

OPERATIONAL AUDIT

GARFIELD COUNTY

July 1, 2010 through June 30, 2012



*Independently serving the citizens of
Oklahoma by promoting the
accountability and fiscal integrity of
governmental funds.*



Oklahoma State
Auditor & Inspector
Gary A. Jones, CPA, CFE

**GARFIELD COUNTY OPERATIONAL AUDIT
FOR THE PERIOD JULY 1, 2010 THROUGH JUNE 30, 2012**

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Oklahoma State Auditor & Inspector

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October 30, 2013

**TO THE CITIZENS OF
GARFIELD COUNTY, OKLAHOMA**

Transmitted herewith is the audit report of Garfield County for the period July 1, 2010 through June 30, 2012.

The goal of the State Auditor and Inspector is to promote accountability and fiscal integrity in state and local government. Maintaining our independence as we provide this service to the taxpayers of Oklahoma is of utmost importance.

We wish to take this opportunity to express our appreciation for the assistance and cooperation extended to our office during our engagement.

Sincerely,

A handwritten signature in blue ink that reads "Gary A. Jones".

GARY A. JONES, CPA, CFE
OKLAHOMA STATE AUDITOR & INSPECTOR

BACKGROUND

Originally a part of the Cherokee Outlet opened for settlement during the Land Run of September 16, 1893, Garfield County, Oklahoma Territory, was named for President James A. Garfield.

Enid, the county seat, has two major employers – Vance Air Force Base and Northrop-Grumman Technical Services, Inc. Local businesses manufacture such products as anhydrous ammonia, petroleum coke, drilling rigs, steel fabricators, dairy goods and processed meats. Although oil has provided a great deal of revenue, Garfield County is best known for its wheat production.

Recreational facilities included public golf courses, parks, and a swimming pool. An annual event of interest is the Tri-State Music Festival held in May for elementary and high school students.

The Garfield County Historical Society and *Garfield County Oklahoma 1893-1982* (two volumes) are sources for more information. The Retired Senior Volunteer Program Information Center is open from 8am to 4pm, Monday through Friday. Call the county clerk at 580/237-0225 or the Greater Enid Chamber of Commerce at 580/234-2494 for additional information.

County Seat – Enid	Area – 1,059.94 Square Miles
County Population – 58,928	
Farms – 1,082	Land in Farms – 663,431 Acres
Primary Source: Oklahoma Almanac 2011-2012	

COUNTY OFFICIALS

L. Wade Patterson.....	County Assessor
Kathy R. Hughes.....	County Clerk
Marc Bolz.....	County Commissioner District 1
Michael J. Postier.....	County Commissioner District 2
James C. Simunek.....	County Commissioner District 3
Bill Winchester.....	County Sheriff
Kevin R. Postier.....	County Treasurer
Margaret F. Jones.....	Court Clerk

**GARFIELD COUNTY
OPERATIONAL AUDIT**

Presentation of Apportionments, Disbursements, and Cash Balances of County Funds for FY 2011

	Beginning Cash Balance July 1, 2010	Receipts Apportioned	Transfers In	Transfers Out	Disbursements	Ending Cash Balance June 30, 2011
Combining Information:						
County General Fund	\$ 2,028,891	\$ 5,181,066	\$ 883	\$ -	\$ 5,092,696	\$ 2,118,144
County Highway Fund	1,092,633	3,778,759	698,316	3,200	4,592,132	974,376
Highway Emergency and Transportation Revolving	310,489	-	56,407	-	195,300	171,596
Highway CBRI Funds	-	1,582,137	3,200	754,723	-	830,614
County Health Department	919,690	1,121,291	-	-	976,237	1,064,744
Jail Sales Tax & Detention Facility	1,711,632	2,060,913	-	-	1,409,317	2,363,228
Rural Fire Sales Tax	1,605,374	812,284	-	-	826,611	1,591,047
Sheriff County Prisoner Fund	152,040	922,485	-	-	889,757	184,768
Remaining Aggregate Funds	2,092,634	1,383,502	-	883	1,199,791	2,275,462
Combined Total - All County Funds	\$ 9,913,383	\$ 16,842,437	\$ 758,806	\$ 758,806	\$ 15,181,841	\$ 11,573,979

Source: County Treasurer's Monthly Reports (presented for informational purposes)

**GARFIELD COUNTY
OPERATIONAL AUDIT**

Presentation of Apportionments, Disbursements, and Cash Balances of County Funds for FY 2012

	Beginning Cash Balance July 1, 2011	Receipts Apportioned	Transfers In	Transfers Out	Disbursements	Ending Cash Balance June 30, 2012
Combining Information:						
County General Fund	\$ 2,118,144	\$ 5,570,511	\$ -	\$ -	\$ 5,292,250	\$ 2,396,405
County Highway Fund	974,376	4,829,760	81,837	-	4,355,305	1,530,668
Highway Emergency and Transportation Revolving	171,596	75,000	28,599	-	200,195	75,000
Highway CBRI Funds	830,614	433,900	-	110,436	265,785	888,293
County Health Department	1,064,744	1,176,877	-	-	792,487	1,449,134
Jail Sales Tax & Detention Facility	2,363,228	2,416,125	-	-	2,243,164	2,536,189
Rural Fire Sales Tax	1,591,047	1,048,573	-	-	934,209	1,705,411
Sheriff County Prisoner Fund	184,768	849,955	-	-	874,072	160,651
Remaining Aggregate Funds	2,275,462	1,504,608	127,882	124,510	1,197,066	2,586,376
Combined Total - All County Funds	\$ 11,573,979	\$ 17,905,309	\$ 238,318	\$ 234,946	\$ 16,154,533	\$ 13,328,127

Source: County Treasurer's Monthly Reports (presented for informational purposes)

PURPOSE, SCOPE, AND SAMPLE METHODOLOGY

This audit was conducted in response to 19 O.S. § 171, which requires the State Auditor and Inspector's Office to audit the books and accounts of county officers.

The audit period covered was July 1, 2010 through June 30, 2012.

Sample methodologies can vary and are selected based on the audit objective and whether the total population of data was available. Random sampling is the preferred method; however, we may also use haphazard sampling (a methodology that produces a representative selection for non-statistical sampling), or judgmental selection when data limitation prevents the use of the other two methods. We selected our samples in such a way that whenever possible, the samples are representative of the populations and provide sufficient evidential matter. We identified specific attributes for testing each of the samples. When appropriate, we projected our results to that population.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. This report is a public document pursuant to the Oklahoma Open Records Act (51 O.S. § 24A.1 et seq.), and shall be open to any person for inspection and copying.

Objective 1: To determine the receipts apportioned, disbursements, and cash balances are accurately presented on the County Treasurer's monthly reports for FY 2011 and FY 2012.

