OPERATIONAL AUDIT

Alfalfa County

For the period July 1, 2009 through June 30, 2012

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

ALFALFA COUNTY OPERATIONAL AUDIT
FOR THE PERIOD JULY 1, 2009 THROUGH JUNE 30, 2012

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Oklahoma State Auditor & Inspector

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January 8, 2013

TO THE CITIZENS OF
ALFALFA COUNTY, OKLAHOMA

Transmitted herewith is the audit report of Alfalfa County for the period July 1, 2009 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,

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

BACKGROUND

Alfalfa County is named for William H. "Alfalfa Bill" Murray, president of the Oklahoma Constitutional Convention and ninth Governor of the State of Oklahoma. Cherokee was chosen as the county seat by an election in 1909.

While the principal agricultural products are wheat and grain sorghums, cattle raising, alfalfa hay, manufacturing, and oil production also contribute to the economy of the area. Churches, Lions Club, Future Farmers of America, Farm Bureau, and other groups represent an active segment of the community.

Places of interest include the Cherokee Salt Plains and the Great Salt Plains Lake and recreation area, located on the Salt Fork of the Arkansas River. Other points of interest include the Byron State Fish Hatchery and the artesian water well. Places of historic interest include: the Union Valley church, Locust Grove School, and original sod house, all more than one hundred years old.

Cherokee hosts the Selenite Crystal and Birding Festival in May each year. It is also home to the Alfalfa County Historical Society Museum. Cherokee celebrated its centennial in 2001. The Cherokee Chamber of Commerce also serves as a tourist center. For more information, call the county clerk's office at 580/596-3158.

County Seat – Cherokee | Area – 881.44 Square Miles

County Population – 5,481
(2009 est.)

Farms – 695 | Land in Farms – 542,813 Acres

Primary Source: Oklahoma Almanac 2011-2012

COUNTY OFFICIALS

Donna Prince ..... County Assessor
Bruce Martin ..... County Clerk
Doug Murrow ..... County Commissioner District 1
Chad Roach ..... County Commissioner District 2
Ray Walker ..... County Commissioner District 3
Charles Tucker ..... County Sheriff
Valerie Vetter ..... County Treasurer
Lori Irwin ..... Court Clerk

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

	Beginning Cash Balance July 1, 2011	Receipts Apportioned	Disbursements	Ending Cash Balance June 30, 2012
Combining Information:				
County General Fund	$ 997,412	$ 3,046,347	$ 1,275,974	$ 2,767,785
T-Highway	3,415,061	5,353,450	5,032,753	3,735,758
Emergency Medical Service District Sales Tax	1,551,158	3,392,704	323,368	4,620,494
County Clerk Lein Fee	101,788	77,514	1,682	177,620
Fair Arena Sales Tax	545,136	1,388,157	116,409	1,816,884
Remaining Aggregate Funds	397,004	182,503	145,398	434,109
Combined Total - All County Funds	$ 7,007,559	$ 13,440,675	$ 6,895,584	$ 13,552,650

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, 2009 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 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 and segregation of duties within the Treasurer's office 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.

- Performed the following to ensure receipts apportioned, disbursements, and cash balances were accurately presented on the County Treasurer's monthly reports:
  - Reconciled 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 the bank reconciliations at 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 Controls Over the County Treasurer's Monthly Reports and Lack of Segregation of Duties in the Treasurer's Office

Condition: Upon inquiry of County personnel and observation of the monthly reports, we noted the following:

- Journal entries (error corrections made by transfers) are not reviewed by an employee independent of recording them.
- There is no documentation to confirm that the Treasurer has performed independent oversight of the accuracy of the monthly reports.
- Duties are not adequately segregated in the County Treasurer's office, as follows:
  - The Treasurer and one full-time deputy issue receipts.
  - The same employee preparing the daily deposit, issues receipts and reconciles the bank accounts to the accounting records.

Cause of Condition: Procedures have not been designed and implemented to independently review journal entries and source data that are used to compile the Treasurer's monthly reports. The limited number of employees has contributed to the lack of segregation of duties within the office.

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

Recommendation: OSAI recommends that the County Treasurer implement a system of internal controls to provide reasonable assurance that receipts apportioned, disbursements, and cash balances are accurately presented on the County Treasurer's monthly reports. Duties should be adequately segregated so that individuals issuing receipts do not prepare the deposits, deliver the deposits to the financial institutions, or reconcile the bank statements. Further, in the event that segregation of duties is not possible due to the 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 approval of accounting functions which would provide independent oversight of the accuracy of the County Treasurer's monthly reports.

Management Response:
County Treasurer: It is my goal to implement segregation of duties in the best possible manner available for an office our size. Whenever possible, one deputy will be responsible for issuing receipts and receiving the officers' depository account deposits. The second deputy will be responsible for the end of the day checkout. The Treasurer will take deposits to the banks. The Treasurer has been and will continue to prepare a general ledger on an Excel spreadsheet as a double check. This ledger is initialed and dated when the IT system and Excel spreadsheets are in agreement.

