OPERATIONAL AUDIT

HARMON COUNTY

For the period July 1, 2009 through June 30, 2012

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

HARMON COUNTY OPERATIONAL AUDIT
FOR THE PERIOD JULY 1, 2009 THROUGH JUNE 30, 2012

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Oklahoma State Auditor & Inspector

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December 3, 2012

TO THE CITIZENS OF
HARMON COUNTY, OKLAHOMA

Transmitted herewith is the audit report of Harmon County for the period July 1, 2009 through June 30, 2012.

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

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

Sincerely,

Gary A Jones

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

BACKGROUND

Harmon County, part of the original disputed Greer County claimed by both Texas and the United States, was created by special election in 1909, and named for Judson C. Harmon, a former governor of Ohio and later U.S. attorney general. Located in extreme southwestern Oklahoma, the county is known today as the "Irrigation Center of the Southwest."

The economy of the county is based largely on farming and ranching, with two contributing industries-Western Fibers Insulation Plant, manufacturing insulation from recycled paper, and Buck Creek "Honey" Mesquite Company, Inc., processing mesquite for use as a flavor enhancer for barbecued meats. Lake Hall provides fishing and recreational opportunities for the area.

The Black-Eyed Pea Festival is held annually during the second week in August.

For more county information, call the county clerk's office at 580/688-3658.

County Seat – Hollis

Area – 538.56 Square Miles

County Population – 2,843
(2009 est.)

Farms – 400

Land in Farms – 322,222 Acres

Primary Source: Oklahoma Almanac 2011-2012

COUNTY OFFICIALS

Lavinda Smith	County Assessor
Kara Gollihare	County Clerk
Gary Lewis	County Commissioner District 1
Nicky Boone	County Commissioner District 2
James Stegall	County Commissioner District 3
Joe Johnson	County Sheriff
Robbie Gee	County Treasurer
Stacy Macias	Court Clerk

Presentation of Apportionments, Disbursements, and Cash Balances of County Funds for FY 2012

	Beginning Cash Balance July 1, 2011	Receipts Apportioned	Disbursements	Ending Cash Balance June 30, 2012
Combining Information:				
County General Fund	$ 521,561	$ 658,914	$ 706,353	$ 474,122
County Highway Cash	3,403,080	1,383,942	1,411,739	3,375,283
County Health	62,550	129,275	119,460	72,365
Grants/FEMA	-	5,000	5,000	-
CBRI-Primary Road-105	808,159	237,429	2,304	1,043,284
Sheriff's Service Fee	80,596	19,650	11,028	89,218
Remaining Aggregate Funds	220,469	42,213	34,734	227,948
Combined Total - All County Funds	$ 5,096,415	$ 2,476,423	$ 2,290,618	$ 5,282,220

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

PURPOSE, SCOPE, AND SAMPLE METHODOLOGY

This audit was conducted in response to 19 O.S. § 171, which requires the State Auditor and Inspector's Office to audit the books and accounts of county officers.

The audit period covered was July 1, 2009 through June 30, 2012.

Sample methodologies can vary and are selected based on the audit objective and whether the total population of data was available. Random sampling is the preferred method; however, we may also use haphazard sampling (a methodology that produces a representative selection for non-statistical sampling), or judgmental selection when data limitation prevents the use of the other two methods. We selected our samples in such a way that whenever possible, the samples are representative of the populations and provide sufficient evidential matter. We identified specific attributes for testing each of the samples. When appropriate, we projected our results to that population.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. This report is a public document pursuant to the Oklahoma Open Records Act (51 O.S. § 24A.1 et seq.), and shall be open to any person for inspection and copying.

Objective 1:	To determine the receipts apportioned, disbursements, and cash balances are accurately presented on the County Treasurer's monthly reports for FY 2012.

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. However, duties within the Treasurer's office are not adequately segregated and appropriate internal controls are not in place.

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

- Gained an understanding of internal controls related to the process of accurately presenting the receipts apportioned, disbursements, and cash balances on the County Treasurer's monthly reports through discussions with the County Treasurer, observation, and review of documents.

- Performed the following to ensure receipts apportioned, disbursements, and cash balances were accurately presented on the County Treasurer's monthly reports:
    - Reconciled Treasurer's collections on the monthly reports to amounts apportioned on the County Treasurer's monthly Apportionment Ledger.
    - Reconciled the County Clerk's warrants issued to disbursements paid by the County Treasurer.
    - Re-performed the bank reconciliations at June 30, 2012, to determine that all reconciling items were valid, and ending balances on the General Ledger agreed to the ending balances reflected on the Treasurer's monthly reports.

