OPERATIONAL AUDIT

# CUSTER COUNTY

For the period July 1, 2009 through June 30, 2011


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

**CUSTER COUNTY OPERATIONAL AUDIT**
**FOR THE PERIOD JULY 1, 2009 THROUGH JUNE 30, 2011**

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Oklahoma State Auditor & Inspector

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December 3, 2012

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

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

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

## BACKGROUND

A part of the original Cheyenne-Arapaho Reservation established by treaty in 1867, Custer County was named for General George A. Custer and was part of 3.5 million acres opened for settlement by the Land Run of April 19, 1892.

Both Clinton and Weatherford were established largely as a result of the westward expansion of the railroads. The Rock Island Railroad completed its east-west line to present-day Clinton, then called Washita Junction, in 1903. A special act of Congress allowed four Indians to sell half of each of their 160-acre allotments to create the Clinton townsite.

The territorial government established a two-year college for training teachers at Weatherford. This college has become a four-year university offering some graduate degrees and a pharmacy school.

The economy of Custer County is allied with oil and gas prices as the area lies atop the rich Anadarko Basin. Foss State Park and a wildlife refuge near Butler as well as a large Imation Facility near Weatherford and Freightliner and Doane's PetCare facilities in Clinton also contribute to the economy of the county.

For additional county information, call the County Clerk's office at 580/323-1221.

County Seat – Arapaho

Area – 1,002 Square Miles

County Population – 26,717
(2009 est.)

Farms – 907

Land in Farms – 568,728 Acres

Primary Source: Oklahoma Almanac 2011-2012

## COUNTY OFFICIALS

Debbie Collins .......... County Assessor
Karen Fry .......... County Clerk
James E. Covey .......... County Commissioner District 1
Steve Tompkins .......... County Commissioner District 2
Lyle Miller .......... County Commissioner District 3
Bruce Peoples .......... County Sheriff
Karen Klein Clanton .......... County Treasurer
Connie S. Burden .......... Court Clerk

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

| | Beginning Cash Balance July 1, 2010 | Receipts Apportioned | Disbursements | Ending Cash Balance June 30, 2011 |
|---|---|---|---|---|
| Combining Information: | | | | |
| County General Fund | $ 2,151,504 | $ 3,062,591 | $ 3,627,285 | $ 1,586,810 |
| County Highway Cash | 6,024,311 | 5,583,136 | 6,656,685 | 4,950,762 |
| Emergency Transportation Revolving | - | 1,095,523 | 397,313 | 698,210 |
| Sales Tax Cash Account | 1,743,180 | 2,114,490 | 2,801,210 | 1,056,460 |
| CCLECT-Sales Tax | 1,329,422 | 2,116,279 | 1,596,396 | 1,849,305 |
| Custer County Health Department | 280,193 | 441,318 | 435,413 | 286,098 |
| County Sinking Fund | 116,022 | 3,687,922 | 3,333,333 | 470,611 |
| Sheriff's Fee Cash Fund | 297,454 | 730,895 | 783,784 | 244,565 |
| Remaining Aggregate Funds | 1,760,354 | 554,163 | 731,964 | 1,582,553 |
| **Combined Total - All County Funds** | $ 13,702,440 | $ 19,386,317 | $ 20,363,383 | $ 12,725,374 |

*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, 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 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 collections on the monthly reports to amounts apportioned on the County Treasurer's monthly apportionment ledger.
  - 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 Internal Controls over the County Treasurer's Monthly Reports and Lack of Segregation of Duties in the Treasurer's Office**

**Condition:** Upon inquiry and observation of the recordkeeping process, it was noted that the County Clerk does not reconcile the appropriation ledger to the County Treasurer's general ledger each month. It was further noted that the County Treasurer's monthly reports are compiled from an information system in which the County Treasurer and three deputies perform daily transactions such as issuing receipts and posting disbursements, and there is no independent oversight of the accuracy of the County Treasurer's monthly reports.

**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.

**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 control to provide reasonable assurance that receipts apportioned, disbursements, and cash balances are accurately presented on the County Treasurer's monthly reports. OSAI also recommends that the County Treasurer and the County Clerk perform a monthly reconciliation between the two offices, retain all documentation of the reconciliation, and sign and date the documentation with the individuals that performed the reconciliation and the date it was performed.

