



Audit of the Collector

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Clay County Auditor

Audit of the Clay County Collector

Overview and Statutory Authority

An audit of transactions during 2003 and current operations and procedures of the office of Clay County Collector was conducted by the Clay County Auditor. The following represents a report on the audit. In my opinion, this audit was conducted in compliance with the below referenced Missouri Revised State Statutes effective August 28, 2002.

Duties (second class and certain first class counties).
55.160. He shall audit the accounts of all officers of the county annually or upon their retirement from office. The auditor shall audit, examine and adjust all accounts, demands, and claims of every kind and character presented for payment against the county, and shall in his discretion approve to the county commission of the county all lawful, true, just and legal accounts, demands and claims of every kind and character payable out of the county revenue or out of any county funds before the same shall be allowed and a warrant issued therefore by the commission.

Summary of Findings and Recommendations

On a weekly basis, the County Auditor's office verifies data processed by the Collector. The Auditor's office also co-signs each refund check issued to taxpayers. This audit reflects the Auditor's office current understanding of Collector operations and procedures.

Below are findings made during the audit and related recommendations made by the County Auditor. These findings and recommendations are reiterated later in the report.

Finding #1 - There is no tie-in with the state to void a license plate renewal and no method to code history of bad check writers in the Terra Scan system.

Recommendation from the Auditor – It is recommended to send an inquiry to the State regarding

the enhancement of the controls pertaining to this process and to begin tracking bad check writers.

Collector Response - We will look into what we need to do with the State. We have noticed a good return since sending the checks to the prosecutor.

In keeping track of bad checks, our system will allow us to code the tax bill related to the account the bad check was applied to but it does not continue from year to year. We do use this function.

The only way we can refuse a check is if they come in person to pay their taxes or if they pay late and it does not go through the lockbox system. If it goes through the lockbox system the bank automatically deposits the check.

Finding #2 - The payments received by the Collector through the mail from taxpayers negatively impacts internal controls.

Recommendation from the Auditor – It is recommended that these payments be handled by non-window personnel employed by the Collector.

Collector Response - This can be done once we receive the posting machine. (See Finding #8)

Finding #3 - State Statute 55.190 states the collector shall, upon receiving taxes, give duplicate numbered tax receipts, which the taxpayer shall take to the auditor to be countersigned by him, one of which the auditor shall retain, and charge the amount thereof to the collector.

Recommendation from the Auditor – To have Auditor personnel periodically sign receipts at the window.

Collector Response - This can be done anytime the Auditor personnel want to come in.

Finding #4 – Also per statute, 55.190, the collector shall make a daily report to the auditor of all other sums of money collected by him from any source whatsoever, and in such report shall state from whom collected, and on what account, which sums shall be charged by the auditor to the collector. The collector shall, upon turning money over to

the county treasurer, take duplicate receipts therefore and file same immediately with the county auditor. Currently, the County Auditor does not receive daily reports from the Collector.

Recommendation from the Auditor –It is recommended that this practice of making daily reports begin immediately to enhance internal controls.

Collector Response - These daily reports are being done now on a daily basis and available to the Auditor. The Auditor personnel requested this report be held until a validated deposit slip can accompany the report. It takes two to three days to get the validated deposit slip from the bank.

Finding #5 - A serious violation of internal controls exists with the senior bookkeeper making deposits and reconciling the bank statement.

Recommendation from the Auditor – It is recommended that the reconciliation of bank accounts be handled by the Clay County Treasurer.

Collector Response - The senior bookkeeper has not made the deposits in seven years. That is the job of the assistant bookkeeper, when she is not available to do the deposit an appointed employee (other than the senior bookkeeper) is assign to do the deposit.

Finding #6 - The Tax Increment Financing Commission of Kansas City receives monies collected by Clay County, processes the monies paid and remits a net amount back to the County. From April 2002 through April 8, 2003, the TIF Commission remitted sales taxes collected to the Collector. During this timeframe, the Collector remitted sales taxes to the various taxing districts in the amount of at least \$34,653.47. The sales tax erroneously distributed should have been sent to the County Treasurer rather than the various tax districts.

Recommendation from the Auditor – It is recommended that these sales tax monies erroneously distributed to the taxing districts be recovered by the Collector.

Collector Response - This is being done.

Finding #7 – The Collector purchased a server and several personal computers and accessories using monies from her statutory Tax Maintenance Fund. These purchases were appropriate. The concern about this equipment is not how it was obtained, but what was done with it afterwards. To ensure a consistent, secure and manageable network, all offices on the County Information Technology network must comply with those network standards managed by the Information Technology department; else, we will have a fragmented and unmanageable network for county computer users.

