



HARMON COUNTY

Operational Audit

For the fiscal year ended June 30, 2016

Cindy Byrd, CPA
State Auditor & Inspector

**HARMON COUNTY OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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Cindy Byrd, CPA | State Auditor & Inspector

2300 N. Lincoln Blvd., Room 123, Oklahoma City, OK 73105 | 405.521.3495 | www.sai.ok.gov

June 5, 2019

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

Transmitted herewith is the audit report of Harmon County for the fiscal year ended June 30, 2016.

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 that reads "Cindy Byrd". The signature is fluid and cursive, with the first and last names clearly legible.

CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR



**HARMON COUNTY, OKLAHOMA
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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**HARMON COUNTY OFFICIALS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Board of County Commissioners

District 1 – Gary Lewis
District 2 – Nicky Boone
District 3 – James Stegall

County Assessor

Kendra Tillman

County Clerk

Kara Gollihare

County Sheriff

Joe Johnson

County Treasurer

David Seigrist

Court Clerk

Stacy Macias

District Attorney

Ken Darby

**HARMON COUNTY, OKLAHOMA
SALES TAX DISTRIBUTION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Sales Tax

Sales Tax of February 24, 1984

The citizens voted a one-cent (1%) sales tax to begin May 1, 1984, for unlimited duration. The funds are to be used for general operations and county roads of the government of Harmon County, Oklahoma. These funds are deposited into the County Sales Tax fund.

Sales Tax of August 12, 1992

The citizens voted an additional one-cent (1%) sales tax effective October 1, 1993, for a limited life of twenty-five (25) years. The funds are to be used for the general operations of Harmon Memorial Hospital. These funds are deposited into the County General Fund and then disbursed to the Hospital.

During the fiscal year the County collected \$249,849 in total sales tax.

**HARMON COUNTY
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Presentation of Apportionments, Disbursements, and Cash Balances of County Funds for the Fiscal Year Ended June 30, 2016

	Beginning Cash Balances July 1, 2015	Receipts Apportioned	Transfers In	Transfers Out	Disbursements	Ending Cash Balances June 30, 2016
Combining Information:						
County Funds:						
County General Fund	\$ 373,352	\$ 566,225	\$ -	\$ 2,430	\$ 747,282	\$ 189,865
County Highway Fund	4,533,667	1,397,499	-	-	1,159,489	4,771,677
County Bridge and Road Improvement Restricted Highway	1,144,091	147,660	-	-	274,444	1,017,307
County Health Department	72,411	52,199	-	-	45,215	79,395
Grants/FEMA	-	71,630	-	-	-	71,630
County Bridge and Road Improvement Primary Road	64,323	261	-	-	-	64,584
Resale Property	25,545	14,995	-	-	13,192	27,348
County Clerk Lien Fee	42,038	14,597	-	-	6,726	49,909
Treasurer Mortgage Tax Certification Fee	5,612	1,065	-	-	93	6,584
Assessor Visual Inspection	10,228	42	-	-	-	10,270
Assessor Revolving Fund	16,231	2,172	-	-	816	17,587
Sheriff Service Fee	113,222	19,791	-	-	11,748	121,265
Sheriff Drug Enforcement	309	-	-	-	-	309
Sheriff Department of Corrections	29,478	20,551	-	-	20,897	29,132
County Clerk Records Management Preservation Fee	16,108	4,345	-	-	3,991	16,462
Insurance Recovery	747	4,232	-	-	-	4,979
Cash Drawer	400	150	-	-	-	550
County Sales Tax	-	93,210	2,430	-	18,177	77,463
Combined Total - All County Funds	\$ 6,447,762	\$ 2,410,624	\$ 2,430	\$ 2,430	\$ 2,302,070	\$ 6,556,316

Source: County Treasurer's Monthly Reports (presented for informational purposes)

**HARMON COUNTY
DESCRIPTION OF COUNTY FUNDS AND TRANSFERS
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Description of County Funds

The County uses funds to report on receipts, disbursements, and changes in cash balances. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

Following are descriptions of the county funds within the Presentation of Apportionments, Disbursements, and Cash Balances of County Funds:

County General Fund – accounts for the general operations of the government.

County Highway Fund – accounts for state, local, and miscellaneous receipts and disbursements for the purpose of constructing and maintaining county roads and bridges.

County Bridge and Road Improvement Restricted Highway – accounts for state receipts and disbursements are for the purpose of maintaining roads and bridges.

