OPERATIONAL AUDIT

NOBLE COUNTY

For the period July 1, 2007 through June 30, 2011

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

NOBLE COUNTY OPERATIONAL AUDIT
FOR THE PERIOD JULY 1, 2007 THROUGH JUNE 30, 2011

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Oklahoma State Auditor & Inspector

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May 31, 2012

TO THE CITIZENS OF
NOBLE COUNTY, OKLAHOMA

Transmitted herewith is the audit report of Noble County for the period July 1, 2007 through June 30, 2011.

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

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

Sincerely,

Gary A. Jones

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

Background

Originally know as County "P," the area was part of the original Cherokee Outlet and was opened for settlement by the land run on September 16, 1983. The county's name came from Secretary of Interior John W. Noble.

The main source of income in Noble County is derived from agriculture and its character remains primarily rural. Industry consists of the Charles Machine Works, the world's largest manufacturer of service line trenchers, located in Perry, the county seat. Also located in Perry are: the Cherokee Strip Museum, the Stage Coach Community Theatre, the Perry Memorial Hospital, and a YMCA.

For more county information, call the county clerk's office at 580/336-2141.

County Seat – Perry | Area – 742.22 Square Miles

County Population – 10,950
(2009 est.)

Farms – 838 | Land in Farms – 466,947 Acres

Primary Source: Oklahoma Almanac 2011-2012

County Officials:

Mandy Snyder.. County Assessor
Angela Shaw..County Clerk
Mark Sanders... County Commissioner District 1
Larry Montgomery... County Commissioner District 2
Lance West .... County Commissioner District 3
Charlie Hanger... County Sheriff
Rena Clark-Wheatley.. County Treasurer
Hillary Vorndran... Court Clerk

Presentation of Apportionments, Disbursements, and Cash Balances of County Funds for FY 2011

	Cash Balance July 1, 2010	Receipts Apportioned	Transfer In	Transfer Out	Disbursements	Cash Balance June 30, 2011
Combining Information:						
County General Fund	$ 1,007,633	$ 1,703,184	$ -	$ -	$ 1,635,277	$ 1,075,540
T-Highway	1,149,042	2,851,744	37,401		2,741,147	1,297,040
County Health	164,656	137,305			56,008	245,953
Jail Sales Tax	1,585,807	713,848			599,428	1,700,227
CBRIF 105		672,625		616	105,957	566,052
County Sinking	182,510	325,640			323,650	184,500
Rural Fire Sales Tax	475,747	251,161			199,076	527,832
BIA-STP Fund		237,510			236,294	1,216
Free Fair Sales Tax	142,964	165,837			194,145	114,656
OSU Extension Sales Tax	186,815	70,026			71,882	184,959
Remaining Aggregate Funds	1,116,753	365,160	37,240	62,631	394,291	1,062,231
Combined Total - All County Funds	$ 6,011,927	$ 7,494,040	$ 74,641	$ 63,247	$ 6,557,155	$ 6,960,206

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, 2007 through June 30, 2011.

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

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

Objective 1:	To determine the receipts apportioned, disbursements, and cash balances are accurately presented on the County Treasurer's monthly reports for FY 2011.

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

Methodology To accomplish our objective, we performed the following:

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

- Performed the following to ensure receipts apportioned, disbursements, and cash balances were accurately presented on the County Treasurer's monthly reports:
  - Reconciled County Treasurer's receipts to amounts apportioned on the General Ledger.
  - Reconciled the County Clerk's warrants issued to disbursements paid by the County Treasurer.
  - Re-performed the bank reconciliations at June 30, 2011, to determine that all reconciling items were valid, and ending balances on the General Ledger agreed to the ending balances reflected on the County Treasurer's monthly reports.

Inadequate Internal Controls over the County Treasurer's Monthly Reports

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

The County Treasurer's monthly reports are compiled from an information system in which the County Treasurer and two deputies perform daily activity using the information system such as issuing receipts and posting disbursements.

Cause of Condition Procedures have not been designed to monitor and independently review the monthly report for accuracy.

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 control to provide reasonable assurance that receipts apportioned, disbursements, and cash balances are accurately presented on the County Treasurer's monthly reports.

Further, OSAI recommends that having an independent review and approval of accounting functions would provide oversight of the accuracy of the County Treasurer's monthly reports.

Management Response Procedures were put into place after the Treasurer became aware of the inadequate controls in the fall of 2011. The Treasurer's first deputy now reviews the monthly report for accuracy.

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 if the County's internal controls provide reasonable assurance that revenues were accurately reported in the accounting records.

