OPERATIONAL AUDIT

CRAIG COUNTY

For the period July 1, 2010 through June 30, 2011

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

CRAIG COUNTY OPERATIONAL AUDIT
FOR THE PERIOD JULY 1, 2010 THROUGH JUNE 30, 2011

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Oklahoma State Auditor & Inspector

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December 13, 2012

TO THE CITIZENS OF
CRAIG COUNTY, OKLAHOMA

Transmitted herewith is the audit report of Craig County for the period July 1, 2010 through June 30, 2011.

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

Located in northeastern Oklahoma near Grand Lake, Craig County was created at statehood and named for Granville Craig, a prominent Cherokee; this area was part of the Cherokee Nation.

Vinita, the county seat, was once called both Downingville and The Junction and was established in 1891 at the junction of the Missouri, Kansas, and Texas Railroad (KATY) and the Atlantic and Pacific Railroad, (later the Frisco), the first rail lines to enter Oklahoma.

Craig County has long been a livestock producing area with cattle ranches located throughout. The industrial base of Vinita has been expanded to include everything from the manufacturing of towers to micro connectors. As headquarters of the Grand River Dam Authority, Craig County is also the site of the Kansas, Arkansas, Oklahoma Electric Power Distributor, and the Northeast Oklahoma Electric Cooperative.

Annual events include the original Will Rogers Memorial Rodeo in August, the Calf Fry Festival in September, and Oktoberfest.

The *Craig County Book* and others offer more information, or call the County Clerk's office at 918/256-2507.

County Seat – Vinita	Area – 762.71 Square Miles
County Population – 15,158 (2009 est.)	
Farms – 1,359	Land in Farms – 457,292 Acres

Primary Source: Oklahoma Almanac 2011-2012

COUNTY OFFICIALS

Kelli Beisly-Minson..County Assessor
Tammy Malone..County Clerk
Roy Bible..County Commissioner District 1
Hugh Gordon..County Commissioner District 2
Dan Peetoom..County Commissioner District 3
Jimmie Sooter..County Sheriff
Lisa Washam..County Treasurer
Mary Denny..Court Clerk

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

	Beginning Cash Balances July 1, 2010	Receipts Apportioned	Transfers In	Transfers Out	Disbursements	Ending Cash Balances June 30, 2011
Combining Information:						
Major Funds:						
County General Fund	$ 1,083,391	$ 3,278,679	$ 121	$ -	$ 3,206,447	$ 1,155,744
T-Highway	784,492	1,959,631			2,021,740	722,383
County Health	189,118	528,635			429,171	288,582
Sales Tax Building Cash Account	128,122	1,243,341			1,259,579	111,884
County Sinking		121		121		
Sheriff Service Fee Cash Account	205,707	243,720			404,874	44,553
Remaining Aggregate Funds	261,828	1,485,344		-	663,357	1,083,815
Combined Total - All County Funds, as restated	$ 2,652,658	$ 8,739,471	$ 121	$ 121	$ 7,985,168	$ 3,406,961

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, 2011.

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.

Conclusion: With respect to the items reconciled and reviewed; the receipts apportioned, disbursements, and cash balances are not accurately presented on the County Treasurer's monthly reports.

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, 2011, 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

Condition: Upon inquiry of the reconciliation process of apportioned receipts, disbursements, and cash balances between the County Treasurer and County Clerk, reconciliations were not performed between the County Clerk's appropriation ledger and the Treasurer's general ledger on a monthly basis. Additionally, the County Clerk and the County Treasurer did not reconcile warrants issued to warrants paid for the fiscal year.

Cause of Condition: Procedures have not been designed for the County Clerk and County Treasurer to reconcile the appropriation ledger and the general ledger and warrants issued to warrants paid.

Effect of Condition: This condition could result in unrecorded transactions and undetected errors.

Recommendation: OSAI recommends management take steps to ensure reconciliations are performed between the County Clerk's appropriation ledger and the Treasurer's general ledger and between warrants issued per the County Clerk and warrants paid per the County Treasurer.

Management Response:
County Treasurer: Warrants will be reconciled.

Criteria: To help ensure a proper accounting of funds, the County Clerk's appropriation ledger should be reconciled monthly to the Treasurer's general ledger and warrants issued per the County Clerk should be reconciled monthly to warrants paid per the County Treasurer.

Finding: Inadequate Segregation of Duties over the County Treasurer's Accounting Processes

Condition: A lack of segregation of duties exists in the County Treasurer's office because one employee is responsible for posting to the general ledger, preparing monthly reports, preparing monthly apportionments, maintaining the investment ledger, and reconciling the general and official bank accounts.

Cause of Condition: Management has not implemented procedures to separate key functions and processes among various employees in the office or to have levels of review over the processes performed.

Additionally, management has not established procedures for the review of daily closeouts by someone other than the preparer.

Effect of Condition: 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, clerical errors, or misappropriation of funds not being detected in a timely manner.

Recommendation: OSAI recommends that a system of internal controls be implemented to provide reasonable assurance that duties are adequately segregated. The duties of maintaining ledgers and preparing the reconciliations of bank accounts should be segregated. If duties cannot be properly segregated, procedures should be designed to mitigate risks such as monitoring and review of processes.

Management Response: Segregation of duties will be conducted to the best of our ability. The First Deputy now reconciles the General and Official bank accounts.

Criteria: To help ensure a proper accounting of funds, key duties and responsibilities should be segregated among different individuals to reduce the risk of error or fraud. No one individual should have the ability to authorize transactions, have physical custody of assets, and record transactions.

Finding: Inadequate Controls over Bank Reconciliations and Unreported Accounts

Condition: The following weaknesses were noted in the reconciliation of bank accounts and completeness of information reported as the ending cash balance:

- There was no indication of review and approval of the bank reconciliations by someone other than the preparer.
- The Electronic Federal Tax Payment System (EFTPS) account was not reconciled to the reported monthly balance.
- A certificate of deposit held by the County for the Free Fair was not reported on the general ledger.