Conclusion: With respect to the items reconciled and reviewed; the receipts apportioned, disbursements, and cash balances appear to be accurately presented on the County Treasurer's monthly reports. However, internal controls over the monthly reports should be strengthened.

Methodology: To accomplish our objective, we performed the following:

- Gained an understanding of internal controls related to the process of accurately presenting the receipts apportioned, disbursements, and cash balances on the County Treasurer's monthly reports through discussions with the County Treasurer, observation, and review of documents.
- Tested internal controls, which included:
 - Selected fifteen (100%) voided receipts during the period, to determine that the supervisor had initialed the void slip documentation as approval for the voided receipt
 - Reviewed twenty-four (100%) bank statement reconciliations for the period, and recalculated the reconciliations at June 30, of each year and determined that someone other than the preparer reviewed each reconciliation, by initialing and dating them.
 - Collaborated receipting and depositing processes with three individuals to provide assurance that duties were properly segregated.
- Performed the following to ensure receipts apportioned, disbursements, and cash balances were accurately presented on the County Treasurer's monthly reports:
 - Reconciled County Treasurer's receipts to amounts apportioned on the County Treasurer's monthly reports.
 - Reconciled the County Clerk's warrants issued to disbursements paid by the County Treasurer.
 - Re-performed all bank reconciliations at June 30, 2011 and June 30, 2012, to determine that all reconciling items were valid, and ending balances on the general ledger agreed to the ending balances reflected on the Treasurer's monthly reports.

Finding: Inadequate Internal Controls over the County Treasurer's Monthly Reports

Condition: When documenting the process over the monthly reports, we noted the following:

- There is no independent comparison of the daily report to the source documentation in the daily jacket delivered to the County Clerk.
- Officers' Official Depository deposits received by various cashiers are all maintained in the same unsecured desk drawer.
- The computer system does not "time-out" automatically.
- The individual approving voids, also has the ability to void receipts from any location.
- Cash drawers are not secured during the day.

When testing internal controls over voided receipts, it was noted that several receipts did not have the initials of the individual indicating approval or the initials of the individual who voided the receipts.

Cause of Condition: Procedures have not been designed and implemented to fully provide adequate internal controls over the Treasurer's monthly reports.

Effect of Condition: These conditions could result in unrecorded transactions, misstated financial reports, undetected errors, or misappropriation of funds.

Recommendation: The Oklahoma State Auditor & Inspector's Office (OSAI) recommends that the County Treasurer implement a system of internal control to provide reasonable assurance that receipts apportioned, disbursements, and cash balances are accurately presented on the County Treasurer's monthly reports. Further, OSAI recommends management should review and approve accounting functions, which would provide independent oversight of the accuracy of the County Treasurer's monthly reports.

Management Response:

County Treasurer:

- We will encourage the County Clerk's office to review documentation in the daily jacket upon receipt and sign the daily report to indicate that the review took place.
- After the official deposit is received by a cashier and entered into system, the deposit will be taken to the bookkeeping department. Bookkeeping will verify the deposit, initial the reception of the deposit, and keep the deposit in a locked drawer.
- The cash register has a safeguard in place to time out and the programmer is investigating why it is not functioning.
- The programmer is designing a procedure where a security officer's approval is required to complete the voiding of a receipt.
- The cashiers have the option of locking their cash drawer in their own desk drawer when they are away from their stations.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. An important aspect of internal controls is the safeguarding of assets. Internal controls over safeguarding of assets constitute a process, affected by an entity's governing body, management, and other personnel, designed to provide reasonable assurance regarding prevention or timely detection of unauthorized transactions, and safeguarding assets from misappropriation.

Objective 2: To determine the County's financial operations complied with 62 O.S. § 517.4, which requires county deposits with financial institutions be secured with collateral securities or instruments.

Conclusion: With respect to the days tested, the County did not comply with 62 O.S. § 517.4, which requires county deposits with financial institutions be secured with collateral securities or instruments.

Methodology: To accomplish our objective, we performed the following:

- Gained an understanding of the internal controls related to pledged collateral through discussions with the County Treasurer, observation, and review of ledgers and documents.
- Selected the highest bank balance date for each month of the period audited from banks holding deposits of the County funds, to determine that bank balances were adequately collateralized.

Finding: Inadequate Internal Controls Over Pledged Collateral and Noncompliance with Statute

Condition: The County Treasurer's office compares the bank balance to the amount pledged on a daily basis during months with heavy tax collections and less frequently during the remainder of the year. The Treasurer does not have documentation of this comparison.

Additionally, three instances of noncompliance were noted in our test of pledged collateral.

- On December 30, 2010, the County had deposits with a local bank in the amount of \$21,194,174.31. The County's balance of pledged collateral plus FDIC was \$20,250,000.00, leaving \$944,174.31 unsecured.
- On January 4, 2011, the County had deposits with a local bank in the amount of \$21,025,241.03. The County's balance of pledged collateral plus FDIC was \$20,250,000.00, leaving \$775,241.03 unsecured.
- On December 31, 2011, the County had deposits with a local bank in the amount of \$21,691,898.12. The County's balance of pledged collateral plus FDIC was \$20,250,000.00, leaving \$1,441,895.12 unsecured.

Cause of Condition: Internal controls have not been designed to monitor pledged collateral on a daily basis.

Effect of Condition: Failure to monitor pledged collateral amounts could result in unsecured county funds and possible loss of county funds.

Recommendation: OSAI recommends that the County Treasurer implement a system of internal controls to provide reasonable assurance that county funds are adequately secured and in compliance with Title 62 O.S. § 517.4.

Further, OSAI recommends the County Treasurer maintain evidence of monitoring pledged collateral amounts to bank balances on a daily basis to ensure that county funds are adequately secured.

Management Response:

County Treasurer: I am designing an excel spreadsheet to compare the bank balances and possible adjustments to the pledged collateral in order to monitor daily bank balances.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. An important aspect of internal controls is the safeguarding of assets. Internal controls over safeguarding of assets constitute a process, affected by an entity's governing body, management, and other personnel, designed to provide reasonable assurance regarding prevention or timely detection of unauthorized transactions, and safeguarding assets from misappropriation.

Objective 3: To determine the County's financial operations complied with 68 O.S. § 1370E, which requires the sales tax collections to be deposited in the general revenue or Sales Tax Revolving Fund of the County and be used only for the purpose for which such sales tax was designated.

Conclusion: With respect to the items tested, the County complied with 68 O.S. § 1370E, which requires the sales tax collections to be deposited in the general revenue or Sales Tax Revolving Fund of the County and be used only for the purpose for which such sales tax was designated. However, internal controls over the calculation and apportionment of sales tax should be strengthened.

