



NOWATA COUNTY

Financial Report

For the fiscal year ended June 30, 2020

Cindy Byrd, CPA
State Auditor & Inspector

**NOWATA COUNTY, OKLAHOMA
FINANCIAL STATEMENT
AND INDEPENDENT AUDITOR'S REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

This publication, issued by the Oklahoma State Auditor and Inspector's Office as authorized by 19 O.S. § 171, has not been printed, but is available on the agency's website (www.sai.ok.gov) and in the Oklahoma Department of Libraries Publications Clearinghouse Digital Prairie Collection (<http://digitalprairie.ok.gov/cdm/search/collection/audits/>) pursuant to 65 O.S. § 3-114.



August 9, 2024

TO THE CITIZENS OF
NOWATA COUNTY, OKLAHOMA

Transmitted herewith is the audit of Nowata County, Oklahoma for the fiscal year ended June 30, 2020. The audit was conducted in accordance with 19 O.S. § 171.

A report of this type can be critical in nature. Failure to report commendable features in the accounting and operating procedures of the entity should not be interpreted to mean that they do not exist.

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.

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.

Sincerely,

A handwritten signature in blue ink that reads "Cindy Byrd".

CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR

**NOWATA COUNTY OFFICIALS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

Board of County Commissioners

District 1 – Burke LaRue
District 2 – Doug Sonenberg
District 3 – Troy Friddle

County Assessor

Chandee Hawk

County Clerk

Kay Spurgeon

County Sheriff

Jason McClain

County Treasurer

Lynn Wesson

Court Clerk

April Frauenberger

District Attorney

Kevin Buchanan

**NOWATA COUNTY, OKLAHOMA
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

TABLE OF CONTENTS

FINANCIAL SECTION

| | |
|-------------------------------------------------------------------------------------------|---|
| Report of State Auditor and Inspector | 1 |
| Financial Statement: | |
| Statement of Receipts, Disbursements, and Changes in Cash Balances—Regulatory Basis | 4 |
| Notes to the Financial Statement..... | 5 |

SUPPLEMENTARY INFORMATION

| | |
|------------------------------------------------------------------------------------------|----|
| Comparative Schedule of Expenditures—Budget and Actual—Budgetary Basis—General Fund..... | 12 |
| Note to Supplementary Information | 13 |

INTERNAL CONTROL AND COMPLIANCE SECTION

| | |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----|
| Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> | 14 |
| Schedule of Findings and Responses | 16 |

FINANCIAL SECTION



Independent Auditor's Report

TO THE OFFICERS OF
NOWATA COUNTY, OKLAHOMA

Report on the Financial Statement

We have audited the total—all county funds on the accompanying regulatory basis Statement of Receipts, Disbursements, and Changes in Cash Balances of Nowata County, Oklahoma, as of and for the year ended June 30, 2020, and the related notes to the financial statement, which collectively comprise the County's basic financial statement as listed in the table of contents.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the regulatory basis of accounting described in Note 1, and for determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1, the financial statement is prepared by Nowata County using accounting practices prescribed or permitted by Oklahoma state law, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of Nowata County as of June 30, 2020, or changes in financial position for the year then ended.

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the total receipts, disbursements, and changes in cash balances for all county funds of Nowata County, as of and for the year ended June 30, 2020, in accordance with the basis of accounting described in Note 1.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the total of all county funds on the financial statement. The supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statement.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statement.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 16, 2024, on our consideration of Nowata County’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the County’s internal control over financial reporting or on compliance. That report is an integral part

of an audit performed in accordance with *Government Auditing Standards* in considering Nowata County's internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Cindy Byrd". The signature is written in a cursive, flowing style.

CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR

July 16, 2024

REGULATORY BASIS FINANCIAL STATEMENT

NOWATA COUNTY, OKLAHOMA
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES—REGULATORY BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

| | Beginning Cash Balances July 1, 2019 | Receipts Apportioned | Transfers In | Transfers Out | Disbursements | Ending Cash Balances June 30, 2020 |
|-------------------------------------------------------|--------------------------------------------|-------------------------|---------------------|---------------------|---------------------|------------------------------------------|
| County Funds: | | | | | | |
| County General | \$ 125,900 | \$ 1,009,449 | \$ 250,000 | \$ 250,000 | \$ 901,816 | \$ 233,533 |
| County Highway Unrestricted | 2,148,252 | 1,877,339 | 350,000 | - | 3,468,420 | 907,171 |
| County Bridge and Road Improvement | 646,072 | 289,465 | 250,000 | 550,000 | 44,890 | 590,647 |
| Rental of County Property | 2,863 | 536 | - | - | - | 3,399 |
| County Assessor Revolving Fee | 10,329 | 2,178 | - | - | 10,224 | 2,283 |
| County Clerk Lien Fee | 966 | 2,937 | - | - | 2,899 | 1,004 |
| County Clerk Records Management and Preservation Fund | 1,673 | 15,040 | - | - | 12,296 | 4,417 |
| Court Clerk Payroll | 24,265 | 1,500 | - | - | 23,699 | 2,066 |
| Emergency Management | 1,391 | - | - | - | 1,237 | 154 |
| Sales Tax Cash Account | 1,023,853 | - | - | 1,023,853 | - | - |
| Sheriff Commissary | 3,978 | 29,779 | - | - | 26,050 | 7,707 |
| County Donations | 29,023 | 20,201 | - | - | 32,638 | 16,586 |
| Reward Fund | 336 | - | - | - | - | 336 |
| Sheriff Prisoner Boarding | 241 | - | - | 241 | - | - |
| Sheriff Service Fee | 48,894 | 118,606 | 241 | - | 118,625 | 49,116 |
| Treasurer Mortgage Certification | 21,571 | 1,690 | - | - | 800 | 22,461 |
| Resale Property | 217,049 | 116,317 | 434 | - | 77,006 | 256,794 |
| Use Tax-ST | 73,532 | 177,629 | 44,996 | - | 188,343 | 107,814 |
| Sheriff Use Tax | 44,996 | - | - | 44,996 | - | - |
| Nowata County Industrial Authority Grant | 70 | - | - | - | - | 70 |
| Sheriff Forfeiture | 31 | - | - | - | - | 31 |
| 911 Phone Fees | 193,009 | 94,078 | 892 | - | 272,061 | 15,918 |
| 911 Land Line | 892 | - | - | 892 | - | - |
| General Government Sales Tax (35%) | - | 181,571 | 115,785 | - | 208,085 | 89,271 |
| Roads and Bridges Sales Tax (45%) | - | 230,022 | - | - | 112,505 | 117,517 |
| Courthouse Improvement Sales Tax (5%) | - | 25,558 | 133,495 | - | 53,087 | 105,966 |
| 15% Sales Tax | - | 76,674 | 129,283 | - | 65,825 | 140,132 |
| Roads and Bridges Sales Tax (1 cent) | - | 511,159 | 645,290 | - | 897,445 | 259,004 |
| Total - All County Funds | \$ 4,619,186 | \$ 4,781,728 | \$ 1,920,416 | \$ 1,869,982 | \$ 6,517,951 | \$ 2,933,397 |