**Management Response:** Monthly appropriation balancing between the County Clerk's office and the Treasurer's office has been performed without retaining documentation. From this point on all documentation will be kept with the appropriations report.

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

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| 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.

**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.
- Tested compliance with 62 O.S. § 517.4, which included comparing the largest balance per month at all banks for the audit period to the amount of pledged collateral to determine that deposits were adequately secured.

**Finding: Inadequate Internal Controls over Pledged Collateral**

**Condition:** Internal controls have not been designed to monitor deposits daily to ensure bank balances are adequately collateralized. The Treasurer observes the daily general ledger to determine if pledged collateral is sufficient, but does not review the daily bank balance.

**Cause of Condition:** The Treasurer relies on her general ledger balance to assess the adequacy of collateral rather than the actual bank balance.

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

**Recommendation:** OSAI recommends that the County Treasurer implement a system of internal controls to provide reasonable assurance that county funds are adequately secured.

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

**Management Response:** In regards to pledged collateral, there is always adequate collateral in place to cover all Custer County funds. The Treasurer will begin including the depositing banks' daily balance along with the General Ledger balance. This will show the General Ledger balance as well as the banks' daily balance.

**Criteria:** Accountability and stewardship are overall goals of management in the accounting of funds. To help ensure that county funds are properly secured, the County Treasurer should maintain a ledger to monitor pledged securities on a daily basis to ensure that the County is in compliance with 62 O.S. §517.4.

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| 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 did not comply 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 internal controls which included:
    - The Treasurer prepares a worksheet to breakdown the sales tax apportioned to the Sales Tax Cash Fund.
    - The First Deputy reviews the breakdown and prepares the miscellaneous receipt.
    - Another Deputy prepares the appropriation form for the sales tax money apportioned to the Sales Tax Cash Fund.
    - A County Clerk's Deputy assigns the sales tax money to the proper category within the fund that the sales tax money was apportioned.
    - Another County Clerk's Deputy prepares the purchase orders to issue the six rural fire departments their equal share of the 8% collected for rural fire departments.

- Tested compliance of the significant law, which included the following:
    - Determined there were two sales tax ballots effective in our audit period as follows:
        1. A one-half of one percent (1/2 of 1%) sales tax limited to six and one half years for the construction, equipping, furnishing and operation of a jail facility in Custer County.
        2. A five-year, one-half of one percent (1/2 of 1%) sales tax for funding the following:
            - 50% for the General County Government of Custer County.
            - 30% for the Custer County Sheriff's office.

    - 8% for the Custer County Rural Fire protection to be divided equally among Arapaho, Butler, Clinton, Custer City, Thomas, and Weatherford.
    - 8% for the Oklahoma State University Extension Office.
    - 4% for the Custer County Free Fair Board.

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

**Finding: Sales Tax Expenditures not Properly Documented**

**Condition:** There are no procedures in place to ensure the sales tax money is used only for the purpose for which such sales tax was designated. The County was remitting the sales tax directly to the Rural Fire Departments and the Free Fair Board.

**Cause of Condition:** The sales tax money is distributed directly to the receiving agency circumventing the County purchasing procedures.

**Effect of Condition:** The sales tax money could be expended in a manner not allowed by the sales tax ballot.

**Recommendation:** OSAI recommends that the County implement procedures to apportion the sales tax money to the designated funds and ensure that the receiving agency of the sales tax money use the county purchasing procedures to expend their allotted sales tax funds.

**Management Response:** The County has set up individual sub funds under the Sales Tax Fund for each entity receiving sales tax money and the individual entities now comply with county purchasing laws and expend funds through the County to ensure that the expenditures are monitored and in accordance with the sales tax ballot.

**Criteria:** Title 68 O.S. § 1370.E states in part, “Any sales tax which may be levied by a county shall be designated for a particular purpose…”

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| 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 Internal Controls over Ad Valorem Tax Distribution**

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

However, the Treasurer's first deputy reviews that the correct certified levies were entered into the ad valorem system by the Treasurer, but there is no documentation of the independent verification maintained.

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

**Effect of Condition:** Based on interviews with the Treasurer, it appears that controls over ad valorem tax apportionments have been adequately designed. However, because there is no documentary evidence, we could not determine that controls were operating effectively. This condition could result in undetected errors.