Conclusion

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

Methodology

To accomplish our objective, we performed the following:

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

Inadequate Internal Controls over the Receipting Process

Condition

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

County Treasurer's Office:

- From July 1, 2007 through June 30, 2009, all employees issued miscellaneous and mortgage tax receipts from the same cash drawer.
- One employee, who issues receipts, also posts receipts to the general ledger, reconciles the cash drawer, and prepares the deposit.
- The County Treasurer takes the deposit to the bank and reconciles the bank accounts.
- The County Treasurer's office uses a computer generated total to prepare the deposit and does not total and reconcile checks before preparing the deposit.
- From July 1, 2007 through September 30, 2010, the County Treasurer did not reconcile the appropriated accounts to the County Clerk.

County Clerk's Office:

- All employees issue receipts from the same cash drawer.
- One employee, who issues receipts, also posts receipts to the accounting records, reconciles the cash drawer, and reconciles the account to the County Treasurer.
- The County Clerk did not reconcile her accounts to the County Treasurer from July 1, 2007 through September 30, 2010.

County Assessor's Office:

- All employees issue receipts from the same change fund.
- One employee prepares the deposit, takes the deposit to the County Treasurer's office, and reconciles the account to the County Treasurer's office.

Court Clerk's Office:

- All employees issue receipts from the same cash drawer.
- One employee issues receipts, posts receipts to the accounting records, reconciles the cash drawer, prepares the deposit, takes the deposit to the County Treasurer, and reconciles the accounts to the County Treasurer.

County Sheriff's Office

- One employee receives money, issues receipts, prepares the deposit, and takes the deposit to the County Treasurer's office.
- Monthly reconciliations to the County Treasurer's office are not performed.

Cause of Condition Procedures have not been designed to separate key accounting functions.

Effect of Condition A single person having responsibility for more than one area of recording, authorizing, custody of assets, and execution of transactions could result in unrecorded transactions, misstated financial reports, undetected errors, or misappropriation of funds.

Recommendation OSAI recommends that a system of internal controls be implemented to provide reasonable assurance that revenues are accurately reported in the financial records, and that duties are adequately segregated. The duties of receipting, depositing, and maintaining ledgers/reconciliations should be segregated. If duties cannot be properly segregated, procedures should be designed to mitigate risks such as monitoring and review of processes.

Management Response County Treasurer: Since the 2007-2009 time period in question, the Treasurer's office has implemented a new software program that allows for each deputy in the office to receipt for all sources of revenues in their own cash drawer. Each deputy then reconciles their receipts and all monies are combined to prepare the deposit. However, posting to the general ledger has never been performed by an employee. This is only performed by the Treasurer.

Beginning in September 2010, the Treasurer and County Clerk's office began a monthly reconciliation and balancing procedure. Prior to that, balancing to the Clerk was performed on an annual basis.

County Clerk: The filing clerk opens the mail, and after verifying the document received, meets filing requirements, and has received proper filing fees, the document is then recorded and receipted. All three employees who work in land records are able to receipt and file documents. These employees work together assisting each other all day every day. At the end of the day, the monthly report, cash book, and reception record are balanced. The filing clerk balances the cash drawer and prints the daily deposit. Another deputy balances the cash drawer, signs and verifies the daily deposit, then takes the deposit to the Treasurer's office.

County Assessor: In the Assessor's office, we have three full-time deputies and one officer. Two of those deputies are field deputies and are not always in the office. In the past, we have had one deputy receiving the money and taking the daily deposits. Since the audit ended, we have put in a more segregated procedure. One deputy takes the money and writes the receipt. A second deputy then reconciles the money back to the receipts and completes a report of daily deposits. A third deputy takes the daily deposit to the Treasurer's office. Because there is not a fourth deputy in the office, it then goes back to the second deputy who reconciles for the month and vouchers out the money after the officer checks and signs the voucher. The field staff has also started coming back from the field a few minutes early, to accommodate for the new procedures. This is a normal daily procedure. However, if one employee is absent, we have to accommodate the absence.

County Court Clerk: I have separate cash drawers for employees. I'm unsure how much money each drawer should have. I am also unsure how to do the deposit for each drawer with Kellpro. The Court Clerk is currently working on this. Only four employees issue receipts. One employee does not issue receipts. This employee prepares the daily deposit and then the Court Clerk takes the deposit to the Treasurer's office.