County Health Department – accounts for monies collected for charges for services and ad valorem taxes expended for operations of the county health department.

Grants/FEMA – accounts for grant monies received by Harmon County and disbursed per grant agreements.

County Bridge and Road Improvement Primary Road – accounts for the accrued balance and interest of funds which were appropriated prior to 2013 to be used for road and bridge improvements on county collector routes.

Resale Property – accounts for the collection of interest and penalties on delinquent taxes and disbursed as restricted by state statute.

County Clerk Lien Fee – accounts for lien collections and disbursements as restricted by state statute.

Treasurer Mortgage Tax Certification Fee – accounts for the collection of fees by the County Treasurer for mortgage tax certificates and the disbursement of the funds as restricted by state statute.

Assessor Visual Inspection – accounts for the collection and expenditure of monies by the County Assessor as restricted by state statute for the visual inspection program.

Assessor Revolving Fund – accounts for the collection of fees for copies as restricted by state statute.

HARMON COUNTY
DESCRIPTION OF COUNTY FUNDS AND TRANSFERS
OPERATIONAL AUDIT
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Sheriff Service Fee – accounts for the collection of fees for the services provided by the County Sheriff's office and disbursed for the operations of the Sheriff's office.

Sheriff Drug Enforcement – accounts for the collection of drug forfeitures and disbursements are for the purpose of equipment and training.

Sheriff Department of Corrections – accounts for the collection of monies from the Oklahoma Department of Corrections and disbursements are for the purpose of housing inmates.

County Clerk Records Management Preservation Fee – accounts for fees collected for instruments filed in the County Clerk's office as restricted by state statute for preservation of records.

Insurance Recovery – accounts for monies received from insurance claims filed and funds received are used to repair or replace County owned property.

Cash Drawer – accounts for money used in the County Treasurer's office for the purpose of making change.

County Sales Tax – accounts for monies received from county sales tax and disbursements are for general operations of the county and for maintenance of county roads.

Interfund Transfers

During the fiscal year, the County made the following transfers between funds.

- \$2,430 was transferred from the County General Fund to the newly established County Sales Tax Fund to specifically identify revenue and expenditures made with sales tax funds.

**HARMON COUNTY, OKLAHOMA
COMBINING STATEMENT OF RECEIPTS, EXPENDITURES, AND
CHANGES IN CASH BALANCES—BUDGET AND ACTUAL—BUDGETARY BASIS—
COUNTY GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	General Fund		
	Budget	Actual	Variance
Beginning Cash Balances	\$ 373,351	\$ 373,352	\$ 1
Less: Prior Year Outstanding Warrants	(33,866)	(33,866)	-
Beginning Cash Balances, Budgetary Basis	339,485	339,486	1
Receipts:			
Total Receipts, Budgetary Basis	498,410	566,225	67,815
Expenditures:			
Total Expenditures, Budgetary Basis	837,895	719,570	118,325
Excess of Receipts and Beginning Cash Balances Over Expenditures, Budgetary Basis	\$ -	186,141	\$ 186,141
Operating Transfers:			
Net Operating Transfers		(2,430)	
Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances			
Add: Current Year Outstanding Warrants		6,154	
Ending Cash Balance		\$ 189,865	

Source: County Estimate of Needs (presented for informational purposes)

**HARMON COUNTY, OKLAHOMA
COMPARATIVE SCHEDULE OF RECEIPTS, EXPENDITURES, AND
CHANGES IN CASH BALANCES—BUDGET AND ACTUAL—BUDGETARY BASIS—
COUNTY HEALTH DEPARTMENT FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	County Health Department Fund		
	Budget	Actual	Variance
Beginning Cash Balances	\$ 72,412	\$ 72,411	\$ (1)
Less: Prior Year Outstanding Warrants	(2,404)	(2,404)	-
Beginning Cash Balances, Budgetary Basis	70,008	70,007	(1)
Receipts:			
Total Receipts, Budgetary Basis	47,427	52,199	4,772
Expenditures:			
Total Expenditures, Budgetary Basis	117,435	55,285	62,150
Excess of Receipts and Beginning Cash Balances Over Expenditures, Budgetary Basis	\$ -	66,921	\$ 66,921
Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances			
Add: Current Year Outstanding Warrants		12,474	
Ending Cash Balance		\$ 79,395	

Source: County Treasurer's Monthly Reports (presented for informational purposes)

**HARMON COUNTY
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

PURPOSE, SCOPE, AND GENERAL 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.

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.