**Recommendation:** OSAI recommends that the County Assessor, the County Clerk, and the County Treasurer implement procedures to ensure that the tax levies are correct by entity and school district and to maintain proper documentation as proof that procedures are in place to ensure the levies are correct. Additionally, the individual that is preparing the documentation should sign and date the work as it is being prepared.

**Management Response:** Documentation will be kept showing that tax levies are entered by the Treasurer or by a Treasurer's Deputy, then double checked by another Deputy to ensure amounts have been entered correctly.

**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.

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| 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 procedures for expending county funds.

**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 80 purchase orders from County funds and determined that:
        - 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 detailed/itemized 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 Internal Controls over Compliance with Purchasing Statutes**

**Condition:** Internal controls have not been implemented to ensure compliance with purchasing statutes. Our test of 80 purchase orders revealed the following noncompliance with regard to purchasing statutes:

- Five instances were noted where the County did not attach the original or a proper invoice to the purchase order.

- Five instances were noted where the receiving reports attached to the purchase orders were not completed as to what the county received.
- Four instances were noted where the county purchased goods or services prior to the issuance of a purchase order.
- Three instances were noted where the Board of County Commissioners did not sign the purchase order for approval of payment.
- Two instances were noted where the sales tax monies did not follow county purchasing requirements, but instead were distributed directly to the Rural Fire Departments and the Free Fair Board.
- One instance was noted where the County did not attach a receiving report to the purchase order.

**Cause of Condition:** Policy and procedures have not been implemented to provide adherence to the statutes and ensure internal controls are in place.

**Effect of Condition:** These conditions could result in unrecorded transactions, misstated financial reports, or clerical errors that are not detected in a timely manner.

**Recommendation:** OSAI recommends the County implement procedures to ensure compliance with purchasing statutes.

Further, sales tax money should follow county purchasing laws and should not be distributed directly to the Rural Fire Departments and the Free Fair Board.

**Management Response:** This has been corrected.

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

**Finding: Inadequate Controls over Purchasing Procedures**

**Condition:** Through discussions with county personnel, observation, and review of documents, we noted the following concerns regarding purchasing:

- Any employee may call the County Clerk's office and request a purchase order number.
- Funds may be encumbered prior to the approval of requisitioning agents.
- Purchase order numbers are manually written in an ledger book and entered into the accounting software at a later time.

**Cause of Condition:** Policies and procedures have not been designed to address segregation of duties over the expenditure process.

**Effect of Condition:** A single person having responsibility for more than one area of recording, authorizing, custody of assets, and execution of transactions could result in unrecorded transactions, misstated financial reports, undetected errors, and misappropriation of funds.

**Recommendation:** OSAI recommends purchase order numbers only be issued after the County Clerk's office receives a requisition from an authorized requisitioning agent. OSAI also recommends the County input purchase order information into the accounting software at the time of the transaction. OSAI further recommends management implement controls to properly segregate duties for critical functions of the expenditure process.

**Management Response:** This has been corrected.

**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.

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

**Finding: Inadequate Internal Controls over Competitive Bid Purchases 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 Board of County Commissioners' meeting minutes did not state the reason for selection of a bid that was the not the lowest.
- The Purchasing Agent does not retain a copy of the notification to successful bidders.

**Cause of Condition:** Policy and procedures have not been implemented to provide adherence to the statutes and ensure internal controls are in place.

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

**Recommendation:** OSAI recommends that the County implement procedures to ensure compliance with 19 O.S. § 1505B, which requires that purchases in excess of $10,000 be competitively bid. These procedures should include:

- Maintaining documentation in the bid folder for notification of successful bidder.
- Documenting in the Board of County Commissioners' meeting minutes the reason the lowest and best bid was not selected.

**Management Response:** This has been corrected.

**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 the salaries tested, the County complied with 19 O.S. § 180.74 and 180.75, which establish limitations on the amounts allowed for officers' salaries.

**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.

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

- Recalculated the maximum amount allowed for officers' salaries as set forth in 19 O.S. § 180.74 and § 180.75.

- Reviewed the salaries of the County officials to ensure that amounts paid did not exceed statutory limitations.

**Finding: Inadequate Controls over Compliance with Salary Limitations**

**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 to 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 that the County implement procedures to ensure compliance with 19 O.S. § 180.74 and 180.75, which establish limitations on the amounts allowed for officers' salaries. These procedures should include calculating the maximum amount allowable and having an independent review of those calculations.

