OPERATIONAL AUDIT

ELLIS COUNTY

For the period July 1, 2008 through June 30, 2011

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

ELLIS COUNTY OPERATIONAL AUDIT
FOR THE PERIOD JULY 1, 2008 THROUGH JUNE 30, 2011

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Oklahoma State Auditor & Inspector

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July 26, 2012

TO THE CITIZENS OF
ELLIS COUNTY, OKLAHOMA

Transmitted herewith is the audit report of Ellis County for the period July 1, 2008 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

Located in western Oklahoma and created at statehood from portions of Roger Mills and Woodward counties, Ellis County was named for Albert H. Ellis, vice president of the Oklahoma Constitutional Convention.

The site of several Indian battles including the Battle of Little Robe and the Battle of Wolf Creek, Ellis County was crossed by Fort Elliott-Fort Supply Military Crossing, a major thoroughfare to military camps and posts in the Indian Territory and the Great Western Cattle Trail.

Once a leading dairy and oil producer, Ellis County now hosts primarily an agricultural and ranching industry. With the exception of Arnett, the county seat, the major communities of Ellis County—Shattuck, Fargo, and Gage—are located on or very near the old Atchison, Topeka, and Santa Fe Railroad, now the Burlington Northern Santa Fe Railroad.

For more additional information, call the county clerk's office at 580/885-7301.

County Seat – Arnett Area – 1,231.84 Square Miles

County Population – 3,925 (2009 est.)

Farms – 766 Land in Farms – 718,058 Acres

Primary Source: Oklahoma Almanac 2011-2012

County Officials:

Karen Mackey Perkins.. County Assessor
Lynn Smith ....County Clerk
Terry Fagala.. County Commissioner District 1
Frankie Stevens.. County Commissioner District 2
Blake Suthers. .... County Commissioner District 3
DeWayne Miller .... County Sheriff
Kathy Holloway... County Treasurer
Dona Slavin Folks.. 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	$ 2,324,514	$ 3,909,118	$ 1,871,570	$ 4,362,062
T-Highway	2,962,066	6,274,210	4,911,636	4,324,640
Resale Property	68,247	14,634	19,873	63,008
County Clerk Lien Fee	58,441	47,277	21,582	84,136
RM&P Cash Account	79,178	36,722	36,252	79,648
Senior Citizens Transport Sales Tax	21,038	25,645	5,907	40,776
Newman Memorial Hospital Sales Tax	1,372,700	1,481,731	899,353	1,955,078
Catesby Fire Department Sales Tax	59,727	67,855	43,449	84,133
Harmon Fire Department Sales Tax	73,940	67,901	16,409	125,432
Arnett Fire Department Sales Tax	46,336	71,457	43,430	74,363
Fargo Fire Department Sales Tax	88,741	68,189	18,397	138,533
Gage Fire Department Sales Tax	58,088	68,107	28,801	97,394
Shattuck Fire Department Sales Tax	107,058	68,258	2,357	172,959
OSU Extension Office Sales Tax	623,535	203,719	49,064	778,190
Free Fair Sales Tax	224,601	127,278	13,438	338,441
Courthouse Restoration Sales Tax	89,185	50,911	104,178	35,918
Remaining Aggregate Funds	319,151	505,020	71,577	752,594
Combined Total - All County Funds	$ 8,576,546	$ 13,088,032	$ 8,157,273	$ 13,507,305

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, 2008 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 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 County Treasurer's revenue collections on the monthly reports to amounts apportioned on the County Treasurer's 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 all reconciling items were valid, the reconciled balances agree to the general ledger ending balances, and the general ledger's ending balance total agreed to the total ending balance reflected on the County Treasurer's monthly reports.

Observation **Inadequate Internal Controls over the County Treasurer's Monthly Reports**

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.

- Upon inquiry and observation of the recordkeeping process, the following was noted:
  - The County Treasurer's monthly reports are compiled from an information system in which the County Treasurer, one full-time deputy and one part-time deputy perform daily activity using the information system such as issuing receipts and posting disbursements.

