

OPERATIONAL AUDIT

NOWATA COUNTY

For the fiscal year ended June 30, 2015



*Independently serving the citizens of
Oklahoma by promoting the
accountability and fiscal integrity of
governmental funds.*



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

**NOWATA COUNTY OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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Oklahoma State Auditor & Inspector

2300 N. Lincoln Blvd. • State Capitol, Room 100 • Oklahoma City, OK 73105 • Phone: 405.521.3495 • Fax: 405.521.3426

December 4, 2017

**TO THE CITIZENS OF
NOWATA COUNTY, OKLAHOMA**

Transmitted herewith is the audit report of Nowata County for the fiscal year ended June 30, 2015.

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,

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

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

**NOWATA COUNTY, OKLAHOMA
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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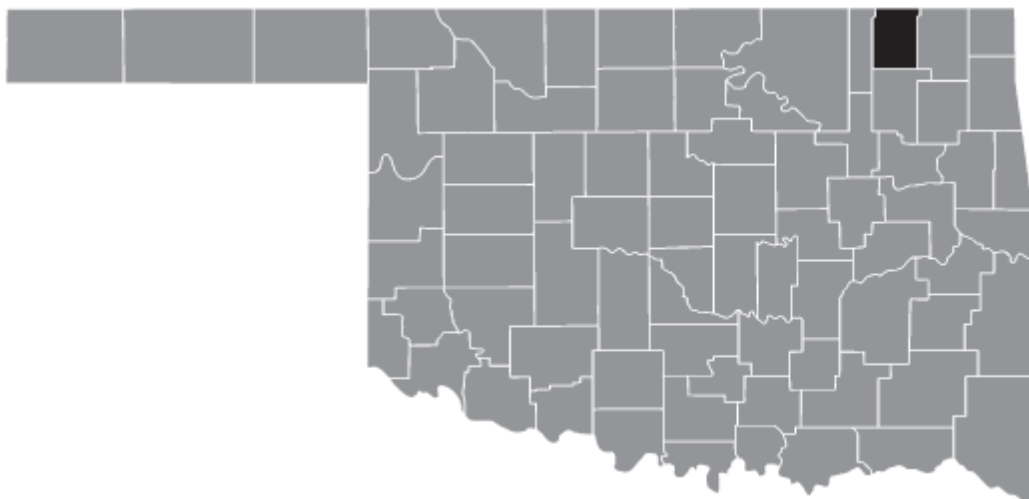
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**NOWATA COUNTY, OKLAHOMA
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**



Stories abound as to the origin of the name Nowata. One opinion is that two railroad surveyors took the suggestion of Roberta Campbell Lawson, an educated Delaware Indian woman: “Noweta” meaning “welcome.” Others say a Georgian exploring the area found no water at some springs and posted a sign “No Wata” to warn other travelers. Created at statehood, Nowata County took its name from the county seat of Nowata.

In 1904, when oil and gas were discovered, Nowata County became known as the world’s largest shallow oil field, and some are still producing. Today, the County is principally ranching.

The Nowata County Courthouse is a historic site and the Verdigris River and Oologah Lake Double Creek Cove provide recreational and fishing opportunities.

A Look at the History of Nowata by Robert W. DeMoss offers more about the area. Annual events include Wild Turkey Festival in may, Nowata Annual Championship Rodeo (ACRA and CRRA sanctioned) in July, the City-Wide Garage Sales in September and Christmas Open House in December at the Glass Mansion, a home designed and built by John Duncan Forsythe.

For additional information, call the County Clerk’s office at 918-273-2480 or the Nowata Area Chamber of Commerce at 918-273-2301.

County Seat – Nowata

Area – 580.87 Square Miles

County Population – 10,524
(2014 est.)