In planning and conducting our audit, we focused on the major financial related areas of operations based on assessment of materiality and risk for the fiscal year ended June 30, 2016.

Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of the County's operations. Further details regarding our methodology are included under each objective.

We utilized sampling of transactions to achieve our objectives. To ensure the samples were representative of the population and provided sufficient, appropriate evidence, the random sample and judgmental methodology was used. We identified specific attributes for testing each of the samples and when appropriate, we projected our results to the population.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, errors or fraud may occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

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.

**HARMON COUNTY
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Objective 1: To determine the receipts apportioned, disbursements, and cash balances are accurately presented on the County Treasurer's monthly reports for FY 2016.

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. However, we noted some deficiencies in internal controls regarding the financial reporting process.

Objective 1 Methodology: To accomplish objective 1, we performed the following:

- Evaluated significant internal controls related to preparing the Treasurer's Monthly Reports, which included:
 - Reviewing 100% of the Treasurer's monthly reports to ensure the monthly reports were signed and approved by someone other than the preparer, reconciled to the general ledger, and reconciled to the bank statement.
- Reconciled total collections from the monthly reports to the apportionments ledger for each month and to the annual summary of the Treasurer's reports.
- Confirmed \$1,913,199 in cash receipts (79.37% of total cash receipts) received from the Oklahoma Tax Commission, Federal grantor agencies, and the State Treasurer's Office, and determined that these receipts were apportioned to the proper fund in the proper amount.
- Reconciled the general ledger of cash and investments at June 30 to the annual summary of the Treasurer's reports.
- Confirmed all cash and investment balances.
- Re-performed the June 30 bank reconciliation and confirmed reconciling items.
- Reviewed bank balances of all accounts at June 30 on the Treasurer's general ledger to ensure that investments were adequately secured as required by 62 O.S. § 517.4.
- Examined the Treasurer's total cash disbursements and compared it to the County Clerk's total checks and cash vouchers issued to ensure the totals reconciled.

FINDINGS AND RECOMMENDATIONS

Finding 2016-002 – Inadequate Internal Controls Over the Collection Process, Bank Reconciliations, and the General Ledger

Condition: Upon inquiry and the observation of records, within the office of the County Treasurer, the following was noted:

- Regarding the collection process, both employees collect money and issue receipts from the same cash drawer. Also, since there are only two employees, upon an employee's absence the other employee performs all duties.

**HARMON COUNTY
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

- Monthly bank reconciliations were not reviewed for accuracy.
- A Certificate of Deposit was liquidated and deposited into another bank in June 2016; however, the general ledger was not updated to reflect this change until July 2016.

Cause of Condition: Policies and procedures have not been designed and implemented over the collection process and monthly reconciliations to ensure adequate controls.

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

Recommendation: The Oklahoma State Auditor & Inspector's Office (OSAI) recommends management be aware of these conditions and realize that duties and responsibilities in a limited number of individuals is not desired from a control point of view. The most effective procedures lie in management's oversight of the office operations and a review of said operations while maintaining supporting documentation of designed and implemented internal controls.

In addition, OSAI recommends establishing a system of controls to adequately protect the collections of the County Treasurer's office, which include but are not limited to the following:

- Establishing separate cash drawers for all employees receiving cash.
- Bank reconciliations be reviewed by someone other than the preparer.

Management Response:

Current County Treasurer: We will work to design and implement internal controls in the office and document our review processes. We will also ensure that bank reconciliations, and the review of these reconciliations, are maintained. Further, if any changes are made with banks we will update the general ledger at the time of the change.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. Internal controls should be designed to analyze and check accuracy, completeness, and authorization of transactions. To help ensure a proper accounting of funds, the duties of processing and authorizing should be segregated. 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.

Finding 2016-015 – Inadequate Internal Controls Over Monthly Reconciliations of the County Clerk and County Treasurer

Condition: The County Clerk does not reconcile the appropriation ledger to the County Treasurer's general ledger.

**HARMON COUNTY
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Cause of Condition: Policies and procedures have not been designed and implemented regarding a monthly reconciliation of the County Clerk's appropriation ledger to the County Treasurer's general ledger.

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

Recommendation: The Oklahoma State Auditor & Inspector's Office (OSAI) recommends that the County Clerk's appropriation ledger be reconciled to the County Treasurer's general ledger on a monthly basis. The reconciliation should be reviewed and approved by someone other than the preparer, and documentation of the reconciliation should be maintained.

