

OPERATIONAL AUDIT

POTTAWATOMIE COUNTY

For the period July 1, 2008 through June 30, 2010



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



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

**POTTAWATOMIE COUNTY OPERATIONAL AUDIT
FOR THE PERIOD JULY 1, 2008 THROUGH JUNE 30, 2010**

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Oklahoma State Auditor & Inspector

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February 20, 2013

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

Transmitted herewith is the audit report of Pottawatomie County for the period July 1, 2008 through June 30, 2010.

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

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

Sincerely,

A handwritten signature in blue ink, appearing to read "Gary A. Jones".

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

BACKGROUND

Settled by Seminole, Creek, Citizen Band Potawatomi, Absentee Shawnee, Kickapoo, and Sac and Fox Indian tribes, this area was opened to white settlement in the land run on September 22, 1891, and was designated County “B.” The county name was changed by vote in 1892 to honor the Pottawatomi Indians and means “people of the place of fire.”

Tecumseh, originally the county seat, soon lost to the fast growing community of Shawnee, which was also in competition for the state capitol. City fathers even went so far as to build a proposed governor’s mansion. The oil and railroad industries were vital to the development of some Pottawatomie County towns and the decline of others, but agriculture has remained a mainstay of the county’s economy.

History comes to life in annual celebrations such as Frontier Days in Tecumseh and the Heritage Fest in Shawnee. And the historic Santa Fe depot, built in 1903, still stands in Shawnee along with other early structures. Pottawatomie County is the site of the Shawnee Indian Reservation and has sixty-three “Ghost Towns.”

Pottawatomie County has two institutions of higher education. Offices of the Shawnee, Potawatomi, and Sac and Fox tribes are located in the county.

For more information, call the county clerk’s office at 405/273-8222.

County Seat – Shawnee Area – 793.26 Square Miles

County Population – 69,038
(2007 est.)

Farms – 1,777 Land in Farms – 395,065 Acres

Primary Source: Oklahoma Almanac 2009-2010

COUNTY OFFICIALS

- Troyce King County Assessor
- Nancy Bryce.....County Clerk
- Bob Guinn..... County Commissioner District 1
- Jerry Richards County Commissioner District 2
- Buck Day County Commissioner District 3
- Mike Booth County Sheriff
- Wendy Magnus County Treasurer
- Reta Head..... Court Clerk

**POTTAWATOMIE COUNTY
OPERATIONAL AUDIT**

Presentation of Apportionments, Disbursements, and Cash Balances of County Funds for FY 2010

| | Beginning Cash Balance July 1, 2009 | Receipts Apportioned | Transfer In | Transfer Out | Disbursements | Ending Cash Balance June 30, 2010 |
|---|---|-------------------------|---------------------|---------------------|----------------------|---|
| Combining Information: | | | | | | |
| General Fund | \$ 746,617 | \$ 3,632,201 | \$ 1,250,000 | \$ 1,250,000 | \$ 3,751,489 | \$ 627,329 |
| County Highway | 2,832,469 | 3,818,591 | 1,250,000 | 1,250,000 | 4,028,634 | 2,622,426 |
| County Health | 536,046 | 732,601 | | | 613,074 | 655,573 |
| Resale Property | 346,632 | 200,498 | | | 231,006 | 316,124 |
| Sheriff Service Fee | 156,758 | 193,147 | | | 263,552 | 86,353 |
| Sales Tax Maintenance/Repair/Improvements | 4,383,880 | 3,928,880 | | | 4,313,160 | 3,999,600 |
| Sales Tax Pottawatomie County Fire Department | 874,561 | 485,141 | | | 359,573 | 1,000,129 |
| Sales Tax Emergency Services | 251,449 | 267,962 | | | 133,308 | 386,103 |
| Sales Tax Economic Development | 857,833 | 148,580 | | | 10,000 | 996,413 |
| Sales Tax OSU Extension Center | 160,261 | 170,726 | | | 157,893 | 173,094 |
| Sales Tax Soil Conservation | 77,068 | 68,038 | | | 100,765 | 44,341 |
| Sales Tax Pottawatomie County Free Fair | 206,556 | 70,169 | | | 123,206 | 153,519 |
| Sales Tax Senior Citizens | 221,459 | 138,428 | | | 151,385 | 208,502 |
| Sales Tax Capital Improvements | 1,995,618 | 755,435 | | | 568,590 | 2,182,463 |
| Pottawatomie County Public Safety | 235,286 | 1,349,094 | | | 1,467,889 | 116,491 |
| Capital Improvements Jail/Highway | 58,821 | 336,973 | | | 366,772 | 29,022 |
| Pottawatomie County 911 System | 19,975 | 142,422 | | | 149,708 | 12,689 |
| Pottawatomie County Wireless 911 System | 65,303 | 268,127 | | | 305,988 | 27,442 |
| Remaining Aggregate Funds | 503,098 | 589,634 | | | 489,327 | 603,405 |
| Combined Total - All County Funds | \$ 14,529,690 | \$ 17,296,647 | \$ 2,500,000 | \$ 2,500,000 | \$ 17,585,319 | \$ 14,241,018 |