Recommendation from the Auditor – The Collector should work with County IT in deployment of current and future computer related equipment to ensure coordinated technological deployment. The server must be used to assist the Collector in her operations. It is recommended that County IT work with the Collector to configure the server as required.

Finding #8 - Pre-deposits are shown as collections but are not part of the day's settlement. This category is used when a large payment is received in the Collector's office (mortgage company payments for example) and time does not allow for all of the tax bills to be processed on that day. The check's are copied then deposited in the bank so they are not "sitting around" in the Collector's office and as time allows the tax bills are processed. This procedure was a suggestion of the outside auditing firm.

Recommendation from the Auditor – The Collector should strive to input pre-deposit tax data into the Terra Scan system more rapidly, if not daily.

Collector Response - We have a bid out now for a machine that will post these payments in a timely matter.

Finding #9 – During the audit a flaw in the collector's system was discovered. Social Security numbers previously used as parcel ID numbers on personal property tax bills have caused problems. For example, a tax payer comes in to pay personal property taxes and has a current 2003 bill but owes for 2002. Unless that taxpayer is on their way to the

license bureau and needs that 2002 receipt and tells the collector window teller, there is no tie in between the tax records for that taxpayer so the teller knows more than the current year tax is due.

Recommendation from the Auditor – The Collector should investigate an alternative method to include the old number in the new tax files so they tie in until all the SS #'s are purged from the system.

Collector Response - We have talked with Terrascan and they are unable to tie these together with the information we have. We can tie the owner to all of their properties by an owner number but we would have to go in and change each parcel for each year and this still would not show a delinquent of a prior year when posting payments because the system looks at parcels numbers and not owner numbers.

Conclusion: With this system we are not able to tie the different parcels numbers for one taxpayer together.

Clay County Collector Revenues and Expenses

Below is a chart of budgeted revenues and expenses as compared to actual revenues and expenses for the years 2002-1999.

REVENUE	2002	2001	2000	1999
Budget Revenue	\$ 1,907,000	\$ 1,903,488	\$ 1,663,290	\$ 1,413,600
Actual Revenue	\$ 1,998,040	\$ 1,800,773	\$ 1,818,509	\$ 1,474,465
Percent of Meeting Budget	105%	95%	109%	104%
Budget Increase Year to Year	18%	14%	18%	7%
Actual Revenue Increase Year to Year	11%	-1%	23%	2%

EXPENSE	2002	2001	2000	1999
Budget Expense	\$ 656,227	\$ 638,384	\$ 529,092	\$ 433,959
Actual Expense	\$ 622,585	\$ 579,249	\$ 513,932	\$ 421,720
Percent of Budget Used	95%	91%	97%	97%
Budget Increase Year to Year	3%	21%	22%	2%
Actual Expense Increase Year to Year	7%	13%	22%	13%
Excess Revenues over Expenses	\$ 1,375,455	\$ 1,221,524	\$ 1,304,576	\$ 1,052,745

Scope of the Audit

The scope of this audit of the County Collector involved:

1. Tax Collection & Window Operations
2. Tax Increment Financing
3. Fixed Asset Inventory

Tax Collection and Window Operations

The Clay County Collector provides customer services at the Liberty Courthouse, Western Annex and on the County's Internet Site. As customers visit the courthouse or annex, collector personnel obtain information from the customer, including their name and tax year of their inquiry. This procedure is performed in order to access the computer file in Terra Scan. Once a file has been accessed, collector personnel verify information with each taxpayer to begin the collection process.

The county assessor electronically compiles information to create a tax bill. The county resident fills out an assessment list and sends it to the assessor stating property owned as of January 1st of that year. That personal property has a valuation based on book value, formerly called "blue book" value, from the state of Missouri. All personal and real property values are finalized during a given year. After the County Clerk and Assessor have performed their duties on the assessed value information, the file of property values is turned over to the Collector for billing purposes.

Each taxing district has their own levee rate, set by them and approved by the state auditor. For example: fire district at \$.30, ambulance district at \$.30, school district at \$7.82 per \$100 assessed valuation. Valuation is 1/3 market value on personal property and 19% of market value on real estate. The various levees are totaled to make up the tax rate in that district. The tax rate times assessed valuation equals tax bill amount. There is an additional tax on commercial real estate property of \$1.59 per \$100 assessed valuation. A \$25.00 fee for a merchant license is charged on business personal property if the business sells goods. A service oriented business would not be charged the \$25.00 fee.