County Sheriff:

1. The receipting of monies will be performed by the "on duty" Detention Officer.
2. The deposit with the County Treasurer will be performed by either the Sheriff or the Jail Administrator.
3. The monthly reconciliation with the Treasurer's Office will be performed by the Administrative Assistant. She will maintain a hand-written ledger of all deposits taken to the Treasurer's office.

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 if the County's internal controls provide reasonable assurance that expenditures were accurately reported in the accounting records.

Conclusion

The County's internal controls provide reasonable assurance that expenditures generated through the purchase order system were accurately reported in the accounting records. However, our review of the internal controls over Court Fund expenditures did not provide assurance that Court Fund expenditures were accurately reported in the accounting records.

Methodology

To accomplish our objective, we performed the following:

- Gained an understanding of internal controls related to the expenditures process through discussions with County personnel, observation, and review of documents
- Tested controls which included reviewing a random sample of 100 purchase orders for the following:
    - Ensuring that claims reflected the authorized signature of the requisition officer.
    - Ensuring that receiving reports were attached to the claims and reflected the authorized signature of the receiving officer verifying goods and/or services were received.
    - Ensuring expenditures were recorded and encumbered by the County Clerk/Purchasing Agent or deputy.
    - Ensuring that claims were signed by the County Clerk or deputy attesting all supporting documentation was attached to the claim prior to submission for payment.
    - Ensuring that claims reflected authorized signatures of the Board of County Commissioners for the approval of payment.
- Tested controls which included reviewing a random sample of 20 cash voucher claims for the Court Clerk Revolving Fund from the 92 issued for the period for the following:
    - Ensuring that the claims reflected authorized signatures for the requisitioning officer, receiving officer, and approval for payment by a majority of the Board of County Commissioners.
    - Ensuring that the claims were signed by the County Clerk attesting all supporting documentation was attached to claim prior to submission for payment.

Lack of Internal Controls over Court Fund Expenditures

Condition Upon inquiry and observation of Court Fund expenditures, we noted that one individual issues the voucher, signs the voucher, and records the transaction.

Cause of Condition Procedures have not been designed to separate key accounting functions.

Effect of Condition A single person having responsibility for more than one area of recording, authorizing, custody of assets, and execution of transactions could result in unrecorded transactions, misstated financial reports, undetected errors, or misappropriation of funds.

Recommendation OSAI recommends management be aware of this condition and segregate the duties over the Court Fund expenditures.

The following key accounting functions of the Court Fund expenditure process should be adequately segregated:

- Maintaining ledgers and performing reconciliations
- Custody and preparation of vouchers
- Authorizing claims and signing vouchers
- Delivering vouchers to vendors

Management Response The Court Clerk has one employee who prepares the Court Fund Claim. Another employee prepares the voucher and registers the voucher in the Treasurer's office. The Court Clerk then reviews the claim and signs the claim.

Criteria Accountability and stewardship are overall goals of management in the accounting of funds. Internal controls should be designed to analyze and check accuracy, completeness, and authorization of transactions. To help ensure a proper accounting of funds, the duties of preparing a claim, writing a voucher, signing a voucher, and preparing the monthly report which reconciles to the General Ledger should be separated.

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

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

Methodology To accomplish our objective, we performed the following:

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

Inadequate Segregation of Duties over Payroll Expenditures

Condition Based upon inquiry and observation of the payroll expenditure process, the following was noted:

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

Cause of Condition Procedures have not been designed to separate key accounting functions.

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

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

The following key accounting functions of the payroll process should be adequately segregated:

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

Management Response County Clerk: One employee, whom we will refer to as the Insurance Clerk in this correspondence, handles enrolling all new employees. Once she has received the paperwork and checked it for accuracy, it is given to the Payroll Clerk, who enters it into the system. The Insurance Clerk handles any new payroll changes made by employees and all insurance and retirement changes. The changes are made on an employee change form, and given to the Payroll Clerk to enter into the system for payroll. The Payroll Clerk receives monthly payroll sheets and makes the necessary changes. A verification report of payroll is run and the

Insurance Clerk checks it with insurance, OPERS and various changes that may have been made. Once payroll is balanced, the Insurance Clerk enters the information into the insurance and retirement programs, and prepares the monthly reports. The Payroll Clerk and Insurance Clerk make sure everything balances before the final payroll is run. Once payroll has been run and warrants printed, the First Deputy balances the warrants with the warrant registered and payroll affidavits by initialing.

