June 20, 2005

Frederick S. Esser, District Attorney
Nowata County Courthouse
Nowata, Oklahoma 74048

Transmitted herewith is the Special Audit Report of the Nowata County Clerk. We performed our special audit in accordance with the requirements of 74 O.S. 2001, §212(H).

A report of this type is critical in nature; however, we do not intend to imply that our report failed to disclose commendable features in the present accounting and operating procedures of Nowata County.

The Office of the State Auditor and Inspector is committed to serve the public interest by providing independent oversight and by issuing reports that serve as a management tool to the State. Our goal is to insure a government which is accountable to the people of the State of Oklahoma.

We wish to take this opportunity to express our appreciation for the assistance and cooperation extended to our Office during the course of our special audit.

Sincerely,

JEFF A. McMAHAN
State Auditor and Inspector
June 16, 2005

Frederick S. Esser, District Attorney  
Nowata County Courthouse  
Nowata, Oklahoma 74048

Pursuant to the District Attorney’s request and in accordance with the requirements of 74 O.S. 2001, § 212(II), we performed a special audit with respect to Nowata County, for the period January 1, 2002 through April 25, 2005.

Our audit focused on the area of concerns presented by the District Attorney’s office, which included "misappropriation of funds by the Nowata County Clerk and funding the Nowata County Clerk First Deputy out of highway funds."

Because the procedures do not constitute an audit conducted in accordance with generally accepted auditing standards, we do not express an opinion on the account balances or financial statements of the County, for the period January 1, 2002 through April 25, 2005.

Further, due to the test nature and other inherent limitations of a special audit report, together with the inherent limitations of any internal control structure, there is an unavoidable risk that some material misstatements may remain undiscovered. This report relates only to the accounts and items specified above and does not extend to any financial statements of the County taken as a whole.

This report is intended to provide information to the District Attorney. This restriction is not intended to limit distribution of this report, which is a matter of public record when released.

Sincerely,

JEFF A. McMahan  
State Auditor and Inspector

April 28, 2005
**Concern:** The District Attorney’s letter dated April 20, 2005, requested that we review allegations that the highway fund was misappropriated by using funds to remodel the County annex 1 and 3. In addition, it was alleged that the highway fund is used to pay the Nowata County Clerk First Deputy’s salary.

We reviewed the expenditures in the highway fund. We also reviewed several accounts in the general fund for evidence of expenditures on the County annex 1 and 3. Also, we reviewed payroll records in the general and highway funds.

**Finding:** The Board of County Commissioners passed a resolution to request grant funds from Rural Economic Action Plan (REAP) on September 15, 2003, through Grand Gateway Economic Development Association. On December 16, 2003, Grand Gateway awarded Nowata County a grant in the amount of $30,000.

On February 9, 2004, the Board of County Commissioners passed a resolution directing the County Treasurer to credit funds received to a REAP account. The resolution also stated that the grant was a reimbursement after local funds had been expended.

The County used a portion of its sales tax revenues to fund the renovation as approved by the people of Nowata County on May 14, 2002. Nowata County appropriately maintains a separate account within the general funds called “Courthouse Improvement” to account for revenues and expenditures. Based on review of this account, it appears that revenues and expenditures are appropriately accounted for and used for its intended purpose.

Finally, we requested the intended purpose of this annex for the Commissioners. The Chairman on the Board of County Commissioners stated that the annex will be used by various offices of the County for conference/meeting rooms, training, and storage.

Based on records and evidence presented, we find no misappropriation of highway funds.

**Finding:** Per review of payroll reports from January 1, 2002 through April 25, 2005, we found that the Nowata County Clerk First Deputy has been receiving her salary from the highway fund for eight months each year. The other four months her salary is appropriately paid from the general fund. The total gross pay for January 1, 2002 through April 25, 2005 is $45,960.

**Recommendation:** We recommend that the Board of County Commissioners begin budgeting appropriately to pay the Nowata County Clerk First Deputy from the general fund or other cash funds that the Nowata County Clerk may use. County highway funds should be used as provided by 68 O.S. 2001, §500.6.B.1. "...for the purpose of constructing and maintaining county highways and bridges."