

# Finance Department

## Attestation Engagement—Review



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[www.claycountymo.gov/departments/auditor](http://www.claycountymo.gov/departments/auditor)

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## *I. Introduction and Scope*

Many of the recent controversies surrounding Clay County government tend to involve the Commission-appointed Administration more than any other elected office or department. Part of the key apparatus in making the Administration function is its own Finance Department. As the idiom goes, after all, money makes the world go round. Indeed, the often cited news stories that come to mind regarding Clay County include various Finance Department associations at some degree.

In a timeline of sorts, this can be drawn out back to at least 2017. During January of that year, the head of the Finance Department and Chief Budget Officer faced an investigation from the Missouri State Highway Patrol (MSHP) for document tampering. Basically the signature of the Presiding Commissioner was cut off a warrant batch of purchase orders (POs). The Missouri Attorney General's office then charged this individual with a Class A misdemeanor.

Later in October and November of 2017, the Salary Commission—comprised of all County elected officials—determined to equalize and effectively raise all officeholder salaries. That parity concept was more of a legal question. The consequential back-pay for previous years when salaries weren't equalized, however, and calculation thereof would presumably have a Finance Department role to play along with obviously HR.

From there, current events for the County seemed to essentially spiral out of control. The Salary Commission decision was a contentious 6-4 decision with two absent members—whose salaries are set by state law (Sheriff and Prosecutor). One officeholder who voted no, the Clerk, then saw a 30.4% cut of \$77,237.00 to her budget for 2018. The Clerk also discovered the aforementioned document tampering. In the latter months of 2018, the Commission in a 2-1 vote sold \$52 million of Certificates of Participation (COPs) with no vote of the people. The Finance Department processes all project payments for those bond funds with a procedure that completely avoids the Auditor, Clerk, and Treasurer—wholly unlike other Accounts Payable.

Next, the Sheriff, who turned over the document tampering investigation to the MSHP, then saw his 2019 detention contract budget for inmate healthcare and food cut to insufficient funding. The Sheriff sued and ultimately prevailed all the way up to the Missouri Supreme Court. Continuing with the summer of 2019, the County received a potential late fee from Motorola due to failing to pay a bill under the Administration's Expenditure Authority. What happened was the Treasurer check had been sent in inter-office mail to the Finance Department to then snail mail to Motorola. The check ended up at a different address than Motorola desired. The matter was resolved by the Treasurer voiding the check and sending an ACH payment directly to Motorola's bank account.

Finally, near the end of 2019, it became apparent that the calendar year 2018 outside financial statement audit wouldn't be completed as the firm, RSM, contended the citizen-petitioned comprehensive State Audit should be done first. The Finance Department oversees the financial statement audit after taking charge of it from the County Auditor. The Sheriff lost drug control grant money as a result. A new firm is finishing the 2018 and 2019 financial audits.

In light of the above, a Review form of Attestation Engagement appears prudent. This type of audit under Generally Accepted Government Auditing Standards (GAGAS) requires the auditor to reach conclusions based on sufficient and appropriate evidence. No recommendations are made, meaning there are additionally no corresponding responses from management. A Review was chosen over other forms of audits due to the ongoing State Audit and outside financial statement audits done by an external auditing firm.

## *II. Background and Audit Plan*

The Finance Department came into official existence with the 2016 budget. At present, there are five full time employees staffed in the Finance Department. The position of “Finance Manager” is vacant, but otherwise there are three “Finance Specialist II” budgeted spots in the 2020 budget, plus one “Finance Specialist I” and one “Finance Specialist”. As referenced earlier, an Assistant County Administrator (ACA) oversees the entire department.

As far the legal statutory authority in state law or the Clay County Code of Ordinances, there actually is none whatsoever. The department is nowhere enumerated in the Revised Missouri Statutes (RSMo) applicable to counties, chapters 46-70 among others. Nor is the entity in the County’s own code. Really the only form of its authorization is again the County budget and its relevant chart of accounts (100-603\*). Even then, the term itself of Finance Department is not in the latest adopting ordinance for the 2020 budget of 2019-ORD-44.