Cause of Condition: Management has not designed and implemented procedures to ensure that all accounts are reconciled, approved, and reported on the general ledger.

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

Recommendation: OSAI recommends all accounts be reconciled to the amounts reported on a monthly basis in a timely manner, and the Treasurer ensure that bank reconciliations reflect an indication of review and approval by someone other than the preparer. Additionally, we recommend that accounts and investments recorded with the EIN number of the County be recorded on the general ledger

Management Response: Electronic Federal Tax Payment System (EFTPS) will be added to the General Ledger and reconciled. Fair Board is in the process of obtaining their on EIN.

Criteria: To help ensure a proper accounting of funds, all bank accounts and investments identified with the County's EIN number should be reflected on the general ledger, bank reconciliations should be performed on a monthly basis, reviewed and approved by someone other than the preparer.

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 complied with 62 O.S. § 517.4, which requires county deposits with financial institutions be secured with collateral securities or instruments. However, there appears to be inadequate controls over pledge collateral to ensure County funds are adequately collateralized.

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 two days per month from banks holding deposits of county funds and determined that bank balances were adequately collateralized.

Finding: Inadequate Internal Controls over Pledged Collateral

Condition: Prior to the period when tax collections are the largest, the County Treasurer contacts the banks and increases the amount of pledged collateral for deposits. However, with the exception of this period of time, amounts on deposit at the banks were not monitored to ensure bank balances were adequately collateralized.

Cause of Condition: The County Treasurer has not designed procedures to ensure collateral requirements are met.

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 establish policies and procedures to periodically compare the amount of pledged collateral to amounts on deposit, to ensure pledges are adequate to cover the deposits. Additionally, we recommend the Treasurer maintain evidence of monitoring pledged collateral amounts to bank balances.

Management Response: Pledged collateral will be checked daily by Treasurer and First deputy and initialed.

Criteria: To help ensure a proper safeguarding of funds, policies and procedures for monitoring amounts on deposit with banks and pledged collateral should be documented and evidence of monitoring should be maintained.

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.

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 55 purchase orders from the sales tax revolving fund and determined that expenditures were made for purposes designated on the sales tax ballot.

Finding: Inadequate Controls over the Calculation of Sales Tax

Condition: Upon inquiry and observation of the sales tax apportionments and appropriations, it was noted that there was no independent verification of the calculation of sales tax.

Cause of Condition: Procedures have not been designed to monitor the calculation of sales tax distribution.

Effect of Condition: This condition could result in miscalculation of sales tax revenue.

Recommendation: OSAI recommends an employee 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 the review.

Management Response: Sales tax calculations will be checked by the Treasurer and First Deputy and also initialed.

Criteria: Effective internal controls would include 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.

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 Controls over Ad Valorem Tax Distribution

Condition: Upon inquiry and observation of the apportionment and distribution of ad valorem tax, it was noted the software vendor is responsible for entering the mill levies into the system and applying them to the tax roll. No review is performed to ensure the correct certified levies are entered into the system.

Cause of Condition: Procedures have not been designed to ensure certified levies are accurately entered into the ad valorem system.

Effect of Condition: Because no independent review of the certified levies in the system is performed, this condition could result in undetected errors and inaccurate apportionment of ad valorem revenues.

Recommendation: OSAI recommends that the County Treasurer ensure the certified levies are accurately entered into the system and documentation is retained indicating, with initials and dates, that an employee independent of the process reviewed and verified the accuracy of those levies.

Management Response: Certified levies will be printed and checked by another deputy. They have always been double checked by me and another deputy.

Auditor Response: Because there was no evidence of the review by documentation of initials and dates, we could not determine controls were operating effectively.

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.

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 complied with 19 O.S. §1505C, 19 O.S. §1505E, and 19 O.S. §1505F.

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:
    - Purchase orders were properly requisitioned as required by 19 O.S. § 1505C.
    - Purchase orders were properly encumbered as required by 19 O.S. § 1505C.

- The receiving officer prepared and signed a receiving report as required by 19 O.S. § 1505E.
- The County Clerk or designee compared the purchase order to the invoice, receiving report, and delivery document as required by 19 O.S. § 1505E.
- Purchase orders were approved for payment by the Board of County Commissioners as required by 19 O.S. § 1505F.

Finding: Inadequate Segregation of Duties over the Purchasing and Expenditure Processes

Condition: A lack of segregation of duties exists in the purchasing department of the County Clerk's office because one employee is responsible for:

- entering all vendors into the purchase order system,
- generating all requisition/purchase orders,
- encumbering the funds,
- auditing the purchase order upon receiving all supporting documentation,
- preparing the warrants,
- printing the warrants,
- distributing the signed warrants,
- maintaining the warrant register,
- posting the warrants as paid to system, and
- maintaining the appropriation ledger.

Cause of Condition: Procedures have not been designed to adequately segregate the duties within the purchasing department of the County Clerk's office.

Effect of Condition: These conditions could result in unrecorded transactions, misappropriation of funds, or clerical errors that are not detected in a timely manner.

Recommendation: OSAI recommends that management be aware of these conditions and determine if duties can be properly segregated. 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 approval of accounting functions.

The following key accounting functions of the purchasing process should be adequately segregated:

- Entering vendors into the system and generating purchase orders
- Reviewing purchase orders for accuracy and for proper supporting documentation
- Preparing warrants and reconciling warrants to purchase orders
- Distributing warrants

Management Response:
County Clerk: I do monitor purchasing. All requisitions are at the request of the requisitioning officers. Those purchase orders are signed by the proper officer. All supporting documentation for purchase orders

are signed by the receiving agent and requisitioning officer for each office. After the warrants are generated, I review and personally sign each one. As the warrants go through the bank, they are marked by a separate employee.