Farms – 899

Land in Farms – 292,122 Acres

Primary Source: Oklahoma Almanac 2015-2016

**NOWATA COUNTY OFFICIALS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Board of County Commissioners

District 1 – Curtis Bames
District 2 – Doug Sonenberg
District 3 – Bud Frost

County Assessor

Dave Neely

County Clerk

Amber Wishall

County Sheriff

James Hallet

County Treasurer

Bonnie Workman

Court Clerk

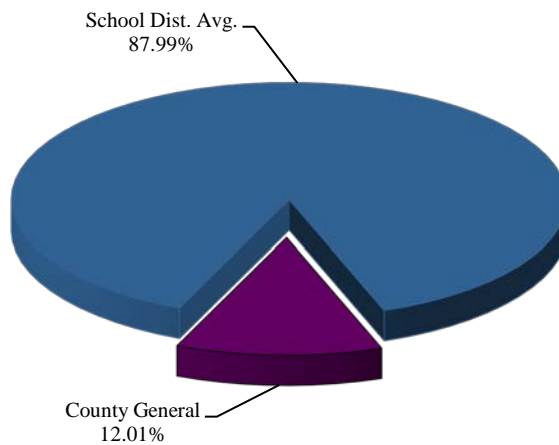
Sarah Webb Ewers

District Attorney

Kevin Buchanan

**NOWATA COUNTY, OKLAHOMA
AD VALOREM TAX DISTRIBUTION
SHARE OF THE AVERAGE MILLAGE
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Property taxes are calculated by applying a millage rate to the assessed valuation of property. Millage rates are established by the Oklahoma Constitution. One mill equals one-thousandth of a dollar. For example, if the assessed value of a property is \$1,000.00 and the millage rate is 1.00, then the tax on that property is \$1.00. This chart shows the different entities of the County and their share of the various millages as authorized by the Constitution.



<u>County-Wide Millages</u>		<u>School District Millages</u>						
					Career			
		Gen.	Bldg.	Skg.	Tech.	Common	Total	
County General	10.49							
Nowata	I-40	36.81	5.23	27.05	15.74	4.20	89.03	
Oklahoma Union	I-3	36.89	5.27	18.43	15.74	4.20	80.53	
South Coffeyville	I-51	36.89	5.27	-	15.74	4.20	62.10	
Copan	J-I-4	37.98	5.43	11.76	15.74	4.20	75.11	
Chelsea	J-I-3	36.44	5.21	20.20	11.45	4.20	77.50	

**NOWATA COUNTY, OKLAHOMA
SALES TAX DISTRIBUTION
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Sales Tax

Sales Tax of May 14, 2002

The voters of Nowata County approved the extension of a one-cent sales tax. The life of said tax is to be unlimited in duration. The proceeds of the sales tax are to be placed in the Sales Tax Revolving Fund of the County, and shall 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 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 within the Sales Cash Account fund.