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

Inadequate Controls over Timesheets and Leave Balances

Condition As part of assessment of the controls over payroll expenditures, we reviewed the procedures for reporting employee hours worked and for recording leave benefits. We compared these procedures to the policies established in the "Employee Personnel Policy Handbook." As a result of work performed, the following inconsistencies were noted:

- The timesheet formats were unique to each office.
- The timesheets did not always reflect the leave accrued or the leave balances.
- When leave balances were tracked on separate forms the employees did not sign the form, nor did the officer.
- The method of accruing leave did not always follow the policies of the handbook and varied from office to office.
- Annual leave is accrued monthly, or yearly on January 1, or on the anniversary date of the employee.
- Overtime was worked without prior written consent of the County officer as stipulated in the handbook.
- In some offices, overtime was accrued at the rate of 1 ½ times the hours worked in excess of 37.5 hours a week.
- The employees of some offices were allowed to carry over vacation leave to the next calendar year in violation of the policy.
- Two employees used leave in excess of the accrued time.

Cause of Condition Officials and employees did not comply with the County's Employee Personnel Policy Handbook.

Effect of Condition Leave balances were not calculated correctly, overtime was not calculated correctly, and some employees were allowed to use leave in excess of their accrued amounts.

Recommendation OSAI recommends that management be aware of the policies adopted in the "Employee Personnel Policy Handbook" and adhere to those policies. If adherence to the handbook is not feasible, we recommend that the officers revise the handbook in order to better suit the needs of the County.

We further recommend that a uniform timesheet be adopted by all offices and those timesheets be centrally located in the County Clerk's office in order to facilitate a control environment that promotes stewardship and accountability over the time recording process.

Management Response County Clerk: The timesheets used in the County Clerk's office are completed accurately and are compared to the absence request form employees complete. Timesheets are turned in every Friday and once a month employees receive a timesheet showing the balance of vacation and sick leave. The County Clerk's office does not have any issues regarding over-time, and does not allow employees to carry over vacation time. This timesheet and system have worked great in the County Clerk's office for the past 12 years.

County Commissioners: The Commissioners are in the process of amending and approving the Employee Personnel Policy Handbook for the County. This revised handbook will clearly state the employment policies of the County regarding timesheets, over-time and annual leave. This handbook will also include a uniform timesheet for all County offices to use. All timesheets will be submitted to the County Clerk for accountability purposes.

County Sheriff: We are working on a form that will meet the needs of both the law enforcement and civilian employee's records. This form will be designed to track all of the above listed items in a concise and easy to understand format and yet compatible with other County offices.

Criteria Accountability and stewardship are overall goals of management in the accounting of funds. Internal controls should be designed to analyze and check accuracy, completeness, and approval of timesheets and leave balances.

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

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

Methodology

To accomplish our objectives, we performed the following:

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

Inadequate Internal Controls over Fixed Assets

Condition

Upon inquiry and observation of the recordkeeping process regarding fixed assets the following was noted:

Fixed Assets

- The following offices have not implemented a formal annual inventory process to perform a physical verification of fixed assets to inventory records:
    - County Sheriff's Office
    - District 2 County Commissioner
- Annual physical counts could not be verified due to the following County officials not maintaining supporting documentation of the physical counts:
    - Court Clerk's Office
    - District 3 County Commissioner
- The following offices have not adequately segregated the duties over the fixed asset process:
    - County Treasurer
    - County Assessor
    - County Clerk
    - District 1 County Commissioner

Cause of Condition

Procedures have not been designed to separate key accounting functions of custody and recordkeeping of fixed assets. Further, procedures have not been designed to perform an annual verification of fixed assets to inventory records.

Effect of Condition

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

Recommendation

OSAI recommends that each County office/department implement a system of internal controls to provide reasonable assurance that fixed assets are adequately accounted for and safeguarded. Records should be maintained in such a manner that assets can be identified by serial number, date of acquisition, and purchase price. We further recommend that the duties of receiving fixed asset items, recording fixed asset items, and performing the annual physical verification be segregated.

Management Response

County Sheriff: We are reviewing our inventory records and will implement an annual inventory process.

County Commissioner, District 2: District 2 has revised its inventory procedures to include a serial number, identifying each inventory item. This number will allow for a physical verification of each item.

Court Clerk: The Court Clerk did not know that this needed to be done. The Court Clerk has talked to the auditors and was advised on how to do this task. The employee who does not do the purchasing or prepare the vouchers will now handle the fixed assets.

County Commissioner, District 3: District 3 has revised its inventory procedures to include full documentation and serial number identification of each inventory item. This procedure will allow for physical verification of each item.

County Treasurer: The Treasurer's office has segregated the duties over the fixed asset process.