The notes to the financial statement are an integral part of this statement.

**NOWATA COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

1. Summary of Significant Accounting Policies

A. Reporting Entity

Nowata County is a subdivision of the State of Oklahoma created by the Oklahoma Constitution and regulated by Oklahoma Statutes.

The accompanying financial statement presents the receipts, disbursements, and changes in cash balances of the total of all funds under the control of the primary government. The general fund is the county's general operating fund, accounting for all financial resources except those required to be accounted for in another fund, where its use is restricted for a specified purpose. Other funds established by statute and under the control of the primary government are also presented.

The County Treasurer collects and remits material amounts of intergovernmental revenues and ad valorem tax revenue for other budgetary entities, including libraries, school districts, and cities and towns. The cash receipts and disbursements attributable to those other entities do not appear in funds on the County's financial statement; those funds play no part in the County's operations. Any trust or agency funds maintained by the County are not included in this presentation.

B. Fund Accounting

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

During the fiscal year ended June 30, 2020, the County converted to a new chart of accounts; therefore, several fund names and descriptions change. However, these changes do not reflect a change in the sources and uses of revenues over the prior fiscal year.

Following are descriptions of the county funds included within the financial statement:

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

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

County Bridge and Road Improvement – accounts for state receipts and disbursements are for the improvement of county bridges and roads as restricted by state statute.

Rental of County Property – accounts for rental collections from county owned property. Disbursements are for the benefit of the County.

County Assessor Revolving Fee – accounts for the collection of fees for copies and disbursements as restricted by state statute.

**NOWATA COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

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

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

Court Clerk Payroll – accounts for funds collected by the Court Clerk and disbursements of funds for payroll of Court Fund employees.

Emergency Management – accounts for the receipt and disbursement of funds from federal, state, and local governments for the operations of the emergency management office.

Sales Tax Cash Account – accounts for the collections of sales tax revenue and the disbursement of funds as restricted by the sales tax ballot approved by the voters of the County.

Sheriff Commissary – accounts for profits on commissary sales in the County jail. Disbursements are for jail operations as defined by state statute.

County Donations – accounts for donations received through the Board of County Commissioners and disbursed for the purpose designated at the time of the donation.

Reward Fund – accounts for the collection of a fee, directed by district court, for the dumping of trash and disbursements are paid to citizens reporting illegal dumping and littering offenses.

Sheriff Prisoner Boarding – accounts for the monies received from federal, state, and local municipalities for the boarding and feeding of prisoners.

Sheriff Service Fee – accounts for the collection and disbursement of sheriff process service fees, Court Clerk fees, and contract revenues related to the boarding of prisoners as restricted by state statute.

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

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

Use Tax-ST – accounts for use tax collections and disbursements as restricted by the resolution approved by the Board of County Commissioners.

Sheriff Use Tax – accounts for use tax collections and disbursements as restricted by the resolution approved by the Board of County Commissioners for payroll expenditures of the Sheriff's office.

**NOWATA COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

Nowata County Industrial Authority Grant – accounts for donations received by the County for the purpose of constructing a website for Nowata County.

Sheriff Forfeiture – accounts for the collection of the Sheriff's percentage of drug forfeitures and disbursements as restricted by state statute.

911 Phone Fees – accounts for the collection of fees imposed on phone users within the County and disbursements are for the operations of emergency 911 services.

911 Land Line – accounts for the collection of fees imposed on landline telephone users within the County and disbursements are for the operations of emergency 911 services.

General Government Sales Tax (35%) – accounts for the collection of sales tax revenue and the disbursement of funds as restricted by the sales tax ballot approved by the voters of the County.

Roads and Bridges Sales Tax (45%) – accounts for the collection of sales tax revenue and the disbursement of funds as restricted by the sales tax ballot approved by the voters of the County.

Courthouse Improvement Sales Tax (5%) – accounts for the collection of sales tax revenue and the disbursement of funds as restricted by the sales tax ballot approved by the voters of the County.

15% Sales Tax – accounts for the collection of sales tax revenue and the disbursement of funds as restricted by the sales tax ballot approved by the voters of the County.

Roads and Bridges Sales Tax (1 cent) – accounts for the collection of sales tax revenue and the disbursement of funds as restricted by the sales tax ballot approved by the voters of the County.

C. Basis of Accounting

The financial statement is prepared on a basis of accounting wherein amounts are recognized when received or disbursed. This basis of accounting differs from accounting principles generally accepted in the United States of America, which require revenues to be recognized when they become available and measurable or when they are earned, and expenditures or expenses to be recognized when the related liabilities are incurred. This regulatory basis financial presentation is not a comprehensive measure of economic condition or changes therein.

Title 19 O.S. § 171 allows Oklahoma counties to present their financial statement in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) or on a regulatory basis. The County has elected to present their financial statement on a regulatory basis in conformity with Title 19 O.S. § 171, which specifies the format and presentation of such regulatory basis financial statements: county governments (primary only) are required to present their financial statements on a fund basis format with, at a minimum, the general fund and all other

**NOWATA COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

county funds, which represent ten percent or greater of total county revenue with all other funds included in the audit presented in the aggregate in a combining statement. However, the County has elected to present all funds included in the audit in the Statement of Receipts, Disbursements, and Changes in Cash Balances—Regulatory Basis.