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, 2010.

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.

**POTTAWATOMIE COUNTY
OPERATIONAL AUDIT**

Objective 1: To determine the receipts apportioned, disbursements, and cash balances are accurately presented on the County Treasurer's monthly reports for FY 2010.

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

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

- Gained an understanding of internal controls related to the process of accurately presenting the receipts apportioned, disbursements, and cash balances on the County Treasurer's monthly reports through discussions with the County Treasurer, observation, and review of documents.
- Tested internal controls which included the following:
 - Tested 100% of the Treasurer's monthly reports to determine they were reviewed and approved by someone independent of the preparer.
 - Tested a sample of eight reconciliations between the Treasurer's general ledger and the County Clerk's appropriation ledger for all county funds to determine that the reconciliation was approved by someone independent of the preparer.
- Performed the following to ensure receipts apportioned, disbursements, and cash balances were accurately presented on the County Treasurer's monthly reports:
 - Reconciled Treasurer's receipts to amounts apportioned on the County Treasurer's monthly reports.
 - Reconciled the County Clerk's warrants issued to disbursements paid by the County Treasurer.
 - Re-performed the bank reconciliations at June 30, 2010, 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.

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

Conclusion: With respect to the days tested, the County complied with 62 O.S. § 517.4, which requires county deposits with financial institutions be secured with collateral securities or instruments. However, internal controls over pledged collateral should be strengthened.

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 of the significant law, which included the following:

- Selected the two highest bank balance dates for each month of the period audited from banks holding deposits of county funds to determine that bank balances were adequately collateralized.

Finding: Inadequate Internal Controls over Pledged Collateral

Condition: It was determined through discussion with County personnel, observation, and review of documents that procedures have been designed to monitor pledged collateral to ensure bank balances are adequately collateralized. However, no documentation of an independent verification was maintained.

Cause of Condition: Procedures have not been designed to document the review of the daily bank deposits to determine they are adequately secured.

Effect of Condition: Because documentation of monitoring pledged collateral was not retained, we could not determine that controls were operating effectively.

Recommendation: OSAI recommends that the County Treasurer implement a system of internal controls to retain documentation of daily monitoring of bank balances for reasonable assurance that county funds are adequately secured.

Management Response: There are adequate controls over pledged securities; however, I was not aware that I needed to initial the General Ledger to show this. I will now begin to initial the General Ledger. There was never any danger of loss of county funds. My office is very diligent to be sure county funds are covered, as well as schools, by enough pledging.

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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| <p>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.</p> |
|---|

Conclusion: 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 compliance of the significant law, which included the following:
 - Reviewed sales tax ballots to determine designation and purpose of sales tax collections.
 - Obtained confirmations from the Oklahoma Tax Commission for sales tax payments made to the County and recalculated the amounts apportioned by the County Treasurer to ensure sales tax collections were apportioned to the proper funds.
 - Selected a random sample of 80 purchase orders from the Sales Tax Revolving Fund and determined that expenditures were made for purposes designated on the sales tax ballot.

