OPERATIONAL AUDIT

HARPER COUNTY

FOR THE PERIOD JULY 1, 2009 THROUGH JUNE 30, 2012

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

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Oklahoma State Auditor & Inspector

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March 19, 2013

TO THE CITIZENS OF
HARPER COUNTY, OKLAHOMA

Transmitted herewith is the audit report of Harper 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

Part of the area opened in the Land Run of September 16, 1893, Harper County was named for Oscar G. Harper, clerk of the Oklahoma Constitutional Convention.

The mainstay of the Harper County economy is agriculture, but the production of oil and gas also plays an important economic role. Prime cattle are in evidence throughout the area's feed yards. A modern veterinarian clinic and hospital with facilities for large animal surgery is close at hand.

Located on the old Military Trail from Fort Supply to Fort Dodge, Buffalo, the county seat, is twelve miles south of the Kansas line and approximately thirty miles from Texas.

With many of its original stone buildings still in use, Buffalo is the home of the State Highway Department's Sixth Division Headquarters. Two schools, the Harper County Community Hospital, and an airport, are located in Buffalo. Laverne also has an airport.

Famous county residents include Roy Dunn, world champion wrestler; Mel Harpe, who recommended Knute Rockne as football coach for Notre Dame; and Jane Jayroe, Miss America, 1967. Annual events include the County Fair during early fall and the Laverne Trade show. The Old Settler's Picnic has been held on the third Sunday in August annually since 1940.

For more county information, call the county clerk's office at 580/735-2012.

County Seat – Buffalo	Area – 1,040.96Square Miles
County Population – 3,377 (2009 est.)	
Farms – 580	Land in Farms – 616,947 Acres

Primary Source: Oklahoma Almanac 2011-2012

COUNTY OFFICIALS

Lynette Ingrahm..County Assessor
Joyce Johnson..County Clerk
Cody Hickman..County Commissioner District 1
Carl Laverty..County Commissioner District 2
W.A. Blair..County Commissioner District 3
Marty Drew..County Sheriff
Peggy Tillery..County Treasurer
Linda Smith..Court Clerk

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

	Beginning Cash Balance July 1, 2011	Receipts Apportioned	Transfers In	Transfers Out	Disbursements	Ending Cash Balance June 30, 2012
Combining Information:						
County General Fund	$ 568,547	$ 1,185,847	$ -	$ -	$ 1,217,203	$ 537,191
Highway Cash	3,607,244	2,786,403	168,944	-	2,976,684	3,585,907
T-9 Highway	253,162	37,738	10,000	-	36,281	264,619
CST Health Department	96,685	90,011	-	-	44,869	141,827
CST OSU Extension	108,900	57,260	-	-	37,777	128,383
CST Free Fair	91,211	67,686	-	-	55,174	103,723
CST Rural Fire	128,784	70,073	-	-	57,255	141,602
CST Laverne EMS	3,921	50,962	-	-	46,099	8,784
CST Buffalo Senior Citizen	3,232	3,185	-	-	1,867	4,550
CST Laverne Senior Citizen	245	3,185	-	-	2,881	549
CST Laverne Delphian Library	245	3,185	-	-	2,881	549
CST Rural Development	37,310	12,741	-	-	22,840	27,211
CST County General	102,765	231,002	-	-	191,570	142,197
CST Buffalo Library	245	3,185	-	-	2,881	549
CST Buffalo EMS	3,921	50,962	-	-	46,099	8,784
CST County Hospital	49,015	637,031	-	-	576,241	109,805
Harper County Emergency Mgmt	30,162	25,800	-	10,000	18,966	26,996
Bridges	1,272,864	307,953	-	168,944	191,283	1,220,590
Remaining Aggregate Funds	276,266	280,244	-	-	199,729	356,781
Combined Total - All County Funds	$ 6,634,724	$ 5,904,453	$ 178,944	$178,944	$ 5,728,580	$ 6,810,597

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, controls over the Treasurer's office should be strengthened.

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 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 the process over the monthly reports, we noted the following:

- The County Treasurer's monthly reports are compiled from an information system in which the County Treasurer and one deputy perform daily activity using the information system such as issuing receipts and posting disbursements.
- There is no reconciliation between the County Treasurer and the County Clerk. The Treasurer performs reconciliations between her appropriation ledger and her general ledger.
- There is no documentation to confirm that the Treasurer has performed independent oversight of the accuracy of the monthly reports.