- Upon inquiry of the reconciliation process of apportioned receipts, disbursements, and cash balances between the County Treasurer and County Clerk, it was determined there was no reconciliation performed.

The County Treasurer does not have procedures in place to ensure that the amounts recorded on the monthly reports are accurately presented.

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. In the event that segregation of duties is not possible due to the limited personnel, OSAI recommends implementing compensating controls to mitigate the risks involved with a concentration of duties. Compensating controls would include separating key processes and/or critical functions of the office, and having management review and approve accounting functions which would provide independent oversight of the accuracy of the County Treasurer's monthly reports.

Further, OSAI recommends the County Treasurer and the County Clerk perform a monthly reconciliation between the two offices accounting records and maintain the reconciliation with the date performed and signatures of the individuals that performed it.

Management Response

As recommended by OSAI, the Ellis County Clerk and Ellis County Treasurer will perform reconciliations on a monthly basis beginning August 2011, and we will retain those records for the auditors' review. Our records will show that controls are in place between the Ellis County Clerk and Ellis County Treasurer.

Objective 2:	To determine if the County's internal controls provide reasonable assurance that revenues were accurately reported in the accounting records.

Conclusion

The County's internal controls do not provide reasonable assurance that revenues were accurately reported in the accounting records.

Methodology

To accomplish our objective, we performed the following:

- Gained an understanding of the internal controls related to the receipting process through discussions with County personnel, observation, and review of documents.

Observation

Inadequate Segregation of Duties over the Receipting Process

Accountability and stewardship are overall goals of management in the accounting of funds. To help ensure a proper accounting of funds, the duties of receipting, recording, depositing cash and checks, reconciliations, and transaction authorization should be segregated.

Based upon inquiry and observation of the receipting process for each office, the following was noted:

County Treasurer's Office: All employees work from the same cash drawer. The County Treasurer's office has one full-time deputy and one part-time deputy. The full-time deputy and the part-time deputy share daily responsibilities when the part-time deputy is present; however, both perform several daily duties including balancing cash and checks, preparing the deposit slip, taking the deposit to the bank, and reconciling the bank statement to the general ledger. There is no formal segregation of duties to mitigate risk.

County Clerk's Office: The County Clerk has three full-time deputies. All employees issue receipts for revenue. One employee is primarily responsible for reconciling the money received to the receipts, preparing the deposit, and performing the month end reconciliation. There is no formal segregation to mitigate risk.

County Assessor's Office: The County Assessor has three full-time deputies. One of the full-time deputies picks up the mail from the post office and receipts the payments received by mail. The County Assessor issues receipts, prepares the deposit slip and performs the monthly reconciliation. Although receipts were issued, deposits were not always made on a daily basis. There is no formal segregation of duties to mitigate risk.

County Sheriff's Office: The County Sheriff has an undersheriff and a jail dispatcher who are authorized to perform duties of the Sheriff's office; however, the Sheriff performs a majority of those duties including writing all receipts, preparing deposits, and reconciling accounts within the Sheriff's Office. There is no formal segregation of duties to mitigate risk.

Court Clerk's Office: The Court Clerk has one full-time deputy and a part-time deputy. The Court Clerk performs many of the duties including issuing receipts, preparing daily deposits and performing the monthly reconciliation. There is no formal segregation of duties to mitigate risk.

Procedures have not been designed to adequately segregate the duties of receipting, depositing, and maintaining ledgers/reconciliations in the various offices. In an effort to maximize efficiency and available resources many offices have relied upon one individual to perform the majority of the revenue process.

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

Recommendation OSAI recommends management be aware of these conditions and determine how to properly segregate duties. OSAI further recommends implementing compensating controls to mitigate the risks involved with a concentration of duties. Compensating controls would include separating key processes and/or critical functions of the office, and having management review and approve the accounting functions.

Further, the following duties should be separated in the respective offices:

County Treasurer's Office: Employees should not all work from the same cash drawer. The same individual issuing receipts should not prepare the deposits, deliver deposits to the financial institutions, or reconcile the bank statements.

County Clerk's Office: The duties of issuing receipts, reconciling the receipts to the money received, preparing the daily deposit, and performing the monthly reconciliation should be performed by different individuals.