Finding: Inadequate Internal Controls over Sales Tax and Noncompliance with Statute

Condition: It was determined through discussions with County personnel, observation, and review of documents that the County does not have procedures in place to ensure that sales taxes are calculated and apportioned in accordance with 68 O.S. § 1307E. Additionally, the County was remitting the sales tax to the Pottawatomie County Public Safety Center Trust on purchase orders without documentation of how the funds were expended.

Cause of Condition: Procedures to ensure compliance with 68 O.S. § 1307E were not designed and implemented.

Effect of Condition: This condition could result in sales tax funds being incorrectly calculated and apportioned to incorrect funds and not expended in accordance with sales tax ballot.

Recommendation: OSAI recommends the County implement procedures to ensure that the sales tax amounts are apportioned correctly based on the sales tax ballot. These procedures should include an independent verification of the apportionments. OSAI further recommends that the sales tax expenditures for the Pottawatomie County Public Safety Center Trust be made on purchase orders with proper documentation attached.

Management Response: The Board of County Commissioners is going to begin adding the Sales Tax apportionments to the BOCC meeting agenda once a month. The approval of the Sales Tax apportions will be documented in the BOCC meeting minutes. The Board of County Commissioners will require that all sales tax expenditures be made on purchase orders with proper documentation.

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

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

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

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

- Gained an understanding of the internal controls related to the process of apportioning and distributing ad valorem tax collections, which included discussions with County personnel, observation, and review of documents.
- Tested compliance of the significant law, which included the following:
 - Compared the certified levies for the audit period to the computer system to determine the Treasurer applied the certified levies, as approved 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 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. The Treasurer's First Deputy and one other Deputy supervise the input to ensure the correct certified levies are entered into the ad valorem system by the Treasurer; however, no evidence of independent verification is maintained.

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

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

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

Management Response: There are adequate controls over ad valorem tax distribution; however, I was not aware that I needed to maintain the independent verification. I will now have my deputies initial the levy sheets and maintain the independent documentation that the levies are entered into the system agree to the certified levy sheets.

**POTTAWATOMIE COUNTY
OPERATIONAL AUDIT**

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

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

Conclusion: With respect to the items tested, the County's financial operations generally complied with 19 O.S. § 1505C, 19 O.S. § 1505E, and 19 O.S. § 1505F, which outlines procedures for expending county funds. However, the county did not comply with some requirements of 19 O.S. § 1505E which requires the receiving officer to complete a receiving report confirming delivery of goods and/or services.

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

- Gained an understanding of the internal controls related to the process of encumbering purchase orders, authorization of payment of purchase orders, and documenting goods and services received, which included discussions with County personnel, observation, and review of documents.
- Tested compliance of the significant laws, which included the following:
 - Purchase orders were properly requisitioned as required by 19 O.S. § 1505C.
 - Purchase orders were properly encumbered as required by 19 O.S. § 1505C.
 - The receiving officer prepared and signed a receiving report as required by 19 O.S. § 1505E.
 - The County Clerk or designee compared the purchase order to the invoice, receiving report, and delivery document as required by 19 O.S. § 1505E.
 - Purchase orders were approved for payment by the Board of County Commissioners as required by 19 O.S. § 1505F.

Finding: Inadequate Controls and Noncompliance with Purchasing Statutes

Condition: Upon inquiry and observation of the current expenditure process, it appears that duties are properly segregated and controls in place to ensure proper internal controls over the expenditure process. However, for the period tested, it was noted that the purchasing agent solely performed key duties with no independent verification of accuracy. The purchasing agent encumbered funds, verified availability of encumbrance, printed the purchase orders, verified supporting documentation, initiated payments for claims, and printed the warrants.