**Management Response:** This will be corrected and documentation will be maintained.

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

**Finding: Inadequate Controls over the Payroll Process**

**Condition:** Through discussions with County personnel, observation, and review of documents, we noted the following concerns regarding payroll:

- There is no documentation to confirm that payroll documents were reviewed by someone other than the employee that input the information into the payroll software.

**Cause of Condition:** Procedures have not been developed to adequately document established controls over payroll.

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

**Recommendation:** OSAI also recommends management implement controls to properly segregate duties for critical functions of the payroll process.

**Management Response:** This has been corrected, documentation is now maintained**.**

**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.

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| 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 inventory tested, the County did not comply with 19 O.S. § 1504A, which requires officers to maintain a record of all supplies received, consumed, and stored by their 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 of 28 consumable items to determine the Highway District barns are maintaining accurate records and that the records agree to a physical count of records.

**Finding: Inadequate Internal Controls over Compliance with Consumable Inventories**

**Condition:** The County did not have procedures in place to ensure that consumable inventory was maintained in accordance with 19 O.S. § 1504A. The following were noted:

**District 1:**
- 6 out of 10 consumable items tested were not accurately reflected on the consumable stock records.

**District 2:**
- 5 out of 10 consumable items tested were not accurately reflected on the consumable stock records.

**District 3:**
- 6 out of the 8 consumable items tested were not accurately reflected on the consumable stock records.

**Cause of Condition:** Procedures have not been designed and implemented with regard to effective internal controls over safeguarding consumable inventories.

**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 accurately account for consumable inventories.

**Recommendation:** OSAI recommends management implement internal controls to ensure compliance with 19 O.S. § 1504A. These procedures would include filing monthly consumable reports with the County Clerk and performing a periodic physical count of inventory.

**Management Response:**
**District 1:** Have instituted monthly signed inventory count. Spot checks indicated shortages, but when we did actual count all material was accounted for, actually long on some material. In process of training all personnel on importance of documentation of removal and return of consumables. Have implemented a process for weekly reading of all pump meters and reconcile to daily worksheet use. Spot checking from time to time will also be used. Plus individuals are required to sign for daily fuel use.

**District 2:** Corrective measures have been taken and spot checks are now being performed.

**District 3:** All physical inventory paperwork will be dated and filed. District 3 is developing a new system to more accurately track consumables. All District 3 employees will be trained and the importance of accurately reporting the use of consumables will be stressed. A new system of reporting fuel usage has been in place since January 2011. The office manager has begun and will continue reconciling fuel consumption/inventory weekly.

**Criteria:** Effective internal controls include management design procedures to ensure that consumable inventory records comply with 19 O.S. § 1504A.

**Finding: Inadequate Internal Controls over Compliance with Consumable Inventories**

**Condition:** Based on inquiry and observation of the consumable inventory recording process, we noted the following:

**District 1:**
- There was no documentation retained to verify that a physical inventory count was performed.
- Fuel is not properly safeguarded due to the lack of reconciliation of the fuel on the daily worksheets to actual fuel usage.

**District 2:**
- There was no documentation retained to verify that a physical inventory count was performed.
- Fuel is not properly safeguarded due to the lack of reconciliation of the fuel ledger to actual fuel used.

**District 3:**
- There was no documentation retained to verify that a physical inventory count was performed.
- Fuel is not properly safeguarded due to the lack of reconciliation of the fuel tickets to actual fuel usage.

**Cause of Condition:** Procedures have not been designed and implemented with regard to effective internal controls over safeguarding consumable inventories.

**Effect of Condition:** These conditions could result in inaccurate records, unauthorized use of consumable inventories, or loss of consumable inventories.

**Recommendation:** OSAI recommends management implement internal controls to ensure a monthly physical count of all consumable inventories is performed and proper documentation of the physical count is retained. Furthermore, management should implement procedures to adequately safeguard fuel from unauthorized use.

**Management Response:**
**District 1:** Have instituted monthly signed inventory count. Spot checks indicated shortages, but when we did actual count all material was accounted for, actually long on some material. In process of training all personnel on importance of documentation of removal and return of consumables. Have implemented a process for weekly reading of all pump meters and reconcile to daily worksheet use. Spot checking from time to time will also be used. Plus individuals are required to sign for daily fuel use.