D. Budget

Under current Oklahoma Statutes, a general fund and a county health department fund are the only funds required to adopt a formal budget. On or before the first Monday in July of each year, each officer or department head submits an estimate of needs to the governing body. The budget is approved for the respective fund by office, or department and object. The County Board of Commissioners may approve changes of appropriations within the fund by office or department and object. To increase or decrease the budget by fund requires approval by the County Excise Board.

E. Cash and Investments

For the purposes of financial reporting, “Ending Cash Balances, June 30” includes cash and cash equivalents and investments as allowed by statutes. The County pools the cash of its various funds in maintaining its bank accounts. However, cash applicable to a particular fund is readily identifiable on the County’s books. The balance in the pooled cash accounts is available to meet current operating requirements.

State statutes require financial institutions with which the County maintains funds to deposit collateral securities to secure the County’s deposits. The amount of collateral securities to be pledged is established by the County Treasurer; this amount must be at least the amount of the deposit to be secured, less the amount insured (by, for example, the FDIC).

The County Treasurer has been authorized by the County’s governing board to make investments. Allowable investments are outlined in statutes 62 O.S. § 348.1 and § 348.3.

All investments must be backed by the full faith and credit of the United States Government, the Oklahoma State Government, fully collateralized, or fully insured. All investments as classified by state statute are nonnegotiable certificates of deposit. Nonnegotiable certificates of deposit are not subject to interest rate risk or credit risk.

2. Ad Valorem Tax

The County’s property tax is levied each October 1 on the assessed value listed as of January 1 of the same year for all real and personal property located in the County, except certain exempt property. Assessed values are established by the County Assessor within the prescribed guidelines established by the Oklahoma Tax Commission and the State Equalization Board. Title 68 O.S. § 2820.A. states, “. . . Each assessor shall thereafter maintain an active and systematic program of

**NOWATA COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

visual inspection on a continuous basis and shall establish an inspection schedule which will result in the individual visual inspection of all taxable property within the county at least once each four (4) years."

Taxes are due on November 1 following the levy date, although they may be paid in two equal installments. If the first half is paid prior to January 1, the second half is not delinquent until April 1. The County Treasurer, according to the law, shall give notice of delinquent taxes and special assessments by publication once a week for two consecutive weeks at any time after April 1, but prior to the end of September following the year the taxes were first due and payable. Unpaid real property taxes become a lien upon said property after the treasurer has perfected the lien by public notice.

Unpaid delinquent personal property taxes are usually published in May. If the taxes are not paid within 30 days from publication, they shall be placed on the personal tax lien docket.

3. Other Information

A. Pension Plan

Plan Description. The County contributes to the Oklahoma Public Employees Retirement Plan (the Plan), a cost-sharing, multiple-employer defined benefit pension plan administered by the Oklahoma Public Employees Retirement System (OPERS). Benefit provisions are established and amended by the Oklahoma Legislature. The Plan provides retirement, disability, and death benefits to Plan members and beneficiaries. Title 74, Sections 901 through 943, as amended, establishes the provisions of the Plan. OPERS issues a publicly available financial report that includes financial statements and supplementary information. That report may be obtained by writing OPERS, P.O. Box 53007, Oklahoma City, Oklahoma 73105 or by calling 1-800-733-9008.

Funding Policy. The contribution rates for each member category are established by the Oklahoma Legislature and are based on an actuarial calculation which is performed to determine the adequacy of contribution rates.

B. Other Post Employment Benefits (OPEB)

In addition to the pension benefits described in the Pension Plan note, OPERS provides post-retirement health care benefits of up to \$105 each for retirees who are members of an eligible group plan. These benefits are funded on a pay-as-you-go basis as part of the overall retirement benefit. OPEB expenditure and participant information is available for the state as a whole; however, information specific to the County is not available nor can it be reasonably estimated.

**NOWATA COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

C. Contingent Liabilities

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, primarily the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable fund. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time; however, the County expects such amounts, if any, to be immaterial.

The County is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in management's opinion, the resolution of these matters will not have a material adverse effect on the financial condition of the County.

D. Sales Tax

Sales Tax of May 14, 2002

The voters of Nowata County approved the extension of a one-cent sales tax on May 14, 2002. This sales tax was established to be used for the following purposes and for no other: Forty-five percent (45%) to county roads and bridge maintenance and improvements, including the purchase of machinery and equipment to be used in such county road and bridge programs; fifteen percent (15%) to county general funds, to include funding for OSU County Extension Service, County Free Fair, 4-H Clubs, City-County Free Library, Charity, and County Health; thirty-five percent (35%) to county general funds, to include funding for all mandated county offices; and five percent (5%) to courthouse capital improvements and maintenance. The life of said sales tax to be unlimited in duration. The specific percentage to each of the foregoing purposes funded from the County General Fund to be determined according to need by the Board of County Commissioners. These funds are accounted for in the Sales Tax Cash Account fund, the General Government Sales Tax (35%) fund, the Roads and Bridges Sales Tax (45%) fund, the Courthouse Improvement Sales Tax (5%) fund, and the 15% Sales Tax fund.

Sales Tax of May 14, 2013

The voters of Nowata County approved an excise tax of one percent (1%) for roads on May 14, 2013. Levying a five-year excise tax of one percent (1%) upon the gross proceeds of gross receipts derived from all sales or services in the County which are taxable under the sales tax law of Oklahoma, allocating the monthly income of the said tax specifically for the construction, operation and maintenance; including the purchase of machinery and equipment to be used in the county road and bridge system of Nowata County. These funds are accounted for within the Roads and Bridges Sales Tax (1 cent) fund.