County Assessor: We have always accounted for our inventory and we check the inventory annually. We then supply the County Clerk with a current listing of our inventory. However, since the audit, we have changed our procedures. We now have one deputy who gives the information to a second deputy, who adds the item to our list. Then once a year, someone else will check the inventory list with what is actually in the office. After all inventory items are accounted for, we will report it back to the County Clerk's office.

County Clerk: The County Clerk's office does not have enough employees to segregate these duties.

County Commissioner, District 1: District 1 will continue to conduct an annual inventory of all fixed assets; however, this procedure will be segregated with the initial inventory being conducted by the administrative assistant, which will be reviewed and approved by the Commissioner.

Criteria

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

Inadequate Internal Controls over Consumable Inventories

Condition

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

District 1

- District 1 lacks adequate segregation of duties over consumable inventories because one employee receives inventory and maintains consumable inventory records.

District 3

- District 3 has not designed and implemented procedures to perform a monthly count of consumable inventory.

Cause of Condition

Procedures have not been designed to separate key accounting functions of custody and recordkeeping of consumable inventories. Further, procedures have not been designed to perform a monthly inventory of consumable items on hand to inventory records.

Effect of Condition

Failure to maintain accurate records, adequately segregate duties and perform periodic physical counts of consumable inventory could result in inaccurate records, unauthorized use of consumable inventories, or misappropriation of consumable inventories.

Recommendation

OSAI recommends that each District implement a system of internal controls to provide reasonable assurance that consumable inventories are accurately reported, including adequately segregating duties. Records should be maintained for all consumable inventory items in an accurate manner that reflects consumable inventory by category and reflects current balances. A physical inventory of consumable inventories should be reconciled to ledgers monthly.

Management Response

County Commissioner, District 1: District 1 will segregate these duties by having the administrative assistant continue to receive the inventory and the Commissioner will perform a monthly count of the inventory.

County Commissioner, District 3: District 3 is developing a monthly inventory plan to adequately account for all consumable items.

Criteria

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

Objective 6:	To determine the County's financial operations complied with 62 O.S. §517.4, which requires county deposits with financial institutions be secured with collateral securities or instruments.

Conclusion With respect to the days tested, the County 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 internal controls related to pledged collateral through discussion with the County Treasurer, observation, and review of ledgers and documents.

- Tested compliance of the significant law which included the following:
  - Selected the highest daily bank balance for all banks per month and determined if deposits were adequately secured.

Inadequate Internal Controls over Pledged Collateral

Condition The County Treasurer has not properly designed and implemented internal controls to monitor pledged collateral amounts to daily bank balances to ensure that County funds are adequately secured. As a result, County funds were not adequately pledged for 10 of the 48 days tested.

Cause of Condition Procedures have not been designed to daily monitor pledged collateral balances to bank balances.

Effect of Condition The County's deposits were not adequately safeguarded from loss. The County was not in compliance with 62 O.S. § 517.4.

Recommendation OSAI recommends that the County Treasurer implement a system of internal controls to provide reasonable assurance that County funds are adequately secured and safeguarded from loss. Bank balances should be monitored on a daily basis to pledged collateral balances.

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: The days that were tested, by the Oklahoma State Auditor's Office, for adequate pledged collateral were during heavy tax collection periods. During those periods, it is impossible to forecast the amount of tax collection, school direct deposits, and special monies will be from day to day. As Treasurer, I am required by statute to deposit all monies on a daily basis. At times, arrangements for acquiring more collateral take more than one day. As a result of this audit, and in an attempt to lessen the burden on the County's general ledger, our office has made the decision to terminate our responsibility as treasurer for one of our largest schools.

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 loss.

Title 62 O.S. § 517.4 requires county deposits with financial institutions be secured with collateral securities or instruments.

Objective 7:	To determine the County's financial operations complied with 68 O.S. §1370E, which requires the sales tax collections to be deposited in the general revenue or sales tax revolving fund of the County and be used only for the purpose for which such sales tax was designated.

Conclusion

With respect to the items tested, the County complied with 68 O.S. §1370E, which requires the sales tax collections to be deposited in the general revenue or sales tax revolving fund of the county and be used only for the purpose for which such sales tax was designated.

Methodology

To accomplish our objective, we performed the following:

- Gained an understanding of internal controls related to the process of apportioned sales tax collections through discussions with County personnel, observation, and review of documents.
- Tested compliance of the significant law which included the following:
  - Obtained confirmations from the Oklahoma Tax Commission for sales tax payment made to the County and recalculated the amounts apportioned by the County Treasurer to ensure sales tax collections were apportioned to the proper funds.
  - Tested 30 expenditures to ensure funds were spent in accordance with purposes outlined in the ballots.