Finding: Inadequate Controls Over the County Treasurer's Monthly Reports and Lack of Segregation of Duties in the Treasurer's Office

Condition: Upon inquiry of County personnel and review of documents, we noted the following weaknesses in the Treasurer's procedures:

- The County Treasurer's monthly reports are compiled from an information system in which the County Treasurer and one deputy perform daily activity using this same information system, such as issuing receipts and posting disbursements.
- The documentation regarding the reconciliation of apportioned receipts, disbursements, and cash balances between the County Treasurer and the County Clerk was retained by the County Treasurer; however, the documentation did not support a complete and accurate reconciliation.
- There is no evidence to confirm that the accuracy of the monthly reports has been reviewed and approved by anyone other than the preparer of the monthly reports.
- Duties are not adequately segregated in the County Treasurer's office:
    - The Treasurer and one full-time deputy issue receipts.
    - The same person preparing the daily deposit also issues receipts and reconciles the bank accounts.

Cause of Condition: Procedures have not been designed and implemented to monitor and review the monthly report for accuracy or to perform a complete and accurate reconciliation between the County Treasurer and the County Clerk.

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 receipts apportioned, disbursements, and cash balances are accurately presented on the County Treasurer's monthly reports.

We further recommend, the County Treasurer perform and retain documentation of monthly reconciliations between the County Treasurer's office and the County Clerk's office with the signature of the individual that performed the reconciliation and the date the reconciliation was performed.

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 the Board of County Commissioners review and approve accounting functions which would provide independent oversight of the accuracy of the County Treasurer's monthly reports.

Management Response:
County Treasurer: Most documents within my office will have both the Treasurer and deputy signatures indicating we both handled the document.

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 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 did not comply with 62 O.S. § 517.4, which requires county deposits with financial institutions be secured with collateral securities or instruments.

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

- Gained an understanding of the internal controls related to pledged collateral through discussions with the Treasurer, observation, and review of ledgers and documents.

- Tested compliance of the significant law, which included the following:
  - We reviewed all County bank accounts and determined the day with the largest balance in each month had adequate pledged collateral.

Finding: Inadequate Controls Over Pledged Collateral and Noncompliance with Statute

Condition: Upon inquiry of County personnel, observation, and review of documents, we determined that County funds were not adequately secured with pledged collateral for two of the thirty six days tested.

- The months of July and August, 2009 reflected that a certificate of deposit of $400,000.00 was inadequately secured by $150,000.00 during that time period.

Additionally, there was no documented evidence of the monitoring process over pledged collateral.

Cause of Condition: Procedures have not been designed, implemented, or documented to ensure that county funds are adequately secured with pledged collateral.

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

Recommendation: OSAI recommends the County Treasurer maintain evidence of monitoring pledged collateral amounts to bank balances on a daily basis to ensure that County funds are adequately secured and compliance with 62 O.S. § 517.4.

Management Response:
County Treasurer: Both the Treasurer and deputy now double check collateral reports and sign off on them.

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

Objective 3:	To determine the County's financial operations complied with 68 O.S. § 1370E, which requires the sales tax collections to be deposited in the general revenue or sales tax revolving fund of the County and be used only for the purpose for which such sales tax was designated.

Conclusion: With respect to the items tested, the County generally 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. However, internal controls over sales tax calculations should be strengthened.

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.
    - Sales tax proceeds are directly remitted to Harmon County Hospital.
    - Obtained a vendor listing of purchase orders for Harmon Memorial Hospital to determine that all expenditures were made for purposes designated on the sales tax ballot.

Finding: Inadequate Controls Over Sales Tax Calculations and Noncompliance with Statutes

Condition: Upon inquiry and observation of the recordkeeping process of apportioning sales tax collections, the following was noted:

- There is no independent oversight of the calculation of sales tax collections that is presented for appropriation by the County Treasurer to the County Clerk.

- There was an error in apportionment of sales tax funds in the month of September, 2010. The amount calculated was correct, but the amount apportioned was $1,500.00 less than the calculated amount. The error was corrected in the next month of October, 2010.

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

Effect of Condition: This condition could result in miscalculations of sales tax revenue to be apportioned and disbursements that do not adhere to the designated purpose.