County Assessor's Office: The duties of issuing receipts, preparing the daily deposit, and reconciling the account to the County Treasurer should be performed by different individuals. Additionally, the Assessor should deposit funds received daily with the County Treasurer.

County Sheriff's Office: The duties of issuing receipts, balancing the cash drawer, preparing the daily deposit, delivering the deposit to the County Treasurer's office, and reconciling the account to the County Treasurer should be performed by different individuals. With regard to the inmate trust fund, one employee should not be preparing deposits and delivering deposits to the financial institution. Bank statements should be reconciled to the inmate trust ledger by someone other than the employee issuing receipts and checks.

Court Clerk's Office: The same person issuing receipts should not prepare the deposits or reconcile the accounts.

Management Response

County Treasurer: Procedures have been implemented to segregate duties. The county general deposit is completed at the end of the day by a deputy and the next morning the official depository deposit is completed by a deputy. The Treasurer takes both deposits to the bank. The bank teller dates and initials each deposit. The Treasurer brings copies of both deposit slips back to the deputy. The deputy dates and initials the paperwork that agrees with the deposit slips. Then the deputy gives the complete daily report envelope to the Treasurer to look over, check, date and initial. The Treasurer takes the completed daily report envelope to a deputy in the Ellis County Clerk's office and she also checks all the figures and signs off on it. The daily report envelope is filed with the County Clerk. Additionally, the County Treasurer's office now has full-time deputies and two cash drawers have been installed; one drawer for each deputy.

County Clerk: We have implemented procedures to segregate duties by having one deputy refrain from issuing receipts. At the end of the day, this deputy balances the daily deposit and prints out the reports. Another deputy verifies the deposit and takes the deposit to the County Treasurer's office where the Treasurer or one of her deputies recount the cash and verifies the deposit amount by signing off on the deposit. As recommended we will continue to implement these procedures to insure proper internal controls.

County Assessor: Daily deposits will be made if funds are collected for that day, no matter how small the amount. Segregation of duties is not possible due to the limited personnel.

County Sheriff: Two or more of the staff will verify all monies received into this office. Additional personnel will be trained to assist in the operation of the office and the correct handling of monies received to be deposited.

Court Clerk: We both work with deposits and vouchers every day. There is absolutely no way we can totally segregate these duties. We do work so closely and have a vague idea what the other one is doing most of the time. We work together so much that we would eventually know if someone was not making receipts and deposits correctly. At the beginning of the month we check balances in every case. It would be very hard for someone to handle the money in this office inappropriately and we will continue to check one another at least on a monthly basis.

Objective 3:	To determine if the County's internal controls provide reasonable assurance that expenditures were accurately reported in the accounting records.

Conclusion The County's internal controls do not provide reasonable assurance that expenditures were accurately reported in the accounting records.

Methodology To accomplish our objective, we performed the following:

- Gained an understanding of the internal controls related to the expenditure process through discussions with County personnel, observation, and review of documents.

- Tested controls regarding the Court Clerk Revolving Fund which included review of 100% of the expenditures from the fund for the following:
  - Ensuring that claims were prepared for expenditures by the Court Clerk's office.
  - Ensuring that claims reflected authorized signatures of the Governing Board of the Court Clerk Revolving Fund for the approval of payment.
  - Ensuring the duties of preparing/issuing the cash vouchers (County Clerk) and the duties of registering and maintaining ledgers of cash vouchers (County Treasurer) are adequately segregated.

Observation **Inadequate Segregation of Duties over the Expenditure Process**

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 expenditures. To help ensure a proper accounting of funds, the duties of encumbering the funds, printing the warrants, stamping/signing the warrants, and distributing the warrants should be separated.

Upon inquiry and observation of the expenditure process, it was determined that:

- Although the County Commissioner for each District is the official requisitioning agent, the foreman and the secretary at each District also requisition goods and services. Because the foreman and the secretary also sign as receiving officer for the goods and services that they requisitioned, the duties of requisitioning and receiving are not adequately separated.
- Observation of several purchase orders revealed that goods and services are purchased and received prior to encumbering and recording the transactions in the accounting records.
- The County Treasurer and the County Clerk do not perform a monthly reconciliation of expenditures between the two offices.