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. To help ensure a proper accounting of funds, the duties of receiving, receipting, recording, depositing cash and checks, reconciliations, and transaction authorization should be segregated.

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 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 county funds to determine that bank balances were adequately collateralized.

Finding: Inadequate Controls Over Pledged Collateral and Noncompliance with Statute

Condition: Upon inquiry of the Treasurer's staff, observation of pledged collateral documents, and tests of thirty-six days' deposits held at the banks, we noted the following weaknesses:

- The Treasurer stated that she monitored the bank balances to the amount of pledged collateral two or three times per week, rather than on a daily basis.
- Evidence of monitoring was not documented by the Treasurer.

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

- On November 25, 2009, the County had deposits with a local bank in the amount of $4,027,671.77. The County's balance of pledged collateral at market value plus FDIC was $3,422,586.55 leaving $605,085.22 unsecured.
- On December 30, 2010, the County had deposits with another local bank in the amount of $5,732,542.60. The County's balance of pledged collateral at market value plus FDIC was $4,418,368.74 leaving $1,314,173.86 unsecured.

Cause of Condition: The Treasurer considered comparing bank balances to pledged collateral two or three times a week as adequate.

Effect of Condition: Failure to monitor pledged collateral on a daily basis resulted in noncompliance with 62 O.S. § 517.4.

Recommendation: OSAI recommends the County Treasurer maintain evidence of monitoring the fair market value of pledged collateral to bank balances on a daily basis to ensure that county funds are adequately secured and that the County is in compliance with statutes.

Management Response:
County Treasurer: A new procedure has been implemented; a collateral ledger has been established and bank balances are reviewed, printed and posted to the ledger on a daily basis. The collateral amount is checked with the monthly report from the banks and the collateral ledger is updated with the current amount on a monthly basis. The Treasurer forwards the bank deposit daily. It is then initialed and given to the deputy to enter the amounts into the collateral ledger. The ledger is printed out and kept in a notebook. The deputy also initials the bank printout.

Criteria: Effective internal controls require that monitoring pledged securities be performed on a daily basis to ensure compliance with 62 O.S. § 517.4.

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 generally 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 should be strengthened regarding the collection and apportionment of sales tax funds.

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 60 purchase orders to determine that expenditures were made for purposes designated on the sales tax ballot.

Finding: Inadequate Controls Over Sales Tax Calculation, Distribution, and Expenditure and Noncompliance with Statute

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 from the County Treasurer to the County Clerk for appropriation.

Additionally, the following errors in apportionment of sales tax were noted:

- The sales tax received in January, 2012, was $312,190.85; however, the receipt was issued for $9,000.00 more than the amount received. The additional $9,000.00 was apportioned to the County Emergency Medical Service Sales Tax Fund.
- The $9,000.00 correction made in February, 2012, was deducted from the County Emergency Medical Services Sales Tax Fund, as well as, County Government and Library and County Fairgrounds Sales Tax Funds.
- As a result the County Emergency Medical Services Sales Tax Fund received $4,049.98 more and County Government and Library and County Fairgrounds Sales Tax Funds both received $2,024.99 less than the amount that should have been apportioned to those funds.

When performing the test of expenditures from the sales tax, the following weakness was noted:

- The sales tax collections within the General Fund were not identifiable because they were comingled with other sources of revenue, therefore, we cannot offer any assurance that the sales tax collections were expended for the purposes for which they were intended.

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

Effect of Condition: These conditions have resulted in miscalculation of sales tax revenue apportioned and an inability to document how sales tax collections have been expended.

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 recalculation and the date of review.

OSAI further recommends that procedures be developed and implemented to ensure compliance with 68 O.S. § 1370E and that sales tax collections be given separate accounts within the General Fund or a separate sales tax fund be established to better account for the expenditures of these funds.

Management Response:
County Treasurer: Sales tax receipt #971 has been corrected. Using an appropriation transfer form approved by the Board of County Commissioners, corrections have been made and the sales tax monies have been returned to the correct accounts. In order to help prevent any future errors, the County Commissioners' Secretary and the Treasurer will both figure the sales tax distribution and it will be compared and initialed and dated by both offices. The Treasurer has a spreadsheet set up that calculates the distribution and the County Commissioners' Secretary will be calculating the amounts by hand to verify the distribution is correct.

Collection of the sales tax money is being documented to show the funds to which the money is being distributed. Although tracking of the County's expenditures has not been properly documented, we are in the process of setting up a separate line item on the general ledger. The budget maker will add this line item as well. This will allow the expenditures of the County's portion of sales tax money to be followed and documented.