**District 2:** Documentation of spot checks is now maintained.

**District 3:** All physical inventory paperwork will be dated and filed. District 3 is developing a new system to more accurately track consumables. All District 3 employees will be trained and the importance of accurately reporting the use of consumables will be stressed. A new system of reporting fuel usage has been in place since January 2011. The office manager has begun and will continue reconciling fuel consumption/inventory weekly.

**Criteria:** Internal controls over safeguarding of assets constitutes 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 assets and safeguarding consumable assets from loss, damage, or misappropriation.

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| 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 the 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 Custer 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 and 69 O.S. § 645 by judgmentally selecting a sample of 166 fixed assets to determine:
  - An inventory count was performed to visually verify location of equipment.
  - Fixed assets are marked with a county ID number.
  - Highway equipment is marked “Property of Custer County.”

**Finding: Inadequate Internal Controls and Noncompliance over Fixed Asset Inventory**

**Condition:** Upon inquiry, observation, and testing of the County’s fixed asset inventory process, the following were noted:

- The Court Clerk did not file inventory information in the County Clerk’s office.

- The following offices have not implemented a formal annual inventory:
  - County Treasurer
  - County Clerk
  - County Sheriff
  - Court Clerk

- Annual physical counts could not be verified due to the following County officials not maintaining supporting documentation of the physical counts:
  - County Assessor
  - District 1 County Commissioner
  - District 2 County Commissioner
  - District 3 County Commissioner

- The following offices had fixed assets that lacked a county ID number on items tested:
  - County Treasurer
  - County Sheriff
  - Court Clerk
  - District 1 County Commissioner
  - District 2 County Commissioner
  - District 3 County Commissioner

- The following Districts had highway equipment not marked with “Property of Custer County”:
  - District 1 County Commissioner
  - District 2 County Commissioner

- The following offices had fixed assets listed on inventory, but we were unable to visually verify the County had possession of the assets:
  - County Treasurer
  - District 1 Commissioner

**Cause of Condition:** Procedures have not been designed for the accurate reporting of fixed assets. Procedures have not been designed to perform an annual physical count of fixed assets and to retain documentation of physical count.

**Effect of Condition:** These conditions could result in inaccurate records, unauthorized use of fixed assets, or loss of fixed assets.

**Recommendation:** OSAI recommends that the County implement procedures to comply with 19 O.S. § 178.1 and 69 O.S. 645. OSAI also recommends that all offices implement controls to safeguard fixed assets, such as, mark fixed assets with a county ID number, perform an annual physical count of fixed assets, and retain documentation to verify the physical inventory count, who performed the inventory count, and the date the inventory count was performed.

Further, all highway equipment should be conspicuously and legibly marked "Property of Custer County."

**Management Response:**
**District 1:** Have begun process for annual counts signed by either Commissioner or First Deputy. Reviewing property in inventory and affixing property numbers to assets. Old signs in inventory had adhesive deterioration. Ordered new "Property of" signs and will affix when received.

**District 2:** This has been corrected; documentation is now maintained.

**District 3:** Physical inventory counts are done annually. Paperwork which documents this will be filed. The portable shed that did not have a fixed asset number affixed has been marked as "Property of Custer County" and a correct fixed asset number so indicated.

**Court Clerk:** The Court Clerk will file inventory information with the County Clerk's office annually and assign a county identification number to all fixed assets in the office.

**County Treasurer:** The Treasurer's office has made note that a piece of inventory on the fixed asset list was given to the Sheriff's office then disposed of.

**County Clerk:** This has been corrected; documentation of physical inventory is now maintained.

**County Sheriff:** The concern of inadequate internal control over fixed assets has been addressed by the purchase of a computer program from KellPro on April 2, 2012. This program called "Key" assists us in many valuable ways. Once the product is received, we enter the vendor information, product information, and assign a county control number. The county control number is affixed with a label or placed on the item permanently. Using this program allows us to track the fixed asset and also print out an inventory sheet for the County Court Clerk's office.

**County Assessor:** This has been corrected; documentation is now maintained.

**Criteria:** 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 acquisition, use or disposition of fixed assets, and safeguard fixed assets from loss, damage, or misappropriation.

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

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| 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 items tested, all officers, except the County Sheriff, complied 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 by judgmentally selecting the week of November 16 through November 20, 2009, and the week of December 13 through December 17, 2010, to determine all officers issuing receipts deposited daily the money received.