Per the County’s website (<https://www.claycountymo.gov/departments/finance>), the Finance Department’s mission and what they do is as follows:

### “Mission Statement

To optimally manage the County's finances through its accounting functions and ensure the proper safeguarding and preservation of the County's financial resources.

### What We Do

The Finance Department accomplishes its mission by ensuring all the financial operations and transactions are adequately managed and accounted for in accordance with Generally Accepted Accounting Principles and other legally mandated standards as required by state statutes and county ordinances.

Finance staff assists the Chief Budget Officer with the development of the County's annual budget and is also responsible for overseeing the annual outside financial audit which includes preparation of the annual financial statements. In addition, the Finance Department ensures timely payments are made through its accounts payable functions.”

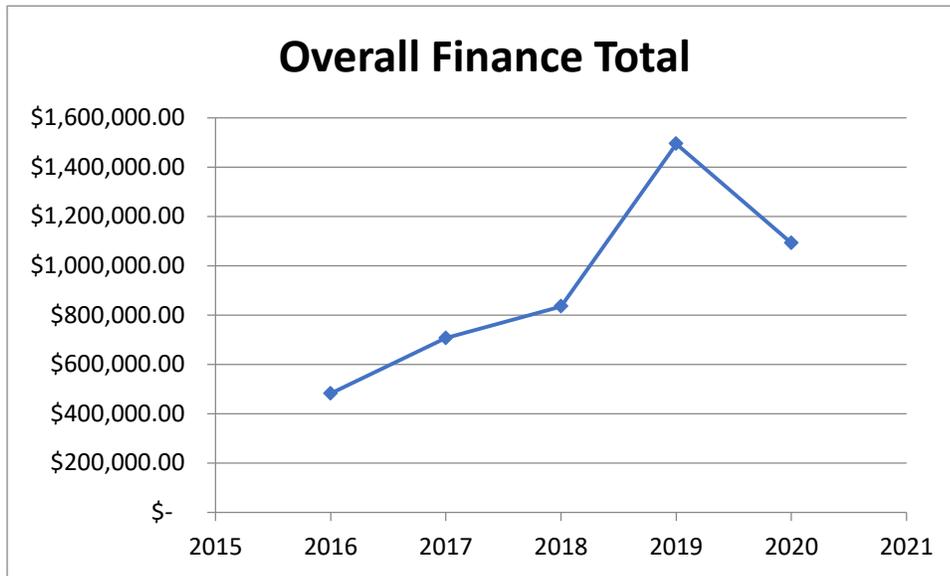
It is important to point out that—under RSMo 50.530, 55.150, and 55.160—the County Auditor is identified as the Accounting Officer for the County. In a sense, the Finance Department is therefore conducting duties that under Missouri law belong with the Auditor’s office.

Given this backdrop, the Audit Plan will cover many areas related to the Finance Department’s stated mission. First will be an exploration of the Finance Department’s budget growth from 2016-2020. Part of this section accordingly outlines the cost benefit analysis of maintaining a Finance Department for the County. One such cost is the Finance Department’s location in leased space outside of County property. The second section of the Audit Plan is thus a look at the efficiency of that occupancy setup. Next, we aim to discuss the County’s Transparency Portal (<https://www.claycountymo.gov/transparency>), specifically the “County Expenditures by Year, by Vendor” portion. That part of the Portal is uploaded most likely by the Finance Department. Lastly, we plan to assess the issue of “true-ups” done in 2017 as well as 2020. These re-appropriations of budget occur when the budget is initially passed before knowing actual cash carryover at the end of the year. A true-up essentially reconciles the differences between budgeted carryover revenue versus actual.

### *III. Audit*

- **Budget Growth from 2016-2020**

Since its inception in 2016, the Finance Department’s budget has routinely dwarfed other similarly sized elected offices—as pointed out in an earlier budget analysis audit from July of 2020. Besides that disproportion, it has further grown at a tremendous rate over the past five years. The following graph and chart depict this reality:



	2016	2017	2018	2019	2020	
<i>Overall Finance Total</i>	\$ 482,337.18	\$ 706,841.92	\$ 834,913.79	\$ 1,494,384.35	\$ 1,092,267.24	126.5%

As can be seen, there has been a greater than doubling of the Finance budget within five years. The year of 2019 stands out as an outlier, owing largely to anticipated State Audit expenses that were budgeted with the Finance Department. The State Auditor’s office chose to not charge the County at all for those costs (which it can per RSMo 50.057 and 29.230). Yet the Administration is suing the State Auditor at a cost, asserting that the office can only do financial audits and not performance audits. The County lost at the circuit court level, but appealed.