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 the apportionment of ad valorem taxes 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 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 Internal Controls over the Ad Valorem Tax Apportionments

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

Cause of Condition: 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 system.

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

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

Management Response:
County Treasurer: In the past, the entering of the mill levies into the tax system has been performed by one person entering, while the other two people in the office proof read the amounts for errors. After all levies were entered, a printout of the entered levies was made and the comparison of calculations was performed to check for errors. I believe this process is a good process and we will continue it. One step will be added to ensure proper documentation. All three employees will be given

the tax program printout and the mill levy sheet from the Assessor to check for errors. Each person will sign and date when then have completed their verification. These two forms with signatures will be kept in a file in the Treasurer's office.

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, 19 O.S. § 1505E, and 19 O.S. § 1505F, which outlines the procedures for acquisition, purchasing, and receiving goods and services.

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 120 purchase orders from county funds to determine that:
        - Purchase orders were properly requisitioned.
        - The receiving officer prepared and signed the receiving report.
        - The original invoice was attached to the purchase order.
        - Purchase orders were approved for payment by the Board of County Commissioners.

Finding: Inadequate Controls and Noncompliance with Purchasing Statutes

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

- Employees that are not designated requisitioning officers call the County Clerk's office and request a purchase order number.
- Funds are encumbered prior to the approval of requisitioning agents on the requisition form.
- Purchases are requisitioned, ordered, and received by the same employee.
- Purchase orders and receiving reports are vague as to what was ordered and/or received.

- The Treasurer does not verify that warrant amounts imported into the accounting software agree to the County Clerk's office.

Our test of 120 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 9 of the 120 purchase orders tested.
- Receiving reports attached to the purchase orders were not complete for 6 of the 120 purchase orders tested.
- Delivery documentation was not attached on 1 of the 120 purchase orders reviewed.

Cause of Condition: Procedures have not been designed to adequately segregate key accounting functions regarding the expenditure process to ensure compliance with purchasing statutes.

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

Recommendation: OSAI recommends purchase order numbers be issued after the County Clerk's office receives a requisition from an authorized requisitioning agent. Requisitions should be detailed enough that the receiving officer knows what was ordered. Furthermore, the Treasurer should verify warrant amounts imported into the accounting software agree to the County Clerk's warrants. Additionally, OSAI recommends management implement procedures to ensure compliance with purchasing statutes.

Management Response:
County Treasurer: The Treasurer has implemented a procedure to verify the amounts on the warrant register to the County Clerk's expense report. After verification is complete, the report is initialed and dated.

County Clerk: To become more compliant with the statues, I will send out a memo to all entities to ensure that proper procedures are followed when purchasing. My deputy and I have gone to a purchasing class and are more aware of the proper procedures. Receiving reports, purchase orders being encumbered initially, requisitioning and receiving officers, have all been stressed in following proper procedures.

The list of receiving and requisitioning officers will be attached to the memo to all entities to make sure the list is current. When purchase orders are requested for supplies, I have tried to make sure to ask for more detail. The Treasurer and the Clerk have discussed a procedure for verifying the warrants issued and paid.

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

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.

Conclusion: With respect to the items tested, the County did not comply with 19 O.S. § 1505B, which requires that purchases in excess of $10,000 be competitively bid.

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 fifteen purchases in excess of $10,000 to determine that the County followed statutes regarding public notice, handling of unopened bids, awarding bid to best bidder, recording appropriate information in BOCC minutes, and notification to successful bidders.

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

Condition: Controls over the bidding process have not been properly implemented and as a result, the following discrepancies have occurred:

- The dates the" invitations to bid" were mailed were not noted on three of the fifteen bids tested.
- Proof of publications was not located in the bid files for six of the fifteen County bids tested.
- Documentation of date and time of bids received was not maintained on four of the fifteen bids tested.
- Successful bidders were not notified by the County Clerk's office for any bids tested.

Additionally, since four bids tested lacked documentation of date and time received, we could not determine if all bids were received prior to the deadline and thus were valid bids.

Cause of Condition: Procedures have not been developed and designed to document compliance with state statutes and provide assurance that controls are in place.

Effect of Condition: These conditions could result in noncompliance with state statutes.

Recommendation: OSAI recommends the County implement procedures to ensure bidding is properly performed. These procedures should include:

- Documentation of notification of successful bidder maintained in the bid file.
- Documentation of the bid date and time stamped on the bid package.

- Proof of publication maintained in the bid file.
- Independent monitoring of bid files.

Management Response:
County Clerk: I have created a checklist for each bid folder to ensure that proper procedures and adequate internal controls are followed in the bidding process. The checklist includes a vendor mailing list, proof of mailing, date mailed, proof of publication, bid opening date, bid due date, award notification and the purchase order number. This checklist is attached to the bid file. Additionally, when the lowest bid is not accepted, a copy of the minutes from the Commissioner's meeting will be included in the bid folder.