**Finding: Inadequate Internal Controls over Official Depository Receipts and Deposits**

**Condition:** Upon inquiry, observation, and testing of the official depository receipting and depositing process, the following were noted:

- The Treasurer's office has not implemented procedures to adequately segregate receipting, depositing, and reconciling duties. In addition, there are no controls in place to review or monitor work performed.
- The County Clerk's office has controls in place; however, the employee that issues receipts also prepares the deposit and takes the deposit to the Treasurer's office. In addition, there is no review of the deposit for accuracy.
- The Court Clerk's office has controls in place; however, there is no second review/verification of the prepared deposit and the employee that prepares the deposit also takes the deposit to the Treasurer's office.

- The Assessor’s office has no controls in place. The same individual that issues receipts also prepares the deposit and takes the deposit to the Treasurer’s office. There is no review/verification of the deposit for accuracy.
- The Sheriff’s office has some controls in place, but there is limited segregation of duties. The employee that issues receipts also prepares the deposit and takes the deposit to the Treasurer’s office.
- Test work for compliance with 19 O.S. § 682 revealed the following:
  - The Sheriff’s office does not consistently issue receipts in sequence.
  - The Sheriff’s office does not consistently mark payment type as cash or check.
  - The Sheriff’s office does not consistently deposit daily or even the following business day when money is received under the color of office.

**Cause of Condition:** Policies and procedures have not been designed to adequately segregate the duties over the collections process for the official depository accounts.

**Effect of Condition:** Improper segregation of duties and lack of internal controls could result in misappropriation of assets, undetected errors, and misuse of county funds.

**Recommendation:** OSAI recommends the County Sheriff implement procedures to ensure compliance with 19 O.S. § 682 to deposit daily money received under the color of office. Additionally, receipts should be issued numerical sequence and correspond to the daily deposit. Furthermore, all receipts should include the mode of payment.

OSAI also recommends all county officers implement internal procedures to ensure the following:

- That the employees issuing receipts are not preparing the deposit and taking the deposit to the Treasurer’s office.
- That the deposit is recalculated and reviewed for accuracy by someone other than the preparer and signed and dated by the both the individual that prepared the deposit and the individual that reviewed the deposit.

**Management Response:**
**County Clerk:** This has been corrected. Controls have been established and documentation of reviews will be maintained.

**Court Clerk:** I will have a second employee review and verify the deposit daily before it is registered with the Treasurer.

**County Treasurer:** There will be two Treasurer’s Deputies' signatures on all Treasurer’s receipts for the Official Depository Account.

**County Assessor:** This has been addressed and corrective measures have been taken.

**County Sheriff:** Our department is reviewing our receipt process to determine if there is a better option available. By consolidating most of the receipts and customizing the forms, it would make tracking the deposits and comparing the receipts a simpler process.

**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. Effective internal controls require that management properly implement procedures to ensure compliance with 19 O.S. § 682, which requires officers to deposit daily in the official depository all collections received under the color of office.

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| 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 Court Clerk's financial operations complied with19 O.S. § 220 and 20 O.S. § 1304, which outlines procedures for expending Court Clerk Revolving Fund monies and Court Fund monies, respectively.

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

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

- Tested compliance with 19 O.S. § 220 for the Court Clerk Revolving Fund, which included the following:
    - Randomly selected 30 Court Clerk Revolving Fund claims and verified the following:
        - 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 compliance with 20 O.S. § 1304 for the Court Fund, which included the following:
    - Randomly selected 50 Court Fund claims and verified the following:
        - Expenditures were made for the lawful operation of the office.
        - Claims were approved by the district judge and either the court clerk or associate district judge.

**Finding: Inadequate Internal Controls over the Court Clerk Revolving Fund and Court Fund Expenditure Process**

**Condition:** Upon inquiry and observation of the Court Clerk Revolving Fund and the Court Fund expenditure process, it was noted that one employee performs key functions with no independent verification of accuracy. The Court Clerk initiates and prepares the claim, takes the vouchers to the Treasurer's office to be registered, and distributes the vouchers to the claimants.

**Cause of Condition:** Procedures have not been designed to adequately segregate the duties regarding expenditures from the Court Clerk Revolving Fund and Court Fund.