Management Response:

County Treasurer: We are working to balance between the general ledger and the appropriation ledger. Discrepancies will be investigated, and corrections will be made.

County Clerk: We are working to balance between the appropriation ledger and the general ledger. Discrepancies will be investigated and corrected.

Criteria: Accountability and stewardship are overall goals of management in accounting of funds. To help ensure a proper accounting of funds, a monthly reconciliation between the County Clerk and County Treasurer should be performed and reviewed for accuracy. Further, safeguarding controls relate to the prevention or timely detection of errors or unauthorized transactions.

Objective 2: To determine the County's financial operations complied with 68 O.S. § 1370E, which requires the sales tax collections to be deposited in the general revenue or Sales Tax Revolving Fund of the County and be used only for the purpose for which such sales tax was designated.

Conclusion: With respect to the items tested, the County did not comply with 68 O.S. § 1370E, which requires the sales tax collections to be deposited in the general revenue or Sales Tax Revolving Fund of the County and be used only for the purpose for which such sales tax was designated. Further, we noted some deficiencies in internal controls regarding the sales tax process.

Objective 2 Methodology: To accomplish objective 2, we performed the following:

- Evaluated significant internal controls related to sales tax, which included:
 - Reviewing sales tax collections to ensure the collection was apportioned and appropriated in accordance with the sales tax ballot and that the apportionment and appropriation were reviewed and approved.
 - Reviewing a random sample of sales tax disbursements totaling \$13,441 (73.87% of sales tax disbursements in the population tested) to ensure the expenditure was approved and made for the purposes designated in the sales tax ballot.

**HARMON COUNTY
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FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

- Confirmed all sales tax receipts received from the Oklahoma Tax Commission.

FINDINGS AND RECOMMENDATIONS

Finding 2016-013 – Inadequate Internal Controls and Noncompliance Over Sales Tax Apportionments

Condition: Upon inquiry and observation of the recordkeeping process of collecting and expending county sales tax, the following was noted:

- The county sales tax was deposited into the County General Fund as specified by 68 O.S. § 1370E and identified as such as a revenue source. However, the funds were not presented in a separate account within the County General Fund and therefore, specific expenditures made with sales tax funds could not be identified.
- There is no evidence of independent oversight of the calculation of sales tax collections presented for appropriation by the County Treasurer or the County Clerk.

Cause of Condition: Policies and procedures have not been designed and implemented to have someone review the calculation of sales tax apportionments for accuracy and to ensure compliance with the sales tax ballot. Further, procedures have not been designed to ensure compliance with 68 O.S. § 1370E and AG Opinions.

Effect of Condition: These conditions resulted in noncompliance with state statute and AG Opinions and could result in unrecorded transactions, misstated financial reports, undetected errors, or misappropriation of funds. Further, sales tax may not be apportioned in accordance with the sales tax ballot.

Recommendation: OSAI recommends that the County sales tax apportioned to the County General Fund be accounted for in a separate account so as to discretely present the expenditures. In addition, the sales tax should be expended in such a manner to provide assurance that expenditures are made in accordance with the purposes specified by the ballot as outlined by 68 O.S. § 1370E and AG Opinions 2005 OK AG 23 and 2014 OK AG 15.

Further, OSAI recommends that an employee recalculate the apportionment of sales tax collections presented for appropriation by the County Treasurer to the County Clerk.

Management Response:

Chairman of the Board of County Commissioners: We have corrected this condition as of September 2015 by the establishment of the General Sales Tax fund.

County Clerk and Current County Treasurer: We will document our recalculation of the sales tax for accuracy to ensure compliance with the sales tax ballot.

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Criteria: Title 68 O.S. § 1370E, requires the sales tax collections 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.

Further, AG opinion 2005 OK AG 23 dated 07/13/2005 states:

3. Proceeds of a county sales tax voted for a specific purpose but placed in the county's general fund must be accounted for as a discrete fund, and any surplus not needed for the stated purpose during one fiscal year must be transferred to the county budget for the next fiscal year, for the same specified purpose."

Additionally, AG opinion 2014 OK AG 15 dated 10/31/2014 states:

4. C. As the fiscal agent responsible for superintending the funds of Canadian County, the board of county commissioners is responsible to ensure that the sales tax proceeds are not intermingled and are used exclusively for the purpose expressed in the ballot measure and resolution. The board can direct that the funds be deposited in a dedicated revolving fund and not intermingled with other revenues. Okla. Const. art. X, § 19; 68 O.S. 2011, § 1370; 19 O.S. Supp. 2013, § 339; 19 O.S. 2011, § 345; Cavin v. Bd. of County Comm'rs, 1934 OK 245 ¶ 11, 33 P.2d 477, 479.