Recommendation: OSAI recommends that a recalculation be performed for the apportionment of sales tax collections that is presented for appropriation by the Treasurer to the County Clerk. Documentation should be maintained and provide evidence of who performed the recalculation and the date of the review.

Management Response:
County Treasurer: Both the Treasurer and the deputy now double check all reports of income and initial the miscellaneous receipt of that income. We will double check the appropriation sheets before giving them to the County Clerk.

Criteria: Effective internal controls would include procedures that ensure compliance with 68 O.S. § 1370E.

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

Conclusion: The County generally 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 ad valorem tax distribution need to 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 that the Treasurer applied the certified levies, as fixed by the Excise Board of the County, to the tax rolls.
  - Recalculated the apportionment of ad valorem tax collections to determine collections were accurately apportioned to the taxing entities.

Finding: Inadequate Controls Over Ad Valorem Tax Distribution and Unidentified Variances

Condition: Upon inquiry of County personnel, observation and review of documents, and recalculation of ad valorem taxes, we determined that the ad valorem tax distribution process was not adequately monitored and segregated.

- One employee is primarily responsible for entering the mill levies, receipting and depositing ad valorem taxes, and preparing the apportionments for the recipients.

- There was no documentation of the review of the mill levies entered into the system to ensure they were input correctly.

Although not significant to the objective, upon reconciling the calculated amount of ad valorem tax collected to the amount apportioned for each tax year, we determined that small variances were unidentified each year as follows:

- $2.00 in tax year 2009, $1.17 in tax year 2010, and $277.00 in tax year 2011.

Cause of Condition: The County Treasurer has not implemented controls to ensure that the tax levies are entered into the system correctly or that collected taxes are apportioned accurately.

Effect of Condition: A tax levy could be entered incorrectly causing apportionment errors.

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

Management Response:
County Treasurer: Both the Treasurer and deputy put in millage levies together. After printing the millage report for all funds, we double check against the millage report given to us by the County Clerk. We then initial and have the County Assessor and County Clerk check and initial the report.

Criteria: Effective internal controls include key functions within a process be adequately segregated to allow for prevention and detection of errors and abuse, and that adequate documentation of recalculations and verifications be maintained.

Finding: Joint School Ad Valorem Tax Error in Remittance of Collections to the Eldorado School District

Condition: OSAI was notified that the Eldorado School District had received two remittance checks from Harmon County for joint school ad valorem tax collections. Upon further investigation, it was determined that the Eldorado School District received the ad valorem remittance check for Duke School District from November, 2007 to June, 2011.

Cause of Condition: The County did not implement procedures to ensure that remittance warrants of ad valorem tax collections were issued to the correct recipient. The mailing address for the Duke School District was entered erroneously into the County Clerk's remittance system as the address for both the Duke and El Dorado School Districts; therefore, the Duke School District had not received the distribution of joint school district ad valorem taxes, and the Eldorado School District received both remittance checks for approximately 23 months.

Effect of Condition: This condition resulted in El Dorado School District being overpaid $14,709.02 in joint school district ad valorem taxes and Duke School being underpaid in the same amount.

Recommendation: OSAI recommends the County implement procedures with regard to the issuance of remittance warrants to ensure the correct recipient receives ad valorem tax collections within a timely manner.

Management Response:
County Clerk: The County Clerk will provide a list of names and addresses to the County Treasurer so they can also check to make sure my office is sending the warrants to the correct recipient on the joint school ad valorem tax remittance collections.

County Treasurer: More attention is being paid by the County Treasurer's office to be aware of the names of the School Treasurers so that we may notice future checks are going to the correct name and address.

Criteria: Effective internal controls include County management awareness of the financial transactions of the County and that funds collected are properly distributed to the recipients.

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

Conclusion: With respect to the items tested, the County did not comply with 19 O.S. § 1505C, 19 O.S. § 1505E, and 19 O.S. § 1505F, which outlines the procedures for acquisition, purchasing and receiving goods and 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 law, by randomly selecting 120 purchase orders to test for 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 Over Purchasing Procedures and Noncompliance with Statutes

Condition: Upon inquiry of County personnel and observation of the purchasing process, we noted the following weaknesses in the internal control procedures:

- In some instances, the District employee makes purchases and also acts as receiving agent for the purchases.
- Unauthorized County personnel are allowed to make purchases.
- Requisitioning officers do not sign all purchase orders.
- The County does not officially designate requisitioning officers in the BOCC minutes.
- The County Clerk's deputy is the custodian of the three signature stamps of the County Commissioners.