Nevertheless, a straight-line trend would reveal a fairly steady growth pattern. Bear in mind that the annual financial statement audit costs are likewise budgeted with Finance, to the tune of about \$100,000 a year. Recently in 2019-2020, part of the County’s copier lease with Ricoh has been financed within this department, too, at \$142,000. On a final explanatory note for the Finance Department’s budget, in 2019 a new department termed “Fiscal Appropriations” was created in the 100-608 account series. Those respective amounts were included in this total.

Conclusion: The Finance Department’s budget has increased in a significant way without any in kind increase in assigned jobs.

- **Leased Office Space**

Moving on to the second subject of this audit, not only does the Finance Department exhibit a larger budget than similar in scope offices it uses extra office space to fulfill its purpose. The Purchasing Department does share this space with the Finance Department. The former’s respective location before was upstairs in the Courthouse, next to the Clerk. Public Services use that area today. In August of 2018, the Administration entered into a lease with then Bank Liberty, now Central Bank of the Midwest, for five years until August 31<sup>st</sup>, 2023. The County has the right under Article 1-Demise to terminate the contract early starting three years after the onset, so September of 2021. There is a “Termination Payment” fee that reduces, according to the schedule in Exhibit C, until it is gone by the lease end date of August 31<sup>st</sup>, 2023.

The monthly rent at Central Bank is \$4,958.33, but “subject to 3.0% increase effective September 1, 2019 and each year thereafter.” Hence the rent went up to \$5,107.08 through August 31<sup>st</sup>, 2020. Multiplied by twelve months calculates to an annual total of \$61,284.96. When considering an average full time equivalent salary, that amount could pay for more staff. The landlord is responsible for all utilities, but the County as lessee pays for its own “data, cable, or phone connections” under Article 10-Utilities.

An additional trouble with this lease is how there are two empty office rooms already in the basement or bottom level of the County-owned Courthouse—one block east of the bank building being rented. These were formerly occupied by the County Auditor and staff. In late 2018, the Administration moved with no vote of the Commission to vacate those offices and move the Auditor and staff to one room down the hall previously occupied by the Finance Department. The idle rooms were then completely renovated with new carpet and wall paint while nothing was done to the old Finance room. In late 2019, State Auditor staff was permitted to carry out fieldwork from one of those rooms. With the outbreak of the coronavirus, they have since left. The other room serves as a pseudo storage area for archived tax files, although the Assessor requested for them to be put in permanent County storage facilities.

Conclusion: The existing lease of the Central Bank building is unnecessary and a waste of taxpayer dollars.

- **Transparency Portal**

Shortly before the official beginning of the Finance Department, the Administration launched a “Transparency Portal” with Resolution 2015-80—passed unanimously by the Commission on April 27<sup>th</sup>, 2015. In a partnership with the non-profit “United for Missouri,” the County agreed to make publically available its spending data. At no cost the County, Administration staff was directed to pull the information from the accounting system and post it to the County’s website.

As can be seen by viewing the status quo of the Portal, there are numerous sections to peruse such as “New Expenditure Database-Show Me Checkbook”, “Open Records Requests”,

“Commission Meeting Minutes”, “2020 Budget”, “Annual Outside Audits”, and “County Expenditures by Year, by Vendor”. The last component historically was all that constituted the County’s initial Transparency Portal. It is comprised of several “PO Accounting Report(s) by Vendor Name” going back to 2013.

On its face, those reports do not display the County’s whole spending picture. This is because numerous payments, particularly legal fees, are made by government credit card or P-Card—as this office’s June of 2020 audit described. Those expenditures simply aren’t captured in the PO (or Purchase Order) Accounting Report. Other payments done by Treasurer’s check similarly are absent from this report.