Our test of 80 purchase orders revealed the following noncompliance with regard to purchasing statutes:

- One purchase order was not properly encumbered.

**POTTAWATOMIE COUNTY
OPERATIONAL AUDIT**

- Twenty-five purchase orders did not have a signed receiving report.
- One purchase order was not signed by the requisitioning officer.

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

Effect of Condition: The condition 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 a system of internal controls over the expenditure process. Such controls may include an independent verification of the accuracy of components necessary to initiate and authorize expenditures. OSAI also recommends management implement procedures to ensure compliance with purchasing statutes.

Management Response:

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

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

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| <p>Objective 6: To determine the County’s financial operations complied with 19 O.S. § 1505B, which requires county purchases in excess of \$10,000 be competitively bid.</p> |
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Conclusion: With respect to the items tested, the County’s financial operations did not comply with 19 O.S. § 1505B, which requires county 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.
- Tested compliance with significant law, which included the following:
 - Selected 100% of purchases in excess of \$10,000 and determined that the County followed statutes regarding public notice, handling of unopened bids, awarding bid to best bidder, recording appropriate information in BOCC minutes, and notification to successful bidders.

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

Condition: Upon inquiry and observation of the current bidding process, it appears that duties are now properly segregated and controls are in place over the bidding process. However, for the period tested it was noted that the purchasing agent solely performed all facets of the bidding process with no independent verification of accuracy.

Our test of ten bids revealed the following noncompliance with regard to the competitive bidding statute:

- One bid did not have proper documentation of bid award.
- Four bids did not have documentation of bid publication ten days prior to bid opening.
- Three bids did not have documentation of successful bidder notification.

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

Effect of Condition: These conditions resulted 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 proper documentation of bid award.
- Maintaining proper documentation of bid publication.
- Maintaining proper documentation of notification of successful bidder.

Management Response:

County Clerk: The County Clerk will implement compensating controls to mitigate the risks involved with a concentration of duties. The documentation of bid award, publication, and notice to successful bidders will be maintained in bid files.

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 establishes limitations on the amount of the county officer’s salaries. However, internal controls over the payroll process should be strengthened.

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

- Gained an understanding of the internal controls related to the process of determining amounts allowed for officers' salaries, which included 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.
- Tested compliance with 19 O.S. § 180.74 and § 180.75 by performing the following:
 - Recalculated the maximum amount allowed for officers' salaries as set forth in 19 O.S. § 180.74 and § 180.75.
 - Reviewed the salaries of County officials to ensure that amounts paid did not exceed statutory limits.

Finding: Inadequate Internal Controls over Compliance with Salary Limitations

Condition: It was determined through discussions with County personnel, observation, and review of documents that the County does not have procedures in place to ensure that salaries are calculated in accordance with state statutes.

Cause of Condition: Procedures have not been designed to ensure compliance with this statute.

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

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

Management Response: The Board of County Commissioners will maintain documentation that the officers' salaries were reviewed and are in compliance with state statutes.

Criteria: Effective internal controls include management design and implement procedures to comply with 19 O.S. § 184.74 and § 180.75.

Finding: Concentration of Duties in the Payroll Process

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

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

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

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

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

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

Management Response: The County Clerk's office is aware of this condition and will implement compensating controls to mitigate the risks involved with a concentration of duties.

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

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

Conclusion: The County complied with 19 O.S. § 1504A, which requires the receiving officer to maintain a record of all supplies, materials, and equipment received, disbursed, stored, and consumed by his department. However, the County lacks adequate internal controls over consumable inventories.

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

- Gained an understanding of the internal controls related to the process of maintaining a record of all supplies, materials, and equipment received, disbursed, stored, and consumed by a department, which included discussions with County personnel, observation, and review of documents.
- Tested a sample of 18 consumable records to determine that the district barns are maintaining accurate records and that they agree to a physical count of records.

Finding: Inadequate Internal Controls over Consumable Inventories

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

- **District 1:**
 - The consumable inventory process is not adequately segregated. One individual is verifying the goods received, recording the items on the inventory cards, and performing a visual verification of the items on hand.