Additionally, the following 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 reports for accuracy or to perform complete and accurate reconciliations between the County Treasurer and the County Clerk. The limited staff has resulted in an inadequate segregation of duties with regard to the receipting and depositing process.

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

Recommendation: OSAI recommends the following, in order to improve controls over the County Treasurer's monthly reports and segregation of duties:

- 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.
- The County Treasurer and the County Clerk perform a monthly reconciliation between the County Treasurer's general ledger and the County Clerk's appropriation ledger and maintain the documentation of the reconciliation with signatures of the individuals that performed the reconciliation and the date the reconciliation was performed.
- The County Treasurer should determine how duties could be properly segregated or implement compensating controls which would include management review and approve key accounting functions of the office and have 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: Part of the procedure was being done in regards to balancing with the County Clerk in their office and the County Treasurer's office. We now have incorporated the suggestions of the auditor. The County Clerk gives the Treasurer the print out of the appropriations ledger and the Treasurer's office signs a paper documenting the reconciliation.

County Clerk: We are currently in the process of trying to figure out the best way to perform reconciliations between the County Clerk and the County Treasurer. Once the reconciliation is completed, the person performing the duty will sign and date.

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. 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.

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. However, controls over daily monitoring pledged collateral to bank balances should be strengthened.

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

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

- Tested compliance of the significant law, which included the following:
  - For each month of the audit period, we compared the total largest balance by day, for all accounts in each bank, to the amount of pledged collateral to determine that deposits were adequately secured.

Finding: Inadequate Internal Controls Over Pledged Collateral and Noncompliance with Statute

Condition: Upon discussion with county personnel, observation, and review of documents, we noted the following weaknesses regarding the County's deposits:

- The County Treasurer did not document that pledged collateral was monitored on a daily basis to ensure that county deposits were secure.
- The County Treasurer relied on the bank personnel to determine that pledges and FDIC coverage were adequate to cover bank deposits.

Additionally, county funds at a local bank were not adequately pledged as follows:

- December 31, 2009, in the amount of $890,749.00.
- January 1, 2010, in the amount of $936,454.34.
- March 30, 2010, in the amount of $328,491.25.
- December 29, 2010, in the amount of $289,274.14.

In all instances noted above, the Treasurer transferred funds from this bank after she became aware that these funds were not completely collateralized. The transfer was not reflected on the banks books until after the date tested above.

County funds at another local bank were not adequately pledged as follows:

- January 11, 2011, in the amount of $43,518.03.

Cause of Condition: Procedures to adequately document the monitoring of the daily bank balances to the pledged collateral at each bank were not fully implemented. Additionally, the two banks in the County have limited ability to adequately provide pledged collateral for the County's deposits. Therefore, the County Treasurer must transfer funds from one bank to the other bank on very short notice in an attempt to adequately collateralize the County's deposits.

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

Recommendation: OSAI recommends that the County Treasurer implement a system of internal controls to provide reasonable assurance that county funds are adequately secured. The County Treasurer should design and implement internal controls to monitor pledged collateral amounts to bank balances on a daily basis and retain the documentation. Further, OSAI recommends the County Treasurer comply with 62 O.S. § 517.4, which requires county deposits with financial institutions be secured with collateral securities or instruments.

Management Response:
County Treasurer: After conferring with the auditor and providing evidence of additional pledged collateral and funds being transferred from one bank to the other bank in an attempt to avoid having unsecured deposits, I agree that deposits at a local bank on December 31, 2009, were more than the amount pledged. Additionally, pledged collateral was not adequate on March 30, 2010, December 29, 2010, and March 31, 2011. In each case a transfer check was written, when we became aware of the shortage.

With regard to another local bank, a transfer check was written one day after we became aware that funds were unsecured on the date of January 11, 2011.

Additionally, I would also like to express our concern regarding ACH payments that are deposited in our accounts. We are notified by email at a later date of these deposits. Thus, we may not have adequate pledged collateral after these deposits are made.

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

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

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

- Gained an understanding of the internal control process of receipting, apportioning, and disbursing sales tax collections through discussions with county personnel, observation, and review of documents.

- Tested compliance of the significant law, which included the following:
    - Reviewed sales tax ballots to determine designation and purpose of sales tax collections.