Methodology: To accomplish our objective, we performed the following:

- Gained an understanding of the internal control process of receipting, apportioning, and disbursing sales tax collections through discussions with County personnel, observation, and review of documents.
- Tested compliance of the significant law, which included the following:
 - Reviewed sales tax ballots to determine designation and purpose of sales tax collections.
 - Obtained confirmations from the Oklahoma Tax Commission for sales tax payments made to the County and recalculated the amounts apportioned by the County Treasurer to ensure sales tax collections were apportioned to the proper funds.
 - Selected a random sample of eighty purchase orders from the Sales Tax Revolving Fund and determined that expenditures were made for purposes designated on the sales tax ballot.

Finding: Inadequate Internal Controls Over Sales Tax Calculation and Distribution Processes

Condition: Upon inquiry and observation of the recordkeeping process of apportioning sales tax collections, it was noted that there is no independent oversight of the calculation of sales tax collections that are presented by the County Treasurer to the County Clerk for appropriation.

Cause of Condition: Procedures have not been designed and implemented to ensure compliance with 68 O.S. § 1370E.

Effect of Condition: Failure to review and approve the apportionment of sales tax collections could result in misappropriation of funds.

Recommendation: OSAI recommends an employee, independent of the process, recalculate the apportionment of sales tax collections that is presented for appropriation by the Treasurer to the County Clerk. The documentation should provide evidence of who performed the calculation, the recalculation, and the date of the review.

Management Response:

County Treasurer: Miscalculation of sales tax has never been an issue in Garfield County. I believe that current procedures are adequate.

Auditor Response: There are no internal controls regarding the apportionment of sales tax collections to ensure the accurate percentage is credited to the proper funds as designated by the ballot.

County Clerk: I would be willing to review and check the distribution of the sales tax.

Criteria: Internal controls should be designed to analyze and check accuracy and completeness. To help ensure proper accounting of funds, the duties of allocating, and apportioning sales tax should be reviewed and documented by an independent party and would include expenditure procedures that ensure compliance with 68 O.S. § 1370E.

Objective 4: To determine the County's financial operations complied with 68 O.S. § 2923, which requires the ad valorem tax collections to be apportioned and distributed monthly among the different funds to which they belong.

Conclusion: With respect to the items tested, the County complied with 68 O.S. § 2923, which requires the ad valorem tax collections to be apportioned and distributed monthly among the different funds to which they belong. However, internal controls over ad valorem tax apportionments should be strengthened.

Methodology: To accomplish our objective, we performed the following:

- Gained an understanding of the internal controls related to the process of apportioning and distributing ad valorem tax collections, which included discussions with County personnel, observation, and review of documents.
- Tested compliance of the significant law, which included the following:
 - Compared the certified levies for the audit periods to the computer system to determine the County Treasurer applied the certified levies, as fixed by the Excise Board of the County, to the tax rolls.

- Recalculated the apportionment of ad valorem tax collections to determine collections were accurately apportioned to the taxing entities.

Finding: Inadequate Documentation Regarding Internal Controls Over the Ad Valorem Tax Apportionments

Condition: The County did not maintain documentation that certified ad valorem tax levies were reviewed for accuracy when entered into the ad valorem tax system by the Treasurer.

Cause of Condition: Internal control procedures have not been designed to document and retain evidence of procedures performed to ensure ad valorem tax levies are accurately entered into the ad valorem tax system.

Effect of Condition: Since there is no documented evidence of the internal controls to review, we could not determine that controls are operating effectively.

Recommendation: OSAI recommends that the County Treasurer implement a system of internal controls to provide reasonable assurance that the ad valorem tax levies are entered into the Treasurer’s system accurately and to maintain evidence of these controls.

Management Response:

County Treasurer: We will compare the levies entered into “Levy and Apportionments” module of the system to those on the certified tax levy sheet.

Criteria: Accountability and stewardship are overall goals in evaluating management’s accounting of funds. Internal controls should be designed to analyze and check accuracy and completeness. To help ensure proper accounting of funds, the duties of allocating, and apportioning ad valorem tax should be segregated or reviewed by an independent party.

Objective 5: To determine the County’s financial operations complied with 19 O.S. § 1505C, 19 O.S. § 1505E, and 19 O.S. § 1505F, which outlines procedures for expending county funds.

Conclusion: With respect to the items tested, the County did not comply with 19 O.S. § 1505C and 19 O.S. § 1505E, which prescribes the procedures established for the requisition, purchase, lease-purchase, rental and receipt of supplies, material, and equipment for maintenance, operation, and capital expenditures of county government. The County did comply with 19 O.S. § 1505F, which outlines the process for approval of expenditures.

Methodology: To accomplish our objective, we performed the following:

- Gained an understanding of the internal controls related to the process of encumbering purchase orders, authorization of payment of purchase orders, and documenting goods and services

received, which included discussions with County personnel, observation, and review of documents.

- Tested compliance of the significant law, which included the following:
 - Selected a random sample of eighty purchase orders from county funds and determined that:
 - A purchase order was on file and the funds were encumbered prior to ordering the goods or services.
 - A completed receiving report was attached to the purchase order.
 - An original invoice was attached to the purchase order.
 - The Board of County Commissioners approved the purchase order.

Finding: Inadequate Internal Controls Over Purchasing and Noncompliance with Statutes

Condition: Through discussions with County personnel, observation, and review of documents, we noted the following internal control weaknesses with regard to purchasing.

- Purchases were made prior to the encumbrance of the funds.
- Requisitioning duties were performed by employees who were not authorized requisitioning officers.
- Receiving reports were not timely completed and were back dated to agree to the invoice date.
- There is no reconciliation of the appropriated accounts between the County Clerk's office and the County Treasurer's office.

Our test of eighty purchase orders, revealed the following noncompliance with regard to purchasing statutes:

- The County purchased goods or services prior to the issuance of a purchase order for fifteen of the eighty purchase orders tested.
- Purchase orders were assigned numbers manually as they were received, but not entered against appropriations in the computer system until that time.
- Receiving reports attached to the purchase orders were vague as to what was received for six of the eighty purchase orders tested.
- Receiving reports were not attached to the purchase order for six of the eighty purchase orders tested.
- One instance was noted where the County received and paid for an item not listed on the purchase order.
- One instance was noted where the original invoice was not attached to the purchase order.

Cause of Condition: Procedures have not been designed or implemented to ensure compliance with statutes regarding the expenditure of county funds. Also, internal control procedures have not been implemented to properly encumber funds for obligations of the County.

Effect of Condition: These conditions could result in unrecorded transactions, misstated financial reports, undetected errors, or misappropriation of funds.

Recommendation: OSAI recommends management implement procedures to comply with state statutes regarding the expenditure of the County’s funds. Purchase orders should be entered into the computer system as soon as requested to ensure funds are properly set aside for obligations and to ensure that the County does not exceed the amounts available for budgeted expenditures.

Additionally, all documentation including completed, signed receiving reports should be attached to the purchases prior to approval for payment. Only items listed on the purchase order should be approved for payment and original invoices should be attached to the purchase order prior to payment.