Additionally, as a response to a concern as noted in the prior year audit, we reviewed bids to determine that adequate internal controls were both designed and operating.

Upon inquiry and observation of the bidding process, the following was noted:

- Evidence was not retained with purchase orders to indicate that items over $10,000 were purchased at the state contract price from the state contract, were considered a single source item, or were bid by another entity.
- Notice of bids was not always certified to vendors 10 days prior to bid opening.
- Bids were not always date and time stamped when received.
- Vendors were not always notified of the successful bidder.
- The Board of County Commissioners' minutes did not always state the reason for the lowest bid not being accepted.

Procedures have not been designed to separate key accounting functions. Further, procedures have not been designed to ensure compliance with state statutes regarding the bidding process.

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, or misappropriation of funds.

Recommendation

OSAI recommends management be aware of these conditions and determine how to properly segregate duties. OSAI recommends implementing compensating controls to mitigate the risks involved with a concentration of duties. Compensating controls would include separating key processes and/or critical functions of the office, and having management review and approve the accounting functions.

Further:

- Only authorized requisition agents should request purchase orders.
- Goods and services should be encumbered prior to purchasing and receiving.
- The County Treasurer and the County Clerk should perform a monthly reconciliation between the two offices and retain the prepared reconciliation with signatures of the individuals that performed the reconciliation and the date performed.
- The County Commissioners and County Clerk should implement internal controls to ensure bidding procedures are in compliance with laws and regulations.

Management Response

County Clerk: As recommended, resolutions and procedures have been implemented to correct requisitioning and receiving officers' issues. Only designated requisitioning officers can request purchase orders for goods or services and only designated receiving officers can receive goods or services. Procedures are in place to correct goods and services encumbered prior to purchasing and receiving as recommended. As recommended, the County Clerk and Commissioners are implementing internal controls to ensure proper bidding procedures are followed.

Board of County Commissioners: As recommended, we will comply with Title 19 section 1501 A.4, separating the duties of requisitioning and receiving officers. As recommended, we are implementing procedures to ensure bidding procedures are in compliance with laws and regulations.

Observation

Inadequate Segregation of Duties over the Court Fund Expenditure Process

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 expenditures. To help ensure a proper accounting of funds, the duties of preparing the claim, preparing the voucher, and signing the voucher should be separated.

Upon inquiry and observation of the court fund expenditure process, it was determined that:

- One individual prepares the claim, prepares the voucher, and signs the voucher.

In an effort to maximize efficiency and available resources, the Court Clerk has relied upon one individual to perform the duties of the court fund expenditures.

This condition could result in unrecorded transactions, misstated financial reports, undetected errors, or misappropriation of funds.

Recommendation OSAI recommends management be aware of these conditions and determine how to properly segregate duties. OSAI recommends implementing compensating controls to mitigate the risks involved with a concentration of duties. Compensating controls would include separating key processes and/or critical functions of the office, and having management review and approve the accounting functions. Within the Court Clerk Court Fund, the duties of preparing claims, preparing vouchers, and signing vouchers should not be performed by one individual.

Management Response The Court Clerk did not respond to this objective.

Objective 4:	To determine if the County's internal controls provide reasonable assurance that payroll expenditures were accurately reported in the accounting records.

Conclusion The County's internal controls do not provide reasonable assurance that payroll expenditures were accurately reported in the accounting records.

Methodology To accomplish our objectives, we performed the following:

- Gained an understanding of the internal controls related to the payroll expenditure process through discussions with County personnel, observation, and review of documents.

Observation **Inadequate Segregation of Duties over the Payroll Expenditures**

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 enrolling new personnel, processing payroll information and records, preparing OPERS reports and State and Federal tax reports, printing and signing the payroll warrants, and maintaining personnel files should be separated.