- Obtained confirmations from the Oklahoma Tax Commission for sales tax payments made to the County and recalculated the amounts apportioned by the County Treasurer to ensure sales tax collections were apportioned to the proper funds.
- Selected a random sample of thirty-four purchase orders from the Sales Tax Funds and determined that 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, observation, and review of documentation of the record keeping process of apportioning and expending 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.

- County sales tax funds were remitted directly to the Buffalo EMS, the Laverne EMS, the Buffalo Library, the Laverne-Delphian Library, the Laverne Senior Citizen, and the County Hospital, without regard to being expended in accordance with the purchasing procedures.

- We were unable to determine if the expenditures for these six entities were for the purpose designated by the sales tax ballot.

Cause of Condition: Procedures have not been developed to monitor the calculation of the sales tax apportioned or expended.

Effect of Condition: This condition could result in misappropriated funds and funds expended for purposes not designated by the sales tax ballot.

Recommendation: OSAI recommends an employee recalculate the apportionment of sales tax collections that is presented for appropriation by the Treasurer to the County Clerk. The recalculation should be maintained and document the individual that performed the recalculation and the date it was performed. Additionally, OSAI recommends that all entities receiving sales tax money expend sales tax funds in accordance with the county purchasing laws to ensure the expenditure is in accordance with the designated purpose on the sales tax ballot.

Management Response:
County Clerk: We are now recalculating the sales tax collections and making sure the sales tax collections presented for appropriation by the County Treasurer are correct. When we finish our recalculation, we will sign and date it. We are currently holding classes with the six entities receiving sales tax collections that do not adhere to the county purchasing procedures. We hope to begin the purchase order process with them soon.

County Treasurer: This recommendation has now been incorporated into the County sales tax recalculation. The County Clerk signs and dates the sales tax breakdown, as does the County Treasurer.

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: 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, controls over the ad valorem tax collections and distribution should be strengthened.

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

- Gained an understanding of the internal controls related to the process of apportioning and distributing ad valorem tax collections, which included discussions with county personnel, observation, and review of documents.

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

Finding: Inadequate Internal Controls Over Ad Valorem Taxes

Condition: Upon inquiry, observation, and review of documents, the following was noted:

- There was no documentation to indicate a review of the mill levies entered into the Treasurer's system to ensure they were entered correctly.

Cause of Condition: Internal control procedures have not been implemented to ensure mill levies are entered correctly and are consistently applied correctly for both prior and new tax years.

Effect of Condition: This condition could result in the misappropriation of ad valorem taxes to the entities that receive ad valorem taxes.

Recommendation: OSAI recommends the Treasurer implement internal control procedures to ensure that mill levies are entered correctly, which include an independent verification of the mill levies entered into the Treasurer's system to the certified tax levy. Additionally, a review of prior year levies should be performed to ensure they are not changed when the new levies are entered.

Management Response:
County Treasurer: As of November 16, 2012, the County Treasurer's office, Assessor's office, and the County Clerk have begun signing off and checking the mill levies to ensure that they are entered correctly for each tax year. A review of prior year levies has also been performed.

Criteria: Effective internal controls include a documented review of key functions be performed and maintained to help prevent and detect errors.

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

Conclusion: With respect to the items tested, the County did not comply with 19 O.S. § 1505C, 19 O.S. § 1505E, and 19 O.S. § 1505F, which outlines procedures for expending county funds.

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

- Gained an understanding of the internal controls related to the process of encumbering purchase orders, authorization of payment of purchase orders, and documenting goods and services received, which included discussions with county personnel, observation, and review of documents.

- Tested compliance of the significant law, which included the following:
  - Selected a random sample of 120 purchase orders from county funds and determined that:
    - A purchase order was on file and the funds were encumbered prior to ordering the goods or services.
    - A completed receiving report was attached to the purchase order.
    - An original invoice was attached to the purchase order.
    - The Board of County Commissioners approved the purchase order.

Finding: Inadequate Controls Over Purchasing and Noncompliance with Purchasing Statutes

Condition: Through inquiry, observation and review of documentation, the following was noted:
- Purchase orders were issued at the request of employees who were not appointed as requisitioning officers.
- Purchases were made by employees who were not authorized to make purchases.
- Purchase orders were encumbered by the County Clerk's office prior to the requisitioning approving the requisition.
- Purchase order numbers were assigned in a manual purchase order book prior to being entered into the County's purchasing system; thus allowing the purchase orders to be back dated. Further, because the encumbrance is not immediately entered into the IT system, there is no assurance that funds are available and set aside for this obligation.