Further, evidence of a reconciliation of appropriated accounts should be maintained and the review of the reconciliation should be evident.

Management Response:

Chairman of the Board: Officers will review purchasing laws and discuss procedures to help us remain in compliance. Furthermore, we will communicate in writing or through training with the rural fire departments, the importance of complying with purchasing laws.

County Clerk: I will discuss with my employees ways to implement the recommendations. I will meet with other officers to determine the best way to communicate the importance of complying with purchasing statutes to the other departments.

Criteria: Effective internal controls require that management properly implement procedures to ensure that purchases comply with 19 O.S. § 1505C, 19 O.S. § 1505E, and 19 O.S. § 1505F.

<p>Objective 6: To determine the County’s financial operations complied with 19 O.S. § 1505B, which requires county purchases in excess of \$10,000 be competitively bid.</p>

Conclusion: With respect to the items tested, the County generally complied with 19 O.S. § 1505B, which requires that purchases in excess of \$10,000 be competitively bid. However, internal controls over the bidding process should be strengthened.

Methodology: To accomplish our objective, we performed the following:

- Gained an understanding of the internal controls related to the process of competitively bidding purchases in excess of \$10,000, which included discussions with County personnel, observation, and review of documents.
- Selected a random sample of ten purchases in excess of \$10,000 and determined that:
 - Notice of bid was mailed to vendors on bid list.
 - Notice of bid published in County-wide newspapers.
 - Notices were sent ten days prior to date that bids were opened.
 - The Board of County Commissioners (BOCC) selected successful bidder in open meeting.

- Lowest bid was accepted or reason given for not selecting lowest bid.
- Successful bidder was notified.

Finding: Inadequate Internal Controls Over the Bidding Process and Noncompliance with Statute

Condition: Upon inquiry of County personnel, observation, and review of documents, the following weaknesses were noted:

- There is a concentration of duties in one person preparing, distributing, receiving, and maintaining bid documents, with no evidence of oversight by management.
- The review of Board of County Commissioners minutes revealed that the lowest bid was not accepted in two instances; however, the minutes did not reflect the reason for selecting another bid.

Cause of Condition: Procedures have not been designed and implemented to adequately segregate the duties regarding the bidding process.

Effect of Condition: These conditions could result in inaccurate records, incomplete information and noncompliance with the state statute. Additionally, when a selected bid is not the lowest bid, and documentation of the reason is not recorded in the minutes, a perception of favoritism could occur.

Recommendation: OSAI recommends the County implement procedures to ensure compliance with state statute which would include review and approval of all bid documents by someone other than the preparer and adequate documentation of bid selection in the BOCC minutes.

Management Response:

County Clerk: We will develop a form to ensure that all bidding requirements are followed and the necessary documentation is retained in the bid file. Additionally, I will check the bid files to make sure the bid file is complete.

Criteria: Effective internal controls require that management properly implement procedures to ensure that purchases in excess of \$10,000 are in compliance with 19 O.S. § 1505B.

Objective 7:	To determine the County's financial operations complied with 19 O.S. § 180.74 and § 180.75 regarding amounts allowed for officers' salaries.
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Conclusion: With respect to the salaries tested, the County complied with 19 O.S. § 180.74 and 180.75, which establish limitations on the amount of officers' salaries. However, internal controls over the payroll process should be strengthened.

Methodology: To accomplish our objective, we performed the following:

- Gained an understanding of the internal controls through discussion with County personnel, observation, and review of documents relating to:
 - The process of determining the amounts allowed for officers' salaries.
 - The process for the payment and recording of salaries and related payroll expenses.
- Tested compliance with 19 O.S. § 180.74 and 180.75, by performing the following:
 - Recalculated the maximum amount allowed for officers' salaries as set for the in 19 O.S. § 180.74 and 180.75.
 - Reviewed the salaries of Garfield County Officials to ensure amounts paid did not exceed statutory limits.

Finding: Inadequate Internal Controls Over the Calculation of Salary Limitations for County Officers

Condition: It was determined through discussion with County personnel, observation, and review of documents, that the salary limitation is calculated annually; however, the County lacks documentation of a review and approval by someone other than the person performing the calculation.

Cause of Condition: The officer performing the calculation did not realize the necessity of having a documented review and approval due to being unaware of a need for such procedures.

Effect of Condition: This condition could result in noncompliance with salary limitation statutes; particularly in the event of fluctuations in the ad valorem tax revenue and population of the County that determines salary limitations or possible miscalculations.

Recommendation: OSAI recommends the County implement procedures to ensure that the amounts paid to the County officers do not exceed the amounts allowed. These procedures should include calculating the maximum amount allowable, having an independent review of those calculations, and retaining documentation for audit purposes.

Management Response:

County Assessor: We will review the spreadsheet to ensure its accuracy and will encourage all elected officers to calculate the salary annually. The Excise Board will indicate their approval by signing and dating the form.

County Clerk: We will implement procedures so that all officers are able to calculate the salary limitations.

District 1 Commissioner: We will work towards implementing the recommendation regarding the calculating of salary limitations.

District 2 Commissioner: We will work towards implementing the recommendation regarding the calculating of salary limitations.

District 3 Commissioner: I will work with the other County Officers to see that procedures are implemented to calculate salary limitations.

Criteria: Effective internal controls include management design and implement procedures to ensure officers' salaries comply with 19 O.S. § 180.74 and 180.75.

Finding: Inadequate Segregation of Duties Over the Payroll Expenditures

Condition: Upon inquiry of County personnel, observation, and review of documents we determined that the payroll process was not adequately segregated.

- The Payroll Clerk performs all key duties for the payroll process, including enrolling new employees, maintaining the personnel files, entering monthly payroll amounts, and preparing payroll and reports for Federal, State, OPERS and other withholdings.

Cause of Condition: Procedures have not been designed to adequately segregate key functions of the payroll process.

Effect of Condition: These conditions resulted in undetected errors and inaccurate payroll reports.

Recommendation: OSAI recommends the key accounting functions of the payroll process be adequately segregated as follows:

- Enrolling new employees and maintaining personnel files.
- Reviewing time records and preparing payroll.
- Creating direct deposit files and distributing payroll warrants to individuals.

OSAI recommends management be aware of these conditions and realize that concentration of duties and responsibilities in a limited number of individuals is not desired from a control point of view. The most effective controls lie in management's overseeing of office operations and a periodic review of operations. OSAI recommends management provide segregation of duties so that no one employee is able to perform all accounting functions. In the event that segregation of duties is not possible due to limited personnel, OSAI recommends implementing compensating controls to mitigate the risks involved with a concentration of duties. Compensating controls would include separating key processes and/or critical functions of the office, and having management review and approve accounting functions.