Upon inquiry and observation the following inconsistencies and weaknesses in the payroll process were noted:

- The duties of processing payroll are not adequately segregated. Payroll is performed independently by two departments. There are no controls in place to ensure that payroll reports are accurate and that the correct information is reported to outside agencies.
- The duties of processing payroll for the Highway Fund are being performed by the Board of County Commissioners' secretary. This employee is also paid from the Highway Fund.
- The duties of processing payroll for other funds of the County are assigned to one individual in the County Clerk's office who enrolls new employees, processes payroll information and records, prepares the OPERS report and the State and Federal Tax reports, prints and signs the payroll warrants for the courthouse employees, and maintains the personnel files.
- The County Clerk signs the verification sheet for Highway payroll without reviewing the employees' timecards. The Commissioner's secretary then prints the warrants.
- Timesheets are not routinely signed by a supervisor or officer indicating approval.
- Highway employees do not file their timecards with the County Clerk, but rather file them with the Commissioners' secretary.
- Highway employees' timecards indicated that employees were allowed overtime compensation time and/or overtime wages for time over 40 hours when vacation and/or sick leave was used during the week. The employees did not actually work 40 hours. The County did not follow procedures outlined in the County handbook regarding payment for overtime worked.
- Highway employees and the Commissioners' secretary were allowed overtime compensation time and/or overtime wages for "volunteer work" at natural disasters or other emergencies (fire, severe weather, ambulance, etc.)

Procedures have not been designed to ensure the duties regarding the payroll are adequately segregated. Procedures have not been designed and implemented to ensure that payroll expenditures are accurately and completely reported in the accounting records.

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, misappropriation of funds not being 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 approve 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

Board of County Commissioners: On payroll expenditures findings, at this time we are waiting on an opinion from our District Attorney's office to properly correct payroll issues.

Since the audit, we have implemented that the secretaries at the county barns and the secretary at the courthouse submit the time cards to the County Clerk for review. The County Clerk's office reviews the time cards to help prevent wrongfully recording time worked before payroll is prepared. Also since the audit, no overtime payments have been made except for during a tornado clean up which was requested and approved by the County Commissioners before payment was made. All other overtime was given to employees as comp time to be taken off at a later date. Since the audit, overtime compensation time and overtime wages for "volunteer work" issues have been addressed with the District Attorney's office and issues were addressed during a Commissioners' meeting. Procedures are now in place to prevent any further wrongfully recording of time.

County Clerk: I have implemented procedures to properly process payroll. I have never had only one individual perform all these duties. One deputy prepares the payroll and runs the payroll verification. The County Clerk takes the verification and also checks balancing of payroll, benefits, and taxes before payroll is officially ran. After payroll verification, a deputy then runs the payroll. A deputy checks my reports over again to make sure all balances before checks are paid to employees and before all reports are finalized and mailed with payments.

Since the audit, the County Clerk has implemented a new procedure that Highway employees' timecards are presented to the County Clerk, prior to payment for review and correction. Also, since the audit date, no overtime payments have been made except during a tornado clean-up that was requested and approved by the County Commissioner before payment was made. All other overtime was given to employees as comp time to be taken off at a later date.

As recommended, the County Clerk is implementing procedures to segregate enrolling employees, maintaining personnel files and distributing payroll warrants to individuals with deputies in the County Clerk's office and starting the process of looking into electronic deposit of payroll checks. Those employees that do not choose electronic deposit will fill out a form designating who can pick up their individual paycheck.

District Attorney: The statutes state all public funds of any county or of any subdivision thereof shall be disbursed only in the payment of legal warrants, bonds and interest coupons.

It is the duty of the County Treasurer to receive all moneys belonging to the county from whatever source they may be derived, and other moneys which by law are directed to be paid to him, and all moneys received by him for the use of the county shall be paid by him only on the warrants of the Board of County Commissioners, drawn according to law, and all other moneys shall be paid over by him as provided by law.

The procedure for drawing a county warrant is set forth at OKLA.STAT.tit.62 § 474 and OKLA.STAT.tit. 62 § 475. OKLA.STAT.tit. 19 § 347 (B), provides all warrants upon the county treasurer, for a county purpose, shall be issued upon the order of the board of county commissioners, drawn by the county clerk, signed by the chairman of the board, and attested by the signature of the county clerk, with the county seal attached. Each warrant shall designate the fund, department and appropriation account, and shall further show the nature of the indebtedness acknowledged by the allowance of the claim so paid.