Auditor Response: The duties of issuing warrants, distributing warrants, and reconciling warrants are not adequately segregated.

Criteria: To help ensure a proper accounting of funds, key duties and responsibilities should be segregated among different individuals to reduce the risk of error or fraud and monitoring and reviewing processes should be put in place.

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

Finding: Inadequate Controls over Competitive Bidding

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

- Notification of successful bidder was not documented in two instances.
- No Board of County Commissioners' meetings minutes were maintained.
- There were no procedures in place to ensure items of a similar nature and costing at least $10,000 were bid.

Cause of Condition: Procedures have not been designed and implemented to ensure compliance with statutes with regard to the bidding process.

Effect of Condition: Because documentation was not maintained to determine that items of a similar nature and costing at least $10,000 were bid, and bidding procedures as required by state statute were not followed, the County was not in compliance with statutes.

Recommendation: OSAI recommends that documentation for commonly used items and services be maintained and a review of the expenditures to ensure that all similar expenditures of $10,000 or more are competitively bid. OSAI also recommends that policies and procedures be implemented to ensure that all statutorily required bidding procedures are followed.

Management Response: Management chose not to respond.

Criteria: Effective internal controls require that management properly implement procedures to ensure that purchases comply 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 amounts allowed for officers' salaries, the County complied with 19 O.S. § 180.74 and § 180.75.

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

- Gained an understanding of the internal controls related to the process of determining amounts allowed for officers' salaries, which included discussions with County personnel, observation, and review of documents.

- Tested compliance of the significant law, which included the following:
  - Recalculated the maximum amount allowed for officers' salaries as set forth in 19 O.S. § 180.74 and 180.75.
  - Reviewed the salaries paid to officers and determined that they are not in excess of the amount allowed by statute.

Finding: Inadequate Segregation of Duties over Payroll

Condition: A lack of segregation of duties exists in the County Clerk's office because one deputy reviews the payroll claims, calculates amounts to be paid to the employees and payroll related agencies, updates the master payroll file, issues payroll, prints payroll warrants, and removes terminated employees from payroll.

Cause of Condition: Procedures have not been designed to adequately segregate the duties within the payroll department of the County Clerk's office.

Effect of Condition: These conditions could result in unrecorded transactions, misappropriation of funds, or clerical errors that are not detected in a timely manner.

Recommendation: OSAI recommends management be aware of these conditions and determine if duties can be properly segregated. 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 approval of accounting functions.

The following key accounting functions of the payroll process should be adequately segregated:

- Enrolling new employees and maintaining personnel files.
- Reviewing time records and preparing payroll.
- Distributing payroll warrants to individuals.

Management Response:
County Clerk: Limited staff does not allow for several people to do payroll. There are however safe guards in place. The payroll claims are generated based on the information received from each office. The officer of each department is liable for the information given to the clerk's office to generate payroll claims. After the claims are produced they are given back to the officer of each department for review by not only the officer but each of the employees review their claim. The officer and employee sign the claim indicating to the clerk's office the claim is correct. The next step is for the Board of County Commissioners to approve. We now have the payroll clerk, the officer, the employee and the board that have reviewed those claims.

When an employee is terminated not only are they terminated on payroll but from all benefits. That is handled by my payroll clerk and me. We also require a written notice from the officer to be placed in the personal file of the terminated employee.

Auditor Response: The County Clerk should strengthen internal controls regarding preparing payroll, printing payroll warrants, and distributing payroll warrants.

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.

Finding: Inadequate Controls over the Sheriff's Payroll and Leave Process

Condition: Upon inquiry of County personnel, observation, and review of documents, we noted the following concerns regarding payroll within the Sheriff's office:

- Payroll changes and terminations are communicated through verbal notification.
- The Sheriff's employee time records do not reflect accruals and balances for annual, sick, and compensatory time.
- Time records are maintained in the ODIS system, which only documents usage.
- Annual, sick, and compensatory leave balances are not maintained.

- The Sheriff's office must calculate the leave balances at the time an employee questions a leave balance.
- The Sheriff's office paid expenditures classified as payroll in the amount of $174,463.08 from the Department of Corrections/Board of Prisoners Cash Fund in the maintenance and operations category and from the General Fund - Sheriff maintenance and operations category.
- Upon separation from employment with the Sheriff's office, two employees received compensation for annual leave accrued in excess of the County policy.

Cause of Condition: Procedures have not been designed to adequately document payroll changes, to accurately track the leave benefits of employees in the Sheriff's office, to ensure all payroll is expended from the proper accounts, and to ensure compliance with the County's policy regarding paid leave.

Effect of Condition: These conditions could result in errors in the amount that employees are being paid, payment to employees after they have terminated, employees using unearned leave, payroll expenditures paid from wrong accounts, and payments to terminated employees in violation of the County policy.

Recommendation: OSAI recommends all new hires, terminations, and changes in payroll amounts be communicated in written form in a timely manner to the payroll clerk. Time records in the Sheriff's office should reflect accruals, balances, and usage of annual, sick, and compensatory time, and payroll expenditures should be accounted for according to the appropriate function and activity within each fund. OSAI also recommends that the leave of terminated employees be managed in accordance with the County policy.

Management Response:
County Sheriff: Vacation, holiday and sick time for each employee is now being maintained on a spreadsheet and is adjusted each month as time is accrued or used. The County Clerk's office is notified in writing of all payroll changes and terminations. Copies are placed in employee's files.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. Internal controls should be in place to ensure employees are paid accurately, time records accurately reflect leave accruals, balances, and usage, payroll expenditures are accounted for using the appropriate function and activity within each fund, and leave balances are not paid upon termination in accordance with the County policy.