Objective 3:	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.
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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 regarding the application of certified levies to the tax rolls and the apportionment and distribution of ad valorem tax collections should be strengthened.

Objective 3 Methodology: To accomplish objective 3, we performed the following:

- Evaluated significant internal controls related to ad valorem tax collections, which included comparing the certified levies to the approved levies entered into the computer system to ensure levies were entered correctly.
- Recalculated the apportionment of ad valorem tax collections to determine collections were accurately apportioned to the taxing entities.

FINDINGS AND RECOMMENDATIONS

Finding 2016-012 – Inadequate Internal Controls Over Certified Ad Valorem Tax Levies and Ad Valorem Tax Apportionment (Repeat Finding)

**HARMON COUNTY
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Condition: Upon inquiry and observation of the ad valorem tax apportionment process, the following was noted:

- There is no evidence to support the independent oversight of the levy input into the software tax system of the County Treasurer.
- The County Treasurer manually inputs the monthly ad valorem tax apportionments into the financial software program with no evidence of independent oversight of the accuracy of this process.

Cause of Condition: Policies and procedures have not been designed and implemented to document and retain evidence of procedures performed to ensure ad valorem tax levies are accurately entered into the system, and ad valorem tax apportionments are distributed correctly.

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

Recommendation: OSAI recommends that the County Treasurer implement a system of internal controls to provide reasonable assurance that certified ad valorem tax levies are reviewed by someone independent of the process and the ad valorem tax collections are apportioned and distributed correctly among the different funds to which they belong. Such controls may include independent verification of accuracy of reports.

Management Response:

County Treasurer: When the certified ad valorem tax levies are entered into the computer, someone else will review and initial the certified levies as well. Also, documentation of the independent review will be maintained that ad valorem taxes are apportioned and distributed correctly among the different funds.

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 4:	To determine whether the County's internal controls provide reasonable assurance that expenditures (including payroll) were accurately reported in the accounting records and financial operations complied with significant laws and regulations.
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Conclusion: With respect to the items tested, the County's internal controls do not provide reasonable assurance that expenditures (including payroll) were accurately reported in the accounting records.

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The County's financial operations did not comply with 19 O.S. § 1505, which requires that disbursements have proper documentation and be properly encumbered.

Objective 4 Methodology: To accomplish objective 4, we performed the following:

- Evaluated significant internal controls related to the expending of County funds through purchase orders, which included reviewing a random sample of purchase orders totaling \$80,975 (7.43% of purchase orders in the population tested) to ensure:
 - The purchase order was requisitioned and signed by an approved Requisition County Official,
 - The encumbrance was made, or funds were available prior to ordering goods or services and the encumbrance was approved by the County Clerk/Deputy,
 - The disbursement was reviewed and authorized and supported by adequate documentation, and
 - The BOCC reviewed and approved the disbursement and the disbursement was made for the appropriate amount.
- Evaluated significant internal controls related to payroll expenditures, which included reviewing a random sample of 5 payroll claims (5.21% of payroll claims in the population tested) to ensure:
 - Timesheets are accurate and are signed by the employee and supervisor,
 - The payroll claim was reviewed and approved, and
 - The payroll claim was supported by adequate documentation.

FINDINGS AND RECOMMENDATIONS

Finding 2016-003 – Inadequate Internal Controls and Noncompliance Over the Disbursement and Payroll Processes (Repeat Finding)

Condition: The audit of forty (40) purchase orders reflected the following:

- Two (2) instances were noted in which the disbursement was not properly encumbered.

Additionally, upon inquiry and observation of the payroll process, we noted the following:

- The duties of processing payroll are not adequately segregated within the office of the County Clerk. The County Clerk enrolls new hires, makes payroll changes, maintains personnel files, and prepares state and federal tax reports.
- Further, the audit of five (5) payroll claims, that included twenty-five (25) timesheets, reflected one (1) instance where the timesheet was not signed by the employee and six (6) instances where timesheets were not signed by a supervisor.

Cause of Condition: Policies and procedures have not been designed and implemented over the disbursement and payroll processes to strengthen internal controls and ensure compliance with state statutes.

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Effect of Condition: These conditions resulted in noncompliance with state statutes. Further, these conditions could result in unrecorded transactions, misstated financial reports, undetected errors, or misappropriation of funds.