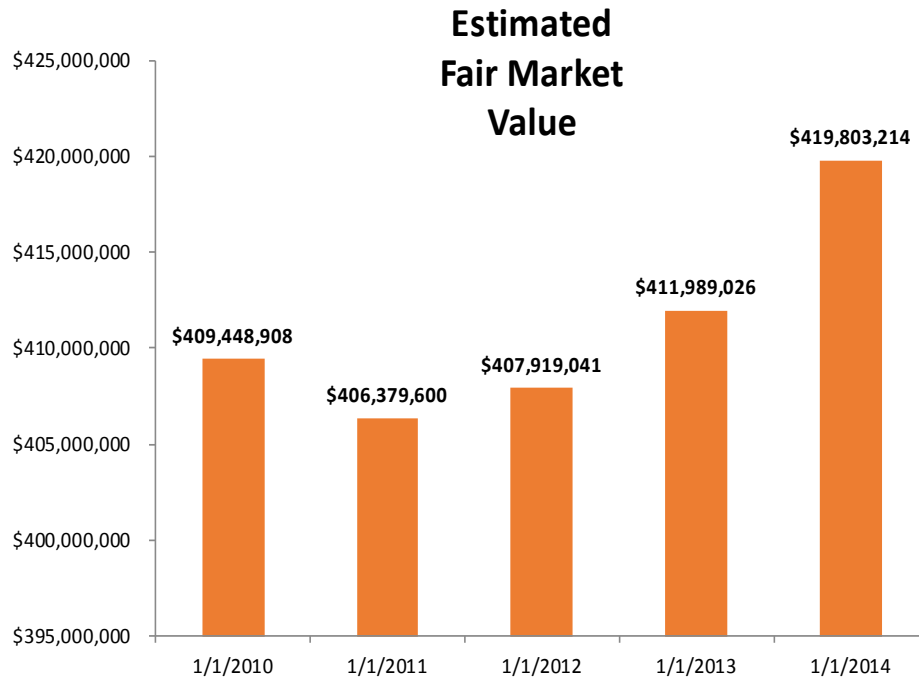
Sales Tax of May 14, 2013

On May 14, 2013, the voters of Nowata County approved an excise tax of one percent (1%) for roads. 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 Sales Cash Account fund.

During the fiscal year, the County collected \$990,057 in total sales tax.

**NOWATA COUNTY, OKLAHOMA
 ASSESSED VALUE OF PROPERTY
 TREND ANALYSIS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

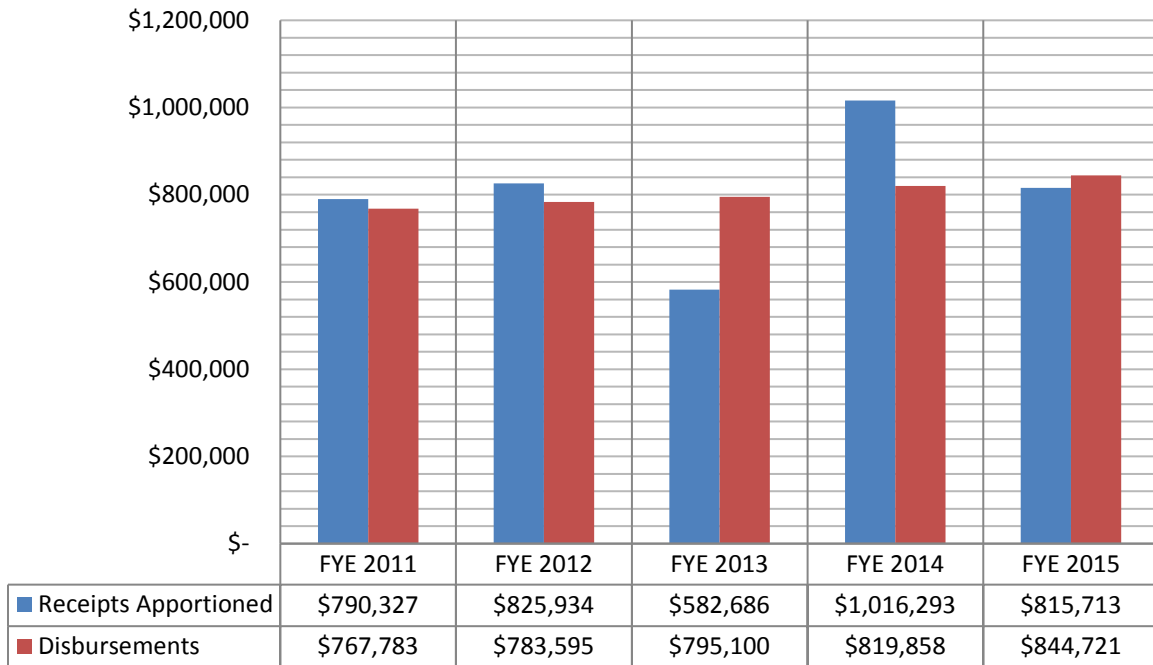
Valuation Date	Personal	Public Service	Real Estate	Homestead Exemption	Net Value	Estimated Fair Market Value
1/1/2014	\$7,228,360	\$12,091,669	\$36,797,915	\$2,920,846	\$53,197,098	\$419,803,214
1/1/2013	\$6,877,446	\$12,383,790	\$36,057,715	\$3,015,170	\$52,303,781	\$411,989,026
1/1/2012	\$7,287,863	\$12,535,407	\$35,079,276	\$3,059,156	\$51,843,390	\$407,919,041
1/1/2011	\$7,271,238	\$13,589,590	\$34,357,546	\$3,165,468	\$52,052,906	\$406,379,600
1/1/2010	\$7,094,431	\$11,663,777	\$33,527,881	\$3,152,220	\$49,133,869	\$409,448,908



