

Clay County, Missouri

Compliance Report
December 31, 2015

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RSM US LLP

**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**

Independent Auditor's Report

To the Board of County Commissioners
Clay County, Missouri

We have audited, in accordance with the 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Clay County, Missouri (the County), as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated June 30, 2016. The beginning net position of the governmental activities was restated due to the implementation of Governmental Accounting Standards Board (GASB) Statement Nos. 68 and 71, to recognize a net pension asset, net pension liability and deferred outflows of resources.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the County's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

A deficiency in internal control 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 and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as 2015-001 through 2015-003 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free from material misstatement, we performed tests of its 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*.

County's Response to Findings

The County's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The County's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RSM US LLP

Kansas City, Missouri
June 30, 2016

**Report on Compliance for the Major Federal Program,
Report on Internal Control Over Compliance and
Report on Schedule of Expenditures of Federal Awards
Required by the Uniform Guidance**

Independent Auditor's Report

To the Honorable County Commissioners of
Clay County, Missouri

Report on Compliance for the Major Federal Program

We have audited Clay County, Missouri's (the County) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the County's major federal program for the year ended December 31, 2015. The County's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the County's major federal program based on our audit of the types of compliance requirements referred to above. 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 Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 on compliance for the major federal program. However, our audit does not provide a legal determination of the County's compliance.

Opinion on the Major Federal Program

In our opinion, the County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2015.

Report on Internal Control Over Compliance

Management of the County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the County as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the County's basic financial statements. We issued our report thereon dated June 30, 2016, which contained unmodified opinions on those financial statements. The beginning net position of the governmental activities was restated due to the implementation of GASB Statement Nos. 68 and 71, to recognize a net pension asset, net pension liability and deferred outflows of resources. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

RSM US LLP

Kansas City, Missouri
June 30, 2016

Clay County, Missouri

**Schedule of Expenditures of Federal Awards
Year Ended December 31, 2015**

Federal Grantor/ Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Health and Human Services:			
Passed through Missouri Department of Social Services:			
2014 Child Support Enforcement - Title IV-D Reimbursement	93.563	04MO4005	<u>\$ 1,438,437</u>
U.S. Department of Homeland Security:			
Passed through Missouri Department of Public Safety:			
2014 Emergency Management Performance Grant	97.042	EMW-2013-EP-00028-025-5664	<u>62,897</u>
U.S. Executive Office of the President:			
Passed through Kansas City Board of Police Commissioners:			
High Intensity Drug Trafficking Areas (HIDTA)	95.001	G12MW0005A	<u>76,499</u>
U.S. Department of Transportation:			
Passed through Missouri Department of Transportation:			
Airport Improvement Grant	20.106	AIR 13-107B-1	115,605
Highway Planning and Construction Grant (Bridge No 500031)	20.205	BRO-B024(24)	445,285
2013 - 2014 DWI Enforcement Grant (Sobriety Checkpoints)	20.607	15-154-AL-029	5,804
2013 - 2014 Hazardous Moving Violation Enforcement Grant	20.600	15-PT-02-032	5,427
2014 - 2015 Hazardous Moving Violation Enforcement Grant	20.600	16-PT-02-014	<u>1,679</u>
			7,106
2015 Youth Alcohol Enforcement Project Grant	16.727	15-154-AL-031	<u>1,248</u>
Total U.S. Department of Transportation			<u>575,048</u>
Total Expenditures of Federal Awards			<u>\$ 2,152,881</u>

See Notes to Schedule of Expenditures of Federal Awards.

Clay County, Missouri

Notes to Schedule of Expenditures of Federal Awards Year Ended December 31, 2015

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Clay County, Missouri (County) for the year ended December 31, 2015. All federal awards received directly from federal agencies as well as those awards that are passed through other governmental agencies, and expended during the year are included on the schedule of expenditures of federal awards. The information in this schedule is presented in accordance with the requirements of the OMB Compliance Supplement and the Uniform Guidance. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the financial statements.

Note 2. Significant Accounting Policies

Expenditures of federal awards are recognized in the accounting period when the liability is incurred and approved for reimbursement. Such expenditures are recognized following the cost principals contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, or the cost principles contained in *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowed or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

Clay County, Missouri

**Summary Schedule of Prior Audit Findings
Year Ended December 31, 2015**

Number	Comment	Status
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Material Weakness in Internal Control Related to the Financial Statement Audit

Internal Control

2014-001	Lack of Accounting Oversight - Material Weakness - There were a significant number of audit adjustments made to the trial balance and financial statements provided by management. The audit adjustments were material and affected a significant number of general ledger accounts, as well as the conversion between the fund and government-wide financial statements.	Not Corrected
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Clay County, Missouri

**Schedule of Findings and Questioned Costs
Year Ended December 31, 2015**

I. Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None reported
- Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None reported

Type of auditor's report issued on compliance for major federal programs: Unmodified

- Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516(a)? Yes No

Identification of major program:

CFDA Number	Name of Federal Program or Cluster
93.563	Child Support Enforcement - Title IV-D Reimbursement

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? Yes No

(Continued)

Clay County, Missouri

Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2015

II. Financial Statement Findings

A. Internal Control

2015-001 – Lack of Internal Controls over Financial Reporting – Material Weakness

Criteria: Management of the County is responsible for establishing and maintaining effective internal controls over financial reporting. These controls should allow management or employees to prevent, or detect and correct, misstatements to the financial statements on a timely basis.

Condition: During the audit there were a significant number of audit adjustments proposed to the original trial balance that was presented to us, that materially affected year-end balances. Reversing entries from the prior year audit had not been recorded, receivable and payable entries for the current year-end had not been recorded and adjustments needed for the conversion between the fund and government-wide financial statements had not been recorded.