**NOWATA COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

E. Interfund Transfers

During the fiscal year, the County made the following transfers between cash funds:

- \$250,000 was transferred from the County Bridge and Road Improvement fund to the County General fund to meet the requirements of appropriation in accordance with 68 O.S. § 3021.
- \$250,000 was transferred from the County General fund to the County Bridge and Road Improvement fund for the repayment of a loan in accordance with 68 O.S. § 3021.
- \$300,000 was transferred from the County Bridge and Road Improvement fund to the County Highway Unrestricted fund to meet the requirements of appropriation in accordance with 68 O.S. § 3021.
- \$50,000 was transferred from the Emergency Transportation Revolving Fund, a Trust and Agency fund, to the County Highway Unrestricted fund for the purpose of funding county road and bridge projects.
- \$434 was transferred from the Excess Resale Property fund, a Trust and Agency fund, to the Resale Property fund as authorized by 68 O.S. § 3131c.
- \$133,495 was transferred from the Sales Tax Cash Account fund to the Courthouse Improvement Sales Tax (5%) fund by the Board of County Commissioner (BOCC) approved transfer resolution to close out the Sales Tax Cash Account fund and establish a uniform system of bookkeeping in accordance with 74 O.S. § 214.
- \$645,290 was transferred from the Sales Tax Cash Account fund to the Roads and Bridges Sales Tax (1%) fund by BOCC approved transfer resolution to close out the Sales Tax Cash Account fund and establish a uniform system of bookkeeping in accordance with 74 O.S. § 214.
- \$129,283 was transferred from the Sales Tax Cash Account fund to the 15% Sales Tax fund by BOCC approved transfer resolution to close out the Sales Tax Cash Account fund and establish a uniform system of bookkeeping in accordance with 74 O.S. § 214.
- \$115,785 was transferred from the Sales Tax Cash Account fund to the General Government Sales Tax (35%) fund to close out the Sales Tax Cash Account fund and establish a uniform system of bookkeeping in accordance with 74 O.S. § 214.
- \$241 was transferred from the Sheriff Prisoner Boarding fund to the Sheriff Service Fee fund by BOCC approved transfer resolution to close out the Sheriff Prisoner Boarding fund and establish a uniform system of bookkeeping in accordance with 74 O.S. § 214.
- \$44,996 was transferred from the Sheriff Use Tax fund to the Use Tax-ST fund by BOCC approved transfer resolution to close out the Sheriff Use Tax fund and establish a uniform system of bookkeeping in accordance with 74 O.S. § 214.
- \$892 was transferred from the 911 Land Line fund to the 911 Phone Fees fund by BOCC approved transfer resolution to close out the 911 Land Line fund and establish a uniform system of bookkeeping in accordance with 74 O.S. § 214.

SUPPLEMENTARY INFORMATION

NOWATA COUNTY, OKLAHOMA
COMPARATIVE SCHEDULE OF EXPENDITURES—BUDGET AND ACTUAL—
BUDGETARY BASIS—GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

| | General Fund | | |
|-------------------------------------|---------------------|-------------------|------------------|
| | Budget | Actual | Variance |
| County Sheriff | \$ 319,788 | \$ 318,324 | \$ 1,464 |
| County Treasurer | 88,094 | 79,781 | 8,313 |
| County Clerk | 143,544 | 139,995 | 3,549 |
| Court Clerk | 83,420 | 83,416 | 4 |
| County Assessor | 91,362 | 90,054 | 1,308 |
| Revaluation of Real Property | 185,690 | 175,512 | 10,178 |
| General Government | 69,588 | 15,399 | 54,189 |
| Excise - Equalization Board | 3,500 | 2,427 | 1,073 |
| County Election Board | 83,390 | 82,339 | 1,051 |
| Insurance - Benefits | 7,000 | 6,862 | 138 |
| County Audit Budget Account | 6,543 | - | 6,543 |
| Provisions for Interest on Warrants | 2,000 | - | 2,000 |
| Total Expenditures, Budgetary Basis | <u>\$ 1,083,919</u> | <u>\$ 994,109</u> | <u>\$ 89,810</u> |

**NOWATA COUNTY, OKLAHOMA
NOTE TO SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

1. Budgetary Schedules

The Comparative Schedule of Expenditures—Budget and Actual—Budgetary Basis for the General Fund presents a comparison of the legally adopted budget with actual data. The "actual" data, as presented in the comparison of budget and actual, will differ from the data as presented in the Statement of Receipts, Disbursements, and Changes in Cash Balances because of adopting certain aspects of the budgetary basis of accounting and the adjusting of encumbrances and outstanding warrants to their related budget year.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in these funds. At the end of the year unencumbered appropriations lapse.

INTERNAL CONTROL AND COMPLIANCE SECTION



**Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed in Accordance With
*Government Auditing Standards***

TO THE OFFICERS OF
NOWATA COUNTY, OKLAHOMA

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the total—all county funds of the accompanying Statement of Receipts, Disbursements, and Changes in Cash Balances of Nowata County, Oklahoma, as of and for the year ended June 30, 2020, and the related notes to the financial statement, which collectively comprise Nowata County's basic financial statement, prepared using accounting practices prescribed or permitted by Oklahoma state law, and have issued our report thereon dated July 16, 2024.

Our report included an adverse opinion on the financial statement because the statement is prepared using accounting practices prescribed or permitted by Oklahoma state law, which is a basis of accounting other than accounting principles generally accepted in the United States of America. However, our report also included our opinion that the financial statement does present fairly, in all material respects, the receipts, disbursements, and changes in cash balances – regulatory basis of the County as of and for the year ended June 30, 2020, on the basis of accounting prescribed by Oklahoma state law, described in Note 1.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered Nowata County's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of Nowata County's internal control. Accordingly, we do not express an opinion on the effectiveness of Nowata County's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be material weaknesses: 2020-001, 2020-004, 2020-005, and 2020-006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Nowata County's financial statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statement. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters regarding statutory compliance that we reported to the management of Nowata County, which are included in Section 2 of the schedule of findings and responses contained in this report.

Nowata County's Response to Findings

Nowata County's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Nowata County's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR

July 16, 2024

**NOWATA COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

SECTION 1—Findings related to the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Finding 2020-001 – Lack of County-Wide Controls (Repeat Finding – 2012-012, 2017-001, 2018-001, 2019-001)

Condition: Through the process of gaining an understanding of the County’s internal control structure, it was noted that county-wide controls regarding Control Environment, Risk Assessment, and Monitoring have not been designed.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure that an adequate system of county-wide controls exist.