A sample of tax bills are checked for accuracy by Collector personnel after calculations are complete. This information is loaded onto a disc and delivered to an outside printer vendor under contract with the Clay County Commission. A copy of the disc is given to the collector and loaded into the Terra Scan program. The outside printer prints and mails the tax bills.

As seen in the below schedule, most of the tax payments are made through the County's Collector window operations. When taxpayers receive their tax bill, they review the bill for accuracy and some remit a payment to the county bank's lockbox address on the pre-printed envelope. Others pay their taxes on-line through the County's web site. Still others drop off their payments at the Collector's box at either of the two locations. Some taxpayers lose their preprinted envelope and mail in their payments to the Collector. And lastly, many taxpayers pay cash in-person at the Collector Window operations. This particular mode reduces the controls in the payment process.

Finding – The payments received by the Collector through the mail from taxpayers negatively impacts internal controls.

Recommendation from the Auditor – It is recommended that these payments be handled by non-window personnel employed by the Collector.

County Collector - Schedule of Collection Activity

	Amounts Collected	Percent Collected
Collector Window	94,747,163.36	60.47%
Bank Lockbox	61,524,888.51	39.27%
Credit Cards	402,578.86	0.26%
Total Collected	156,674,630.73	100%

Collector System Security

Each morning, Collector personnel log on to the Terra Scan system. Each employee has their own Terra Scan password and the password is known only by that specific employee and their immediate supervisor.

Current Server Controls for Terra Scan and Assessor Systems

- ✓ Reside on a Windows file server separate from the Assessor
- ✓ Reside behind a Firewall and IDS Sensor
- ✓ Restrict access to Files through TerraScan Logon authorization and Windows File and Folder Security Settings

Daily Backup Procedures of the Terra Scan Database

- ✓ Differential backups done daily (Overwritten approximately every 3 weeks)
- ✓ Full backups done weekly (Overwritten in 30 days)
- ✓ Month-end backups done at the end of each month (Never overwritten)
- ✓ Location of the backed up information is rotated to a secure offsite location per the IT Departments rotation schedule

Payment Process

Often when customers arrive at either the Courthouse or Annex, they bring their tax bill to make a payment. Customers also ask for copies of the paid property tax receipt so they may obtain a license tag for a vehicle. If the customer is paying a tax bill, the customer is told how much the bill is by the collector employee.

The customer may pay by check, cash, money order, cashier check or by credit card over the phone or online. There is no machine in the collectors' office to process credit card transactions. The payment is posted in the customer's record of Terra Scan. The transaction is complete once a paid receipt is printed and given to the customer.

During tax season, taxpayers have a variety of options to pay their tax bill. First, they can pay their bill at the Collector windows located at the Liberty courthouse or the western annex. They can slip their payment in a lock box outside of the Collector's window. They can mail their payment directly to the Bank selected by the County and

the payment will go into the bank's "lock box". And lastly, the taxpayers can pay their bill over the internet.

Pre-Deposits

Pre-deposits are shown as collections but are not part of the day's settlement. This category is used when a large payment is received in the Collector's office (mortgage company payments for example) and time does not allow for all of the tax bills to be processed on that day. The check's are copied then deposited in the bank so they are not "sitting around" in the Collector's office and as time allows the tax bills are processed. This was a suggestion of the outside auditing firm.

Pre-deposits are also used if there is any type of problem with a credit card payment or lock box payment. These two methods of payment are already a deposit in the Collector's bank account. If the bank keys in a wrong parcel ID number for example, this must be researched and resolved before the collection can be posted in Terra Scan to the proper tax liability.

Closing Procedures

At the end of the business day, the window personnel balance their cash drawers by first counting out their change fund of \$200.00. The Collector personnel run reports from Terra Scan and add up all the checks and cash to match Terra Scan report totals. If the totals do not match, the Collector personnel look at each check to see that it was posted for the correct amount in Terra Scan as that is the most common error.

Once the cash drawer is balanced, each window employee fills out a report for the bookkeeper stating how many personal, real estate, business personal and duplicate receipts were processed that day and a dollar amount for each of those categories. The cash, checks and the report are put into a sealed plastic bag and given to the bookkeeper.

Mortgage Company Transactions

Collector employees also enter mortgage company codes onto real estate records in Terra Scan. Mortgage companies send written requests for real estate bills they are paying through escrow accounts. Those real estate bills are coded by mortgage company name, each company having a different number code.

The same procedure is followed for additions and deletions pertaining to refinancing of property. These changes are made all year until September when mortgage companies cut-off sending information to the collector. If a refinance occurs after September, that information is not sent to the collector, and the tax bill will go to the last coded mortgage company.