- Purchases were made prior to the issuance of a purchase order or encumbrance of the funds for 22 of the 120 purchase orders reviewed.
- One purchase order for fiscal year 2011 was paid from the OSU Sales Tax Fund. This claim was for a travel reimbursement in the amount of $1,477.53 but had no documentation attached to the claim.

Cause of Condition: Procedures have not been designed to ensure compliance with statutes regarding the expenditure of county funds. Also, internal control procedures have not been implemented to properly encumber funds for obligations of the County.

Effect of Condition: These conditions could result in unrecorded transactions, misstated financial reports, undetected errors, or misappropriation of funds. These conditions could also result in the purchasing agent verbally approving an encumbrance when fund balances are not sufficient for the encumbrance.

Recommendation: OSAI recommends management implement procedures to comply with state statutes regarding the expenditure of the County's funds. Purchase orders should be entered into the IT system as soon as requested to ensure funds are properly set aside for obligations and to ensure that the County does not exceed the amounts available for budgeted expenditures.

Management Response:
County Clerk: We are currently working with all county officials and entities with regard to adherence to county purchasing laws. We hope to achieve better internal controls in order to comply with state 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: With respect to the items tested, 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 internal controls which included the following:
  - Determining that all purchases for $10,000 or more were initiated in a Board of County Commissioners' open meeting with a majority approval to go out for bids.
  - Determining that bids were received in the County Clerk's Office.
  - Determining that a majority of the Board of County Commissioners approved the bid in an open meeting and recorded reasons for not accepting the lowest bid.

- Selected a random sample of ten purchases in excess of $10,000 and determined that the County followed statutes regarding public notice, handling of unopened bids, awarding bid to best bidder, recording appropriate information in Board of County Commissioners' minutes, and notification to successful bidders.

Objective 7:	To determine the County's financial operations complied with 19 O.S. § 180.62 and 180.63 regarding amounts allowed for officers' salaries.

Conclusion: With respect to the salaries tested, the County complied with 19 O.S. § 180.62 and 180.63, which establish limitations on the amount of county officer's salaries. However, 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.

- Tested compliance with 19 O.S. § 180.62 and 180.63 by performing the following:
  - Recalculated the maximum amount allowed for officers' salaries as set forth in 19 O.S. § 180.62 and 180.63.
  - Reviewed the salaries of the county officials to ensure that amounts paid did not exceed statutory limits.

Finding: **Lack of Documentation of Review within the Payroll Process**

Condition: Upon discussion with county personnel, observation, and review of documents, we determined that the County Clerk has segregated most of the key function of the payroll process. Three staff members divide the duties of enrolling new employees, inputting payroll data into the payroll system, and verifying the payroll reports generated from the system. However, we noted the following control weaknesses:

- The payroll clerk enters new hires into the payroll system and enters the timesheet data into the system for monthly payroll.
- There is no evidence of the review of payroll reports and input of data.

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

Effect of Condition: This condition could result in payroll errors or misappropriation of funds.

Recommendation: OSAI recommends that key payroll functions of the payroll process be adequately segregated. If the key payroll functions cannot be adequately segregated, then mitigating controls, such as reviews and documentation of reviews be implemented. All reports in the payroll process should document who performed the process, the date the process was performed, who reviewed the reports, and the date the review occurred.

Management Response:
County Clerk: Even though the payroll clerk usually entered new hires into the system and prepared payroll, it has always been reviewed by another employee. We did not document the review. We are currently signing and dating that review and will strive to perform this review each month.

Criteria: Effective internal controls include independent review of payroll reports and documentation of the review. Additionally, key functions of a process should be segregated to the best extent possible.

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 complied with 19 O.S. § 1504A, which requires the receiving officer to maintain a record of all supplies, materials, and equipment received, stored, and consumed by the department. However, controls over the consumable inventory 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 maintaining a record of all supplies, materials, and equipment received, disbursed, stored, and consumed by a department, which included discussions with county personnel, observation, and review of documents.

- Tested compliance with 19 O.S. § 1504A to determine that the District barns are maintaining accurate records and that they agree to a physical count of records.