Criteria: Effective internal controls require that management properly implement procedures to ensure that purchases 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.

Conclusion: With respect to the salaries tested, the County complied with 19 O.S. § 180.74 and 180.75. However, internal controls over the payroll process should be strengthened.

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

- Gained an understanding of the controls through discussions with County personnel, observation, and review of documents related to:
  - The process of determining the amount allowed for officers' salaries.
  - The process for the payment and recording of salaries and related payroll expenses.

- Reviewed the salaries paid to officers to determine that the amount is not in excess of the amount allowed by statute.

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

Condition: The County does not have procedures in place to ensure that salaries are calculated in accordance with state statutes.

Cause of Condition: Procedures to ensure compliance with this statute were not designed and implemented due the County officials being unaware of a need for such procedures.

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

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 and having an independent review of those calculations.

Management Response:
County Clerk: I used the OSU website to calculate the officer salary maximum salary calculation and going forward, I will ask the Assessor to do the calculation, thus having two separate individuals calculate the amount. I will then present the data to the Board of County Commissioners for approval.

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

Finding: Concentration of Payroll Duties

Condition: It was determined through discussion with County personnel, observation, and review of documents that the payroll process was not adequately segregated.

- The payroll clerk enters new employees into the system, inputs payroll information into the system, maintains personnel files, prepares the OPERS reports, and state and federal tax reports.

Cause of Condition: In an effort to maximize efficiency and available resources, the County has relied upon one individual to perform the majority of the payroll process.

Effect of Condition: Due to the condition mentioned above, an opportunity for errors and misappropriation of county assets exists.

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.
- Distributing payroll warrants to individuals.

Management Response:
County Clerk: I will segregate the payroll duties by having one deputy enter new employees into the system and another employee maintain personnel files. The Clerk will review time records and prepare payroll. The other deputy will distribute the payroll warrants to employees and officers. This will help with the segregation of duties as much as possible.

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

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 did not comply 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.

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 a sample of twenty-six consumable records to determine that the District barns are maintaining accurate records and they agree to a physical count of inventory items.

Finding: Inadequate Internal Controls and Noncompliance Over Consumable Inventories

Condition: Upon inquiry of District personnel and observation of consumable inventory records, the following weaknesses were noted:

- **District One:**
  - There are no controls over the fuel kept at off-site locations.
  - The receiving report is being completed with information provided by another employee's verification, not from actual inspection of goods received.
  - The consumable inventory process is not adequately segregated. One individual is verifying the goods received, recording the items on the inventory cards, and performing a visual verification of the items on hand.

- **District Two:**
  - The receiving report is being completed with information provided by another employee's verification, not from actual inspection of goods received.
  - The consumable inventory process is not adequately segregated. The person verifying goods as they come is the person recording items on the inventory cards and performing inventory counts.

- **District Three:**
  - There are no controls over the fuel kept at off-site locations.
  - Project inventory sheets are not used.

- The consumable inventory process is not adequately segregated. One individual places the order, receives the order, maintains the consumable inventory records, completes the reports for the consumable inventory, completes and signs the transfer form, and physically verifies the items on hand.

Additionally, a test of twenty-six consumable items revealed that three items in District 1 and one item in District 2 did not agree to the amounts recorded.

Cause of Condition: Procedures have not been designed and implemented to provide for 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 comply with 19 O.S. § 1504.

Recommendation: OSAI recommends management implement internal controls to ensure compliance with 19 O.S. § 1504A. These procedures would include maintaining and inventory of all materials received, disbursed, stored, and consumed, filing monthly consumable reports with the County Clerk, and 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 County Commissioner: All fuel tanks will be installed with a gauge to monitor the level as fuel is used. Employees will be required to turn in fuel readings on a weekly basis. The employee that fills out the receiving report will not be the same person that inspects the goods received. We will segregate the duties of accounting for consumable inventories by using more employees to perform the duties.

District 2 County Commissioner: We made a new policy that all goods will be received in the office. On a monthly basis, an inventory count will be performed by a different employee each time. We are planning to purchase an IT consumable inventory system to use for accounting purposes.

District 3 County Commissioner: We have installed a meter on all fuel tanks on off-site locations and have required that employees document fuel use every day. We are now implementing the project inventory sheets procedure. We have hired a secretary to help with the segregation of duties of purchasing, ordering, and keeping consumable inventory records.

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. Effective internal controls include designing and implementing procedures to ensure compliance with 19 O.S. § 1504A.

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" the 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 with significant law, which included:
  - A random selection of 116 fixed assets and verified the items were marked properly with the County identification numbers and "Property of Alfalfa County" as required by 69 O.S. § 645.