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: The County's financial operations did 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 compliance with 19 O.S. § 1504A by selecting a random sample at each of the three Highway District barns and verifying that accurate records are maintained and that they agree to a physical count of records.

Finding: Inadequate Controls and Noncompliance over Consumable Inventories

Condition: Upon inquiry and observation of the recordkeeping process regarding consumable inventories, the following items were noted:

- One employee at each District performs key duties with no independent verification of accuracy. The same employee maintains, updates, and verifies the accuracy of the consumable inventory records.

- District 1
  - Three of the ten consumable items counted did not agree with the amount on the stock cards.
  - No documentation of a physical inventory count was maintained.

- District 2
  - Fuel logs were maintained, but the fuel tanks were not measured or reconciled to the fuel usage log.

- District 3
  - One of the two (100% of the inventory) consumable items counted did not agree with the amount on the stock cards.

Cause of Condition: Procedures have not been designed and implemented for the accurate reporting of consumable inventories and to effectively safeguard consumable inventories.

Effect of Condition: This condition could result in inaccurate or incomplete consumable inventory records.

Recommendation: OSAI recommends the County adopt policies and procedures to implement a system of internal controls over the consumable inventory records. Such controls may include an independent verification of the inventory counts and a separation of duties between maintaining, updating, and verifying the accuracy of records.

Management Response:
County Commissioner District 1: The Commissioner and/or 1 employee will verify stock inventory to agree with what the receiving agent's records are and then sign and date the inventory record.

County Commissioner District 2: We now have a checklist to be on all inventory by the foreman and checked by the assistant commissioner.

County Commissioner District 3: Commissioner Dan Peetoom of District 3 is addressing the problems of District 3.

Criteria: 19 O.S. § 1504A requires the receiving officer to maintain a record of all supplies, materials and equipment received, disbursed, stored, and consumed by his department. To ensure the safeguarding of assets, management should ensure policies and procedures, which includes adequate segregation of duties, are in place to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of consumable inventory items.

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: The County's financial operations 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 19 O.S. § 178.1 by judgmentally selecting a sample of fixed assets from each County office to determine that inventory records were correct, properly marked with County identification numbers and "Property of Craig County" as required by 69 O.S. § 645.

Finding: Inadequate Internal Controls over Fixed Assets

Condition: Upon inquiry and observation of the recordkeeping process regarding fixed assets, the following were noted:

- Sheriff
  - An inventory list was not maintained by the Sheriff.
  - Inventory records are on file with the County Clerk, but are incomplete.
  - There was no evidence of a physical count.

- District 1
  - An inventory list was maintained, but no evidence of a recent physical count.
  - No inventory cards were filed in the County Clerk's office.
  - Two of the fifteen items selected did not have the County identification number affixed to the equipment.
  - Two of the thirteen items selected were not marked with "Property of Craig County" decals.

- District 2
  - An inventory list was maintained, but no evidence of a recent physical count.
  - No inventory cards were filed in the County Clerk's office.
  - Three of the fifteen items selected did not have County identification numbers affixed to the equipment.
  - Eight of the fourteen items selected were not marked with "Property of Craig County" decals.

- District 3
  - An inventory list was on file, but no evidence of a recent physical count.
  - No inventory cards were filed in the County Clerk's office.
  - Three of the fifteen items selected did not have County identification numbers affixed to the equipment.
  - Fourteen of the fourteen items selected were not marked with "Property of Craig County" decals.

- Court Clerk
  - An inventory list was maintained, but no evidence of a recent physical count.
  - The inventory list was not updated and contained both county and state equipment with no identification numbers or distinction between county and state.

- County Clerk, County Assessor, and County Treasurer
  - An inventory list was maintained, but no evidence of a recent physical count.

Cause of Condition: Policies and procedures have not been designed for accurate reporting of fixed assets and the safeguarding of fixed assets.

Effect of Condition: Failure to maintain accurate records of fixed asset inventories and perform a periodic physical inventory of fixed assets could result in inaccurate records, unauthorized use of fixed assets, or misappropriation of fixed assets.

Recommendation: OSAI recommends each County office implement procedures to accurately maintain fixed asset records and an annual verification of fixed assets be performed and documented with initials and dates. Furthermore, all county-owned equipment must be clearly and visibly marked with a County identification number as required by 19 O.S. § 178.1 and "Property of Craig County" as required by 69 O.S. § 645.

Management Response:
County Treasurer: Inventory list will be physically checked and signed off on annually.

County Commissioner District 1: Inventory list with physical count will be maintained and verified. Inventory cards are being filed with the County Clerk's office. All equipment has identification numbers on them now and we are in the process of adding "Property of Craig County".

County Commissioner District 2: Inventory cards are now on file at the Courthouse as of March 2012. We now have a checklist to be done each quarter on all inventory by the foreman and checked by the assistant commissioner. County ID numbers have been placed on two pick-ups. The "Property of Craig County 2" has been placed on current inventory.

County Commissioner District 3: Commissioner Dan Peetoom of District 3 is addressing the problems of District 3.

County Sheriff: We are compiling an inventory list of all fixed assets of the Sheriff's office. We will update the master list in the County Clerk's office. We will now do an annual physical inventory of all fixed assets.

Court Clerk: The inventory list has been updated and all items have an identification number on them. If they do not have the metal tag stating they are the property of the Oklahoma Supreme Court on them then they are the property of the court. We will start doing an annual physical count.

County Assessor: The Assessor currently keeps an up to date inventory list that is checked annually. We will now make an official notation when the annual check of inventory is conducted.

Criteria: 19 O.S. § 178.1 and 69 O.S. § 645 requires the maintenance of inventory records, periodic inventory verifications, and equipment be clearly and visibly marked "Property of" the County.

