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NEWS RELEASE

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Auditor of State Mary Mosiman today released a report on a special investigation of the Sac County Treasurer's Office Motor Vehicle Department for the period January 1, 2010 through February 27, 2014. The Motor Vehicle Department is responsible for collecting and processing motor vehicle registrations and titles. The special investigation was requested by County officials after the former Deputy Treasurer of the Motor Vehicle Department, Lisa Phillips, was found to have deposited funds from her personal business into the County's bank accounts.

Mosiman reported the special investigation identified \$3,513.48 of improper disbursements and undeposited collections. The \$3,270.48 of improper disbursements was determined to be the result of Ms. Phillips earning compensatory time as a result of promoting her personal business during her normal working hours and having to stay late to complete her normal job duties. The \$243.00 of undeposited collections was the result of an improperly voided registration statement which was recorded in the Department of Transportation's ARTS Registration and Title System. The transaction was improperly voided by Ms. Phillips to show no fees were collected.

The report includes recommendations to strengthen internal controls, including segregating duties for the recording and depositing of motor vehicle proceeds, reviewing bank reconciliations, and improving cash handling procedures.

Copies of the report have been filed with the Sac County Attorney's Office, the Division of Criminal Investigation, and the Attorney General's Office. A copy of the report is available for review in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/specials/1410-0081-BE00.pdf>.

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**REPORT ON SPECIAL INVESTIGATION  
OF THE SAC COUNTY TREASURER'S OFFICE  
FOR THE PERIOD  
JANUARY 1, 2010 THROUGH FEBRUARY 27, 2014**

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## Auditor of State's Report

To the Officials of Sac County:

As a result of alleged improprieties regarding the handling of certain deposits by the former Deputy Treasurer of the Motor Vehicle Department (Department) of the Sac County Treasurer's Office (Treasurer's Office), Lisa Phillips, and at the request of Sac County Officials, we conducted a special investigation of certain operations of the Treasurer's Office. We have applied certain tests and procedures to selected transactions processed by the Department for the period January 1, 2010 through February 27, 2014, unless otherwise noted. Based on a review of relevant information and discussions with Department personnel and County Officials, we performed the following procedures:


- (1) Interviewed County staff to obtain an understanding of the job duties of individual employees of the Treasurer's Office.
- (2) Evaluated internal controls over transactions processed by the Department to determine whether adequate policies and procedures were in place and operating effectively.
- (3) Evaluated timesheets, including compensatory time, vacation accruals, and personnel policies, to determine if the records are accurate and policies were followed.
- (4) For certain voided motor vehicle transactions, we reviewed registration renewals, titles, and supporting documentation to determine if the transactions were properly recorded, the proper fees were collected, and the collections were subsequently deposited.


The procedures identified \$3,513.48 of improper disbursements and undeposited collections. The \$3,270.48 of improper disbursements identified was paid to Ms. Phillips for compensatory time earned as a result of promoting her personal business during her normal working hours. The \$243.00 of undeposited collections identified is the result of an improperly voided registration statement which was recorded in the Department of Transportation's ARTS Registration and Title System. The detailed findings and recommendations are presented in the Investigative Summary of this report.

The procedures described above do not constitute an audit of financial statements conducted in accordance with U.S. generally accepted auditing standards. Had we performed additional procedures or had we reviewed all operations of the Department, other matters might have come to our attention which would have been reported to you.

Copies of the report have been filed with the Division of Criminal Investigation, the Sac County Attorney's Office, and the Attorney General's Office.

We would like to acknowledge the assistance and many courtesies extended to us by the officials and personnel of Sac County during the course of our investigation.

  
MARY MOSIMAN, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

July 11, 2014

Report on Special Investigation of the  
Sac County Treasurer's Office  
Investigative Summary

**Background Information**

The Sac County Treasurer's Office (Treasurer's Office) is responsible for the collection of property tax, issuance of vehicle titles and registrations, and collection of vehicle fees from residents of Sac County. The Treasurer's Office also provides driver's license services to citizens and financial administration and banking services to County offices. It is functionally divided into 3 departments, as follows:

- The Tax Department prepares and distributes property tax statements and collects and deposits property tax.
- The Motor Vehicle Department issues vehicle titles and registrations and collects and records vehicle fees.
- The Driver's License Department provides driver's license services and collects and records associated fees.

The Motor Vehicle Department (Department) processes transactions related to the purchase, registration, and sale of motor vehicles. Vehicle fees include use tax, title fees, and liens on vehicles. Fees are also collected when a resident registers their vehicle or renews the registration. Registration fees are based on the age and weight of the vehicle. The fees are calculated by the Department of Transportation's (DOT) ARTS Registration and Title System (DOT System).