Finding: Inadequate Controls Over Fixed Asset Inventories and Noncompliance with Statutes

Condition: Upon inquiry and observation the following weaknesses over fixed asset inventories were noted:

- The County has not designed internal controls to provide for adequate segregation of duties over the fixed asset inventory process.
- 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:**
  - Two of the five items tested had been disposed of, but not removed from inventory.

- **County Clerk:**
  - Four of the five items tested did not have inventory numbers affixed to the item.

- **Court Clerk:**
  - Four of the five items tested did not have inventory numbers affixed to the item.
  - One of the five items tested was not located.

- **District 1:**
  - Three of the twenty-five items tested were no longer in the possession of the County.
  - Two of the twenty-five items tested did not have inventory numbers affixed to the item.

- **District 2:**
  - One of the thirty items was disposed of, but not removed from the County Clerk's inventory list.
  - We noted that a new purchase on hand was not on the County Clerk's inventory list.

- **District 3:**
  - There were eight items in the yard that were not listed on the County Clerk's inventory list.
  - Six of the thirty-six items tested did not have a decal indicating "Property of Alfalfa County"
  - Three of the thirty-six items tested did not have inventory numbers affixed to the item.

- **County Sheriff:**
  - One of the five items tested, was not conspicuously marked as "Property of Alfalfa County."

- **County Treasurer:**
  - One of the five items tested did not have an inventory number affixed to the item.

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

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

Recommendation: OSAI recommends the County comply with O.S. § 19 O.S. § 178.1 by 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 O.S. 69 O.S. § 645 by designing procedures to ensure that all equipment is properly marked with county identification numbers and "Property of Alfalfa County."

Management Response:
County Assessor: The Commissioners approved the disposal of two items. The County Clerk, at the time of this audit period, neglected to remove the items from the inventory list. I will maintain a current listing of fixed assets for our office and provide any new or removed items to the County Clerk for her list. I will assign a deputy to perform a physical inventory count of fixed assets, on an annual basis, to ensure compliance with statutes.

County Clerk: We will be updating inventory programs for the three Districts. We have discussed performing annual inventory count verification with emphasis on keeping the County Clerk's office updated with any inventory changes. I also stressed to the Commissioners that all fixed assets must have proper identification numbers that agree to inventory records.

Court Clerk: We will perform an annual review and correct our inventory with the County Clerk's office and verify county identification numbers on all items.

District 1 County Commissioner: We will perform an inventory verification to make sure items that have been disposed of are taken off of the inventory. We will make sure all new equipment is marked with the inventory numbers and we will periodically make sure that identification numbers are affixed to equipment.

District 2 County Commissioner: On a quarterly basis, we will compare our inventory sheet with the County Clerk's list. When we purchase or dispose of any item, we will inform the County Clerk that the item should be added or removed.

District 3 County Commissioner: We are in the process of updating the County Clerk's inventory list. We have placed "Property of" decals and inventory numbers on all county equipment.

County Sheriff: The vehicle in question is in the process of being marked as "Property of Alfalfa County."

County Treasurer: Inventory numbers have now been placed on fixed asset items. Inventory items will be given an assigned number by one deputy and then given to the other deputy to attach to the items. The Treasurer will add the items to the inventory list and give a copy of the items to the County Clerk. The Treasurer will request an inventory list for her office in January, of each year, and note changes or purchases at that time.

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 consumable items form loss, damage, or misappropriation.

Objective 10:	To determine the County's financial operations complied with 19 O.S. § 682, which require officers to deposit daily in the official depository all collections received under the color of office.

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 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 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 Controls Over Official Depository Receipts and Deposits and Noncompliance with Statute

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

- **County Assessor:**
  - All employees operate from the same cash drawer.
  - Receipts issued are not pre-numbered duplicate receipts.
  - Receipts issued are not issued in numerical sequence.
  - One individual issues receipts, can delete receipts, reconciles the cash box, prepares the deposit, and takes the deposit to the Treasurer.

- **County Clerk:**
  - All employees operate from the same cash drawer.
  - Funds are not maintained in a secure location.
  - One individual issues receipts, reconciles the cash drawer, prepares the deposit, and takes the deposit to the Treasurer.
  - Documentation of the monthly reconciliation to the Treasurer is not maintained.

- **Court Clerk:**
  - The computer system does not prompt employees to change their passwords.
  - All employees operate from the same cash drawer.
  - One individual issues receipts, can void receipts, reconciles the cash drawer, prepares the deposit, takes the deposit to the Treasurer, and reconciles accounts at the end of the month.

- **County Election Board:**
  - One individual receives the mail, issues receipts, prepares the deposit, takes the deposit to the Treasurer, and reconciles the account.

- **County Sheriff:**
    - Collections are not reconciled to the deposit.
    - The Sheriff's office does not reconcile to the Treasurer's records.
    - One individual issues receipts, prepares the deposit, and takes the deposit to the Treasurer.