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

**Recommendation:** OSAI recommends the Court Clerk implement procedures to ensure the duties of preparing claims, preparing vouchers, registering vouchers with the County Treasurer, and distributing the vouchers to claimants are adequately segregated.

**Management Response:** I am in the process of training a new deputy to assist me with this, but due to workload and staffing shortages, segregating these duties will take time.

**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, attaching and agreeing supporting documentation, certifying receipt of goods/services, signing the claim, preparing the vouchers, registering the vouchers with the Treasurer, and distributing the vouchers to claimants should be segregated. A single person having responsibility for more than one area of recording, authorizing, and execution of transactions could result in unrecorded transactions, misappropriation of funds, or clerical error that are not detected in a timely manner.

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| 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 items tested, 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.

**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 Internal Controls over Inmate Trust Funds**

**Condition:** Upon inquiry, observation, and testing of the County Sheriff's inmate trust process, it was noted that one employee receives money, applies amounts to inmates' accounts, prepares the deposit, and takes the deposit to the bank.

**Cause of Condition:** In an effort to maximize efficiency, the County Sheriff has one individual perform the duties of receiving money, applying amounts to accounts, preparing the deposit, and taking the deposit to the bank.

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

**Recommendation:** OSAI recommends that the County Sheriff segregate duties so that individuals issuing receipts do not apply money to inmates' accounts, prepare the deposit, and take the deposit to the bank.

**Management Response:** Two bank type Kiosks were installed approximately June 2011. One was installed in the Sheriff's office lobby for the public to access and deposit funds directly into an inmate's account; this Kiosk will count the case then generate the depositor a receipt. The other was installed in the jail area and used during the booking of prisoners; this Kiosk also counts the cash and immediately generates a receipt for the prisoner. Since these Kiosks were installed, cash is no longer accepted, counted, nor receipted by the Sheriff's office personnel from the public for deposit into the Inmate Trust Fund Account. On days of deposits, Sheriff's office personnel remove the cash from each Kiosk, count the cash, and physically make a bank deposit.

**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, attaching and agreeing supporting documentation, certifying receipt of goods/services, signing the claim, and preparing and signing the checks should be segregated.

All Objectives:

The following finding is not specific to any objective, but is 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:** Policy and 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:** The Board of County Commissioners will work together with all County officials to develop a plan to monitor the County's internal controls to ensure that audit findings and other reviews are properly resolved.

**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**

**Condition:** Upon inquiry, it was determined that the following offices do not have a written Disaster Recovery Plan:

- County Sheriff
- County Court Clerk
- County Assessor
- District 1 Commissioner
- District 2 Commissioner
- District 3 Commissioner

The County Clerk and the County Treasurer have Disaster Recovery Plans.

**Cause of Condition:** Procedures have not been designed and implemented to prepare a formal Disaster Recovery Plan.

**Effect of Condition:** The failure to have a current Disaster Recovery Plan could result in the County being unable to function in the event of a disaster. The lack of a procedure addressing how critical information and/or systems would be restored could cause significant problems in ensuring that county business could continue uninterrupted.

**Recommendation:** OSAI recommends that each county official develop a Disaster Recovery Plan that addresses how critical information and systems within their offices would be restored in the event of a disaster.

**Management Response:**
**County Sheriff:** This has been corrected. A Disaster Recovery Plan has been completed.

**Court Clerk:** I am in the process of completing my plan and will have finished within one month.

**County Assessor:** This has been corrected. I have prepared a Disaster Recovery Plan and presented it to the auditors before end of fieldwork.

**County Commissioners:** Each office will have their own recovery plan. The combination of all offices' Disaster Recovery Plan in one notebook will become the County Disaster Recovery Plan.

**Criteria:** Disaster Recovery Plans are an integral part of county operations to ensure that business can be continued as usual in the event of a disaster. Each office or the County as a whole should have a current, detailed Disaster Recovery Plan on file and should be aware of its content.

According to the standards of the Information Systems Audit and Control Association (COBIT, Delivery and Support) DS 11.6 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.

According to the standards of the Information Systems Audit and Control Association (COBIT Delivery and Support 4), information services management should ensure that a written Disaster Recovery Plan is documented and contains the following:

- All pertinent county officers with emergency contact information.
- Minimum of two locations for temporary relocation of county offices and contact information for the relocation process.
- List of all numbers to contact to continue operations (computer vendor, internet provider, etc.).

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