An important aspect of internal controls is the safeguarding of assets, which includes adequate segregation of duties. 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 acquisition, use, or disposition of fixed assets, and safeguard fixed assets 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.

Conclusion: With respect to the official depository accounts tested, the County Sheriff did not comply with 19 O.S. § 682, which requires officers to deposit daily in the official depository all collections received under the color of office.

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 the County Clerk, County Treasurer, Court Clerk, and Sheriff depository accounts 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 the Sheriff's Official Depository Account

Condition: Our review of the collection, receipting, and bookkeeping functions within the County Sheriff's office revealed the following weaknesses:

- One employee in the office was responsible for issuing receipts, posting receipts to the computer system, preparing the daily reconciliation, preparing the deposit, taking the deposit to the Treasurer, issuing official depository vouchers, and performing monthly reconciliations to the Treasurer.
- Multiple receipt books were used within the Sheriff's office for the receipting of collections. Receipts were first handwritten on pre-numbered receipt books and then entered into the computer. Because multiple books are used and books are not always used in sequential order, we were unable to trace the receipts to the deposits for the day.
- Receipts did not denote cash, check, or money order.
- Deposits were not made daily.
- Collections were kept in a cash bag in the office and were deposited when the amount collected reached $2.00.
- Collections received in the jail were maintained in a drop box and were only retrieved and deposited on Monday, Wednesday, and Friday.

Cause of Condition: Procedures have not been designed in the Sheriff's office to ensure adequate controls are in place to safeguard assets.

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

Recommendation: OSAI recommends the Sheriff implement procedures to monitor the collecting, receipting, and accounting processes to ensure duties are adequately segregated, collections are receipted in sequential numerical order, receipts are reconciled to the deposit, and collections are deposited daily in accordance with 19 O.S. § 682.

Management Response:
County Sheriff: Receipts are written and posted to the computer by the person collecting the money. Monies taken in the front office for the Inmate Trust Account are placed in a dated envelope and at the end of the day; copies of all receipts written that day are placed in the envelope. The envelope is then sealed and placed in the lock box of the jail. The commissary officer reconciles the contents of each day's envelopes to the computer and to the actual receipt book. The commissary officer issues one receipt book to the front office and one to the jail. These books are numbered in sequential order and beginning and ending dates are posted on the front covers. New books are not issued until the current book is finished. I was informed that the commissary officer prepares the deposit for a daily deposit. Cash bonds are only taken in the jail or Court Clerk's Office. When a cash bond is taken, the jailer writes a receipt to the person paying the bond. If it is a district bond, a sheet is filled out for the judge. All cash bonds are placed in the lock box in the jail. District cash bonds are brought to the front office, deposited in the treasurer's office and a voucher written to the Craig County Court Clerk. Municipal bonds for Ketchum or Bluejacket courts are taken to the Court Clerk of that court and the deputy taking the money receives a receipt from the Court Clerk.

Money taken in the front office for all other purposes is receipted by the person taking the money. Receipts are numbered and written in sequential order. Money is deposited each day with the County Treasurer. After the deposit is made, another employee reconciles the receipts and vouchers written that day to the depository ticket and receipt received from the County Treasurer and signs the depository ticket, which is maintained in the Sheriff's Office.

The Sheriff is the Requisitioning Officer for the Sheriff's Office. There are two Receiving Agents in the office and two in the jail.

Auditor Response: The duties regarding receipting and depositing collections are not adequately segregated.

Criteria: To help ensure a proper accounting of funds, key duties and responsibilities should be segregated among different individuals to reduce the risk of error or fraud, monitoring and review processes should be in place, all collections should be receipted in sequential order, receipts should be reconciled to the deposit, and collections should be deposited daily.

Finding: Inadequate Internal Controls over Other Official Depository Accounts

Condition: Upon inquiry of County personnel and review of documentation over the receipting process for official depository collections, we noted the lack of segregation of duties for the following offices:

- Court Clerk
  - One employee is responsible for reviewing the daily reconciliations, preparing the deposit, taking the deposit to the Treasurer, issuing official depository vouchers, and performing monthly reconciliations to the Treasurer's records.

- County Clerk
  - One employee is responsible for issuing receipts, issuing official depository vouchers, and performing monthly reconciliations to the Treasurer's records.

- County Assessor
  - One employee is responsible for issuing receipts, preparing daily reconciliations, preparing the deposit, taking the deposit to the Treasurer, and issuing official depository vouchers.

- County Health Department
  - One employee is responsible for performing the daily reconciliation, preparing the deposit, taking the deposit to the Treasurer, issuing official depository vouchers, and performing monthly reconciliations to the Treasurer's records.

Cause of Condition: Management has not implemented procedures to separate key functions and processes among various employees in the office or to have levels of review over the processes performed.

Effect of Condition: 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, clerical errors, or misappropriation of funds not being detected in a timely manner.

Recommendation: OSAI recommends a system of internal controls be implemented to provide reasonable assurance that duties are adequately segregated. The duties of receipting, depositing, maintaining ledgers/reconciliations, and disbursing funds should be segregated. If duties cannot be properly segregated, procedures should be designed to mitigate risks such as monitoring and review of processes.

Management Response:
Court Clerk: More than one person will be performing these duties.

County Clerk: Limited staff does not allow for several people to do the daily reconciliations. The depository vouchers from this point forward will be signed by me. That will allow me the opportunity to review the accounting at the counter on a monthly basis.

County Assessor: Deposits are currently checked before taken to the Treasurer's office by an Officer. They will now be checked and initialed before and after deposit is registered.

Criteria: To help ensure a proper accounting of funds, key duties and responsibilities should be segregated among different individuals to reduce the risk of error or fraud. No one individual should have the ability to authorize transactions, have physical custody of assets, and record transactions.

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.