Recommendation: OSAI recommends the following with regards to disbursement processes:

- Key accounting functions over payroll disbursements should be adequately segregated as to posting new hires and/or making payroll changes to the payroll system, access to personnel files, and preparing state and federal reports.
- Timesheets be signed by the employee and supervisor.
- Disbursements should be encumbered prior to the receipt of goods and/or services in accordance with 19 O.S. § 1505(C)(3).
- Disbursements of County funds should be supported with invoices and receiving reports in accordance with 19 O.S. § 1505(E).

Management Response:

Chairman of the BOCC: We will work to make sure all disbursements are encumbered prior to the goods and services being received. Further, we will work to ensure that all timesheets are signed by the employee and a supervisor.

County Clerk: We will work to make sure all disbursements are encumbered prior to the goods and services being received. We will also work to segregate the duties over payroll claims and I will provide documentation of the review over those payroll claims. Further, we will work to ensure that all timesheets are signed by the employee and a supervisor.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. Internal controls should be designed to analyze and check accuracy, completeness, and authorization of disbursements and/or transactions. To help ensure a proper accounting of funds, the duties of processing, authorizing, and payroll distribution should be segregated, and all payroll expenditures should be supported by timesheets signed by both the employee and a Supervisor/County Official.

An important aspect of internal control is the safeguarding of assets. Internal controls over safeguarding of assets constitute a process, affected by the entity's governing body, management, and other personnel, designed to provide reasonable assurance regarding prevention or untimely detection of unauthorized acquisition, use, or disposition of the entity's assets and safeguarding assets from loss, damage, or misappropriation.

Further, Title 19 O.S. § 1505 prescribes the procedures established for the requisition, purchase, lease-purchase, rental, and receipt of supplies, material, and equipment for maintenance, operation, and capital expenditures of county government.

**HARMON COUNTY
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

All Objectives:

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

Finding 2016-001 – Inadequate County-Wide Controls and Disaster Recovery Plan (Repeat Finding)

Condition: Through the process of gaining an understanding of the County’s internal control structure, it was noted that county-wide controls regarding Control Environment, Risk Assessment, Information and Communication, and Monitoring have not been designed. In addition, the County Treasurer has not designed and implemented a Disaster Recovery Plan.

Cause of Condition: Policies and procedures have not been designed and implemented to address risks of the County and to ensure that all offices have designed and implemented a Disaster Recovery Plan.

Effect of Condition: Without an adequate system of county-wide internal controls, there is greater risk of a breakdown in control activities which could result in unrecorded transactions, undetected errors, or misappropriation of funds. Further, without a Disaster Recovery Plan these conditions could also result in the loss of data, the unreliability of data, and increase the risk that the County may not recover from an emergency and/or disaster.

Recommendation: OSAI recommends that the County design and implement 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.

Additionally, the County Treasurer should prepare a Disaster Recovery Plan in order to maintain operations in the event of a disaster.

Management Response:

Chairman of the BOCC: The Board of County Commissioners will work towards assessing and identifying risks to design written county-wide controls and procedures regarding county-wide controls.

County Treasurer: A Disaster Recovery Plan has been created for the office as of June 2018.

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 met. 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

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Environment, Risk Assessment, Information and Communication, and Monitoring for the achievement of these goals.

Control Environment is a component of internal control which should provide the internal control system discipline and structure. It influences how objectives are defined and how control activities are structured. The oversight body and management should establish and maintain an environment throughout the entity that sets positive attitude toward internal control.

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.

Information and Communication are vital components for an entity to achieve its objectives through the use of quality information to support the internal control system. Such quality information should be comprised of the information received from and the control structures surrounding both IT and manual systems for financial reporting purposes. Further, the entity should effectively communicate financial reporting roles and responsibilities concerning all financial reporting matters.

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.

Further, according to the standards of the Information Systems Audit and Control Association (CobiT, Deliver and Support 4), information services function management should ensure that a written Disaster Recovery Plan is documented and contains guidelines and instructions for the County to follow in the event of a disaster.