Effect of Condition: Without an adequate system of county-wide controls, there is greater risk of a breakdown in control activities which could result in unrecorded transactions, undetected errors, or misappropriation of funds.

Recommendation: The Oklahoma State Auditors & Inspector’s Office (OSAI) recommends the County design and implement a system of county-wide procedures to identify and address risks related to financial reporting and to ensure that information is communicated effectively. OSAI also recommends 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.

Management Response:

Commissioner District 1: I was not County Commissioner at this time. I will work on designing and implementing the policies and procedures for county-wide controls.

Commissioner District 2: I was not in office at this time; however, I will take the auditor’s recommendations under advisement and design and implement policies and procedures to address county-wide controls.

Commissioner District 3: I will work with the other elected officials to design and implement policies and procedures over county-wide controls.

Criteria: The United States Government Accountability Office’s *Standards for Internal Control in the Federal Government* (2014 version) aided in guiding our assessments and conclusion. Although this publication (GAO Standards) addresses controls in the federal government, this criterion can be treated as best practices and may be applied as a framework for an internal control system for state, local, and quasi-governmental entities.

**NOWATA COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

The GAO Standards – Section 1 – Fundamental Concepts of Internal Control – OV1.01 states in part:

Definition of Internal Control

Internal control is a process effected by an entity's oversight body, management, and other personnel that provides reasonable assurance that the objectives of an entity will be achieved.

Additionally, GAO Standards – Section 2 – Establishing an Effective Internal Control System – OV2.04 states in part:

Components, Principles, and Attributes

Control Environment - The foundation for an internal control system. It provides the discipline and structure to help an entity achieve its objectives.

Risk Assessment - Assesses the risks facing the entity as it seeks to achieve its objectives. This assessment provides the basis for developing appropriate risk responses.

Information and Communication - The quality information management and personnel communicate and use to support the internal control system.

Monitoring - Activities management establishes and operates to assess the quality of performance over time and promptly resolve the findings of audits and other reviews.

Finding 2020-004 – Lack of Internal Controls and Noncompliance Over the Disbursement Process (Repeat Finding - 2017-004, 2019-004)

Condition: Upon inquiry and observation of the County's disbursement process, we noted the County does not have adequate segregation of duties to ensure that duties assigned to individuals are done so in a manner that would allow one individual to control both the recording function and the procedures relative to processing warrants.

Additionally, a sample of eighty (80) disbursements was tested and the following exceptions were noted:

- Three (3) disbursements totaling \$2,788 were not timely encumbered.
- Five (5) disbursements totaling \$316,767 were not reviewed or authorized by the County Clerk prior to payment.
- Four (4) disbursements totaling \$257,732 were not supported by adequate documentation.
- One (1) disbursement totaling \$500 was paid from the wrong period.
- Two (2) expenditures were not paid timely:
 - The Sheriff's office is in debt \$16,745 from services received from February 2019 through May 2019. Although the payment is up to six (6) months past due, the County only issued a partial payment of \$500.
 - District 3 is in debt \$756 for services received up to sixty (60) days prior to the partial payment of \$117 being made.

**NOWATA COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

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

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

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.

OSAI also recommends the County adhere to state purchasing guidelines to ensure:

- The availability of funds by encumbering prior to goods or services being ordered or received.
- All expenditures indicate proof of review and approval by the County Clerk.
- Expenditures are supported by adequate documentation.
- Goods or services be paid for from funds designated for use during the fiscal year from which the goods or services are obtained.

Management Response:

County Commissioner District 1: I was not County Commissioner at this time. I will make sure that a purchase order is in place before anything is ordered.

County Commissioner District 2: I was not in office at this time; however, I will work with the other elected officials to ensure expenditures are made in accordance with state statutes.

County Commissioner District 3: I will work to ensure a purchase order is encumbered prior to the receipt of goods or services and that all expenditures are supported by adequate documentation.

County Clerk: This was before I took office, but I have been putting policies and procedures in place to ensure we are in compliance and that duties are segregated.

County Sheriff: I will work to ensure that a purchase order is encumbered prior to the ordering or receipt of goods or services and that good or services are paid for from funds designated for use during the fiscal year from which the good or services were obtained.

Criteria: GAO Standards – Section 2 – Establishing an Effective Internal Control System – OV2.23 states in part:

Objectives of an Entity – Compliance Objectives

Management conducts activities in accordance with applicable laws and regulations. As part of specifying compliance objectives, the entity determines which laws and regulations

**NOWATA COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

apply to the entity. Management is expected to set objectives that incorporate these requirements.

The GAO Standards – Principle 10 – Design Control Activities – 10.03 states in part:

Segregation of Duties

Management divides or segregates key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud. This includes separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets so that no one individual controls all key aspects of a transaction or event.

Additionally, Principle 10 - Segregation of Duties states:

10.12 – Management considers segregation of duties in designing control activity responsibilities so that incompatible duties are segregated and, where such segregation is not practical, designs alternative control activities to address the risk.

10.13 – Segregation of duties helps prevent fraud, waste, and abuse in the internal control system. Management considers the need to separate control activities related to authority, custody, and accounting of operations to achieve adequate segregation of duties. In particular, segregation of duties can address the risk of management override. Management override circumvents existing control activities and increases fraud risk. Management addresses this risk through segregation of duties but cannot absolutely prevent it because of the risk of collusion, where two or more employees act together to commit fraud.

10.14 – If segregation of duties is not practical within an operational process because of limited personnel or other factors, management designs alternative control activities to address the risk of fraud, waste, or abuse in the operational process.

Furthermore, effective internal controls require that management properly implement procedures to ensure that expenditures comply with 19 O.S. § 1505.

Title 62 O.S. § 310.4 states in part, “All unencumbered balances, if any, [...] on hand at the close of day June 30, may remain as a credit for said fiscal year up to the close of day September 30, next. [...] Provided this act shall not be so construed to allow the incurring of a new indebtedness after June 30 chargeable to the appropriation account of the immediately preceding fiscal year.”