Further, the test of 120 purchase orders revealed the following noncompliance with regard to purchasing statutes:

- Two instances were noted where the purchase order did not have a corresponding receiving report.

Cause of Condition: In an effort to facilitate cooperation among the different offices, procedures have not been designed and implemented to provide adherence to the statutes regarding purchasing and to ensure internal controls are in place.

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

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

Management Response:
County Clerk: The County Clerk will make sure each office designates a requisitioning officer each fiscal year and will comply with statutes.

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

Objective 6:	To determine the County's financial operations complied with 19 O.S. § 1505B, which requires county purchases in excess of $10,000 be competitively bid.

Conclusion: The County complied with 19 O.S. § 1505B, which requires that purchases in excess of $10,000 be competitively bid.

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

- Gained an understanding of the internal controls related to the process of competitively bidding purchases in excess of $10,000, which included discussions with County personnel, observation, and review of documents.

- Tested compliance of the significant law, which included the following:
  - Selected 100% of purchases in excess of $10,000 to determine 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.

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: The County complied with 19 O.S. § 180.74 and 180.75 regarding amounts allowed for officers' 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.

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

- Reviewed the salaries paid to officers to determine the salaries are not in excess of the amount allowed by statute.

Finding: Concentration of Duties in the Payroll Process

Condition: Upon inquiry of County personnel and observation of the County's payroll process, it was noted that:

- Documentation is not maintained to determine that payroll is reviewed by someone other than the preparer.
- The same employee that enters new hires into the system also prepares payroll records.

Cause of Condition: Procedures have not been designed and implemented for separating the duties over the payroll process due to the County Clerk being unaware of a need for such a procedure.

Effect of Condition: This condition could result in errors and/or misappropriation of county assets.

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

- Posting new hires and/or making payroll changes to the payroll system.
- Access to personnel files.
- Printing payroll warrants.
- Preparing OPERS reports and state and federal tax reports.

OSAI also recommends those charged with the responsibility of independent oversight of payroll documentation, initial and date their reviews to ensure the operating effectiveness of internal controls designed and implemented.

Management Response:
County Clerk: A review of County payroll, including reports and amounts, is performed by the deputy and the Clerk before warrants are issued. This was explained to the auditor when our audit was performed.

Criteria: Effective internal controls include procedures designed by management to ensure internal controls designed and implemented are operating effectively.

Finding: Inadequate Controls Over Compliance with Salary Limitation

Condition: Upon discussion with County officials, we determined no one is designated to perform the calculation of salary limitations. The officials rely upon the budget maker for the calculation.

Cause of Condition: Procedures have not been designed and implemented for documenting the calculation of salary limitations because officials were unaware of a need for such a procedure.

Effect of Condition: This condition could result in officers' salaries being in excess of the allowed amount.

Recommendation: OSAI recommends those officials and employees assigned the duty of calculating the officers' salary limitations for the County officials sign and date their individual calculation sheets. Further, OSAI recommends the calculation sheets be filed with the County Clerk.

Management Response:
County Clerk: My office was not aware that a review of the salaries must be done to determine the salaries are not in excess of the amount allowed by statute.

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

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

Conclusion: With respect to the items tested, the County did not comply with 19 O.S. § 1504A, which requires the receiving officer to maintain a record of all supplies, materials, and equipment received, disbursed, stored and consumed by his department.

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

- Gained an understanding of the internal controls related to the process of maintaining a record of all supplies, materials, and equipment received, disbursed, stored and consumed by a department, which included discussions with County personnel, observation, and review of documents.

- Selected a random sample of three consumable items from each District's records to determine that the District barns are maintaining accurate records and they agree to a physical count of records.

Finding: Inadequate Controls Over Consumable Inventories and Noncompliance with Statute

Condition: Upon inquiry, observation, and testing of the County's consumable inventory process, the following weaknesses were noted in the Districts' consumable inventories:

- The same employee that receives consumable inventories also maintains the accounting records for those consumable items and is responsible for the inventory of those items.
- The Districts did not retain documentation to verify that a physical inventory count was performed.
- The Districts did not maintain fuel logs or track fuel usage.

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

Effect of Condition: Opportunities for loss and misappropriation of county assets may be more likely to occur when the District 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 a monthly physical count of all consumable inventories with retention of the documentation of the count, signed by the individual that performed the count and the date the count was performed. Additionally, the Districts should implement procedures to adequately safeguard fuel from unauthorized use by maintaining fuel logs and reconciling the fuel logs to the fuel used from the tanks.