- **County Treasurer:**
    - All employees operate from the same cash drawer.
    - One individual issues receipts, can void receipts, and prepares the deposit.

Additionally**,** our test of receipts issued for sixty deposits revealed the following noncompliance with regard to the Sheriff and Assessor official depository accounts:

- One instance was noted in which a receipt was not written for a Sheriff's deposit of $600.00 made on December 14, 2011.
- The Sheriff's office did not always issue official depository receipts for all funds collected, nor deposit them in the official depository account. Instead the funds were taken directly to the Treasurer for deposit in the Sheriff Service Fee Fund.
- The Assessor's office did not issue official depository receipts for all monies received and did not deposit the monies into the official depository account until March, 2012.

Cause of Condition: Policies and procedures have not been designed to ensure receipts are issued for all collections received and all monies received are timely deposited. Additionally, due to the limited number of personnel within each office, one individual is responsible for all the key functions of the office.

Effect of Condition: These conditions could result in unrecorded transactions, misstated financial reports, undetected errors, or misappropriation of funds. A single person having responsibility for more than one area of recording, authorization, custody of assets, and execution of transactions could result in unrecorded transactions, misstated financial reports, or clerical errors that are not detected in a timely manner.

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

- The employee who prepares the deposit should not issue receipts or reconcile the account to the Treasurer's monthly report.
- Each office should establish separate cash drawers for all employees receiving cash and funds should be reconciled to collections each day.
- Each office should have a procedure for documenting the review of voided receipts.
- Passwords should be changed at least every ninety days.
- All cash drawers should be stored in a secure location.
- Audit logs should be periodically reviewed.
- All receipts issued should be pre-numbered duplicate receipts, issued in sequential order.

- Each office should establish procedures to reconcile officer's accounts to the Treasurer's records.

Management Response:
County Assessor: Our office consists of three full-time employees. With so few employees, it is very difficult to segregate duties. I am searching for a program that can be used on the computer that pre-numbers our receipts, eliminating the need for handwritten numbers.

County Clerk: With an office as small as mine, I find it hard to justify cash drawers for each employee. The cash drawer will remain locked at all times to ensure a secure location. The procedure for segregation of duties for depository receipts has been established. All deputies issue receipts. The County Clerk reconciles the cash drawer. One deputy prepares the deposit. Another deputy takes the deposit to the Treasurer, and the Treasurer has shown the County Clerk how to reconcile daily deposits to the report.

Court Clerk: We now have passwords on our computer system. Our office has discussed each employee having a cash drawer. At this time, we feel there has never been a problem with having one cash drawer and will continue with this procedure. With the size of our office, we each take turns issuing receipts as the customer comes in. We rotate preparing the deposit and taking it to the Treasurer's office. I feel it is my responsibility to reconcile my accounts with the County Treasurer.

County Sheriff: As for the receipt not being issued for the amount of $600.00, I was out on sick leave and the deputy was not aware that all monies received were supposed to be deposited in the official depository account. This office now issues receipts for all funds received and reconciles the deposit to the receipts. Due to the fact that we are a small office, it is difficult to segregate the duties, but we will try to establish a better of segregation of duties.

County Treasurer: Complete segregation of duties in an office our size is extremely difficult to accomplish. It is something we will continue to work toward. Due to the increase of the oil business in our county, we have increased our cash in the cash drawer to accommodate this increase. I do not feel that our office warrants three cash drawers on a daily basis. I feel it would just increase the amount of money kept in the office, making us more susceptible to theft. We do, however, have separate tax cash boxes during the month of December. This is beneficial, because it allows us to pinpoint any errors and get them corrected. It will be the policy of the office for the Treasurer to be responsible for voiding receipts and at least one deputy will initial the report.

Auditor Response: Without separate cash drawers for each deputy receipting collections, a complete segregation of duties cannot be attained. Further, despite a limited number of employees, monitoring and detective controls can be implemented to ensure accurate financial records.

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.

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.

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. However, internal controls over the Court Clerk Revolving Fund and the Court Fund should be strengthened.

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

- Gained an understanding of the internal controls related to expending Court Fund monies and Court Clerk Revolving Fund monies, which included discussions with County personnel, observation, and review of documents.

- Tested a random sample of thirty Court Clerk Revolving Fund claims for compliance with 19 O.S. § 220 and determined:
  - Expenditures were made for the lawful operation of the office.
  - Claims were approved by the Court Clerk and either the District or Associate District Judge.

- Tested a random sample of seventy-five Court Fund claims for compliance with 20 O.S. § 1304 and determined:
  - Expenditures were made for the operation of the court.
  - Claims were approved by the District Judge and either the Court Clerk or the Associate District Judge.