The last coded mortgage company, not being responsible for the tax bill, does not pay for that particular parcel of property when they send their remittance for the property. Currently, the process used by the collectors' office upon notification of the change is to prepare a bill and send it to the resident for late payment and penalty and interest.

Bad Checks

Processing bad checks is another duty performed by the collector department. The bank notifies the collector's office by invoice when a bad check has been returned. An entry is made in Terra Scan reversing the payment and a comment added as to why that entry was made. Copies are made and distributed to bookkeeping and a copy is filed by the employee processing bad checks for future reference.

A generic letter is mailed to the resident notifying them of a stopped payment of a check and requests them to send a cashier check or money order or come in and pay cash. A different letter is sent if the check is insufficient or the account is closed. The original check and invoice is sent to the county prosecutor's office for collection.

Once the bank returns a check, the bad check writer must contact the prosecutor's office. The prosecuting attorney collects only the check amount and a fee of \$30.00 of \$50.00 for the collector. The taxpayer is still responsible

for penalty and interest and must return to the collector's office to pay those charges.

Finding - There is no tie-in with the state to void a license plate renewal and no method to code history of bad check writers in the Terra Scan system.

Recommendation from the Auditor – It is recommended to send an inquiry to the State regarding the enhancement of the controls pertaining to this process and to begin tracking bad check writers.

Calculating Tax Bills

Significant processes must occur to calculate and determine tax bills. Per state law, the Assessor, Clerk and Collector must interact in order for a tax bill to be determined. A statute pertaining to the Clerk and Assessor is shown below.

Clerk to extend taxes in assessor's book, authentication as tax book, delivery to collector--electronic format authorized. 137.290. 1.

The clerk of the county commission in each county, upon receipt of the certificates of the rates levied by the county commission, school districts and other political subdivisions authorized by law to make levies or required by law to certify levies to the county commission or clerk of the county commission, shall then extend the taxes in the assessor's book, in proper columns prepared for the extensions, according to the rates levied. The assessor's book, with the taxes so extended therein, shall be authenticated by the seal of the commission as the tax book for the use of the collector. If the assessor's book is in two or more volumes the extension shall be made in all the volumes, and each volume shall be authenticated by the clerk with the seal of the commission. The clerk shall, on or before the thirty-first day of October of each year, deliver the tax book with the rates extended therein to the collector, who shall give receipt therefore to the clerk. The county clerk shall charge the collector with the whole amount of the tax books delivered. Upon a failure to make out the extension of taxes in the assessor's books and deliver them to the collector not later than October thirty-first, the

county commission shall deduct twenty percent from the amount of fees which are due the clerk for making the extension. Such assessor's book, with the taxes so extended therein, shall be called the "tax book". 2. The assessor's book or tax book may also be prepared in an electronic version or format.

Next the Collector must follow the statute shown below.

Taxes and assessments, how collected, distributed.

67.1541. 1. The county collector of each county in which the district is located, or the collector for the city in which the district is located if the district is located in a city not within a county, shall collect the real property taxes and special assessments made upon all real property within that county and district, in the same manner as other real property taxes are collected. If the special assessment is based on something other than the assessed value of real property, the district shall provide the information on which such special assessment is based for all applicable real property.

2. Every county or municipal collector and treasurer having collected or received district assessments or taxes shall, on or before the fifteenth day of each month and after deducting the reasonable and actual cost of such collection but not to exceed one percent of the total amount collected, remit to the treasurer of such district the amount collected or received by him or her prior to the first day of such month. Upon receipt of such money, the district treasurer shall execute a receipt therefore, which he or she shall forward or deliver to the county collector or city treasurer who collected such money. The district treasurer shall deposit such sums into the district treasury, credited to the appropriate fund or account. The county or municipal collector or treasurer, and district treasurer shall make final settlement of the district account and costs owing, not less than once each year, if necessary.

Daily and Monthly Reports

The County Auditor co-signs each refund check made out to taxpayers. The County Auditor is to balance with Collector personnel on a daily basis.

The tax receipts are not signed by the auditor nor are they

numbered consecutively. The daily report is received by the auditor seven to ten days after that day of business and there are rarely copies of all the tax receipts that make up that days business. Every effort is made to balance the day's business with the information received by the auditor and to categorize the collections by type (real estate, personal, business personal). These figures are entered onto an excel spreadsheet and balanced to the "settlement" amount shown on the collector's daily report. The money collected for any given month is disbursed by the 15th of the next month. The auditor receives settlement information from the collector and countersigns and copies any settlement checks for that month; some months, the auditor does not have all of the daily reports and must assume that the settlement is correct as it could be several days before all the information is received by the auditor. The auditor calculates the settlement amount once all the information is received.