Lisa Phillips started with the Treasurer's Office on June 2, 1986 as a clerk and was later promoted to 1st Deputy of the Motor Vehicle Department (Deputy). As the Deputy, Ms. Phillips' job duties included handling cash, recording and voiding motor vehicle transactions in the DOT System, preparing day end packets, reconciling the day end packets, preparing bank deposits, and taking deposits to the bank. These duties were shared among all personnel in the Department. Ms. Phillips did not have access to any other sources of collections or any responsibilities for disbursements.

Registration, title, and other fees are collected at the walk-up window in the Treasurer's Office and by mail. Fees may be paid by cash, check, debit card, or credit card. The fees collected are to be placed in the cash drawer assigned to the employee processing the transaction and each transaction is to be immediately recorded in the DOT System. When the transaction is recorded, the employee's user name is automatically recorded by the DOT System. The resulting vehicle documents are to be printed and provided to the customer waiting at the window or mailed. The documents include vehicle titles, vehicle registration forms, tags to attach to a vehicle's license plates, and lien documents.

The DOT System was implemented on January 1, 2005. Prior to 2005, the registration, title, and lien fees were calculated manually at each county using schedules and information provided by the DOT. Once the DOT System was implemented, each County Treasurer provided DOT a list of County employees who provided vehicle services. The County Treasurers also specified each employee's job duties so DOT could assign the proper access rights to each user.

In addition to assigning access rights, DOT assigns a unique user name to each individual with access to the DOT System. Most users are assigned basic access rights which allows for the processing of registrations and titles. However, some users are assigned a supervisory level of authority which allows them to also make corrections and void transactions. DOT policies require each DOT System user to create a password, keep the password secure, and not share passwords

with others. DOT officials also instruct users to not allow other users to use their terminal or log in using their user name.

In order to process a vehicle transaction, including titles and registrations, the user must log into the DOT System and enter the required information for the transaction. After the information is entered and the record is updated, the DOT System automatically calculates the fees owed by the customer and a vehicle registration statement is created. Once the registration statement is created, the user records the type of payment (cash, check, debit, or credit card) in the DOT System and completes the transaction. The registration statement is then printed showing the type of fee, amount paid, and the type of payment. The vehicle title or registration form is printed for the customer, including the colored tag to be placed on the vehicle's license plate. When the user closes the transaction, a transaction number is recorded in the DOT System.

At the end of each business day, Ms. Phillips, or another staff member in the Department, reconciled their cash drawers to the "Cash Drawer" report generated by the DOT System. Once the drawers were reconciled, Ms. Phillips or another Department staff member prepared a deposit slip. A printout from the DOT system was included with the deposit slip listing the amount of cash and checks collected. The "Cash Drawer" report includes a total line for cash received and lists the check number, the remitter's name, and the amount of the check. The deposit was placed in the vault until the following business day when it was taken to the bank by the Treasurer or a Deputy Treasurer.

In addition to the daily comparisons performed by County staff, DOT staff review transactions processed by selected counties each month. DOT staff queries the DOT System to identify transactions which were not processed following normal procedures. For example, DOT staff can identify financial transactions which were voided but the vehicle's title or registration was left valid. If sufficient information is not recorded in the DOT System to allow DOT staff to determine if the transactions were processed properly, DOT staff contact the County for additional information.

On February 6, 2014, concerns were brought to the Treasurer's attention regarding Ms. Phillips activities while in the office. According to the Treasurer, Ms. Phillips deposited personal funds to the County's bank account and she was promoting her personal business while working at the Treasurer's Office.

On November 15, 2013, Ms. Phillips erroneously deposited personal funds of \$571.40 into the County's bank account. The deposit included checks received by Ms. Phillips from her personal business. The error was found when the Treasurer was reconciling the daily activity to the bank and she identified the amount deposited to the bank was \$571.40 more than the amount collected for the day.

The deposit included a check for \$111.17 payable to the Treasurer's Office. It was determined the remitter had left the "Pay to the Order of" line on the check blank and Ms. Phillips had incorrectly written the Treasurer's Office in. As of February 6, 2014, the check remained in the Department's checking account and was brought to the Treasurer's attention. In addition to the incorrect deposit, the Treasurer was aware of concerns regarding Ms. Phillips conducting her personal business during business hours.