Finding: Inadequate Controls Over Court Clerk Revolving Fund and Court Fund Duties

Condition: Upon inquiry, observation, and testing of the Court Clerk Revolving Fund and Court Fund expenditure processes, the following weaknesses were noted:

- The Court Clerk orders the items, prepares and approves the claim, prepares and issues the vouchers, and reconciles the account at the end of the month.
- The Court Clerk may obtain a verbal approval from the District Judge and process payments prior to the District Judge signing the claims.

Cause of Condition: Because the Court Clerk is ultimately responsible for the Court Clerk Revolving Fund and the Court Fund, she feels it is her responsibility to perform the related duties.

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

Recommendation: OSAI recommends that procedures be developed to separate key functions of the Court Clerk Revolving Fund and Court Fund expenditure process. In the event that segregation of duties is not possible due to limited personnel, OSAI recommends implementing compensating that would include separating key processes and/or critical functions of the office, and having management review and approval of accounting functions.

Management Response:
Court Clerk: After discussing the supplies that our office needs, one of the deputies makes the request to the vendor. The following week, the vendor brings the order or one of us calls the vendor and places the order over the phone. I do feel it is my responsibility to make sure all duties pertaining to the Court Clerk Revolving Fund and Court Fund are completed. Due to our District Judge coming approximately once a month to our office to sign claims, I occasionally must call him and get a verbal response in order to write a check to pay a vendor.

Auditor Response: Duties regarding the expenditure of Court Clerk Revolving Fund and Court Fund monies are not adequately segregated.

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 preparing the claim, approving the claim, preparing the vouchers, signing the vouchers, and reconciliation of the accounts should be segregated.

All Objectives:

Finding: Inadequate County-Wide Controls

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

Cause of Condition: Procedures have not been designed to address risks of the County.

Effect of Condition: This condition 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.

Examples of risks and procedures to address risk management:

Risks	**Procedures**
Fraudulent activity	Segregation of duties
Information lost to computer crashes	Daily backups of information
Noncompliance with laws	Attend workshops
Natural disasters	Written disaster recovery plans
New employee errors	Training, attending workshops, monitoring

Examples of activities and procedures to address monitoring:

Monitoring	**Procedures**
Communication between officers	Periodic meetings to address items that should be included in the handbook and to determine if the County is meeting its goals and objectives.
Annual Financial Statement	Review the financial statement of the County for accuracy and completeness.
Schedule of Expenditures of Federal Awards (SEFA)	Review the SEFA of the County for accuracy and to determine all federal awards are presented.
Audit findings	Determine audit findings are corrected.
Financial status	Periodically review budgeted amounts to actual amounts and resolve unexplained variances.
Policies and procedures	Ensure employees understand expectations in meeting the goals of the County.
Following up on complaints	Determine source of complaint and course of action for resolution.
Estimate of needs	Work together to ensure this financial document is accurate and complete.

Management Response:
County Clerk: The County will have quarterly meetings with all elected officials addressing risk management, the County Handbook, and other areas of concern to assess the quality of performance of the County.

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.

Risk Assessment is a component of internal control which should provide for an assessment of the risks the County faces from both internal and external sources. Once risks have been identified, they should be analyzed for their possible effect. Management then has to formulate an approach for risk management and decide upon the internal control activities required to mitigate those risks and achieve the internal control objectives.

Monitoring is a component of internal control which should assess the quality of performance over time and ensure that the findings of audits and other reviews are promptly resolved. Ongoing monitoring occurs during normal operations and includes regular management and supervisory activities, comparisons, reconciliations, and other actions people take in performing their duties. It includes ensuring that management know their responsibilities for internal control and the need to make control monitoring part of their regular operating process.

Finding: Employee Personnel Policy Handbook

Condition: In an effort to assess the control environment of the County, we reviewed the "Employee Personnel Policy Handbook" and the procedures for distributing and communicating the information within the handbook. At the time of employment, employees are required to sign a "Compensatory Time Off for Overtime Agreement." This agreement specifically states, in part,

> "I have read, understand, and have in my possession Alfalfa County's Policies and Procedures Handbook."

Through conversation with employees, it was noted that employees are not receiving copies of the handbook.

Cause of Condition: In an effort to conserve resources the County has elected not to distribute copies of the handbook to employees, because some of the handbooks are just thrown away.

Effect of Condition: This condition could result in miscommunication in regard to the policies of the County.

Recommendation: OSAI recommends that the County design procedures to ensure that all employees are aware of the policies and procedures outlined in the "Employee Personnel Policy Handbook". If it is deemed unfeasible to provide written copies of the handbook to all employees then other procedures need to be established to ensure that all information has been communicated and understood.

Management Response:
Chairman, District 3 County Commissioner: To correct this condition, we handed out Employee Handbooks, to all employees with pages they had to sign and turn back in to the Clerk, to verify they received a handbook.

Criteria: An important aspect of internal controls is for management to communicate its values and expectations in a manner to ensure that both written and verbal communication is consistent among employees.