The County Commissioners meet at least monthly and approve or disallow all claims against the County.

The County Commissioners shall meet and hold sessions for the transaction of business in the County courthouse, at the county seat, where salary, wage and compensation claims may be considered and paid, on or after the termination of the service pay period.

The officer having charge of the office or department must first approve salary wage and compensation claims by subordinate deputies and employees before submitting the payroll claim forms to the County Clerk.

The County Clerk's office then:

1. Verifies deduction rates and calculations.
2. Prepares a summary sheet of all employees, which includes gross pay, withholding for social security, retirement, federal taxes, insurance, and any other deductions, and net pay.
3. Prepares warrants for each employee.
4. The County Clerk, the County Treasurer, and the Chairman of the Board of County Commissioners must sign these warrants.
5. After receiving approval from the Board of County Commissioners and obtaining all required signatures, the County Clerk issues the warrants.

From the results of the audit, it appears that all warrants are not prepared in the County Clerk's office.

Our directive is that effective immediately, all access to warrant preparation shall be moved to the County Clerk's office. Access to the warrant computer program, must be restricted to approved personnel of and by the County Clerk.

Also, there appeared to be issues concerning the calculation of the timesheets for hourly employees.

The Board must develop an effective payroll system. The system shall include a system of checks and balances, which is acceptable to the State Auditor's office and the District Attorney's office. The system should include training for the staff in charge of preparing payroll claim forms, and also include training for supervising officer or elected officials who are required to approve salary, wage, and compensation claims before submitting the payroll claim forms to the County Clerk.

This must be accomplished and implemented within three (3) weeks.

Observation **Overpayments to County Employee**

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.

In addition to the above mentioned weaknesses in internal controls, we noted the following discrepancy in the calculation and subsequent payment of overtime:

> County policy allows accrual of overtime hours at the rate of time and a half. Observation of timesheets revealed that the Commissioners' courthouse secretary recorded overtime hours on her timesheet at the rate of time and a half and then submitted the inflated hours worked for payment at time and a

half again, thus, being paid at 2.25 times the normal rate of pay. This employee received $163.92 in excess compensation of amount earned.

Further, this employee has the sole responsibility for reviewing and preparing payroll warrants for the Highway Fund. This employee is paid from the Highway Fund.

Procedures were not designed to ensure a supervisor reviewed the timesheet for accuracy prior to payment of wages. Procedures have not been designed to segregate duties related to processing payroll for the Highway Fund.

This condition resulted in a county employee processing her payroll warrant and incorrectly being paid compensation in excess of what was earned.

Recommendation

OSAI recommends the County consult with their legal counsel to determine what action should be taken to be reimbursed for overpayment of wages to the county employee. We further recommend that the County design procedures to adequately segregate the duties of processing payroll and to review payroll records for accuracy.

Management Response

County Commissioner District 1: This finding was forwarded to the District Attorney for advice and consideration.

District Attorney: The District Attorney did not respond to this finding.

Objective 5:	To determine if the County's internal controls provide reasonable assurance that inventories were accurately reported in the accounting records.

Conclusion

The County's internal controls do not provide reasonable assurance that fixed asset inventories and consumable inventories were accurately reported in the accounting records.

Methodology

To accomplish our objective, we performed the following:

- Gained an understanding of the internal controls related to the fixed assets inventory process and the consumable inventory process through discussions with County personnel, observation, and review of documents.

Observation **Inadequate Internal Controls over Fixed Assets**

An important aspect of internal controls is the safeguarding of assets, which includes adequate segregation of duties. 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 fixed assets and safeguard fixed assets from loss, damage, or misappropriation.

Upon inquiry and observation of the internal control process over fixed assets inventory, the following was noted:

County Clerk, County Sheriff, County Assessor, and Court Clerk offices:

- These offices stated that annual inventory counts of fixed assets are performed, but documentation is not retained.