Management Response:
District 1 and 3 County Commissioners: Each Commissioner does keep a monthly inventory record which is brought to the Board every month. They will also start keeping a fuel log.

District 2 County Commissioner: We track consumable inventory files with the County Clerk every thirty days. The Board of County Commissioners signs the form at the Board meeting.

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.

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 regard 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" the County.

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

- Gained an understanding of the internal controls related to the process of maintaining inventory records, verifying inventory, and marking equipment "Property of" the County, which included discussions with County personnel, observation, and review of documents.

- Selected a random sample of 138 items and tested compliance with 19 O.S. § 178.1 and 69 O.S. § 645 to determine that the County:
  - Maintains inventory records.
  - Performs periodic inventory verifications.
  - Clearly and visibly marks equipment "Property of" the County.

Finding: Inadequate Controls Over Fixed Assets and Noncompliance with Statutes

Condition: Upon inquiry of County personnel, observation of documents, and testing of the County's fixed asset inventory, the following weaknesses were noted:

- County officers indicated that fixed asset inventory verification was performed; however, the documentation did not indicate who performed the inventory, when it was performed, or the results of the inventory performed.

- The three Districts do not routinely mark equipment “Property of Harmon County.”

Cause of Condition: Procedures have not been designed to comply with 19 O.S. § 178.1 and 69 O.S. § 645 to ensure an annual inventory count is performed and that inventory is properly marked.

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

Recommendation: OSAI recommends management implement internal controls to ensure an annual physical inventory count is performed and the documentation is retained with the signature(s) of the individual(s) that performed the count and the date the count was performed, and that all highway equipment is clearly and visibly marked “Property of Harmon County”.

Management Response:
District 1 and 3 County Commissioners: The County Commissioners will document inventory. They will sign and date with two signatures. The Commissioners will start documenting inventory verifications. They have marked all machinery Property of Harmon County.

District 2 Commissioner: Inventory is on hard cards; annual inventory is performed and dated on cards as to inventory date.

Criteria: An important aspect of internal controls is the safeguarding of assets. Internal controls over safeguarding of assets constitute a process effected by an entity’s governing body, management, and other personnel, designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of fixed assets, and safeguarding fixed assets from loss, damage, or misappropriation.

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

Conclusion: With respect to the days tested and the items reconciled, the County Treasurer, Assessor, Court Clerk, and Sheriff 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. The County Clerk did not comply with this statute on two occasions.

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 reconciling receipts issued for three one-week periods during the audit period to ensure that:
    - Official depository receipts are deposited daily.
    - Deposits record the payment type accurately.
    - Official depository receipts agree to the amounts recorded on the deposit.

Finding: Inadequate Controls Over Official Depository Receipts and Noncompliance with Statute

Condition: Upon inquiry of County personnel, observation of documents with regard to the receipting process for official depository collections in each office, and the test of three week's activity, we noted the following:

- **County Clerk:**
    - The same employee issues receipts, prepares the deposit, takes the deposit to the Treasurer, reconciles to the Treasurer's records, issues the voucher to transfer fees, and prepares the monthly report to the Board of County Commissioners.
    - The test of compliance with daily depositing indicated that the County Clerk did not deposit on a daily basis on two occasions.

- **County Treasurer:**
    - The same employee issues receipts, prepares the deposit, reconciles the bank statements, issues the voucher to transfer fees, and prepares the monthly report to the Board of County Commissioners.

- **County Assessor:**
    - Receipts are issued by the same person that prepares the deposit and takes the deposit to the Treasurer's office.

- **County Court Clerk:**
    - The employee that issues receipts also balances the cash drawer, prepares the deposit, and takes the deposit to the Treasurer's office.
    - All employees work from the same cash drawer.

- **County Sheriff:**
    - The same employee issues receipts, prepares the deposit, reconciles the account to the Treasurer's records, issues the voucher to transfer fees, and prepares the monthly report to the Board of County Commissioners.
    - The same employee also counts the cash received in the office without another employee verifying the amount to be deposited.

Cause of Condition: In order to provide prompt service to the citizens of Harmon County and for ease of operations, the offices of the County utilize all employees to issue receipts. Additionally, due to the limited number of personnel within each office, one individual is sometimes responsible for all key functions of the office.