Finding: Inadequate Internal Controls Over Consumable Inventories

Condition: Upon inquiry, observation, and testing of the Districts' consumable inventory process, the following was noted:

District 1

- No documentation was retained to verify that a physical inventory count was performed.
- One employee reconciles daily fuel use records to the monthly statement from the co-op and has access to a County credit card used for fuel.

District 2

- No documentation was retained to verify that a physical inventory count was performed.
- Employees track fuel use on fuel logs. The fuel logs are compared to a report generated from the fuel pump by the District barn's secretary. However, no approved documentation is retained to verify the reconciliation occurs.

District 3

- No documentation was retained to verify that a physical inventory count was performed.
- One employee reconciles daily fuel use records to the monthly statement from the co-op and has access to a County credit card used for fuel.
- Manual records provided by the District foreman were used to visually verify consumable inventory records. However, the manual records did not agree to the records maintained in the computer system by the District secretary.

Cause of Condition: Procedures have not been designed for the accurate reporting of consumable inventories. Procedures have not been designed to perform and document the physical verification of consumable inventory on a monthly basis.

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

Recommendation: OSAI recommends that District 1, District 2, and District 3 implement procedures to comply with 19 O.S. §1504A and ensure a monthly physical count of all consumable inventories is performed and proper documentation of the physical count is retained, signifying who performed the count and the date the count was performed. Additionally, District 1, District 2, and District 3 should implement procedures to adequately safeguard fuel from unauthorized use.

Management Response:
District 1 Commissioner: One employee agrees to reconcile daily fuel use to monthly statements and that person does not have access to the fuel card. We will perform a monthly inventory verification of consumable items and document the verification. This document will be filed with the County Clerk.

District 2 Commissioner: We will comply with having signed and dated documentation every month of our inventory with regard to the auditor's report. The fuel log will have signed documentation when compared to the report generated from the fuel pump.

District 3 Commissioner: The employee that does our daily fuel record will no longer have access to the County credit card used for fuel. At the time of the audit, District 3 had some manual records that did not agree with the computerized records. The reason for the discrepancy in the records was a glitch in the computer update that didn't allow for the correction.

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

Title 19 O.S. § 1504A requires the county to maintain records of all supplies, materials, and equipment received, disbursed, stored, and consumed by the department.

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

Conclusion: With respect to the items tested, the County did not comply with 19 O.S. § 178.1 and 69 O.S. § 645, which requires the maintenance of inventory records, periodic inventory verifications, and that equipment be clearly and visibly marked "Property of Harper County".

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

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

- Tested compliance with 19 O.S. § 178.1 and 69 O.S. § 645, to ensure that:
  - Inventory records are accurately maintained.
  - Periodic inventory verifications are performed.
  - Highway equipment is clearly and visibly marked "Property of Harper County" or "Leased to Harper County".

Finding: Inadequate Controls and Noncompliance with Statutes Over Fixed Assets

Condition: Upon inquiry and observation of the fixed asset inventory process, and the test of 85 inventory items on the County's fixed asset inventory list, the following weaknesses were noted:

- All County offices have not implemented a formal annual inventory verification of fixed assets.
  - County Assessor
  - County Clerk
  - County Sheriff

    - County Treasurer
    - Court Clerk
    - District 1 County Commissioner
    - District 2 County Commissioner
    - District 3 County Commissioner

- Two of the offices had fixed assets lists that included inventory items that the office no longer possessed:
    - County Assessor
    - Court Clerk

- Additionally, upon verification of highway equipment at the District yards, we noted the following:
    - Three of the thirteen pieces of highway equipment verified in District 1 were not marked with “Property of Harper County”.

Cause of Condition: Procedures have not been designed to perform an annual physical count of fixed assets and to retain documentation of the physical count signed by the individual that performed the count and the date the count was performed. Additionally, procedures have not been implemented to mark highway equipment with the statutorily required identification information.

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

Recommendation: OSAI recommends that the County implement procedures to comply with 19 O.S. § 178.1 and 69 O.S. § 645. OSAI also recommends that all offices implement controls to safeguard fixed assets, such as marking fixed assets with ”Property of Harper County”, performing an annual physical count of all inventories, and retaining the documentation to verify that the physical count was performed, including the signature of the individual that performed the count and the date the count was performed.

Management Response:
County Assessor: We have since updated and corrected our inventory of fixed assets and have filed it with the County Clerk’s office.
County Clerk: We have since performed a physical count of fixed assets and documented the physical count. We have signed and dated the document. We will strive to do this annually.