District 1, District 2, and District 3 County Commissioners:

- Each District has inadequate segregation of duties over fixed assets inventory. There is one employee in each District that is primarily responsible for requisitioning the inventory item, receiving the inventory item, attaching the inventory numbers to the item, and keeping track of the location of the item.
- Inventory records are maintained by the Commissioners' courthouse secretary and not filed with the County Clerk.
- Not all County-owned or County-leased equipment is properly marked with "Property of Ellis County" and/or County identification numbers.

Procedures have not been designed to adequately segregate the duties regarding fixed asset records. Further, procedures have not been designed to require all offices to perform an annual physical inventory of all fixed assets and retain documentation of the inspection.

Failure to design and implement internal controls could result in inaccurate records, unauthorized use, or misappropriation of fixed assets

Recommendation OSAI recommends that each County office implement procedures to accurately maintain fixed asset records and segregate the duties over fixed assets. Records should be maintained in such a manner that assets can be identified by serial number, date of acquisition, and purchase price. Further, an annual verification of fixed asset items should be performed to properly account for fixed assets. Also, documentation should reflect who performed the annual verification and the date it was performed.

Management Response

County Clerk: As recommended, the County Clerk has implemented procedures to have documentation on an annual inventory count of fixed assets for the County Clerk's office.

Board of County Commissioners: As recommended, we will perform a regular audit of all inventories and sign off that all inventories is accounted for and properly marked. We will keep a copy of the audit and turn in the original to the County Clerk.

The **County Sheriff, County Assessor, and Court Clerk** did not respond to this objective.

Observation **Inadequate Internal Controls over Consumable Inventories**

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 the entity's consumable inventory and safeguarding consumable inventory from loss, damage, or misappropriation.

Upon inquiry and observation of the recordkeeping process regarding consumable inventories, the following was noted:

District 1, District 2, and District 3 County Commissioners:

- Each District has inadequate segregation of duties over consumable inventory. There is one person in each District that requisitions the consumable inventory, receives the consumable inventory, and keeps records of the consumable inventory.
- There was no evidence that a verification of consumable inventory items was performed.

The County Commissioners have not designed procedures to adequately segregate the duties regarding consumable inventories and perform periodic physical inventories of items on hand to consumable records.

Failure to design and implement internal controls could result in inaccurate records, unauthorized use, or misappropriation of consumable inventories.

Recommendation OSAI recommends that each District implement internal control procedures for the accurate reporting of consumable inventories, including adequately segregating duties. Records should be maintained for all consumable inventory items in an accurate manner that reflects consumable inventory by category, amount, and current balances. Further, a periodic physical verification of consumable inventories should be performed and reconciled to inventory records.

Management Response

Board of County Commissioners: As recommended, we will maintain records for consumable inventory items in an accurate manner and report consumable inventory in a monthly Board of Commissioner's meeting.

Objective 6:	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 County Treasurer, observation, and review of ledgers and documents.
- Tested internal controls which included selecting three months per year (nine months for the audit period) and comparing the daily pledge report obtained by the County Treasurer from online banking and evidence that this report was verified to bank deposits in order to monitor pledged collateral amounts to daily bank balances.
- Tested compliance of the significant law which included the following:
    - Compared the largest balances per month for 36 months for all the banks holding County funds to the amount of pledged collateral to determine that deposits were adequately secured.

Objective 7:	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 controls which included obtaining County Treasurer's miscellaneous receipt apportionment for sales tax and comparing the distribution of sales tax to the documented recalculation performed by the County Clerk each month for the audit period.

- 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.

Objective 8:	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 internal controls which included observing documentation of the independent review of the tax levies entered into the ad valorem tax system for each fiscal year within the audit period.

- Tested compliance of the significant law, which included the following:
  - Compared the certified levies for the audit periods to the computer system to determine the County Treasurer applied the certified levies, as fixed by the Excise Board of Ellis County, to the tax rolls.
  - Recalculated the apportionment of ad valorem tax collections to determine collections were accurately apportioned to the taxing entities.

All Objectives:

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

Observation **Inadequate County-Wide Controls**

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 Control Environment, Risk Assessment, Information and Communication, 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.

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

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

This condition could result in unrecorded transactions, undetected errors, or misappropriation of funds.

