuit Clerk	51,197
Gary G. Wallace, Associate Circuit Judge	101,090