Management Response:

County Clerk: I will discuss with my employees the best way to establish controls over the payroll process including how to segregate the duties. Additionally, I will document the process decided upon.

Criteria: Effective internal controls require key functions within a process be adequately segregated to allow for prevention and detection of errors and abuse.

Finding: Inadequate Internal Controls Over Time Recording

Condition: Through discussions with County personnel, observation, and review of documents, we noted the following weaknesses regarding time recording:

- New hire information is communicated to the Payroll Clerk through verbal notification.
- Timesheets for the Sheriff's office and Maintenance Department do not document hours worked for the time period and are not signed by the employee or supervisor.

Cause of Condition: Procedures have not been designed to adequately establish controls over time recording.

Effect of Condition: These conditions could result in ghost employees, and errors in the reporting of time worked.

Recommendation: OSAI recommends all new hires, terminations, and changes in payroll amounts be communicated to the payroll clerk in written form. OSAI also recommends that timesheets reflect the number of hours worked and leave amounts used. Furthermore, timesheets should be signed by the employee and the appropriate approving personnel.

Management Response:

Chairman of the Board: We have developed and are currently using a form to document new hire information. We will require the Maintenance Department to prepare timesheets.

County Clerk: We have a new form and it is required to be completed and signed before adding new employees to the payroll.

County Sheriff: We are in the process of developing procedures to remedy this situation.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. Internal controls should be designed to analyze and check accuracy, completeness and authorization of payroll calculations and / or transactions.

Finding: Inadequate Internal Controls and Deficiencies in the Payroll Process

Condition: In conjunction with the review the payroll records and discussion with the County Clerk and personnel, we noted the following deficiencies:

- On the June 14, 2012 payroll records, it was noted that the Payroll Clerk did not withhold the required retirement deduction from her paycheck.
- Wages earned by Election Board employees during elections were not reported on the W-2's. Furthermore, it was noted that the FICA withholding for these wages was not reported to the Treasurer's office to deposit into the bank for the IRS to withdraw.

- Subsequent to our audit period, it was noted that retirement deductions for retroactive county employee raises received in October 2012, were not withheld from the employees' payroll checks.

Cause of Condition: Procedures were not properly designed to segregate the duties regarding the payroll process that would prevent or detect errors and possible misappropriation of funds.

Effect of Condition: These conditions resulted in retirement reporting errors and possible liabilities for the County.

Recommendation: OSAI recommends that the County design procedures that would prevent and detect misappropriations due to error or fraud. These procedures should include a segregation of duties regarding processing, authorizing, and payroll distribution.

Procedures should include a review by someone other than the preparer of the payroll reports including retirement deductions and FICA withholdings.

Management Response:

County Clerk: We are in the process of establishing controls so that these matters will not occur again.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. Internal controls should be designed to analyze and check accuracy, completeness, and authorization of payroll calculations and/or transactions. To help ensure a proper accounting of funds, the duties of processing, authorizing, and payroll distribution should be segregated.

Objective 8: To determine the County's financial operations complied with 19 O.S. § 1504A, which requires the receiving officer to maintain a record of all supplies, materials, and equipment received, disbursed, stored, and consumed by his department.

Conclusion: With respect to the discussions held with County personnel and observation of documentation, the County complied with 19 O.S. § 1504A, which requires the receiving officer to maintain a record of all supplies, materials, and equipment received, disbursed, stored and consumed by his department. However, internal controls over the consumable inventories should be strengthened.

Methodology: To accomplish our objective, we performed the following:

- Gained an understanding of the internal controls related to the process of maintaining a record of all supplies, materials, and equipment received, disbursed, stored, and consumed by a department, which included discussions with County personnel, observation, and review of documents.
- Tested consumable inventories records to determine that the district barns are maintaining accurate records and they agree to a physical count of records.

Finding: Inadequate Internal Controls Over Consumable Inventories

Condition: Upon inquiry of district personnel and observation of the consumable inventories records, the following was noted:

- **District 1:**
 - The same individual orders, receives, and records the inventory items. This person also compares records to actual items on hand.
 - The physical count of consumable inventory is not performed on a monthly basis.
 - There is no documentation of the physical inventory of consumable items on hand to inventory records being performed.

- **District 2:**
 - The same individual orders, receives, and records the inventory items.
 - Consumable inventory records are not up to date.
 - A monthly physical inventory of consumable items on hand to inventory records is not being performed.

- **District 3:**
 - When items are received they are not always physically verified. The receiving report is prepared from the invoice.
 - The physical count of consumable inventory is not performed on a monthly basis.
 - There is no documentation of the physical inventory of consumable items on hand to inventory records being performed.

Cause of Condition: Procedures have not been designed and implemented to provide accurate inventory records and the safeguarding of consumable items.

Effect of Condition: Opportunities for loss and misappropriation of county assets may be more likely to occur when the County does not have procedures in place to safeguard consumable inventory.

Recommendation: OSAI recommends management implement internal controls to ensure compliance with 19 O.S. § 1504A. These procedures would include:

- Maintaining inventory of all materials received, disbursed, stored, and consumed.
- Filing monthly consumable reports with the County Clerk.
- Performing a periodic physical count of inventory.

Additionally, the key functions of receiving duties and inventory control duties should be performed by separate employees in order to effectively segregate those duties.

Management Response:

District 1 Commissioner: We will document the inventory counts performed by initialing and dating the inventory cards when the count is performed. We now have a person separate from recordkeeping perform the count. We will discuss with others the best way to segregate the duties of ordering and receiving.

District 2 Commissioner: We plan to implement procedures to ensure a physical count of consumable inventory items and compare that information to the items on record on monthly basis. We will also sign and date the documentation.

District 3 Commissioner: I will assign the duties of the consumable inventory verification to an employee independent of the record keeping process, and have that person sign and date the count.

Criteria: An important aspect of internal controls is the safeguarding of assets. Internal controls constitute a process affected by an entity's governing body, management, and other personnel, designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of consumable inventory items, and safeguarding consumable inventory items from loss, damage, or misappropriation.

Objective 9: To determine the County's financial operations complied with 19 O.S. § 178.1 and 69 O.S. § 645, which requires the maintenance of inventory records, periodic inventory verifications, and that equipment be clearly and visibly marked "Property of" the County.

Conclusion: With respect to items tested, the County did not comply with 19 O.S. § 178.1 and 69 O.S. § 645, which requires the maintenance of inventory records, periodic inventory verifications, and that equipment be clearly and visibly marked "Property of" Garfield County.

Methodology: To accomplish our objective, we performed the following:

- Gained an understanding of the internal controls related to the process of maintaining inventory records, verifying inventory, and marking equipment "Property of" the County, which included discussions with County personnel, observation, and review of documents.
- Tested compliance of the significant law, which included:
 - A random selection of fifty fixed assets and verified the items were marked properly with the County identification numbers or "Property of" Garfield County as required by 69 O.S. § 645 and 19 O.S. § 178.1.