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

Examples of risks and procedures to address risk management:

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

Examples of activities and procedures to address monitoring:

Monitoring	Procedures
Communication between officers	Periodic meetings to address items that should be included in the handbook and to determine if the County is meeting its goals and objectives.
Annual Financial Statement	Review the financial statement of the County for accuracy and completeness.
Schedule of Expenditures of Federal Awards (SEFA)	Review the SEFA of the County for accuracy and to determine all federal awards are presented.
Audit findings	Determine audit findings are corrected.
Financial status	Periodically review budgeted amounts to actual amounts and resolve unexplained variances.
Policies and procedures	Ensure employees understand expectations in meeting the goals of the County.

Following up on complaints	Determine source of complaint and course of action for resolution.
Estimate of needs	Work together to ensure this financial document is accurate and complete.

Management Response

County Clerk: As County Clerk, I will encourage all officers to meet once a month to have a better communication between one another and develop better internal controls.

Board of County Commissioners: As recommended, as a board, we will encourage all officers to meet quarterly to have a better communication between one another and develop better internal controls.

Observation

Inadequate controls over Disaster Recovery Plan

Disaster Recovery Plan(s) 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 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.)

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

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

The Treasurer's office and the County Clerk's office both had Disaster Recovery Plans; however, the plans did not have all the pertinent information and some information was outdated.

The County is not cognizant of the necessity of a Disaster Recovery Plan.

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

Recommendation

OSAI recommends that management work together to create a Disaster Recovery Plan with the above listed requirements.

Management Response

County Treasurer: The Disaster Recovery Plan was updated as of July 6, 2012.

County Clerk: As recommended, the County Clerk is taking steps to update the Disaster Recovery Plan and the plan was updated July 10, 2012.

Board of County Commissioners: As recommended, as a board, we will work together to update our current Disaster Recovery Plan.

Court Clerk: All our records since April, 2004, are on the OCIS computer system and a back-up copy is kept at the Court Administrator's Office. Prior to that time, all originals and recorded copies of all our records are kept in a fireproof vault on the second floor of the Ellis County Courthouse. With this being such a small office in a small county, everyone knows how to get in touch with one another as well as all law enforcement and emergency personnel. In case of a large disaster, we would have to look at our options before we can identify an optional site. I have been designated by the County Commissioners as monitor of the second floor of the courthouse to make sure everyone is safely evacuated if necessary. The plan is for me to quickly check each room and this floor and holler to make sure everyone is gone. Vendors in this area are few and far between and we could get our supplies from the usual local people. As information or employees change, the plan will be updated and all employees will be informed of any differences.

Observation

Inadequate Controls over the Approval of the County Estimate of Needs

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.

Although the County Clerk's warrants issued reconciled to the County Treasurer’s disbursements for fiscal year 2010-2011, we determined that the Ellis County Estimate of Needs for 2011-2012 included the warrants since issued amount in the total warrants issued for the special revenue funds, thus misstating the total warrants issued for the fiscal year.

The Board of County Commissioners, County Clerk, and County Treasurer did not completely review the Estimate of Needs for accuracy prior to approving the report.

Failure to properly review the budget by elected officials could result in the County being unable to adequately plan and manage the County’s assets.

Recommendation

OSAI recommends management review the County’s Estimate of Needs and Financial Statement to ensure that the numbers reported are accurate to provide assurance that funds are available and being managed efficiently.

Management Response

County Clerk: As recommended on approval of the County Estimate of Needs, we will review closer to ensure accuracy of the Estimate of Needs.

County Treasurer: As I researched the discrepancy in warrants registered figures on our 2010-2011 Estimate of Needs, the amount that was different each time was the amount of the 2009-2010 pending that paid during the 2010-2011 fiscal year. Our Budget Maker will be here on July 20, 2012. I will show the information to him and ask him to put the previous year’s pending in a different column in the future. I will continue to review the County's Estimate of Needs and Financial Statement to ensure that the numbers reported are accurate.

Board of County Commissioners: As recommended, as a board, we will review the County’s Estimate of Needs and Financial Statement to assure accuracy of the Estimate of Needs.

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