Nevertheless, the County moved in April of this year to partner with the Missouri State Treasurer on that office’s initiative for showing state and local government expenditure data. Through the “Show Me Checkbook” (<https://treasurer.mo.gov/showmecheckbook/clay>), this site does in fact accurately indicate all County expenditures to vendors. Clearly this is a bit of a roundabout method for the public to find this information, but it is an improvement from what the County had been posting before on its own. The preferred approach would be to have one place for citizens to go see all County spending, rather than clicking through multiple steps. Exporting vendor totals from the accounting system, as what seems to have been done with the State Treasurer Checkbook, is the fully transparent course of action.

Conclusion: The State Treasurer’s Checkbook does correctly contain the assorted ways of County payments—like both POs and P-Cards. The County’s Transparency Portal has a link to that Checkbook, but its “County Expenditures by Year, by Vendor” category, logically updated by the Finance Department, does not tell and has not told the broad story of all County spending. It is on the contrary misleading.

- **True-Ups**

To conclude this audit, we bring up the topic of true-ups. As mentioned in the background, true-ups are an opportunity for the Budget Team (a subset of the Finance Department) to reconcile differences between estimated cash carryover revenue budget amounts to actual cash carryover. This typically occurs whenever the budget is passed before year end (12/31), but not always. Differences in the carryover budget can take place for a variety of reasons. The Auditor’s office does provide the actual cash carryover to the Budget Team after the 12/31 year end close.

In reviewing the budgets passed since the start of the Finance Department, two true-up occasions present glaring problems. With 2017-ORD-07—passed in a 2-1 vote on February 27<sup>th</sup>, 2017, for the 2017 true-up—\$379,481.54 was transferred out of the restricted special revenue Road & Bridge or Highway Fund (220) to the General Fund. The 2017 outside financial statement audit considered this a material compliance finding (2017-003) and recommended correction. The County did so on 5/20/2019 after cooperation between the Finance Department, Auditor, and Treasurer.

Then, with the 2020 true-up, it is this office’s contention that carryover was grossly misstated for the purposes of a true-up. As a caveat, this would not affect the trial balance, also provided by the Auditor, for the 2019 financial statements. What transpired was ignoring how there was a payroll with a pay date of Friday, January 3<sup>rd</sup>, 2020. Under normal circumstances, the

County wires the payroll provider, ADP, funds on Wednesday so that checks get deposited in employee bank accounts by Friday. That week, January 1<sup>st</sup>, New Year's Day, was and always is a bank holiday. The County thus had to get the wire out on New Year's Eve, Tuesday, 12/31/2019. Said wire meant year-ending 2019 cash was lower by that payroll on the order of \$1,922,520.68 with benefits added. With the pay date in 2020, though, the 2020 budget was used and not the 2019 budget.

In the 2020 true-up, passed by 2020-ORD-14 on March 18<sup>th</sup> and once more with a 2-1 vote, this reduced carryover was dismissed. The true-up pretended carryover was higher by that almost \$2 million amount and re-appropriated it as imaginary available budget. Furthermore, there was a second concern dealing with P-Card limit reserves encumbrances. In a nutshell, the Auditor has to encumber or reserve the total government credit card limits in the budget for liability purposes (say for instance due to lost cards). That amount at year end of 2019 was \$929,200.

The Finance Department believed this encumbrance should've been considered closed at year end like other encumbrances, but, as long as the County has P-Cards, the encumbrance should really always be in place perpetually. It has in truth never been accounted for in carryover, so to do so would be inconsistent. To do otherwise would also present a substantial risk to the County. Regardless, the True-Up ordinance in 2020-ORD-14 counted that near \$1 million as extra budget available to be re-appropriated—akin to the payroll figure. All told, what was presented by the Auditor's office and still in the accounting system for the 2019 year end cash carryover total reflected a \$465,401.02 shortfall from what was budgeted—not a near \$2.4 million surplus. For a balanced budget, in other words, the County should've cut its budget by half-a-million dollars, not increased it by almost two-and-a-half million dollars.

Conclusion: True-ups calculated by the Finance Department have been incorrect both times they've been done.

*IV. Overall Rating for this Audit*



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