Cause: The County does not have proper procedures and controls in place to ensure the financial statements are prepared in accordance with generally accepted accounting principles. Individuals preparing the financial statements do not have the necessary knowledge of government accounting to record year-end accruals under the modified accrual basis of accounting in the fund financial statements, as well as perform the conversion between the fund and government-wide financial statements.

Effect or potential effect: There were significant financial statements adjustments proposed during the audit process. The lack of proper procedures and controls in place over the preparation of the financial statements could also potentially result in material misstatements of the financial statements and material departures from generally accepted accounting principles.

Recommendation: We recommend the County put in place a timely year-end financial statement close process to ensure the accounting and financial reporting are accurate and in accordance with applicable standards. We recommend this process be performed prior to the start of audit fieldwork. This process should include the following: convert cash basis accounting to accrual basis, preparation of supporting schedules for balances recorded in the general ledger at year-end, and preparation of draft financial statements in accordance with applicable standards. We also recommend the County record all current year adjusting journal entries to the trial balance in a timely manner to ensure it reconciles to the financials and properly balances next year.

Response and corrective action: The following response is provided by the Clay County Finance Department: Historically, these functions were performed by the County Auditor or outside vendor. In 2015, with the reorganization of departments under the control of the County Administrator, the Commission approved the creation of the Finance Department, led by a Finance Manager directly reporting to the Assistant County Administrator – Finance & Administrative Services. The Finance Manager will implement a new process for 2016 to ensure conversions of cash to modified accrual, general ledger adjustments and financial schedules are performed prior to audit field work. In addition, a new process will be implemented to ensure proper financial closing procedures are following on a timely basis and the final trial balance will be completed prior to field work.

Clay County, Missouri

**Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2015**

2015-002 – General Ledger System Access – Material Weakness

Criteria: Management of the County is responsible for establishing and maintaining effective internal controls over financial reporting. These controls should allow management or employees to prevent, or detect and correct, misstatements to the financial statements on a timely basis. These controls should also provide for the proper segregation of duties within the financial reporting process and information technology (IT).

Condition: There is one County employee who has the ability to record journal entries to the general ledger and also has IT administrative access (super user). Management of the County has not implemented effective compensating controls to address this inadequate segregation of duties.

Cause: The County was unaware of the need to mitigate the risk for those with access to the general ledger system and the ability to record journal entries. The County does not have proper procedures and controls in place to provide for proper segregation of duties within the financial reporting process.

Effect or potential effect: The lack of segregation of duties within the general ledger system could potentially result in material misstatements of the financial statements that are not detected in a timely manner. The super user administrative access to the general ledger system could potentially result in unauthorized access of individuals to the general ledger system if not properly monitored.

Recommendation: We recommend the County establish proper segregation of duties within the general ledger system and financial reporting process, as well as establish compensating controls in consideration of those individuals with significant access throughout the general ledger system. Compensating controls could include consistent reviews of IT access reports to identify any changes in user access.

Response and corrective action: The following response is provided by the Clay County Auditor: Mitigating controls are inherent in the Missouri Statutes governing the duties of several offices. Journal entries to move cash as well as bank access are done only by the Treasurer and staff. The clerk's office maintains the vendor files and creates invoices for payments. The commission has a final sign off before payments are made. The budget officer works from Eden budgeted module that is fed from general ledger. The Auditor adjustments by journal entries are logged in Eden history and supported by documentation. We believe the multiple offices' controls compensate and mitigate the concerns over segregation of duties.

2015-03 – Journal Entries Posted in the General Ledger – Material Weakness

Criteria: Management of the County is responsible for establishing and maintaining effective internal controls over financial reporting. These controls should allow management or employees to prevent, or detect and correct, misstatements to the financial statements on a timely basis. These controls should also include proper review of manual journal entries and transactions posted in the general ledger.

Condition: There are no procedures in place to review and approve journal entry transactions by someone independent of the individual posting the entry in the general ledger.

Clay County, Missouri

**Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2015**

Cause: The County was unaware of the need to mitigate the risk for those with access to the general ledger system and the ability to record journal entries. The County does not have proper procedures and controls in place to provide for proper review of manual journal entries recorded in the general ledger.

Effect or potential effect: The lack of controls in place over the posting of journal entries in the general ledger system could potentially result in material misstatements of the financial statements that are not detected in a timely manner.

Recommendation: We recommend the County establish procedures over the manual posting of journal entries to the general ledger, which includes an independent review of the journal entry from the individual posting the journal entry.

Response and corrective action: The following response is provided by the Clay County Auditor: A weekly review of all posted journal entries has been implemented by the Auditor.

B. Compliance Findings

None reported

III. Findings and Questioned Costs for Federal Awards

A. Internal Control

None reported

B. Instances of Noncompliance

None reported

Clay County, Missouri

**Corrective Action Plan
Year Ended December 31, 2015**

Current Finding Number	Comment	Corrective Action Plan	Anticipated Date of Completion	Contact Person
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Material Weakness in Internal Control Related to the Financial Statement Audit

Internal Control

2015-001	During the audit there were a significant number of audit adjustments proposed to the original trial balance that was presented to us, that materially affected a significant number of year-end balances.	See response and corrective action plan at 2015-001.	December 31, 2016	Finance Manager
2015-002	There is one County employee who has the ability to record journal entries to the general ledger and also has IT administrative access (super user). Management of the County has not implemented effective compensating controls to address this inadequate segregation of duties.	See response and corrective action plan at 2015-002.	December 31, 2016	County Auditor
2015-003	There are no procedures in place to review and approve journal entry transactions by someone independent of the individual posting the entry in the general ledger.	See response and corrective action plan at 2015-003.	December 31, 2016	County Auditor