County Sheriff: Beginning January 1st of every year, the Harper County Sheriff’s office will have a formal inventory list for all the Harper County Sheriff’s inventory along with the inventory binder that is kept in the County Clerk’s office.

County Treasurer: Inventory verification in the Treasurer’s office has already been implemented annually, to maintain an updated listing. Two people perform the verification. We will sign and date the inventory listed as requested by the auditor. Each September, we review the inventory list and make sure all items can be visually verified.

Court Clerk: I know there are fixed assets on my inventory that were junked and removed by the previous Court Clerk. These items did not go through the Board of County Commissioners' minutes. I have talked to the present County Clerk, and we have determined that I will pull the record cards on those fixed assets and remove them from the Court Clerk's inventory records.

I will also perform an annual physical count of all inventories and retain the documentation that the physical count was performed, signed, and dated.

District 1 County Commissioner: The District is continuing to provide documentation to verify that a physical inventory has been performed. We have marked all equipment with a "Property of Harper County" decal.

District 2 County Commissioner: We will implement fixed asset inventory verification for highway equipment and document the physical count.

District 3 County Commissioner: We will implement fixed asset inventory verification for highway equipment and document the physical count.

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

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

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

Conclusion: With respect to the items tested, the County generally complied with 19 O.S. § 682, which requires officers to deposit daily in the Official Depository Account all collections received under the color of office. However, controls over the receipting and depositing 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 officers depositing daily in the Official Depository Account all collections received under the color of office, which included discussions with county personnel, observation, and review of documents.

- Tested compliance with 19 O.S. § 682 by selecting one week for each fiscal year to determine all officers issuing receipts, deposited the funds received on a daily basis.

Finding: Inadequate Controls and Noncompliance Over the Official Depository Receipting and Depositing Process

Condition: Upon inquiry, observation, and testing of the Official Depository receipting and depositing process, we noted that the following weaknesses within each county office:

County Assessor:

- Procedures to adequately segregate receipting, depositing, and reconciling duties have not been implemented.
- There are no controls in place to review or monitor work performed.
- All staff work from the same cash drawer.
- One deputy performs all the duties of receipting, depositing, and reconciling the Official Depository Account.

County Clerk:

- Procedures to adequately segregate receipting, depositing, and reconciling duties have not been implemented.
- There are no controls in place to review or monitor work performed.
- All staff work from the same cash drawer.
- One deputy performs all the duties of receipting, depositing, and reconciling the Official Depository Account.

County Sheriff:

- Procedures to adequately segregate receipting, depositing, and reconciling duties have not been implemented.
- One deputy performs all the duties of receipting, depositing, and reconciling the Official Depository Account.

County Treasurer:

- Procedures to adequately segregate receipting, depositing, and reconciling duties have not been implemented.
- There are no controls in place to review or monitor work performed.
- Both the deputy and the officer work from the same cash drawer.

Court Clerk:

- Procedures to adequately segregate receipting, depositing, and reconciling duties have not been implemented.
- There are no controls in place to review or monitor work performed.
- All staff work from the same cash drawer.
- The deputy that issues receipts prepares the deposit and takes the deposit to the Treasurer.

Additionally, the test of daily deposits for three weeks to determine compliance with 19 § 682 revealed the following:

- On June 27, 2011, the Sheriff's office deposited a check for $40.89 that had not been receipted.
- On June 23, 2011, the County Clerk's office made a deposit reported to contain $22.00 in cash and $33.00 in checks; however, receipts revealed that $1.00 in cash and $52.00 in checks had been collected.
- The Assessor's office does not always deposit daily or the following business day when money is received under the color of office.

Cause of Condition: Procedures have not been designed to properly segregate the receipting and depositing duties within the offices.

Effect of Condition: Improper segregation of duties and lack of controls over the receipting and depositing process could result in misappropriation of assets, undetected errors, and misuse of county funds**.**

Recommendation: OSAI recommends the County implement procedures to ensure compliance with 19 § 682 to deposit daily money received under the color of office. Additionally, receipts should be issued in date and numerical sequence, all receipts should be accurately marked with correct amount and payment type, and all deposits should correspond to the daily receipts in cash, check and credit card composition.