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

Recommendation: OSAI recommends establishing a system of controls to adequately protect the collections of each office, which include but are not limited to the following:

- Each office should deposit funds on a daily basis.
- The employee issuing receipts should not prepare the deposit or reconcile the account to the Treasurer's records.
- Each office should establish separate cash drawers for each employee that issues receipts.

Management Response:
County Clerk: The Clerk and two other deputies issue receipts. The deposit is also checked by a deputy before it is taken to the Treasurer's office. This was also explained to the auditor when our audit was performed. If I have no money coming into my office for that day, there will be no deposit made that day. We are a small County and only have one deputy in each office. I also have the Commissioners' secretary, who is deputized, and who helps out when available. Our budget is very tight and we cannot afford to hire more deputies.

County Treasurer: Both the Treasurer and deputy will sign all receipts and all deposits with exception of tax receipts, because they are printed with the name of the person doing the transaction.

County Assessor: The deputy and the Assessor will initial receipts and deposits. When there is only one person in the office we will have someone from the Treasurer's office to check and initial the receipts and deposits.

Court Clerk: Due to having one deputy, we have to be cross trained. There are times only one person is in the office.

County Sheriff: The Sheriff chose not to respond.

Criteria: 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 and funds be deposited daily, in compliance with 19 O.S. § 682.

Objective 11:	To determine the County Court Clerk's financial operations complied with 19 O.S. § 220 and 20 O.S. §1304, which outlines procedures for expending court clerk revolving fund monies and court fund monies.

Conclusion: With respect to the items tested, the Court Clerk 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. However, internal controls over the Court Fund expenditures 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 26 Court Revolving Fund expenditures and verified the following:
    - Ensuring the expenditure was for the lawful operation of the Court Clerk's office.
    - Ensuring that the expenditure claim is approved by the Court Clerk and either the District Judge or the Associate Judge of the County.
    - Ensuring that all claims are supported by adequate documentation.

- Tested compliance with 20 O.S § 1304, which included the following:
  - Randomly selected 75 Court Fund claims and verified the following:
    - Expenditures were made for the lawful operation of the office.
    - Claims were approved by the District Judge and either the Court Clerk or Associate District Judge.

Finding: Inadequate Controls Over the Court Fund Expenditures

Condition: Upon inquiry of the Court Clerk's personnel and observation of the Court Fund claims, we determined that the following weakness in adequate controls exists:

- The Court Clerk prepares the claims, prepares the vouchers, takes the vouchers to the Treasurer's office to be registered, and distributes the vouchers to the claimants.

Cause of Condition: The Court Clerk believes that the individual that processes the claims has a better understanding of the fund's accountability.

Effect of Condition: These conditions could result in misappropriation of funds or undetected errors.

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

Management Response:
Court Clerk: The claim is prepared and then taken to the County Clerk for them to have a voucher issued. As of November 1, 2012, we will have control of issuing and mailing the vouchers on the same day.

Criteria: Effective internal controls include procedures designed by management to ensure Court Clerk Revolving Fund monies are spent in accordance with 19 O.S. § 220 and Court Fund monies are spent in accordance with 20 O.S. §1304.

All 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

Monitoring	Procedures
Audit findings	Determine audit findings are corrected.
Financial status	Periodically review budgeted amounts to actual amounts and resolve unexplained variances.
Policies and procedures	Ensure employees understand expectations in meeting the goals of the County.
Following up on complaints	Determine source of complaint and course of action for resolution.
Estimate of needs	Work together to ensure this financial document is accurate and complete.

Management Response: The County officers chose not to respond to this finding.

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 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 Plans

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

- County Sheriff
- County Court Clerk
- County Assessor

- District 1 Commissioner
- District 2 Commissioner
- District 3 Commissioner

Cause of Condition: The County has not addressed the need for Disaster Recovery Plans.

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

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

Management Response:
County Sheriff: The Sheriff chose not to respond.

Court Clerk: As of October 30, 2012, we have a Disaster Recovery Plan in place.

County Assessor: The Assessor updated the Emergency Contingency Plan and provided a copy to the auditors on October 15, 2012.

District 1, 2, and 3 Commissioners: All three Commissioners implemented the Disaster Recovery Plan with help from one of the auditors on August 6, 2012.

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

According to the standards of the Information Systems Audit and Control Association (COBIT, Delivery and Support) DS 11.6 Security Requirements for Data Management, management should define and implement policies and procedures to identify and apply security requirements applicable to the receipt, processing, storage and output of data to meet business objectives, the organization’s security policy and regulatory requirements.

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

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

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