- **District 2:**
 - Consumable inventory is being stored on an unsecured, open lot at the Hardesty Road location. There are no barriers in place to deter theft and no personnel are assigned to the location.
 - The consumable inventory process is not adequately segregated. One individual is verifying the goods received, recording the items on the inventory cards, and performing a visual verification of the items on hand.

- **District 3:**
 - The consumable inventory process is not adequately segregated. One individual is verifying the goods received, recording the items on the inventory cards, and performing a visual verification of the items on hand.

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 account for consumable inventories.

Recommendation: OSAI recommends management implement internal controls to ensure compliance with 19 O.S. § 1504A. These procedures would include maintaining an inventory of all materials received, disbursed, stored, and consumed, filing monthly consumable reports with the County Clerk, and performing a periodic physical count of inventory. Additionally, the key functions of receiving duties and inventory control duties should be performed by separate employees in order to effectively segregate those duties. OSAI also recommends the District 2 Hardesty Road location be secured.

Management Response: The Board of County Commissioners will work to implement a system of internal controls over the consumable inventory records and will implement compensating controls to mitigate the risks involved with a concentration of duties.

Criteria: An important aspect of internal controls is the safeguarding of assets. Internal controls constitute a process affected by an entity's governing body, management, and other personnel, designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of consumable inventory items, and safeguarding consumable inventory items from loss, damage, or misappropriation. Effective internal controls include designing and implementing procedures to ensure compliance with 19 O.S. § 1504A.

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

Conclusion: With respect to 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 Pottawatomie 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.
- A random sample of 73 fixed assets were selected to test compliance with significant law, which included the following:
 - 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 Pottawatomie County.”

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

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

- The County has not designed internal controls to provide for adequate segregation of duties over the fixed asset inventory process.
- The County has not set forth procedures to perform and document an annual physical inventory to ensure compliance with 19 O.S. § 178.1.
- The County did not comply with 69 O.S. § 645, which requires equipment to be marked “Property of” the County.

When visually verifying the items from inventory records, we noted the following:

- **District 1**
 - 3 of 10 items tested were not conspicuously marked to indicate they are county property.
- **District 2**
 - 24 of 25 items were not conspicuously marked to indicate they are county property and no county identification number label appeared to be affixed.
- **District 3**
 - 22 of 24 items tested were not conspicuously marked to indicate they are county property.
 - 1 of 24 items was physically on-site; however, not listed on the inventory.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure compliance with 69 O.S. § 645 regarding marking of fixed asset inventory.

Effect of Condition: When fixed assets are not monitored and equipment is not marked with “Property of Pottawatomie County,” opportunities for misuse or loss of equipment can occur.

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

Management Response:

County Clerk: We will perform an annual inventory count and retain documentation.

County Treasurer: We will maintain documentation of the physical inventory in the future.

County Assessor: We will perform an annual inventory count and retain documentation.

County Sheriff: We will perform an annual inventory count and retain documentation.

District 1 County Commissioner: We do perform an annual inventory count and will retain documentation. We will make sure all new equipment is marked with the inventory numbers and we will periodically make sure that identification numbers are affixed to equipment.

District 2 County Commissioner: We will perform an annual inventory count and retain documentation. We are in the process of marking all county equipment with the inventory numbers and affixing Pottawatomie County Identification labels.

District 3 County Commissioner: We will perform an annual inventory count and retain documentation. We will make sure all new equipment is marked with the inventory numbers and we will periodically make sure that identification numbers are affixed to equipment.

Criteria: Title 69 O.S. § 645 states, “...County owned automobiles, trucks, road machinery and equipment shall be conspicuously and legibly marked PROPERTY OF (name of county) COUNTY, and leased automobiles, trucks, road machinery and equipment shall be conspicuously and legibly marked LEASED BY (name of county) COUNTY, on each side in upper case letters, on a background of sharply contrasting color.”