**NOWATA COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

Finding 2020-005 – Lack of Internal Controls Over Purchasing Practices – Questionable Purchases (Repeat Finding – 2019-005)

Condition: Concerns were raised to OSAI about the validity of purchases made by District 2 to a local store. Based on these concerns, OSAI reviewed 100% of the seventy-three (73) expenditures District 2 made to the local store during fiscal year 2020 and compiled a list of unusual items purchased, purchases made on weekends, and purchases made after regular business hours for the County. Our review yielded thirty-seven (37) questionable purchases made on twenty-seven (27) purchases orders as follows:

- Although all District barns work four (4) ten (10) hour days, Monday through Thursday,
 - Eight (8) purchases were made on Saturday.
 - Eight (8) purchases were made on Sunday.
 - Seven (7) purchases were made on Fridays.
- Three (3) times the District purchased propane tanks, for a total of three (3) tanks. Each of these purchases were made Friday through Sunday.
- One (1) Lawn Sweep Pro 50-inch 26 cut lawnmower was purchased.
- One (1) Infragen heater – vintage cabinet was purchased.
- One (1) 50-gallon water heater was purchased.
- Twenty-five (25) questionable purchases were made by related (married) parties who served as the requisitioning and receiving officers.

Of the forty-six (46) questionable purchases, we selected five (5) items to visually verify. We were unable to locate three (3) of the items:

- Lawn Sweep Pro 50-inch 26 cut lawnmower
- Infragen heater– vintage cabinet
- 50-gallon water heater

Cause of Condition: Policies and procedures have not been designed and implemented with regard to effective internal controls over purchasing procedures and the safeguarding of assets.

Effect of Condition: Lack of internal controls over purchasing could lead to the misappropriation of County funds and the loss and misappropriation of county assets.

Recommendation: OSAI recommends the County design and implement a system of internal controls over purchases to ensure the safekeeping of County assets and the to reduce risk of the misappropriation of County funds. Such controls would include:

- Maintaining a degree of separation when there are related parties involved in transactions.
- Management’s review of all purchases prior to the approval of payment.
- Restriction and review of after hour and weekend purchases.

We further recommend that the BOCC and the District Attorney review this finding to determine what action if any may be necessary.

**NOWATA COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

Management Response:

Commissioner District 1: I was not County Commissioner at this time I will work on a system of internal controls over purchasing.

Commissioner District 2: I was not in office at this time; however, I will work with everyone at my district barn to ensure that purchases made by District 2 comply with state statutes to reduce and eliminate the misappropriation of county funds and county assets.

Commissioner District 3: I will work with the other elected officials to design and implement a system of internal controls over purchases.

Criteria: GAO Standards – Section 2 – Establishing an Effective Internal Control System –states in part:

Objectives of an Entity – Compliance Objectives

OV2.23 - Management conducts activities in accordance with applicable laws and regulations. As part of specifying compliance objectives, the entity determines which laws and regulations apply to the entity. Management is expected to set objectives that incorporate these requirements.

Objectives of an Entity - Safeguarding of Assets

OV2.24 - Management designs an internal control system to provide reasonable assurance regarding prevention or prompt detection and correction of unauthorized acquisition, use, or disposition of an entity's assets.

The GAO Standards – Principle 8 – Assess Fraud Risk states in part:

Fraud Risk Factors

8.04 - Management considers fraud risk factors. Fraud risk factors do not necessarily indicate that fraud exists but are often present when fraud occurs. Fraud risk factors include the following:

- Incentive/pressure - Management or other personnel have an incentive or are under pressure, which provides a motive to commit fraud.²⁶
- Opportunity - Circumstances exist, such as the absence of controls, ineffective controls, or the ability of management to override controls, that provide an opportunity to commit fraud.
- Attitude/rationalization - Individuals involved are able to rationalize committing fraud. Some individuals possess an attitude, character, or ethical values that allow them to knowingly and intentionally commit a dishonest act.

Response to Fraud Risks

8.07 - Management responds to fraud risks through the same risk response process performed for all analyzed risks. Management designs an overall risk response and specific actions for responding to fraud risks. It may be possible to reduce or eliminate certain fraud

**NOWATA COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

risks by making changes to the entity's activities and processes. These changes may include stopping or reorganizing certain operations and reallocating roles among personnel to enhance segregation of duties. In addition to responding to fraud risks, management may need to develop further responses to address the risk of management override of controls. Further, when fraud has been detected, the risk assessment process may need to be revised.

The GAO Standards – Principle 10 – Design Control Activities – 10.03 states in part:

Access restrictions to and accountability for resources and records

Management limits access to resources and records to authorized individuals and assigns and maintains accountability for their custody and use. Management may periodically compare resources with the recorded accountability to help reduce the risk of errors, fraud, misuse, or unauthorized alteration.

Finding 2020-006 – Lack of Internal Controls and Segregation of Duties Over Payroll (Repeat Finding – 2012-005, 2017-005, 2018-005, 2019-006)

Condition: Upon inquiry and observation of the County's payroll process, we noted the County does not have an adequate segregation of duties to ensure that duties assigned to individuals are done so in a manner that would not allow one individual to control both the recording function and the procedures relative to processing a transaction.

Cause of Condition: Policies and procedures have not been designed with regards to segregation of duties and/or compensating controls of the payroll process.

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

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

Management Response:

County Clerk: I have been putting policies and procedures in place to segregate duties.

Criteria: The GAO Standards – Principle 10 – Design Control Activities – 10.03 states in part:

Segregation of Duties

Management divides or segregates key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud. This includes separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions,

**NOWATA COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

and handling any related assets so that no one individual controls all key aspects of a transaction or event.

Additionally, Principle 10 - Segregation of Duties states:

10.12 – Management considers segregation of duties in designing control activity responsibilities so that incompatible duties are segregated and, where such segregation is not practical, designs alternative control activities to address the risk.

10.13 – Segregation of duties helps prevent fraud, waste, and abuse in the internal control system. Management considers the need to separate control activities related to authority, custody, and accounting of operations to achieve adequate segregation of duties. In particular, segregation of duties can address the risk of management override. Management override circumvents existing control activities and increases fraud risk. Management addresses this risk through segregation of duties, but cannot absolutely prevent it because of the risk of collusion, where two or more employees act together to commit fraud.