On February 11, 2014, Ms. Phillips was suspended for 30 days without pay due to a check related to her personal business being deposited in the County's bank account and attempting to conduct personal business during business hours at the County Courthouse. Due to additional circumstances, Ms. Phillips was terminated on February 12, 2014. County policy allows an individual to file a grievance with the Board of Supervisors to have the decision reviewed. Ms. Phillips waived her grievance right on February 27, 2014, which became her official termination date.

As a result of the issues identified, the Treasurer contacted the Office of the Auditor of State and requested a review of the issues identified. As a result, we performed the procedures detailed in the Auditor of State's Report for the period January 1, 2010 through February 27, 2014.

### **Detailed Findings**

The procedures identified \$3,513.48 of improper disbursements and undeposited collections. The \$3,270.48 of improper disbursements was paid to Ms. Phillips for compensatory time earned as a result of promoting her personal business while on County property and during her normal working hours. The \$243.00 of undeposited collections is the result of an improperly voided registration statement which was recorded in the Department of Transportation's (DOT) ARTS Registration and Title System (DOT System). The detailed findings are discussed in more detail in the subsequent sections of this report.

#### **Estimated Personal Time**

Treasurer's Office staff are allowed to accrue compensatory time for the hours worked in excess of their normal 40 hours per week. Compensatory time is to be approved by the Treasurer prior to being earned. According to the Treasurer, examples where compensatory time is accrued include additional time for the month end closing process, preparing the annual budget, and assisting during elections.

As previously stated, on November 15, 2013, Ms. Phillips erroneously deposited \$5710.40 of personal funds into the County's bank account. The deposit included checks received by Ms. Phillips for her personal business. The error was found when the Treasurer was reconciling the daily activity to the bank and she identified the amount deposited to the bank was \$571.40 more than the amount collected for the day. Based on this deposit and information provided to the Treasurer by her staff, the Treasurer determined Ms. Phillips was operating her personal business on County time.

According to the Treasurer, Ms. Phillips was asked to have the bank process a check to remove Ms. Phillips' personal funds from the County's bank account. The Treasurer also requested DOT and the bank provide Ms. Phillips instructions on how to remove the money from the County's bank account. Ms. Phillips did not attempt to file the required paper work to have the bank transfer the money to her personal bank account. As a result, the Treasurer's Office wrote a \$571.40 check on February 13, 2014 payable to Ms. Phillips. Ms. Phillips redeemed the check which cleared the County's bank account on March 17, 2014.

According to County staff we spoke with, Ms. Phillips had shipments for her personal business sent directly to the Courthouse, and she gave out free samples to people working and visiting the Courthouse in order to solicit business for her personal business. County staff also stated Ms. Phillips was seen talking on the phone and using the internet during normal office hours for her personal business.

According to the Treasurer, compensatory time is rarely earned by staff of the Treasurer's Office. According to County staff we spoke with, they believe the compensatory time earned by Ms. Phillips was the result of her spending time on her personal business during her normal working hours. **Table 1** summarizes the compensatory time accrued, used, and the balance from January 1, 2010 through Ms. Phillips' termination.



**Table 1**

Description/ Fiscal Year	Compensatory Hours			Value of Hours Used
	Accrued	Used	Balance	
Beginning Balance^			49.69	
2010*	23.50	7.50	65.69	\$ 131.03
2011	47.51	36.00	77.20	641.52
2012	23.66	1.75	99.11	32.13
2013	22.08	64.25	56.94	1,209.19
2014~	9.83	66.77	-	1,256.61
Total	126.58	176.27		\$ 3,270.48

^ - Balance as of January 1, 2010. Records prior to January 1, 2010 were unavailable.

\* - From January 1, 2010 through June 30, 2010.

~ - Through termination date of February 27, 2014. The hours used include Ms. Phillips' final payout of 62.77 hours.

On January 1, 2010, Ms. Phillips had a compensatory time balance of 49.69 hours. From January 1, 2010 through February 27, 2014, Ms. Phillips earned an additional 126.58 hours of compensatory time and was paid \$3,270.48 for 176.27 hours of compensatory time. The \$3,270.48 includes the payout of \$1,181.33 for her compensatory time balance of 62.77 hours on her termination date.

According to County staff we spoke with, they observed Ms. Phillips spending excessive time on her personal cell phone, talking to customers, promoting her personal business, and receiving orders for her personal business. They estimated Ms. Phillips spent 2 to 3 hours per day doing non-County activities. The time spent promoting her personal business and time spent on her personal cell phone resulted in Ms. Phillips staying late and earning compensatory time.