Inadequate Internal Controls over Sales Tax Apportioned and Appropriated

Condition

The County Clerk is responsible for appropriating sales tax on a monthly basis to the proper funds.

- There is no record of a monthly reconciliation between the County Clerk and the County Treasurer with regard to verifying the sales tax was accurately apportioned and appropriated.

Cause of Condition

The County Treasurer's office was not aware that documentation of the process needed to be retained.

Effect of Condition

Because documentation was not retained verifying the independent review over the calculation of sales tax distribution, we could not determine that controls were operating effectively.

Recommendation

OSAI recommends that the Clerk and Treasurer retain monthly reconciliations of sales tax collections and appropriations. Evidence of independent reviews for accuracy should be documented by initials and dates.

Management Response

County Treasurer: The Treasurer's office does retain all documentation pertaining to sales tax collections. These documents are then turned over to the Clerk's office for appropriations and apportionment. It is the Clerk's responsibility to verify the accuracy of these reports.

County Clerk: The County Clerk will receive the distribution report from the County Treasurer in a daily packet. Once this is received, the first deputy will verify the amounts and initial the verification. These reports and verification will be retained for audit purposes.

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 board, management, and other personnel, designed to provide reasonable assurance regarding prevention or timely detection of unauthorized transactions and safeguarding assets from misappropriation. Evidence of internal controls operating effectively should be properly documented.

Objective 8:	To determine the County's financial operations complied with 68 O.S. § 2923, which requires the ad valorem tax collections to be apportioned and distributed monthly among the different funds to which they belong.

Conclusion With respect to the items tested, the County complied with 68 O.S. §2923, which requires the ad valorem tax collections to be apportioned and distributed monthly among the different funds to which they belong.

Methodology To accomplish our objective, we performed the following:

- Gained an understanding of internal controls related to the process of apportioning and distributing ad valorem tax collections through discussions with County personnel, observation, and review of documents.
- Tested compliance with the significant law which included the following:
  - Determined the County Treasurer used the certified levies as fixed by the Excise Board of Noble County for the audit period.
  - Recalculated the apportionment of ad valorem tax collections to determine collections were accurately apportioned to the taxing entities.

Inadequate Internal Controls over Ad Valorem Tax Apportioned and Distributed

Condition Upon inquiry and observation of the recordkeeping process of apportioning and distributing ad valorem tax, there is no evidence of independent oversight of the County Treasurer applying the certified levies, as fixed by the Excise Board, to the tax rolls.

Cause of Condition Procedures have not been designed to adequately document the controls related to the application of ad valorem tax levies.

Effect of Condition Because documentation was not retained verifying the independent review over the application of the certified levies to the tax rolls, we could not determine that controls were operating effectively.

Recommendation OSAI recommends that the County Treasurer retain documentation with initials and dates that an independent reviewer verified the accuracy of the certified levies applied to the tax roll.

Management Response County Treasurer: The Treasurer's office will implement a procedure to manually calculate the tax levies, to verify that the levies applied in our tax collection software are accurate.

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 board, management, and other personnel, designed to provide reasonable assurance regarding prevention or timely detection of unauthorized transactions and safeguarding assets from misappropriation. Evidence of internal controls operating effectively should be properly documented.

All Objectives

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

Inadequate County-Wide Controls

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

Cause of Condition Procedures have not been designed for the County to work together to address possible risks and implement procedures to monitor financial operations of the County.

Effect of Condition This condition could result in inaccurate financial records, non-compliance with laws and regulations and susceptibility of County assets to loss, misappropriation or fraud.

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

Examples of risks and procedures to address risk management:

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

Examples of activities and procedures to address monitoring:

Monitoring	Procedures
Communication between officers	Periodic meetings to address items that should be included in the handbook and to determine if the County is meeting its goals and objectives
Annual Financial Statement	Review the financial statement of the County for accuracy and completeness
Schedule of Expenditures of Federal Awards (SEFA)	Review the SEFA of the County for accuracy and to determine all federal awards are presented
Audit findings	Determine audit findings are corrected
Financial status	Periodically review budgeted amounts to actual amounts and resolve unexplained variances
Policies and procedures	Ensure employees understand expectations in meeting the goals of the County
Following up on complaints	Determine source of complaint and course of action for resolution
Estimate of needs	Work together to ensure this financial document is accurate and complete

Management Response

County Commissioners: The County Commissioners are now aware of the problems facing the County Government system and plan to have quarterly meetings with all Commissioners and County Officers, to identify, address and correct these problems. These quarterly meetings will allow insight as to how each office conducts business and will create response protocol prior to any problems arising.