Finding: Inadequate Internal Controls Over Fixed Assets Inventories and Noncompliance with Statutes

Condition: Upon inquiry of County personnel and observation of the fixed asset records, the following weaknesses over fixed asset inventories were noted:

- The County has not set forth procedures to perform and document an annual physical inventory to ensure compliance with 19 O.S. § 178.1.

- The County did not comply with 69 O.S. § 645, which requires equipment to be marked “Property of” the County.
- When visually verifying the items from inventory records, the following was noted:
 - **County Assessor:**
 - There was one instance noted where an item on inventory was not located and there was no resolution to dispose on file with the County Clerk.
 - There were two instances noted where the item chosen was not marked with a County Identification number.
 - **County Clerk:**
 - There was one instance noted where the item chosen was not marked with a County Identification number.
 - **County Treasurer:**
 - There was one instance noted where an item on inventory was not located and there was no resolution to dispose on file with the County Clerk.
 - There was one instance noted where the item was transferred to another office and it was not noted on the Treasurer’s inventory records filed in the County Clerk’s office.
 - **District 1:**
 - There were two instances noted where the item chosen was not marked with “Property of Garfield County” as prescribed by 69 O.S. § 645.
 - **District 3:**
 - There were three instances noted where the item chosen was not marked with “Property of Garfield County” as prescribed by 69 O.S. § 645.

Cause of Condition: Policies and procedures have not been designed to ensure compliance with the state statute regarding the identification and accounting of fixed assets and the state statute regarding documenting annual fixed assets verifications.

Effect of Condition: These conditions resulted in noncompliance with statutes.

Recommendation: OSAI recommends the County comply with 19 O.S. § 178.1 by maintaining inventory records and properly marking assets with county identification numbers, and performing and documenting a periodic inventory of fixed assets. The verification should be performed by an individual independent of the fixed asset recordkeeping process. Additionally, OSAI recommends the County comply with 69 O.S. § 645 by designing procedures to ensure that all equipment is properly marked with county identification numbers and “Property of Garfield County.”

Management Response:

County Assessor: We will conduct an annual review of the fixed assets inventory and sign and date. We will also use a permanent marker to identify the items too small for a label and initiate a resolution to dispose of the typewriter.

County Clerk: We will see that the number is placed on the shelf. We will do annual inspections of the fixed assets to ensure that the records are up to date and equipment is properly marked. Additionally, the person performing the review will be someone other than the fixed assets recordkeeper.

County Sheriff: We plan to perform annual count of a portion of the Sheriff's fixed assets inventory each month.

County Treasurer: I will finish updating my fixed assets inventory and conduct an annual review of the fixed assets inventory.

Court Clerk: We were unaware that the documentation of the physical inventory needed to be retained and we will maintain that documentation for future reference.

District 1 County Commissioner: We will perform annual inspections of county equipment to help ensure compliance with the statutes and retain the documentation and mark equipment with "Property of Garfield County."

District 2 County Commissioner: We will design procedures to perform an annual physical inventory of fixed assets.

District 3 County Commissioner: We will conduct an annual physical inventory of fixed assets. We will maintain the signed and dated documentation and mark equipment with "Property of Garfield County."

Criteria: An important aspect of internal controls is the safeguarding of assets. Internal controls constitute a process affected by an entity's governing body, management and other personnel, designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of fixed assets, and safeguarding fixed assets inventory from loss, damage, or misappropriation.

Objective 10: To determine the County's financial operations complied with 19 O.S. § 682, which requires officers to deposit daily in the official depository all collections received under the color of office.
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Conclusion: With respect to the days tested and items reconciled, the County generally complied with 19 O.S. § 682, which requires officers to deposit daily in the official depository all collections received under the color of the office. However, internal controls over receipting and depositing should be strengthened.

Methodology: To accomplish our objective, we performed the following:

- Gained an understanding of the internal controls related to the process of officers depositing daily in the official depository all collections received under the color of the office, which included discussions with County personnel, observation, and review of documents.
- Tested compliance with 19 O.S. § 682, which included reviewing a sample of receipts from each officer's depository account and verifying the following:
 - Official depository receipts are deposited daily.
 - Deposits are promptly and accurately recorded as to account, amount, and period.
 - Official depository receipts agree to the amounts recorded on the deposit.

Finding: Inadequate Internal Controls Over Official Depository Receipts and Deposits and Noncompliance with Statute

Condition: Upon inquiry, observation, and review of the receipting and depositing process in each office, we noted the following weaknesses with regard to official depository collections:

- **County Assessor:**
 - All employees operate from the same cash drawer.
- **County Clerk:**
 - All employees operate from the same cash drawer.
- **Court Clerk:**
 - One employee maintains the cash drawer for all employees in her desk drawer.
- **County Sheriff:**
 - One individual opens the mail, issues receipts, and prepares deposits.
 - When concealed carry fees are received at the jail, they are not receipted until they are brought to the courthouse the following day.
 - Cash bond deposits are not compared to the receipts issued, but to the listing provided by the jail administrator.
 - One receipt for Sheriff Service Fees was deposited into the Concealed Weapon account, in error.
 - Receipts do not always specify cash or check.
- **County Treasurer:**
 - Cash drawer not locked.
 - Monies collected for the Treasurer's official depository account are kept with the deposits made by other officers.
- **Adult Drug Court:**
 - The same person, who issues receipts, also makes the deposits.

Additionally, our test of receipts issued for 162 deposits revealed the following noncompliance with regard to official depository accounts:

- **County Assessor:**
 - Four instances were noted where deposits were not made daily.
- **County Sheriff:**
 - Two instances were noted where deposits were not made daily.
- **Adult Drug Court:**
 - Three instances were noted where deposits were not made daily.

Cause of Condition: Policies and procedures have not been designed to ensure adequate internal controls over receipting and depositing of official depository collections.

Effect of Condition: These conditions could result in unrecorded transactions, misstated financial reports, undetected errors, or misappropriation of funds.

Recommendation: OSAI recommends establishing a system of controls to adequately protect the collections of each office, which include but are not limited to the following:

- Each person receiving funds should operate from a separate cash drawer.
- The employee who prepares the deposit should not issue receipts.
- Deposits should be made on a daily basis.
- All cash drawers should be stored in a secure location.
- All receipts issued should be pre-numbered duplicate receipts, issued in sequential order, and at the time the money is received.
- Each office should establish procedures to reconcile officer's accounts to the Treasurer's records.
- Receipts should specify whether cash or check was received.
- Amount deposited should be compared to receipts issued.

Management Response:

County Assessor: We will get three locking bank bags for employees who issue receipts. We currently deposit daily.

County Clerk: We receipt money through a computerized cash register. I am not sure how to incorporate the use of multiple cash drawers within my cash register system. We will attempt to establish controls over the receipting process including having the person preparing the deposits refrain from issuing receipts.