Finding: Disaster Recovery Plan and Other Controls Over Information Systems

Condition: Upon inquiry, the following offices do not have a written Disaster Recovery Plan:

- County Assessor
- County Clerk
- Court Clerk
- County Commissioners, District 1, 2 and 3
- County Sheriff
- County Treasurer

Additionally, the following weaknesses were noted in the security of the County's information systems:

- **County Clerk:**
  - Policies and procedures have not been established, documented, and followed; that would prevent loss of data, unauthorized use and potential lawsuits.
  - Passwords are not at least eight characters in length, and changed every 90 days.
  - The server is not located in a controlled environment to prevent damage to server, loss of data, interruption of operations, and non-authorized access.

- **County Treasurer:**
  - Policies and procedures have not been established; documented, and followed; that would prevent loss of data, unauthorized use and potential lawsuits.
  - Passwords are not at least eight characters in length, and changed every 90 days.
  - Critical systems do not have Uninterrupted Power Supplies (UPS) in order to protect equipment, safeguard data, and protect the operations of the County.
  - Backups are not taken offsite at least weekly or as often as performed.

Cause of Condition: Procedures have not been designed and implemented to prepare a formal Disaster Recovery Plan and adequate security of the information systems of the County.

Effect of Condition: The failure to have a formal Disaster Recovery Plan could result in the County being unable to function in the event of a disaster. The lack of a formal plan could cause significant problems in ensuring County business could continue uninterrupted.

Recommendation: OSAI recommends the County officials develop a Disaster Recovery Plan that addresses how critical information and systems within their offices would be restored in the event of a disaster, as follows:

- **County Clerk:**
  - Policies and procedures should be established; documented, and followed; that would prevent loss of data, unauthorized use and potential lawsuits.
  - Passwords should be eight characters in length, and changed every 90 days.
  - The server should be located in a controlled environment to prevent damage to server, loss of data, interruption of operations, and non-authorized access.

- **County Treasurer:**
    - Policies and procedures should be established; documented, and followed; that would prevent loss of data, unauthorized use and potential lawsuits.
    - Passwords should be eight characters in length, and changed every 90 days.
    - Critical systems should have Uninterrupted Power Supplies (UPS) in order to protect equipment, safeguard data, and protect the operations of the county.
    - Backups should be taken offsite at least weekly or as often as performed.

Management Response:
County Treasurer: The Treasurer will work with the other elected officials to establish and maintain a policies and procedures plan, while also establishing a Disaster Recovery Plan for Alfalfa County and its offices. The Treasurer will also maintain an offsite backup plan for data stored on the computer. A backup is sent to the IT vendor on a monthly basis. The Treasurer will work with the IT vendor to establish procedures to have passwords change every ninety days that are at least eight characters long. The Treasurer will also check into getting individual battery backups for the three main computer stations. The server is on a battery backup.

County Clerk: The County Clerk is working on an updated Disaster Recovery Plan. I have advised all deputies to change passwords every ninety days. I am currently working on finding a more secure site for the server.

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.

Finding: Inadequate Controls Over the Preparation of the Schedule of Expenditures of Federal Awards

Condition: The County has not designed and implemented formal internal controls for the reporting of its major programs for Disaster Grants-Public Assistance received for the severe storms, tornadoes, and flooding that occurred in 2008, as required by OMB Circular A-133. In particular, the County has not designed an accounting system or year-end process to accumulate and report its "in-kind" labor and equipment charges.

Cause of Condition: Due to a lack of communication and turnover of employees within the County Commissioners' office, it was believed that the SEFA had been completed, when it had not.

Effect of Condition: Although the total federal grant expenditures were less than $500,000.00, this condition resulted in the amount of federal expenditures for the Disaster Grants – Public Assistance being inadequately reported on the Schedule of Expenditures of Federal Awards in a timely manner.

Recommendation: OSAI recommends the County establish internal controls to ensure all federal awards are properly accounted for and reported on the Schedule of Expenditures of Federal Awards in timely manner.

Management Response:
County Treasurer: Procedures have been implemented to track the receipting of federal grant funds in a more efficient manner. The Treasurer and County Clerk will work together to ensure all funds are receipted and the information is relayed to the County Clerk. Copies of this information will be placed in a federal file in the Treasurer's office.

Board of County Commissioners: Each County Commissioner has hired a secretary at the District barn who is now in charge of keeping records on each FEMA project. Those records will be maintained on a current basis. At the end of the fiscal year, each secretary will provide the courthouse office a copy of the records and the records will then be summarized for the County Clerk to put on the Schedule of Expenditures of Federal Awards (SEFA).

Criteria: OMB Circular A-133§__.300 states that the auditee shall:

> Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they are received. 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 of its Federal programs.

OMB Circular A-133§__.310 states in part:

> The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements…the schedule shall:
>
> (6) Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule.

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