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

Conclusion: With respect to the official depository accounts tested, the offices of Court Clerk, County Treasurer, and County Assessor did comply with 19 O.S. § 682, which requires officers to deposit daily in the official depository all collections received under the color of office. However, the Sheriff's Office did not comply with 19 O.S. § 682 because collections were not deposited daily with the County Treasurer.

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

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

Finding: Inadequate Internal Controls over Official Depository Receipts

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

- There appears to be inadequate separation of duties relating to the issuance of receipts, preparation and delivery of deposits, as well as reconciliation of monies received to official depository accounts in the following county offices:
 - County Clerk's office
 - County Assessor's office
 - County Sheriff's office
- Cash drawers appear to be inadequately secured and are accessible to any employee in the following county offices:
 - County Clerk's office
 - County Assessor's office
- County Sheriff does not deposit daily all funds collected under color of office.

Cause of Condition: Policies and procedures have not been designed to ensure receipts are issued for all collections received and all monies received are timely deposited.

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

Recommendation: OSAI recommends that management be aware of these conditions and determine if duties can be properly segregated. In the event that segregation of duties is not possible due to limited personnel, OSAI recommends implementing compensating controls to mitigate the risks involved with a concentration of duties. Compensating controls would include separating key processes and/or critical functions of the office, and having management review and approval of accounting functions.

Management Response:

County Clerk: We will implement compensating controls to mitigate the risks involved with a concentration of duties. This will include maintaining documentation where receipts are reconciled to deposits, and an independent verification of all reconciliations.

County Assessor: We will implement compensating controls to mitigate the risks involved with a concentration of duties. This will include maintaining documentation where receipts are reconciled to deposits, and an independent verification of all reconciliations.

County Sheriff: We will implement compensating controls to mitigate the risks involved with a concentration of duties. This will include making daily deposits, maintaining documentation where receipts are reconciled to deposits, and an independent verification of all reconciliations.

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

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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 complied with 19 O.S. § 220 and 20 O.S. § 1304, which outlines procedures for expending Court Clerk Revolving Fund monies and Court Fund monies, respectively. However, internal controls over the Court Clerk Revolving Fund and the Court Fund should be strengthened.

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

- Gained an understanding of the internal controls related to expending Court Clerk Revolving Fund monies and Court 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 ten claims from the Court Clerk Revolving Fund claims and verified the following:
 - Expenditures were made for the operation of the court.
 - Claims were approved by the district judge and either the Court Clerk or the local associate district judge.

- Tested compliance with 20 O.S. § 1304 for the Court Fund, which included the following:
 - Randomly selected 25 Court 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.

Finding: Inadequate Internal Control 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 the Court Clerk solely performs key duties with no independent verification of accuracy. The Court Clerk initiates and prepares the claim, attaches and verifies supporting documentation to claim, certifies that goods/services were received, signs the claim along with the district judge, and prepares and signs checks.

Cause of Condition: Policies and procedures have not been designed to adequately segregate the duties regarding expenditures of the Court Clerk Revolving Fund and Court Fund expenditure process.

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

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

Management Response: The Court Clerk will have the First Deputy verify the claims and have the Treasurer sign and date the end of the month report.

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.

**POTTAWATOMIE COUNTY
OPERATIONAL AUDIT**

All Objectives:

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

Finding: Inadequate County-Wide Controls

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

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

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

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

Examples of risks and procedures to address risk management:

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

Examples of activities and procedures to address monitoring:

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

**POTTAWATOMIE COUNTY
OPERATIONAL AUDIT**

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|----------------------------|--|
| 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, the following offices do not have a written Disaster Recovery Plan:

- County Treasurer
- County Clerk

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

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

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

Management Response:

County Clerk: Our software provider maintains an off-site backup, and understands what would be required to restore all critical information in the event of a disaster. I will complete a detailed Disaster Recovery form.

County Treasurer: A Disaster Recovery Plan will be completed and filed with the County Clerk.

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

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

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



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