Further, OSAI recommends the county officers implement internal procedures to ensure that:

- Employees issuing receipts are not preparing the deposit and taking the deposit to the Treasurer's office.
- The deposit is recalculated and reviewed for accuracy by someone other than the preparer and signed and dated by the preparer and the reviewer.

Management Response:
County Treasurer: We now have incorporated the suggestions of the auditor.

County Clerk: After some research on the deposit made on June 23, 2011, we feel we marked the receipt #18954 as a check, but it was actually cash received. We have since started recalculating the receipt book and Official Depository book after the deputy in charge of receipting has completed it. We initial and date each receipt, each check, and cash on the Official Depository deposit slip and recalculate the total to verify that it reconciles to the receipts issued for the day.

County Sheriff: The Harper County Sheriff's office has implemented procedures to adequately segregate receipting and depositing duties. One office person will be writing receipts for money obtained while another makes the deposit to be sent to the Treasurer's office. A separate person besides the depositor will be recalculating and reviewing the deposit, and signing and dating the deposit before sending it to the Treasurer's office.

County Assessor: As for our deposits with the County Treasurer, we have been receipting and initialing our deposits as requested by the auditor and depositing in a timely manner.

Court Clerk: There are times in this office, that it is almost not possible for the person performing the depositing duties to, at some point, receive and receipt funds during the eight hour day. We are very understaffed. It has been brought to our attention that this should not happen. We are trying to be aware of this procedure. Our deposit is now reviewed, signed, and dated by someone other the preparer.

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 constitutes a process, affected by an entity's governing body, management, and other personnel, designed to provide reasonable assurance regarding prevention or timely detection of unauthorized transactions and safeguarding assets from misappropriation.

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

Conclusion: With respect to the items tested, the County complied with 19 O.S. § 220 and 20 O.S. § 1304, which outlines procedures for expending Court Clerk Revolving Fund monies and Court Fund monies, respectively. However, controls over these funds 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.

- Audited all of the Court Clerk Revolving Fund expenditures for the period, to determine compliance with 19 O.S. § 220, including the following:
    - The District or Associate Judge approved and signed the claim.
    - The Court Clerk approved and signed the claim.
    - The expenditure was for an allowable expense.

- Tested a random sample of thirty Court Fund expenditures to determine compliance with 20 O.S. § 1304, including the following:
    - The District Judge approved and signed the claim.
    - The Associate District Judge or Court Clerk approved and signed the claim.
    - The expenditure was for an allowable expense.

Finding: Concentration of Duties in the Court Clerk Revolving Fund and Court Fund Expenditure Processes

Condition: Upon discussion with Court Clerk personnel, observation, and review of documents, we determined that the expenditure process for the Court Clerk Revolving Fund and the Court Fund are not adequately segregated.

- The Court Clerk creates the claim.
- The Court Clerk inputs the claim into the system.
- The Court Clerk prints the voucher and signs the voucher.
- The Court Clerk mails the vouchers to the vendors.

Cause of Condition: Procedures have not been implemented to segregate the duties related to the Court Clerk Revolving Fund and Court Fund expenditures.

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

Recommendation: OSAI recommends that procedures be developed and implemented to segregated key functions with regard to Court Clerk Revolving Fund and Court Fund expenditures.

Management Response:
Court Clerk: I am the one who has always prepared claims and written the vouchers for the Court Clerk Revolving Fund and the Court Fund. The Court Clerk before me also was the one to perform these duties. I will see to it that I incorporate one of my deputies in sharing these duties.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. To help ensure a proper accounting of funds, the duties of preparing the claim, attaching and agreeing supporting documentation, certifying receipt of goods/ services, signing the claim, and preparing and signing the checks should be segregated.

Objective 12:	To determine the County Sheriff's Inmate Trust Fund financial operations complied with 19 O.S. § 531A, which requires these funds only be expended to refund monies to inmates or to transfer funds to the Sheriff's Commissary Fund for inmate expenditures.

Conclusion: With respect to the items tested, the County did not comply with 19 § 531A, which requires these monies to only be expended to refund monies to inmates or to transfer funds to the Sheriff's Commissary Fund for inmate expenditures.

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

- Gained an understanding of the internal controls related to expending funds from the Sheriff's Inmate Trust Fund, which included discussions with county personnel, observation, and review of documents.

- Tested compliance with 19 O.S. § 513A by reviewing 60 Inmate Trust Fund expenditures to ensure they were allowed by law.