10.14 – If segregation of duties is not practical within an operational process because of limited personnel or other factors, management designs alternative control activities to address the risk of fraud, waste, or abuse in the operational process.

SECTION 2—This section contains certain matters not required to be reported in accordance with *Government Auditing Standards*. However, we believe these matters are significant enough to bring to management’s attention. We recommend that management consider these matters and take appropriate corrective action.

Finding 2020-003 – Lack of Internal Controls and Noncompliance Over Temporary Transfers (Repeat Finding - 2019-003)

Condition: During fiscal year 2020, \$300,000 was transferred from the County Bridge and Road Improvement fund to the County Highway Unrestricted fund. The County Highway Unrestricted fund failed to repay these funds to the County Bridge and Road Improvement fund by fiscal year end as required by state statute.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure compliance with state statute 68 O.S. § 3021 regarding temporary transfers between funds.

Effect of Condition: This condition resulted in noncompliance with state statute and could result in unrecorded transactions, undetected errors, misappropriation of funds, inaccurate records, and incomplete information.

**NOWATA COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

Recommendation: OSAI recommends the County design and implement policies and procedures to ensure temporary transfers are paid back by the end of the fiscal year in which they were made as required by state statute.

Management Response:

District 1 County Commissioner: I was not County Commissioner at this time, but I will work on policies and procedures being implemented to ensure transfers are made in accordance with state statute.

District 2 County Commissioner: I was not in office at this time; however, I will work with the other elected officials to ensure this issue is fixed.

District 3 County Commissioner: I will work with the other elected officials to design and implement policies and procedures to ensure transfers are made in accordance with state statute.

County Clerk: I was not in office at this time; however, I am putting policies and procedures in place to ensure we are in compliance with state statute.

County Treasurer: I was not in office at this time; however, I will make sure that policies and procedures will be designed and implemented to ensure transfers are made in accordance with state statute.

Criteria: GAO Standards – Section 2 – Establishing an Effective Internal Control System – OV2.23 states in part:

Objectives of an Entity – Compliance Objectives

Management conducts activities in accordance with applicable laws and regulations. As part of specifying compliance objectives, the entity determines which laws and regulations apply to the entity. Management is expected to set objectives that incorporate these requirements.

Title 68 O.S. § 3021 states in part, “Fourth: If at any time during the budget year it appears to the county treasurer that there is temporarily insufficient money in a particular fund to meet the requirements of appropriation in the fund, the excise board, upon request of the county treasurer and upon notification to the county commissioners, may temporarily transfer from one fund to any other fund with the permission of the county officer in charge of the fund that the money will be temporarily transferred from... Any funds temporarily transferred shall be repaid to the original fund from which they were transferred within the fiscal year that the funds were transferred.”

Finding 2020-007 – Lack of Internal Controls and Noncompliance Over Inmate Trust Fund Checking Account, Sheriff Commissary Fund, and Sheriff Commissary (Repeat Finding)

Condition: Upon inquiry and observation of procedures and records for the Inmate Trust Fund Checking Account and Sheriff Commissary Fund, and Sheriff Commissary, OSAI noted the County does not have an

**NOWATA COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

adequate segregation of duties to ensure that duties assigned to individuals are done so in a manner that would not allow one individual to control both the recording function and the procedures relative to processing a transaction.

Inmate Trust Fund Checking Account:

- One employee is responsible for accessing and balancing collections for the Kiosk, receiving and receipting collections received through the mail, preparing the deposit slip, updating inmates' account balances with credits and deductions, and performing monthly bank reconciliation reviews.
- There is no indication of independent monitoring or review of the bookkeeping functions of the Inmate Trust Fund Checking Account.
- Bank reconciliations are prepared by the jail service vendor accounting system:
 - There is no indication of review and approved by a county employee.
 - A county employee, the Administrative Assistance, only reviews the deposits and checks issued on the bank side of the reconciliation other reconciling items are not confirmed for accuracy.
 - A reconciliation of the individual inmate balances to the Inmate Trust Fund Ledger balance used in the Inmate trust Fund Checking Account bank reconciliation was not performed by the County at June 30, 2020.
- Employees lack sufficient knowledge of the operations of the jail service vendor's software system to effectively use the system and monitor the activity within the system.
- Bank fees are not being paid from the Sheriff Commissary Account or Sheriff Service Fee Fund as required by state statute.
- A mail log is not maintained.
- Receipts are not designated only for the Inmate Trust Fund.
- Collections are not always deposited in the bank on a daily basis.
- The County Sheriff does not have procedures in place to track unclaimed funds.
- Expenditures are made from the Inmate Trust Fund Checking Account for purposes other than statutorily allowed.
 - Payments were issued to individuals other than the inmate, a municipal Court Clerk, the jail service vendors, and the financial institution for a safety deposit box payment.
 - Payments to the jail phone service are deducted automatically (electronically) by the vendor from the Inmate Trust Fund Checking Account. Allowing an outside entity to withdraw and adjust another entity's bank account indicates a lack of control.

Sheriff Commissary Fund:

- The County Sheriff's Office does not file an annual report for the Sheriff Commissary Fund with the BOCC by January 15th of each year as required by state statute.

Sheriff Commissary

- Inventory records were not up to date for the smokeless tobacco maintained on hand.

Cause of Condition: Policies and procedures have not been designed and implemented for proper administration regarding the Inmate Trust Fund Checking Account, the Sheriff Commissary Fund, and the Sheriff Commissary.

**NOWATA COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

Effect of Condition: These conditions resulted in noncompliance with state statutes. Expenses paid out of the Inmate Trust Fund Checking Account rather than the Sheriff Service Fee Fund or Commissary Fund result in under-reporting of county expenses. Without proper accounting and safeguarding of the Inmate Trust Fund Checking Account and the Sheriff Commissary, there is an increased risk of misappropriation of funds.

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 approval of accounting functions.