According to the Treasurer, she approved Ms. Phillips' compensatory time because she believed she could not deny her the compensatory time even though it was the result of Ms. Phillips spending time on personal business. At the time she approved the compensatory time, she suspected it was a result of Ms. Phillips spending time on her personal business and using her personal cell phone excessively. The Treasurer also stated she was not aware she could deny the compensatory time because Ms. Phillips was working on her personal business or spending excessive time on her personal cell phone. The final payout of Ms. Phillips' compensatory time balance was approved by the Treasurer and the Board of Supervisors.

Other staff in the office also earned compensatory time. According to the Treasurer, Ms. Phillips duties were less in scope than other employees in the Treasurer's Office who earned compensatory time. Ms. Phillips did not have to prepare budgets or work with property tax apportionment and other reports. During the same period, one other staff person in the Department with similar job functions accrued a total of 17.5 hours of compensatory time.

### **Voided Registration Transaction**

Using a listing we obtained from DOT of all voided transactions recorded by the County during the period of our investigation, we identified a registration for which the related financial transaction was improperly voided. We worked with DOT staff to confirm the \$243.00 registration issued on July 13, 2012 was valid and the related financial transaction should not have been voided. The remaining voided transactions were either properly voided on both sides of the DOT system or a new registration was issued within a few minutes with corrected information.

Based on the transaction recorded in the DOT System, the registration statement was prepared and the vehicle registration form was printed for the voided financial transaction identified. The vehicle registration form, including the colored tag to be placed on the vehicle's license plate, appears to have been properly provided to the vehicle's owners. However, the DOT System shows Ms. Phillips voided the related financial transaction. Because the related financial transaction was voided, the \$243.00 collected was not included in the Department's daily deposit.

By voiding the transaction, the collection was removed from the day's activity recorded in the DOT System. If the transaction was paid by check, voiding the transaction would remove the amount paid from the "Cash Drawer" report generated by the DOT System. If the customer paid cash, the DOT System would prompt the user to make a "cash adjustment" in the drawer and record an explanation for the adjustment in the DOT System. However, an explanation for the adjustment was not required to be recorded in order to process the transaction.

By voiding both the vehicle registration form and the related registration statement, it would appear to anyone reviewing the voided transactions the removal of the fees was appropriate. The customer should not have been charged the registration fees if the vehicle registration was voided. Voiding the registration statement but not the vehicle registration form should raise a question as to why the fees were removed from the DOT System.

### **Recommended Control Procedures**

As part of our investigation, we reviewed the procedures used by the Treasurer's Office to collect, record, and deposit proceeds from the Motor Vehicle Department. An important aspect of internal control is to establish procedures which provide accountability for assets susceptible to loss from errors or irregularities. These procedures provide the actions of one individual will act as a check on those of another and provide a level of assurance errors or irregularities will be noted within a reasonable time during the course of normal operations. Based on our findings and observations detailed below, the following recommendations are made to strengthen the Treasurer's Office internal controls over the handling of the motor vehicle transactions.

(A) Segregation of Duties – An important aspect of internal control is the segregation of duties among individuals to prevent one person from handling duties which are incompatible. During our investigation, we determined Ms. Phillips was responsible for:

- Handling cash and entering transactions into the DOT System.
- Voiding motor vehicle transactions.
- Preparing day end packets and reconciliations.
- Preparing bank deposits and taking the deposit to the bank.
- Preparing monthly bank reconciliations.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, each official should review the operating procedures of their office to obtain the maximum internal control possible under the circumstances. The official should utilize current personnel to provide additional control through review of financial transactions, reconciliations and reports. Such reviews should be performed by independent persons, to the extent possible, and should be documented by the signature or initials of the reviewer and the date of the review.

- (B) Bank Reconciliations – Bank reconciliations were completed, but there was no evidence the reconciliations were reviewed by an independent person.

Recommendation – The County should establish procedures to ensure bank reconciliations are reviewed by an independent person and the review is documented by signing or initialing and dating the monthly reconciliations.

- (C) Compensatory Time – Section 3.3 of the County’s Employee Handbook requires all overtime/compensatory time be determined by the supervisor and approved by the supervisor before being paid. Ms. Phillips was approved for compensatory time as a result of spending time on her personal business during her normal work hours. Compensatory time should only be approved when additional hours are required as a result of increased work on County business.

Recommendation – The County should ensure compensatory time is only approved for work related to County business.

Report on Special Investigation of the  
Sac County Treasurer's Office

Staff

This special investigation was performed by:

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