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

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 compliance with 20 O.S. § 1304 for the Court Fund, which included selecting 35 claims and verifying the following:
  - Expenditures were for the lawful operation of the Court Clerk's office.
  - Claims were approved by the District Judge and either the Court Clerk or the Associate District Judge of the County.

- Tested compliance with 19 O.S. § 220 for the Court Clerk Revolving Fund, which included selecting 25 claims and verifying the following:
  - Expenditures were for the lawful operation of the Court Clerk's office.
  - Claims were approved by the Court Clerk and either the District or the Associate District Judge of the County.

Finding: Inadequate Documentation of Review of Reconciliations

Condition: Upon inquiry and review of documentation, we noted the following weakness in the review of reconciliations:

- The Court Clerk's reconciliations of the Court Clerk Revolving Fund and the Court Fund to the County Treasurer are not reviewed and approved by anyone other than the preparer.

Cause of Condition: Procedures have not been designed to ensure all reconciliations are reviewed and approved by someone other than the preparer.

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

Recommendation: OSAI recommends all reconciliations reflect an indication of review that they are approved by someone other than the preparer.

Management Response: Someone other than the preparer will review and approve the reconciliations.

Criteria: To help ensure a proper accounting of funds, all reconciliations should be approved by someone other than the preparer and include an indication of review.

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 items tested, the County Sheriff did not comply 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.

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

- Tested compliance with the significant law by selecting a random sample of 55 Inmate Trust Fund checks to determine the purpose of the expenditure was made only for the purposes of transferring funds to the Sheriff's Commissary Fund or refunding money to inmates.

Finding: Inadequate Controls over the Inmate Trust Fund

Condition: An examination of the Inmate Trust Account revealed the following weaknesses in the internal control structure:

- One employee was responsible for receiving/receipting money, accessing and balancing the drop box collections, preparing deposit slips, taking deposits to the bank, reconciling account balances, posting payments and disbursements to inmate records, calculating amount(s) transferred from accounts, issuing checks, and signing checks.

- The duties of the employee responsible for the inmate trust bookkeeping, including bank reconciliations, were not monitored by another employee, nor was there evidence that the work was reviewed by someone other than the preparer.

- The Inmate Trust Checking Account had a negative bank balance on several occasions.

- Payments to the Sheriff's Commissary Fund from the Inmate Trust Account were in arrears eight months and totaled more than $82,000.

- Items purchased in June 2011 for the Commissary were not paid for until February 2012.

- Receipts
  - Multiple receipt books were used.
  - Receipt books were pre-numbered, but because multiple books were used and the books were not always used in sequential order, the receipt number sequence cannot be traced to the deposits to ensure accuracy of the deposit.
  - Handwritten receipts were not reconciled back to receipts issued within the accounting system (ODIS).

- Collections
  - Checks and money orders received at the time the inmate is booked in were not always receipted.
  - Cash received at the time the inmate is booked in is often returned to the inmate without a receipt being issued when the inmate posts bail within a relatively short time.
  - Collections were not reconciled to the receipts issued in accounting system (ODIS).
  - Cash recorded in the ODIS system was not always deposited at the bank.
  - Collections were not deposited daily.
  - Deposits were made on Fridays in most instances.

- Expenditures
  - Eighteen employees within the Sheriff's office had access to writing checks.
  - Not all checks were signed by two employees.
  - Thirty of the fifty-five Inmate Trust checks selected, revealed the following unauthorized expenditures:
    - book in fees in the amount of $25.00 each time an inmate is booked into the jail,
    - fines paid to Court Clerk,
    - hair care services to a deputy, and
    - attorneys and bail bondsmen.
  - Checks were written when funds were not available in the bank account.
  - Insufficient check charges were taken out of the Inmate Trust Funds.
  - Checks issued were not reconciled to documents authorizing release of funds.
  - Negative balances were noted on inmate accounts in the accounting system (ODIS).

Cause of Condition: Procedures have not been designed to ensure adequate controls are in place to safeguard inmate assets.

Effect of Condition: These conditions could result in misappropriation of assets, unrecorded transactions, and unauthorized collections and disbursements.

Recommendation: OSAI recommends that management be aware of these conditions and determine if duties can be properly segregated. 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 approval of accounting functions.

OSAI further recommends the Sheriff implement procedures to ensure:

- all collections are receipted in sequential order,
- receipts are reconciled to collections/deposits,
- all collections are deposited daily,
- all expenditures are for authorized and legal transactions,
- checks are always signed by two individuals,
- check signing access is restricted and expenditures are never made when funds are not available,
- bank balances are reconciled back to accounting system (ODIS) ledger on a monthly basis,
- reconciliations are reviewed and approved by someone other than the preparer, and
- the commissary is paid the amount owed in a timely manner.
- The duties of receipting, depositing, and maintaining ledgers/reconciliations should be adequately segregated.

Management Response: All money is receipted and placed in the lock box when inmate is booked in. We only accept money orders or cashier's checks to be placed on the inmates commissary account. At release the inmate is issued a check from the Inmate Trust Account. All checks are required to have two signatures. Checks are not signed in advance. Checks are only written to inmates. In order to pay expenses such as haircuts, fines or legal expenses, a check is written to the inmate. He then signs it over to the provider. Inmates are required to sign a receipt showing they have received the check, anytime a check is issued. Bank statements are reconciled each month by the commissary officer and the reconciliation is reviewed by another employee. Checks are not written that will result in a negative balance. In the event of an Insufficient Check Charge, a purchase order will be obtained and the Inmate Trust Fund will be reimbursed out of the Sheriff's Commissary Account. Inmate balances are now monitored and inmates are not allowed to purchase any item that would result in a negative balance.

BOOK IN FEES: The $25.00 book in fee is no longer collected by the Sheriff's Office.