County Sheriff: We will address these issues with personnel and design steps to make the necessary corrections.

County Treasurer:

- After the official deposit is received by a cashier and entered into the system, the deposit will be taken to the bookkeeping department. Bookkeeping will verify the deposit, initial the reception of the deposit, and keep the deposit in a locked drawer.
- The cashiers have the option of locking their cash drawer in their own desk drawer when they are away from their stations.

Court Clerk: We monitor the cash received and note on the receipt the denominations and amount received. We also note the change given back. I will consider ways to implement multiple cash drawers in order to strengthen controls.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. To help ensure a proper accounting of funds, the duties of receipting, reconciling the cash drawer, preparing and making deposits, and reconciling account balances should be segregated.

<p>Objective 11: To determine the County Court Clerk’s financial operations complied with 19 O.S. § 220 and 20 O.S. § 1304, which outlines procedures for expending Court Clerk Revolving Fund monies and Court Fund monies, respectively.</p>

Conclusion: With respect to the items tested, the County complied with 19 O.S. § 220 and 20 O.S. § 1304, which outlines procedures for expending Court Clerk Revolving Fund monies and Court Fund monies, respectively.

Methodology: To accomplish our objective, we performed the following:

- Gained an understanding of the internal controls related to expending Court Clerk Revolving Fund monies and Court Fund monies, which included discussions with County personnel, observation, and review of documents.
- Tested controls over the Court Clerk Revolving Fund and Court Fund claims processes by ensuring fifty claims from each fund were properly authorized and approved.
- Tested a random sample of fifty Court Clerk Revolving Fund claims for compliance with 19 O.S. § 220 and to determine controls over compliance were operating effectively, including the following:
 - A Revolving Fund Claim was prepared.
 - The District or Associate Judge approved and signed the claim.
 - The Court Clerk approved and signed the claim.
 - The expenditure was for the lawful operation of the Court Clerk’s office.
- Tested a random sample of fifty Court Fund expenditures for compliance with 20 O.S. § 1304 and to determine controls over compliance were operating effectively, including the following:
 - A Court Fund Claim was prepared.

- The District Judge approved and signed the claim.
- The Court Clerk or Associate Judge approved and signed the claim.
- The expenditure was for the lawful operation of the Court.

Objective 12: To determine the County Sheriff's Inmate Trust Fund financial operations complied with 19 O.S. § 531A, which requires these funds only be expended to refund monies to inmates or to transfer funds to the Sheriff's Commissary Fund for inmate expenditures.

Conclusion: With respect to the County Sheriff's Inmate Trust Fund, the Sheriff did not comply with 19 O.S. § 531A, which requires these funds only be expended to refund monies to inmate or to transfer funds to the Sheriff Commissary for inmate expenditures.

Methodology: To accomplish our objective, we performed the following:

- Gained an understanding of the internal controls related to expending funds from the Sheriff's Inmate Trust Funds, which included discussions with County personnel, observation, and review of documents.
- Tested compliance with 19 O.S. § 531A for the County Sheriff's Inmate Trust Fund, which included reviewing fifty-five expenditures and determining that expenditures made from the Inmate Trust Fund were used for:
 - Transfers to the Sheriff's Commissary Account for purchases made by the inmate during his or her incarceration.
 - Refunds to inmates upon release for unexpended balances.

Finding: Inadequate Controls Over Inmate Trust Fund Financial Operations and Noncompliance with the Statute

Condition: Upon inquiry of County Sheriff personnel and observation of the recordkeeping process over the Inmate Trust Fund, the following weaknesses were noted:

- One individual receives money, applies amounts to inmate's accounts, prepares deposits, writes checks, signs checks, and reconciles the bank account.
- Three instances totaling \$8,643.14 were noted where checks were issued to payees that were not authorized by statute.
- Deposits were not made daily.

Cause of Condition: Procedures have not been designed and implemented to ensure that controls are in place with regard to Inmate Trust Fund financial operations. In order to ensure the payment of inmate court costs, the Sheriff remitted the costs from the Inmate Trust Fund to the Court Clerk.

Effect of Condition: These conditions could result in unrecorded transactions, undetected errors, misappropriation of funds, and noncompliance with state statute.

Recommendation: OSAI recommends the County Sheriff implement procedures to ensure controls are in place. These procedures should include segregating key functions of opening the mail, receipting, depositing, posting to the inmate records, and reconciling the bank statements. OSAI recommends the County Sheriff implement procedures to ensure that checks are made payable to either the Sheriff Commissary Fund or paid directly to the inmate as allowed by statute.

Management Response:

County Sheriff:

- We will design procedures to segregate the duties within the inmate trust receipting process.
- We plan to ask for a modification to the statute to allow for the payment of court fees from the Inmate Trust Fund.
- We plan to transfer the funds from sales to inmates to the Sheriff Commissary Account on a monthly basis and pay fees to the vendor supplying commissary items from the Sheriff Commissary Account.

Criteria: Effective internal controls require that management design procedures to properly segregate duties and ensure compliance with 19 O.S. § 531A.

All Objectives:

The following findings are not specific to any objective, but are considered significant to all of the audit objectives.

Finding: Inadequate County-Wide Controls

Condition: County-wide controls regarding Risk Management, Information and Communication, and Monitoring have not been designed.

Cause of Condition: Procedures have not been designed to address the risks of the County, to monitor the effectiveness of controls, or to communicate pertinent information in a timely manner.

Effect of Condition: These conditions could result in unrecorded transactions, undetected errors, or misappropriation of funds.

Recommendation: OSAI recommends that the County design procedures to identify and address risks. OSAI also recommends that the County design monitoring procedures to assess the quality of performance over time. These procedures should be written policies and procedures and could be included in the County's policies and procedures handbook.

Management Response:

County Assessor: During our Class A officers' meetings, the officers will develop a plan to monitor the County's internal controls to ensure that audit finding and other reviews are being resolved.

County Clerk: These items will be discussed among our officers and we will begin to prioritize the necessary steps and when changes occur, we will emphasize the necessity of relaying the information to our employees.

County Sheriff: I will work harder with the other officials on communicating pertinent information and assist in the documentation of the process in written form.

County Treasurer: I will participate in the discussion held in the Class A officers' meeting and provide input as needed.

Court Clerk: I will work with other officials to establish written policies to address risk and promote communication.

District 1 Commissioner: We will discuss risk and document the procedures we have in place to mitigate these risks.

District 2 Commissioner: We will work toward developing a written plan to document our control environment.

District 3 Commissioner: Through Class A officers' meetings, we will address the issues of communication, assessing risk, and monitoring controls. We will work together to best document our policies in writing.