OSAI further recommends the County Sheriff implement procedures to ensure:

- Bank reconciliations are performed on a monthly basis, reviewed for accuracy, and approved by someone other than the preparer.
- The inmates' trust fund balances are reconciled to the bank statements each month.
- All reconciling items noted on the bank reconciliations are verified.
- Any discrepancies between the bank balance and the County's balance for the Inmate Trust Fund Checking Account, including the "over/short" balance are resolved.
- Employees receive additional training on the jail service software system.
- Bank fees are paid from the Sheriff Commissary Account, or the Sheriff Service fee as required by 19 O.S. § 531(C).
- A mail log is maintained.
- All receipts can be accounted for and are issued in sequential order.
- Daily collections are deposited into the Inmate Trust Fund Checking Account on a daily basis.
- Unclaimed funds are tracked and that the unclaimed fund report maintained in the jail service software system is utilized by the Sheriff's office.
- Expenditures are made from the Inmate Trust Fund in accordance with 19 O.S. § 531(A).
- Access to the Inmate Trust Fund Checking Account be restricted to County officials and service provider vendors do not have access.
- The County Sheriff files a report of the Sheriff Commissary Fund with the BOCC by January 15th of each year in accordance with 19 O.S. § 180.43(D).
- An accurate inventory of commissary items on hand is maintained.

Management Response:

County Sheriff: I have implemented procedures to include a second employee is present and included in the process of counting funds and signing off on a verification when money is removed from the kiosk or received in the mail. This second person also reviews and verifies the deposit slip after it is prepared.

I will ensure:

- The Account Supervisor conducts a monthly bank reconciliation, and the bank reconciliation is reviewed and approved by a second person.
- The Inmate Trust Fund Account balances are reconciled to the bank statements each month.

**NOWATA COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

- All reconciling items noted on the bank reconciliations are verified and any discrepancies between the bank balance and the County's balance for the Inmate Trust Fund, Checking Account, including the over/short balance, are resolved.
- Employees will receive additional training on the jail service software system.

I have instructed the Account Supervisor to stop having the bank deduct monthly fees from the Inmate Trust Fund Checking Account and start encumbering a purchase order out of the Sheriff Commissary Account to pay those fees. Additionally, I have instructed the Jail Administrator and Account Supervisor to start keeping a mail log.

Furthermore, we will:

- Ensure receipts can be accounted for and are issued in sequential order.
- Track unclaimed funds using the unclaimed fund report generated by the jail service software.
- Maintain an accurate inventory of commissary items on hand.
- File an annual report of the Sheriff Commissary Fund with the BOCC by January 15 of each year.
- Ensure expenditures from the Inmate Trust Fund Checking Account are in compliance with state statute and we will not allow outside vendors to deduct funds from the Inmate Trust Fund Checking Account.

Currently, we are making daily deposits.

Criteria: The GAO Standards – Principle 10 – Design Control Activities – 10.03 states in part:

Management of human capital

Effective management of an entity's workforce, its human capital, is essential to achieving results and an important part of internal control. Only when the right personnel for the job are on board and are provided the right training, tools, structure, incentives, and responsibilities is operational success possible. Management continually assesses the knowledge, skills, and ability needs of the entity so that the entity is able to obtain a workforce that has the required knowledge, skills, and abilities to achieve organizational goals. Training is aimed at developing and retaining employee knowledge, skills, and abilities to meet changing organizational needs. Management provides qualified and continuous supervision so that internal control objectives are achieved. Management designs a performance evaluation and feedback system, supplemented by an effective rewards system, to help employees understand the connection between their performance and the entity's success.

Establishment of review of performance measurers and indicators

Management establishes physical control to secure and safeguard vulnerable assets. Examples include security for and limited access to assets such as cash, securities, inventories, and equipment that might be vulnerable to risk of loss or unauthorized use. Management periodically counts and compares such assets to control records."

**NOWATA COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

Segregation of duties

Management divides or segregates key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud. This includes separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets so that no one individual controls all key aspects of a transaction or event.

Accurate and timely recording of transactions

Transactions are promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from its initiation and authorization through its final classification in summary records. In addition, management designs control activities so that all transactions are completely and accurately recorded.”

Additionally, GAO Standards – Principle 16 – Perform Monitoring Activities – 16.05 states in part:

Internal Control System Monitoring

Management performs ongoing monitoring of the design and operating effectiveness of the internal control system as part of the normal course of operations. Ongoing monitoring includes regular management and supervisory activities, comparisons, reconciliations, and other routine actions.

Furthermore, GAO Standards – Section 2 – Establishing an Effective Internal Control System – OV2.24 states in part:

Safeguarding of Assets

Management designs an internal control system to provide reasonable assurance regarding prevention or prompt detection and correction of unauthorized acquisition, use, or disposition of an entity’s assets.

Title 19 O.S. § 180.43(D) states in part, “...Any funds received pursuant to said operations shall be the funds of the county where the persons are incarcerated and shall be deposited in the Sheriff’s Commissary Account. The sheriff shall be permitted to expend the funds to improve or provide jail services. The sheriff shall be permitted to expend any surplus in the Sheriff’s Commissary Account for administering expenses for training equipment, travel or for capital expenditures. The claims for expenses shall be filed with and allowed by the board of county commissioners in the same manner as other claims. The Sheriff shall receive no compensation for the operation of said commissary. The sheriff shall file an annual report on any said commissary under his or her operation no later than January 15 of each year.”

Title 19 O.S. § 531(A) states in part, “...The county sheriff may establish a checking account, to be designated the “Inmate Trust Checking Account” ... The county sheriff shall deposit all monies collected from inmates incarcerated in the county jail into this checking account

**NOWATA COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

and may write checks to the Sheriff's Commissary Account for purchases made by the inmate during his or her incarceration and to the inmate from unencumbered balances due the inmate upon his or her discharge."

Title 19 O.S. § 531(C) states in part, "...Banking fees on the account may be paid out of the Sheriff Commissary Account or the county sheriff's Service Fee Cash Fund."

Title 22 O.S. § 1325(F, H) provides guidance for the handling of unclaimed property or money in the County Sheriff's possession.



Cindy Byrd, CPA | State Auditor & Inspector

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