Finding: Inadequate Controls and Noncompliance Over Inmate Trust Funds

Condition: Upon inquiry, observation and testing of the County Sheriff's Inmate Trust Fund, we noted the following:

- One employee receives money, applies amounts to inmates' accounts, prepares the deposit, and takes the deposit to the bank.
- Additionally, we noted that checks were written to the local grocery store and department store from the Inmate Trust Fund for the purchase of tobacco products for inmates, in violation of the statute.

Cause of Condition: Procedures have not been designed to segregate key functions of receipting money, applying money to inmates' accounts, preparing deposits, and taking the deposit to the bank, or designed to comply with 19 O.S. § 531A.

Effect of Condition: These conditions could result in unrecorded transactions, undetected errors, or misappropriation of funds and noncompliance with 19 O.S. § 531A, which require Inmate Trust Fund monies to only be expended to refund inmate balances, or to transfer funds to the Sheriff's Commissary Fund for inmate expenditures.

Recommendation: OSAI recommends the County Sheriff implement procedures to segregate the key functions of receipting, applying monies to inmates' accounts, preparing deposits, and taking the deposits to the bank. We further recommend the County Sheriff implement procedures to ensure compliance with 19 O.S. § 531A.

Management Response:
County Sheriff: The Harper County Sheriff's office no longer writes a separate check to vendors for tobacco products. This was implemented August 1, 2012.

Criteria: Effective internal controls require segregation of key accounting functions and expend funds in accordance with 19 O.S. § 531A that sets forth guidelines for expending Inmate Trust Fund monies.

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.
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.

Monitoring	Procedures
Estimate of needs	Work together to ensure this financial document is accurate and complete.

Management Response:
County Clerk: We plan on having an annual meeting will all county officers to discuss county-wide risks and how to better monitor these risks.

BOCC Chairman: In discussion with the officers, we have determined that our first Officer Meeting will be held in April, 2013, to discuss the Drug Free Workplace Policy to be added to the Handbook. Thereafter, a quarterly meeting will be conducted to discuss concerns of the officers and address risk and monitoring of those risks.

Criteria: Internal control is an integral component of an organization's management that provides reasonable assurance that the objectives of effectiveness and efficiency of operations, reliability of financial reporting and compliance with laws and regulations are being made. Internal control comprises the plans, methods, and procedures used to meet missions, goals, and objectives. Internal control also serves as the first line of defense in safeguarding assets and preventing and detecting errors and fraud. County management is responsible for designing a county-wide internal control system comprised of Risk Assessment and Monitoring for the achievement of these goals.

Risk Assessment is a component of internal control which should provide for an assessment of the risks the County faces from both internal and external sources. Once risks have been identified, they should be analyzed for their possible effect. Management then has to formulate an approach for risk management and decide upon the internal control activities required to mitigate those risks and achieve the internal control objectives.

Monitoring is a component of internal control which should assess the quality of performance over time and ensure that the findings of audits and other reviews are promptly resolved. Ongoing monitoring occurs during normal operations and includes regular management and supervisory activities, comparisons, reconciliations, and other actions people take in performing their duties. It includes ensuring that management know their responsibilities for internal control and the need to make control monitoring part of their regular operating process.

Finding: Disaster Recovery Plans

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

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

Recommendation: OSAI recommends that each 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 Harper County Sheriff's office has added a Disaster Recovery Plan and a binder has been made with detailed instructions on what to do in case of a disaster.

Court Clerk: Initially, I was overwhelmed by the amount of time that I felt this procedure would take. It is so easy to put something aside and not get it done in a timely fashion. This is one of those cases. First, I feel the need to share with you that there are only three of us that work in this office. I am not making excuses, but there are days that if there were five of us, we wouldn't get all the work finished!

I have my guideline for Disaster Recovery Plans that the auditor gave me on my desk at the top of my stack! I will try to be diligent in preparing this plan, providing copies to all relevant parties and revise as necessary.

County Assessor: I am currently working on a Disaster Recovery Plan. We have all our computer data backing up to a secure off site location, and working on lists for contact information.

District 1 County Commissioner: A Disaster Recovery Plan will soon be implemented.

District 2 County Commissioner: We are working on a Disaster Recovery Plan.

District 3 County Commissioner: We are working on a Disaster Recovery Plan.

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

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

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

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

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

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