Criteria

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) outlines the requirements for an internal control system. An internal control system is comprised of five components; Control Environment, Risk Assessment, Information and Communication, and Monitoring.

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.

It also serves as the first line of defense in safeguarding assets and preventing and detecting errors and fraud.

Disaster Recovery Plan

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

- County Treasurer
- Court Clerk
- County Sheriff
- County Commissioners
- County Assessor

The County Clerk has a Disaster Recovery Plan; however, it is not currently up-to-date.

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

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

Recommendation OSAI recommends that management work together to create a Disaster Recovery Plan for each office.

Management Response County Treasurer: The County Treasurer is in the process of developing a Disaster Recovery Plan.

County Clerk: The County Clerk has updated the Disaster Recovery Plan as of May 23, 2012.

County Sheriff: We will work with the Commissioners and Emergency Management, to develop a Disaster Recovery Plan.

County Commissioners: Each County Commissioner will create his own Disaster Recovery Plan and will file a copy of the Plan with the County Clerk. These plans will be completed within 30 days of this letter.

County Assessor: This is not something I was aware we needed in our individual office. I am currently in the process of checking with other County Assessors, to come up with a plan for my office.

Criteria

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

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

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

Other Items

Although not considered significant to the audit objectives, we feel the following issues should be communicated to management.

Inadequate Reporting of Federal Expenditures

Condition The County could not accurately identify the amount of expenditures of federal awards for each fiscal year.

Cause of Condition The County is not familiar with the requirements of OMB Circular A-133 which requires the County to establish procedures to track and report federal expenditures and to prepare an annual Schedule of Expenditures of Federal Awards.

Effect of Condition The County is not in compliance with OMB Circular A-133. Adequate records of expenditures of federal awards were not maintained and the County could not independently determine if an audit of federal awards was required. Failure to accurately report federal expenditures on a timely basis could result in a lack of federal funding in the future.

Recommendation OSAI recommends that management establish county-wide procedures to accurately track and report expenditures of federal awards. Management should designate one individual to prepare an annual Schedule of Expenditures of Federal Awards and design procedures to ensure the accuracy of the schedule.

Management Response County Clerk:

1. The District Secretary completes the Project Worksheet Registers for each disaster.
2. The District then fills out a Disaster Register on June 30th each year. This lists all disasters for the fiscal year with a total of monies spent and received.
3. The person filling out the Schedule of Federal Assistance, will use this information to complete the SEFA form. The District barns are responsible for providing all information to the County Clerk.
4. The SEFA report is then double checked and signed off by the Treasurer for accurate receipts of monies.
5. The Chairman of the Board of County Commissioners, then double checks and signs off on the report.
6. The County Clerk then signs off on the report before August 1st, and will fax the report to the State Auditor's Office.

Criteria OMB Circular A-133 requires that the auditee shall prepare a schedule of expenditures of Federal awards.

Management Override of Controls – Sale of County Property

Condition During our audit, as a response to a concern, we reviewed a sealed bid to sell a county-owned lawn mower to a maintenance employee of County Commissioner District 2 and noted the following:

- The County solicited sealed bids for a used lawnmower on the date of August 17, 2007, as documented in the local newspaper.
- On August 20, 2007, the Board of County Commissioners accepted a late bid from a County employee after the stated deadline.
- The employee was awarded the bid in the amount of $500.00, although another bid was received before the published deadline.
- The bid condition stated that "Late bids will not be considered."
- The employee was allowed to make partial payments, the first of which was on September 4, 2007, for $50.00.
- The employee took possession of the lawnmower without the County receiving full payment of $500, as awarded in the bid.
- Various monthly payments from $10 to $60 were remitted to the County Treasurer by the employee for the next two years.
- After officials complained that the employee had not made full payment on the lawnmower, the final payment of $125 was remitted to the County Treasurer by District 2 County Commissioner.

Cause of Condition The Board of County Commissioners overrode statutory controls regarding the bidding process.

Effect of Condition The County did not comply with state statutes regarding the bidding process. Preferential treatment was given to a county employee by accepting a late bid and allowing the employee to make payments on the lawnmower.

Recommendation OSAI recommends that management strictly adhere to statutes related to bidding procedures. OSAI recommends that the management of the County refrain from accepting late bids and from financing employee purchases.