REPORT ON STATUTORY COMPLIANCE – OTHER MATTERS

Harmon County
Board of County Commissioners
Harmon County Courthouse
Hollis, Oklahoma 73550

Dear Chairman:

For the purpose of complying with 19 O.S. § 171 and 20 O.S. § 1312, we have performed statutory procedures regarding the following offices and departments for the fiscal year ended June 30, 2016:

- All County Offices - Fixed Assets procedures (19 O.S. § 178.1, 19 O.S. § 178.2 and 69 O.S. § 645).
- All County Offices - Consumable Inventories procedures (19 O.S. § 1502 and 19 O.S. § 1504).
- Court Clerk procedures (20 O.S. § 1304 and 19 O.S. § 220).
- Inmate Trust Fund procedures (19 O.S. § 531 and 19 O.S. § 180.43).

Our statutory compliance engagement was limited to the procedures related to the statutes above and was less in scope than an audit performed in accordance with generally accepted auditing standards. Accordingly, we do not express an opinion on any basic financial statement of Harmon County.

Based on our procedures performed, we have presented our findings in the accompanying schedule.

This report is intended for the information and use of the management of the County. This restriction is not intended to limit the distribution of this report, which is a matter of public record.



CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR

June 4, 2019



SCHEDULE OF FINDINGS AND RESPONSES

Finding 2016-006 – Inadequate Internal Controls and Noncompliance Over Fixed Assets and Consumable Inventories (Repeat Finding)

Condition: Upon inquiry and observation of fixed assets inventory, we noted the following:

County Treasurer:

- Documentation was not maintained and filed with the County Clerk that an annual count of fixed assets was performed.

County Clerk:

- Documentation was not maintained and filed with the County Clerk that an annual count of fixed assets was performed.

County Assessor:

- Documentation was not maintained and filed with the County Clerk that an annual count of fixed assets was performed.

County Sheriff:

- One person has the responsibility of updating the inventory, as well as performing the annual count of fixed assets.
- Documentation was not maintained and filed with the County Clerk that an annual count of fixed assets was performed.

Court Clerk:

- Documentation was not maintained and filed with the County Clerk that an annual count of fixed assets was performed.

County Commissioner District 2:

- One person has the responsibility of updating the inventory, as well as performing the annual count of fixed assets.
- Documentation was not maintained and filed with the County Clerk that an annual count of fixed assets was performed.

County Commissioner District 3:

- One person has the responsibility of updating the inventory, as well as performing the annual count of fixed assets.

Upon inquiry and observation of consumable inventory items for District 1, 2 and 3, we noted the following:

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County Commissioner District 3:

- One person has the responsibility of updating the consumable inventory records, as well as performing the periodic count.
- Documentation was not maintained to support monthly consumable inventory counts.
- All consumable inventory items purchased in lots of \$500 or more are not documented on stock cards.
- Fuel reconciliations were not performed; therefore, monitoring with regards to the receiving of and/or use of fuel was not present.

Cause of Condition: Policies and procedures have not been designed and implemented by county offices/departments to ensure the accurate reporting of fixed assets and consumable inventory items.

Effect of Condition: These conditions resulted in noncompliance with state statutes. 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 fixed assets. Additionally, when consumable inventory items are not adequately documented, and inadequate segregation of duties exist, the opportunity for the misappropriation and undetected errors could result.

Recommendation: OSAI recommends management implement internal controls to ensure compliance with 19 O.S. § 178.1, 19 O.S. § 178.2, 19 O.S. § 1502(A)(1), and 19 O.S. § 1502(B)(1) by maintaining inventory records. OSAI also recommends performing and documenting a periodic inventory of fixed assets. 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 further recommends the performing and documenting of a monthly consumable inventory count. Counts should be initialed and dated by the employee performing the physical count and retained to show the design and implementation of internal controls by the County Commissioners. Additionally, the key functions of receiving duties and consumable inventory control duties should be performed by separate employees in order to effectively segregate those duties.

Management Response:

County Treasurer: We will maintain documentation of the annual verification of fixed assets.

County Clerk: We will maintain documentation of the annual verification of fixed assets.

County Assessor: We will maintain documentation of the annual verification of fixed assets.

County Sheriff: We will work to segregate the annual review duty and inventory control duty. Further we will maintain documentation of the annual verification of fixed assets and file it with the County Clerk

Court Clerk: We will maintain documentation of the annual verification of fixed assets.

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County Commissioner District 2: We will work to segregate the annual review duty and inventory control duty.

County Commissioner District 3: We will work to segregate the annual review duty and inventory control duty. Further, we will begin performing fuel reconciliations, updating stock records on a daily basis, and we will keep record of all consumable inventory items.

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.

Title 19 O.S. § 178.1 requires the board of county commissioners in each county of this state to take or cause to be taken, an inventory of all working tools, apparatus, machinery and equipment.