**NOWATA COUNTY, OKLAHOMA
COUNTY GENERAL FUND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

County General Fund

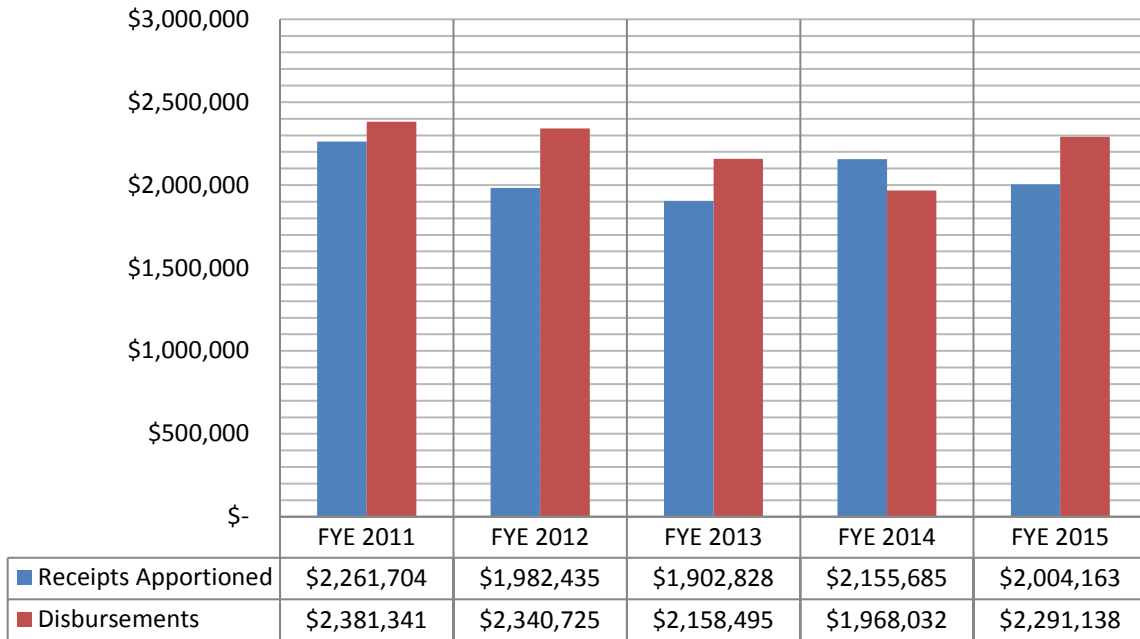
The Oklahoma Constitution and the Oklahoma Statutes authorize counties to create a County General Fund, which is the county's primary source of operating revenue. The County General Fund is typically used for county employees' salaries plus many expenses for county maintenance and operation. It also provides revenue for various budget accounts and accounts that support special services and programs. The Board of County Commissioners must review and approve all expenditures made from the County General Fund. The primary revenue source for the County General Fund is usually the county's ad valorem tax collected on real, personal (if applicable), and public service property. Smaller amounts of revenue can come from other sources such as fees, sales tax, use tax, state transfer payments, in-lieu taxes, and reimbursements. The chart below summarizes receipts and disbursements of the County's General Fund for the last five fiscal years.