Auditor Response: The duties regarding the receipting, depositing, disbursing, and recordkeeping of the Inmate Trust Fund are not adequately segregated.

Criteria: To help ensure a proper accounting of funds, key duties and responsibilities should be segregated among different individuals to reduce the risk of error or fraud. No one individual should have the ability to authorize transactions, have physical custody of assets, and record transactions. All collections should be receipted in sequential order, receipts should be reconciled to the collections/deposits, all collections should be deposited daily, expenditures should only be made when authorized and when funds are available, bank reconciliations between the bank and the accounting system (ODIS) should be performed monthly and be reviewed and approved by someone other than the preparer, and the Sheriff's Commissary be paid the accurate amount and in a timely manner.

19 O.S. § 531A states:

> The Sheriff …may write checks to the Sheriff's Commissary…and to the inmate from unencumbered balances due the inmate upon his or her discharge.

Finding: Inadequate Controls over the Sheriff Commissary Fund

Condition: Our examination of the Sheriff's Commissary Fund revealed the following weaknesses in internal controls:

- An annual report was not filed with the Board of County Commissioners.
- The same employees have been designated as both requisitioning and receiving officers.

Cause of Condition: The Sheriff was unaware of his responsibility to file an annual commissary report and also unaware of the importance of segregating the duties of requisitioning and receiving.

Effect of Condition: The Board of County Commissioners was not made aware of the condition of the Commissary Fund, and purchasing statutes were violated when employees are both the requisitioning and receiving officers.

Recommendation: OSAI recommends the Sheriff submit the annual report for the commissary to the Board of County Commissioners by January 15th of each year in accordance with the statutes. OSAI further recommends that the requisitioning officer and the receiving officer be separate employees.

Management Response: We have the forms and will prepare an annual report for the Sheriff's Commissary Account and file this report with the office of the Craig County Commissioners.

Criteria: 19 O.S. § 180.43 (A) states in part:

> The Sheriff shall file an annual report with the board of county commissioners on any said commissary under his or her operation no later than January 15 of each year. The State Auditor and Inspector shall conduct an audit of the report in the same manner as other public records of the county.

19 O.S. § 1503 states:

> Each county officer shall designate two (2) employees to act as receiving officers for their departments. A written designation of such employees shall be filed with the county clerk and shall be entered in the minutes of the board of county commissioners.

19 O.S. § 1503 states in part:

> Each county officer may designate not more than two employees who also shall be authorized to sign requisitions in the absence of the county officer. A written designation of the employees shall be filed with the county clerk and shall be entered in the minutes of the board of county commissioners.

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 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 Treasurer: The Treasurer's office has always attended training and workshops. We are all certified. Proper monitoring of the above will be conducted by the Treasurer's office.

Court Clerk: More than one person will perform duties. Our computers are backed up daily. The office has a disaster plan and 3 employees have copies at their homes.

County Sheriff: The Sheriff will attend weekly Commissioner Meetings and periodically meet with other county officials to review the employee handbooks. He will review the Schedule of Expenditures of Federal Awards for accuracy. He will meet with employees to ensure that all audit findings are corrected. He will work with county officials to ensure that the estimate of needs for is his office is accurate and complete. Employees are given Policy and Procedure handbooks and will be required to read in order to understand the expectations in meeting the goals of the County.

County Assessor:
Data backup: The Assessor currently backs up data to a server that is separate from the working server daily. We also upload all the data to the server bank in a neighboring city.

Training: The Assessor's office is currently fully compliant with all statutory requirements for all employees.

Communications between offices: Plan to attend Commissioner's Meetings when possible, and will get copy of the meeting minutes when attendance is not possible.

Financial Status: All accounts are reviewed monthly.

Computer Logoff: The Assessor's office will now logoff when away from their desks.

Passwords: Upon attending a recent user group meeting we are currently following suggested guidelines for changing passwords every 90 days.

Backups not tested: We receive a daily log on the status of the previous night's backups. This back-up is checked daily for any errors.

Replacement of equipment: The Assessor will now start gathering information for an equipment replacement plan.

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: Disaster Recovery Plan, Computer Usage Policies, and Passwords

Condition:

- The Disaster Recovery Plans for the Court Clerk and the County Treasurer were outdated.
- The County Clerk, County Sheriff, and the Board of County Commissioners do not have written Disaster Recovery Plans.
- The County does not have written policies describing appropriate use of county computer equipment or written policies detailing the duties performed on computers.
- The County Treasurer, County Clerk, and County Assessor do not have a plan that forecasts and budgets for the future computer needs of the County.
- There is inadequate security over the computers and systems in the County Treasurer, County Clerk, and County Assessor's offices:
    - In the County Treasurer, County Clerk, and County Assessor's offices, the computer system does not log users off for inactivity, users do not always log off when they leave their computers unattended, and screen savers are not password protected.
    - In the County Treasurer, County Clerk, and County Assessor's offices, passwords are not required to be changed unless compromised.
    - Passwords in the County Clerk's office are shared with other employees.
    - Back-ups are not tested regularly.

Cause of Condition: Procedures have not been designed to develop and implement a Disaster Recovery Plan and policies and security for the appropriate use of county computer equipment.

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. By not locking computers after periods of inactivity, exposes computers to unauthorized access, and increases the opportunities for misuse of county assets.

Recommendation: OSAI recommends the County develop a current Disaster Recovery Plan, which is stored offsite to ensure the safekeeping and integrity of the County's data. Management should also establish and implement a computer and internet policy that describes acceptable computer and internet usage by county employees. OSAI further recommends computers are set to require a password to sign into after a period of inactivity and passwords should not be shared with other employees.

Management Response:
Commissioner District 1: District 1 will work with Emergency Management to design a plan for our District.

Commissioner District 2: Disaster Recovery Plans are written for Craig County District 2.