County Auditor Operations

New County Auditor personnel were assigned in 2003 to bring about a fresh approach to the monitoring of Collector procedures and result of operations. Many of these findings are related to the new auditor employee's observations.

Finding - State Statute 55.190 states the collector shall, upon receiving taxes, give duplicate numbered tax receipts, which the taxpayer shall take to the auditor to be countersigned by him, one of which the auditor shall retain, and charge the amount thereof to the collector.

Recommendation from the Auditor – To begin to have Auditor personnel periodically sign receipts at the window.

Finding – Also per statute, 55.190, the collector shall make a daily report to the auditor of all other sums of money collected by him from any source whatsoever, and in such report shall state from whom collected, and on what account, which sums shall be charged by the auditor to the collector. The collector shall, upon turning money over to the county treasurer, take duplicate receipts therefore and file same immediately with the county auditor. Currently, the County Auditor does not receive daily reports from the

Collector.

Recommendation from the Auditor - It is recommended that this practice begin immediately to enhance internal controls.

Electronic Fund Transfer Procedures

In performing electronic fund transfers, a Collector employee contacts the bank and asks for the name of the person receiving the information. The Collector employee then will give the bank person the county's account number to which the wire transfer or ACH is to be charged, the dollar amount to be charged the account, the account and ABA routing number for the recipient and the name of the entity benefiting from the transfer as well as a code provided for bank purposes.

Once the information is received from the Collector, the bank person will repeat everything back to the Collector employee who records the name of the bank person as "received by". Later, a separate bank employee will call the collector's office to confirm with other Collector employees.

The other Collector employees record the name of that bank person as "confirmed by". The account and routing numbers are kept current by the taxing entity benefiting from the wire transfer or ACH as they want to receive their cash. Each taxing entity will receive a receipt by e-mail, fax or mail that they must sign and return to the collector's office stating the money has been received in their bank account.

Regular Monthly Settlement

By state statute, money collected has to be settled by the 15th of the following month with the exception of January. By the end of January, 95% of collections must be settled. The bookkeeper runs the monthly report from Terra Scan and Access. Once the files are compressed in Terra Scan, the detail is lost in a printable form. Access provides the detail necessary to trace errors if Terra Scan does not balance.

Once a balance is determined, the bookkeeper contacts the bank and requests the amount of each settlement be paid to each taxing entity through ACH. No checks are written by the bookkeeper. The refund checks, court orders and overpayment refunds are prepared by someone else in the office when applicable. The senior bookkeeper makes all the bank deposits and is responsible for the reconciliation of the bank accounts. The bookkeeper reviews and signs the reconciliation of the bank accounts stating she agrees with the balances of the regular account, protest account and sur tax account.

Finding - A serious violation of internal controls exists with the senior bookkeeper making all deposits and reconciling the bank statement.

Recommendation from the Auditor – It is recommended that the reconciliation of bank accounts should be handled by the Clay County Treasurer.

Tax Increment Financing

Tax Increment Financing is a method used to stimulate economic development. Governmental revenues affected by TIF projects include Property Taxes and Sales Taxes. Property Taxes for TIF properties are billed and collected by the County Collector. Currently, the Collector remits TIF collections to the KC TIF Commission who, in turn, reviews the collections, takes a middle man percentage off the top and then sends the monies back to the County.

Of further note and pertaining to the Shoal Creek TIF, property tax monies will not be going to the developers of Shoal as of 12/31/2000.

Finding - The Tax Increment Financing Commission of Kansas City receives monies collected by Clay County, processes the monies paid and remits a net amount back to the County. From April 2002 through April 8, 2003, the TIF Commission remitted sales taxes collected to the Collector. During this timeframe, the Collector remitted sales taxes to the various taxing districts in the amount of at least \$34,653.47. The sales tax erroneously distributed should have been sent to the County Treasurer rather than

the various tax districts.

Recommendation from the Auditor – It is recommended that these sales tax monies erroneously distributed to the taxing districts be recovered by the Collector.

Tax Sale

Per Missouri Revised Statutes, the preparation for the tax sale starts in June. Bankruptcies will be removed from the tax sale list. A letter is mailed to each mortgage company indicating what parcels are in their ID code. Information Technology creates a report for each mortgage company code. Smaller companies are notified by e-mail the same information. If a property is not advertised in the paper, it cannot be sold.