Management Response County Commissioners: The County Commissioners have reviewed the statutory requirements pertaining to the bidding procedure for selling County property. These requirements will be strictly adhered to, and no County property will be sold on a credit basis. The entire purchase price received from the sale will be obtained prior to turning over possession of the property. This action was taken by a former County Commissioner. The current County Commissioner loaned the money to the employee to pay off the amount owed. County Commissioner for District 2, although on the Board at the time of the bid, was not aware that the payment was not in full.

Criteria Title 19 O.S. § 421.1 outlines the procedures for the sale of county property.

Management Override of Controls – Construction Bid

Condition We noted that after the publication of bids in the local newspaper and prior to the opening of the bids, the County contacted vendors and issued an addendum to the original bid to change the specifications of the bid.

Cause of Condition Management did not follow all aspects of the statutes regarding the bid process.

Effect of Condition This condition resulted in the County being in non-compliance with statutes, laws, regulations or legislative intent.

Recommendation OSAI recommends that the County follow bidding procedures as outlined in 19 O.S. § 1505B. Once the specifications for an item required to be bid are published in the newspaper and sent to prospective bidders, the specifications are finalized and may not be changed. If it is determined that the current specifications are not adequate, the bids received should be rejected in an open meeting and the item should be re-bid. This will ensure all prospective vendors have equal opportunity to submit a second bid.

Management Response County Commissioners: The County Commissioners have reviewed the statutory requirements pertaining to the bidding process as stated in 19 O.S. § 1505B. The County Commissioners fully understand that a bid may not be amended after it is approved by the Board. The County Commissioners will work diligently to comply with all laws.

Criteria Title 19 O.S. § 1505B prescribes the requirements for purchases over $10,000.

District 1 Commissioner Travel Reimbursements

Condition During our audit, as a response to a concern, we reviewed the travel claims for the District 1 County Commissioner and noted the following:

- District 1 Commissioner filed a travel claim which included mileage for a trip to a Northern Oklahoma Development Authority (NODA) meeting and picking up parts in Enid on April 15, 2011.
    - After a review of the NODA schedule of meetings and an interview with a NODA representative it was determined that there was no meeting on that date.
    - Further, we were unable to locate any purchases for parts on April 15, 2011, or any days in the vicinity of April 15, 2011.

- Additionally, we noted that the District 1 County Commissioner is claiming daily commuter miles from his home in Perry to the County Barn in Ceres. According to IRS guidelines, reimbursement for commuter mileage is considered a fringe benefit and should be reported on the Commissioner's W-2.

Cause of Condition The Commissioner did not maintain accurate travel records. County-wide procedures have not been designed to address the reporting of commuter mileage in accordance with IRS guidelines.

Effect of Condition These conditions resulted in inappropriate payments for travel to the District 1 County Commissioner and incomplete reporting to the IRS regarding reimbursement for daily commuting.

Recommendation OSAI recommends that travel claims submitted for reimbursement include proper documentation. OSAI also recommends that travel reimbursements be made in accordance with IRS guidelines.

Management Response County Commissioner, District 1: The District 1 County Commissioner will maintain a detailed travel log, which reflects the purpose and intent for each travel claim. He will include documentation of all classes or seminars attended or receipts for parts pick up. The Commissioner is aware that commuting mileage cannot be turned in for reimbursement.

Criteria Accountability and stewardship are overall goals of management in the accounting of funds. Internal controls should be designed to analyze and check accuracy, completeness, and authorization of travel claims.

Personal Use of County-Owned Vehicle

Condition During our audit, as a response to a concern, we were able to obtain evidence that an employee of District 2 is using a county-owned vehicle for personal use. The County Handbook prohibits the personal use of county-owned property.

Cause of Condition District 2 did not comply with the policies and procedures of the County Handbook.

Effect of Condition This condition resulted in a violation of the County's handbook. Further, this is considered a fringe benefit according to IRS guidelines and was not correctly reported on the employee's W-2.

Recommendation OSAI recommends that management comply with the policies and procedures adopted in the County's Handbook. OSAI recommends that management take action to ensure that this condition is corrected immediately.

Management Response

County Commissioner, District 2: The keys to the County owned vehicle will be kept in the County Commissioner's office at the County Courthouse. Prior to any use of the vehicle, employees must state the reason for the vehicle use, the mileage at the time of check out, and sign the check out form.

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 use.

The County's "Employee Personnel Policy Handbook" states, "No County official or employee may use County property for his or her own personal use." It further states, "Should your performance, work habits, overall attitude, conduct or demeanor become unsatisfactory in the judgment of the Elected Official, based upon violations either of the above or of other County policies, rules, or regulations, you will be subject to disciplinary action, up to and including dismissal."

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