County Commissioner District 3: Commissioner Dan Peetoom of District 3 is addressing the problems of District 3.

County Treasurer:
Disaster Recovery Plans are now current. Due to budget restraints we cannot budget for future computer needs. Resale is used for computer needs. We have changed our computer software that now requires always logging in and user passwords. Back-ups will be tested regularly.

Court Clerk: The Disaster Recovery Plan has been updated. The office has a list of "Do's and Don'ts" from the AOC as to the appropriate use of computers.

County Sheriff: All computers in the Craig County Sheriff's Office are backed up daily and the backups are maintained by ODIS on their main server in Oklahoma City. In the event of an evacuation of the Craig County Courthouse, we have a contract with the Craig County Fair Board for the use of the County Show Barn. In the event of an emergency evacuation, all Sheriff's Office employees have been instructed to meet at this building. It will be used as an emergency shelter and as a staging area for our department. All deputies are issued department cell phones and radios, which will be used for communications. A list of telephone numbers for department employees and key city, county and state employees has been compiled and copies are kept in the jail, and at the Sheriff's residence.

BACKUPS: Computer backups are checked by the Jail Administrator twice a week.

Auditor Response: The County Sheriff should develop a written Disaster Recovery Plan.

Criteria: 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:

- Current names, addresses, contact numbers of key county personnel and their roles and responsibilities of information services function.
- Listing of contracted service providers.
- Information on location of key resources, including back-up site for recovery operating system, application, data files, operating manuals and program/system/user documentation.
- Alternative work locations once IT resources are available.

Also, according to the standards of the Information Systems Audit and Control Association (CobiT, Delivery and Support) DS11.6 Security Requirements for Data Management, management should define and implement policies and procedures to identify and apply security requirements applicable to the receipt, processing, storage and output of data to meet business objectives, the organization's security policy and regulatory requirements.

Other Item(s) Noted:

Although not considered significant to the audit objectives, we feel the following issues should be communicated to management.

Finding: Minutes of the Board of County Commissioners Meetings Noncompliance with Statutes

Condition: The County Clerk had not prepared the minutes of the meetings from July 1, 2010 to June 30, 2011. During the review of the previous and subsequent minutes of the Board of County Commissioners' meetings, it was determined that the Board of County Commissioners was not voting on resolutions, decisions, or questions submitted to the Board.

Cause of Condition: The County Clerk was negligent in the preparation of the minutes of the Board of County Commissioners' meetings. The Board of County Commissioners was not aware that a vote of each member must be publicly cast and recorded in all meetings.

Effect of Condition: By not preparing the minutes of the meetings and not recording votes, the Board of County Commissioners and the County Clerk are in violation of statutes, and a record of the proceedings of the Board of County Commissioners' meetings is not being maintained and approved.

Recommendation: OSAI recommends each member of the Board of County Commissioners cast a vote on resolutions, decisions, or questions submitted to the Board and the County Clerk prepare the minutes of the Board of County Commissioners' meetings in accordance with statutes.

Management Response:
County Clerk: Currently, the BOCC meeting minutes are on the agenda. I am presenting written minutes for review by the BOCC. A copy is going into a file and each board member is presented with a copy.

Criteria: 25 O.S. § 305 states:

> In all meetings of public bodies, the vote of each member must be publicly cast and recorded.

19 O.S. § 243 states:

> The county clerk shall attend the sessions of the board of county commissioners, either in person or by deputy, shall keep the seals, records, and papers of said board of commissioners and shall sign the records of the proceedings of the board of county commissioners and attest the same with the seal of the county.

19 O.S. § 244 states:

> It shall be the duty of the county clerk:
>
> 1) First. To record in a book to be provided for that purpose, all proceedings of the board.
>
> 2) To make regular entries of their resolutions and decisions in all questions concerning the raising of money.
>
> 3) To record the vote of each commissioner on any question submitted to the board, if required by any member thereof, and not otherwise.
>
> 4) To attest all orders issued by the board and signed by the chairman thereof for the payment of monies.
>
> 5) To preserve and file all accounts acted upon by the board, with their action thereon. And he shall perform such duties as are required by law.

Finding: Estimate of Needs

Condition: During the review of the County's Estimate of Needs it was determined that the receipts, disbursements, and ending cash balances on the 2010-2011 Estimate of Needs were inaccurate.

- Current year outstanding warrants were not included in warrants issued.
- The actual budgeted collections for the County General Fund exceeded the County's financial statement collections by $19,160.00 and the actual budgeted expenditures exceeded the County's financial statement expenditures by $19,952.00.
- The original budget for the Health Department Fund did not balance because cash exceeded expenditures by $3,910.00.

Cause of Condition: Procedures have not been designed to ensure the County's Estimate of Needs is accurate.

Effect of Condition: These conditions could result in an inaccurate Estimate of Needs being approved by the Excise Board.

Recommendation: OSAI recommends management ensure that cash receipts and disbursements on the Estimate of Needs reconcile to the financial statements and that all amounts are identified and include supporting documentation.

Management Response:
County Treasurer: Treasurer's office will check Estimate of Needs to make sure all accounts are included. We will also check warrants and the Health Fund.

County Clerk: I will talk to our budget maker concerning this finding.

Criteria: The adopted budget is an expression of public policy and financial intent and is a method of providing controls over that intent.

Additionally, 68 O.S. § 3002 states in part:

> …each board of county commissioners…shall prior to October 1 of each year, make, in writing, a financial statement, showing the true financial condition of their respective political subdivisions as of the close of the previous fiscal year ended June 30th, and shall make a written itemized statement of estimated needs and probable income from all sources including ad valorem tax for the current fiscal year. Such financial statements shall be supported by schedules or exhibits showing, by classes, the amount of all receipts and disbursements, and shall be sworn to as being true and correct…

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