Criteria: Internal control is an integral component of an organization's management that provides reasonable assurance that the objectives of effectiveness and efficiency of operations, reliability of financial reporting and compliance with laws and regulations are being made. Internal control comprises the plans, methods, and procedures used to meet missions, goals, and objectives. Internal control also serves as the first line of defense in safeguarding assets and preventing and detecting errors and fraud. County management is responsible for designing a county-wide internal control system comprised of Risk Assessment and Monitoring for the achievement of these goals.

Finding: Inadequate Internal Controls Over Information Technology and Disaster Recovery Plans

Condition: When assessing the controls over the information systems the following was noted:

- The following offices do not have a written Disaster Recovery Plan:
 - County Assessor
 - County Clerk
 - Court Clerk
 - County Treasurer

- County Sheriff
 - County Commissioner District 1
 - County Commissioner District 2
 - County Commissioner District 3
- A review of the Treasurer's information system controls revealed the following:
 - The security log is not reviewed on a regular basis.
 - The passwords are less than 8 characters long.
 - A review of the County Clerk's information systems controls revealed the following:
 - Passwords are less than 8 characters long.
 - Passwords are not changed every 90 days.

Cause of Condition: The County has not developed risk mitigating procedures for the continuing operation and safeguarding of their information systems during a disaster.

Effect of Condition: The above conditions could result in loss of data and interruption of the vital operations of the County.

Recommendation: OSAI recommends that the County design procedures to adequately protect their information systems and devise a plan to facilitate the resumption of business in the event of a disaster. The county officers should have a Disaster Recovery Plan and be aware of its location and content. Additionally, passwords that are at least 8 characters long should be changed at least every 90 days.

Management Response:

County Assessor: We will review the State Auditor's guidelines and start the process of developing the Disaster Recovery Plan.

County Clerk: I will start preparing a Disaster Recovery Plan. I will ask our programmer to program our system for password changes every 90 days and passwords be at least 8 characters long.

County Sheriff: We will review the guidelines and begin the process of formulating a Disaster Recovery Plan.

County Treasurer: My Chief Deputy and I will review the security log on a periodic basis. Our system will only allow 5 character passwords. We have procedures in place to recover data in the event of a disaster. We will work to document these procedures and complete a Disaster Recovery Plan.

Court Clerk: I will begin working on the Disaster Recovery Plan for my office.

District 1 Commissioner: We will review the guidelines and use those guidelines to prepare a Disaster Recovery Plan.

District 2 Commissioner: We will work towards the development of a Disaster Recovery Plan for District 2.

District 3 Commissioner: I will work to develop a written Disaster Recovery Plan for District 3.

Criteria: An important aspect of internal controls is the safeguarding of assets which includes adequate Disaster Recovery Plans. Internal controls over safeguarding of assets constitute a process, affected by an entity's governing body, management, and other personnel, designed to provide reasonable assurance regarding prevention in a County being unable to function in the event of a disaster.

According to the standards of the Information Systems Audit and Control Association (CobiT Delivery and Support 4), information services function management should ensure that a written disaster recovery plan is documented and contains the following:

- Guidelines on how to use the recovery plan;
- Emergency procedures to ensure the safety of all affected staff members;
- Roles and responsibilities of information services function, vendors providing recovery services, users of services and support administrative personnel;
- Listing of systems requiring alternatives (hardware, peripherals, software);
- Listing of highest to lowest priority applications, required recovery times and expected performance norms;
- Various recovery scenarios from minor to loss of total capability and response to each in sufficient detail for step by step execution;
- Training and/or awareness of individual and group roles in continuing plan;
- Listing of contracted service providers;
- Logistical information on location of key resources, including back-up site for recovery operating system, applications, data files, operating manuals, and program/system/user documentation;
- Current names, addresses, telephone numbers of key personnel;
- Business resumption alternatives for all users for establishing alternative work locations once IT services are available.

Finding: Inadequate Internal Controls Over Federal Awards

Condition: When reviewing the Schedule of the Expenditures of Federal Awards (SEFA) for fiscal year 2011 and fiscal year 2012, the following was noted:

- Ending cash balances do not agree to the beginning balances of the subsequent SEFA.
- Not all federal receipts were listed.
- Some of the federal receipts were listed on the state schedule.
- Catalog of Federal Domestic Assistance (CFDA) numbers are not always listed.
- We were unable determine the amount of federal funds deposited in the LEPC account.
- Federal expenditures were not recorded for three of the grants.

Cause of Condition: Procedures have not been designed to accurately account for the application, receipt, and expenditures of federal awards. Information regarding federal grants is not being clearly communicated between the Commissioners, County Clerk, County Treasurer, and County Sheriff's offices.

Effect of Condition: The above condition resulted in incorrect recording of federal receipt and disbursements, which could result in loss of federal funds.

Recommendation: We recommended the County establish policies and procedures that would ensure all federal grant programs are accurately recorded and reported on the schedule of expenditures of federal awards. Also, the County should become familiar with OMB Circular A-133 in order to comply with all compliance requirements related to federal programs.

Management Response:

Chairman of the Board: I will encourage controls to be established over the recording and reporting of federal activity.

County Clerk: We will discuss ways to implement internal controls over federal grant reporting and document the process that we have decided upon.

County Sheriff: We will become familiar with OMB circular A-133. We will also review the compliance requirements for the federal funds we receive. We will list CFDA numbers on the purchase orders when expending federal funds. We will work to communicate vital federal information to the other County officers.

County Treasurer: I will encourage the recipients of federal awards to track their federal activity and communicate the financial information to the preparer(s) of the SEFA.

Criteria: *OMB A-133, Subpart C, §___.300* reads as follows:

Subpart C—Auditees

§___.300 Auditee responsibilities.

The auditee shall:

- (a) Identify, in all its accounts, all Federal awards received and expended and the Federal programs under which they are received.
- (b) Maintain internal controls over Federal programs that provide reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each its Federal programs.

Finding: Lack of Internal Controls Over Signature Stamps

Condition: During inquiry of County personnel and observation of the various accounting processes within the County offices, it was noted that the County Treasurer and County Clerk both have signature stamps that are available for use by someone other than themselves.

Cause of Condition: Procedures to control the use of signature stamps have not been designed or implemented due to the officials being unaware of the risk involved with someone other than themselves having access to their signature stamps.

Effect of Condition: This condition could result in unauthorized use of the signature stamp, improper authorizations, and checks being fraudulently issued.

Recommendation: OSAI recommends that the County implement internal control procedures over the use of signature stamps to ensure that the stamp is properly safeguarded. We further recommended verification procedures over the use of the stamps be performed and documented.

Management Response:

County Clerk: I will maintain Custody of signature stamps and they will remain in a locked drawer.

County Treasurer: My signature stamps are now in my possession and will be authorized for use by only myself.

Criteria: Effective internal controls require that signature stamps be properly safeguarded and verification procedures over the use of the stamp be performed and documented to deter improper usage.



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