Title 19 O.S. § 178.2 requires each official to create and maintain inventory records to be filed with the County Clerk.

Title 19 O.S. § 1502(A)(1), which requires a prescribed uniform identification system for all supplies, materials, and equipment of a county used for maintenance for roads and bridges.

Title 19 O.S. § 1502(B)(1) requires a prescribed uniform identification system for all supplies, materials, and equipment of a county not used in the construction and maintenance for roads and bridges.

Finding 2016-007 – Inadequate Internal Controls and Noncompliance Over the Court Clerk Collection and Disbursement Processes (Repeat Finding)

Condition: Upon inquiry and observation of records, we noted the following deficiencies in the collection and deposit process:

- Upon review of the computer systems within the office of the Court Clerk there does not appear to be adequate controls in place to safeguard data from unauthorized modification, loss, or disclosure. The specifics of the condition has been sanitized to protect the County pursuant to the provision of 51 O.S. § 24A.28.
- One employee removes collections from the drawer at the end of the day and the next morning the employee will print the deposit report and reconcile the report to cash and checks. This employee also takes the deposit report, cash, and checks to the County Treasurer to be deposited. There is no documentation of a review process over collections and deposits.
- One employee can void receipts with no oversight.
- Further, there is no documentation of a monthly reconciliation with the County Treasurer over the Official Depository.

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With regards to the expenditure process of the Court Fund, we audited twenty-five (25) claims and noted the following deficiencies:

- The Court Clerk prepares and approves the Court Fund claims, prepares the vouchers, initials the vouchers, takes the vouchers to the County Treasurer's office for registration, and distributes the vouchers.
- Six (6) claims did not have invoices attached; therefore, proper itemization, correct pricing, and mathematical accuracy could not be verified.

Cause of Condition: Policies and procedures have not been designed and implemented to prevent unauthorized access to data. Further, policies and procedures have not been designed and implemented with regard to internal controls over all aspects of the collection and disbursement processes of the Court Fund, and to ensure compliance with 20 O.S § 1304.

Effect of Condition: This condition could result in compromised security for the computer, computer programs, and data. Also, these conditions resulted in noncompliance with state statute and could result in unrecorded transactions, misstated financial reports, undetected errors, or misappropriation of funds.

Recommendation: OSAI recommends the Court Clerk comply with best practices presented in the criteria. The specifics of the recommendation have been sanitized to protect the County pursuant to the provision of 51 O.S. § 24A.28. OSAI also recommends management be aware of these conditions and implement compensating procedures to mitigate the risks involved with a concentration of duties. Compensating procedures would include separating key processes and/or critical functions of the office and having management maintain documentation of the review and approval of the accounting functions. The most effective controls lie in management's overseeing of office operations and a periodic review of operations. OSAI also recommends management provide guidance with regard to segregating the duties so that no one employee is able to perform all accounting functions.

Additionally, OSAI recommends the Court Clerk comply with 20 O.S § 1304, that outlines procedures for expending Court Fund monies, including proper authorization, proper supporting documentation, and approval of claims.

Management Response:

Court Clerk: We will work to implement controls over the collection process. We have upgraded controls to safeguard data. We will work to have another employee help in the process of the Court Fund expenditure process and ensure all claims have supporting documentation attached.

Criteria: According to the standards of the Information Systems Audit and Control Association (CobIT, Delivery and Support DS5), the need to maintain the integrity of information and protect IT assets requires a security management process. This process includes establishing and maintaining IT security roles and responsibilities, policies, standards, and procedures. Security management also includes performing security monitoring and periodic testing and implementing corrective actions for identified security weaknesses or incidents. Effective security management protects all IT assets to minimize the business impact of security vulnerabilities and incidents.

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Accountability and stewardship are overall goals of management in the accounting of funds. Internal controls over safeguarding of assets constitute a process, affected by an entity's governing body, management, and other personnel, designed to provide reasonable assurance regarding prevention or timely detection of unauthorized transactions and safeguarding assets from misappropriation. To help ensure a proper accounting of funds, the duties of receiving, receipting, recording, depositing cash and checks, reconciliations, and transaction authorization should be segregated.

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

Title 20 O.S § 1304, outlines procedures for expending Court Fund monies, including proper authorization, proper supporting documentation, and approval of claims.



Cindy Byrd, CPA | State Auditor & Inspector

2300 N. Lincoln Blvd., Room 123, Oklahoma City, OK 73105 | 405.521.3495 | www.sai.ok.gov