**NOWATA COUNTY, OKLAHOMA
COUNTY HIGHWAY FUND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

County Highway Fund

The County receives major funding for roads and highways from a state imposed fuel tax. Taxes are collected by the Oklahoma Tax Commission. Taxes are imposed on all gasoline, diesel, and special fuel sales statewide. The County's share is determined on formulas based on the County population, road miles, and land area and is remitted to the County monthly. These funds are earmarked for roads and highways only and are accounted for in the County Highway Fund. The chart below summarizes receipts and disbursements of the County's Highway Fund for the last five fiscal years.



**NOWATA COUNTY
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Presentation of Apportionments, Disbursements, and Cash Balances of County Funds for Fiscal Year Ended June 30, 2015

	Beginning Cash Balances July 1, 2014	Receipts Apportioned	Transfers In	Transfers Out	Disbursements	Ending Cash Balances June 30, 2015
Combing Information:						
County Funds:						
County General Fund	\$ 219,556	\$ 815,713	\$ 210,000	\$ 210,000	\$ 844,721	\$ 190,548
General Cash Insurance	342	-	-	-	-	342
T-Highway	1,987,388	2,004,163	600,000	-	2,291,138	2,300,413
County Bridge and Road Improvement	1,209,611	218,744	210,000	810,000	90,986	737,369
Alluwe Property	2,328	137	-	-	-	2,465
Animal Damage	397	-	-	-	-	397
County Assessor Revolving Fund	8,660	3,103	-	-	1,369	10,394
County Clerk Lien Fee	4,039	5,320	-	-	7,376	1,983
County Clerk Preservation Fee	14,690	10,475	-	-	18,831	6,334
Emergency Management	1,983	7,250	-	-	7,000	2,233
Sales Tax Cash Account	1,114,528	1,042,847	-	-	1,051,816	1,105,559
Sheriff Basic 911	283	-	-	-	280	3
Sheriff Commissary Account	14,427	33,244	-	-	26,984	20,687
Sheriff Donations	578	4,860	-	-	298	5,140
Sheriff Littering	136	-	-	-	-	136
Sheriff Prisoner Boarding	107,559	369,615	-	-	369,330	107,844
Sheriff Service Fee	89,561	98,687	-	-	114,820	73,428
Treasurer Mortgage Certification Fee	34,182	1,720	-	-	990	34,912
Resale Property	56,630	76,349	22,537	-	78,212	77,304
County Use Tax	108,256	89,605	-	-	41,595	156,266
Department of Human Services	1,399	-	-	-	-	1,399
Nowata County Fair Board Grant	5,466	2,000	-	-	4,526	2,940
Sheriff Equipment Grant	8,500	10,441	-	-	12,963	5,978
Nowata County Industrial Authority Grant	-	2,400	-	-	2,330	70
Nowata County Senior Citizen's Grant	-	500	-	-	500	-
Sheriff's Drug Forfeiture	-	2,756	-	-	-	2,756
Court Clerk Payroll	7,320	52,569	-	-	43,812	16,077
Combined Total - All County Funds	\$ 4,997,819	\$ 4,852,498	\$ 1,042,537	\$ 1,020,000	\$ 5,009,877	\$ 4,862,977

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

**NOWATA COUNTY
DESCRIPTION OF COUNTY FUNDS AND TRANSFERS
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Description of County Funds

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.

Following are descriptions of the county funds within the Presentation of Apportionments, Disbursements, and Cash Balances of County Funds:

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

General Cash Insurance – accounts for an insurance reimbursement for a water leak at the Courthouse and disbursements are to repair the damages the water leak caused.

T-Highway – accounts for state, local, and miscellaneous receipts and disbursements to construct and maintain county roads and bridges.

County Bridge and Road Improvement – accounts for state receipts to be disbursed for maintaining county bridges and roads.

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

Animal Damage – accounts for state collections and disbursements to control wildlife damaging local property.

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

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

County Clerk Preservation Fee – accounts for fees collected for instruments filed with the County Clerk as restricted by state statute to be used for preservation of records.

Emergency Management – accounts for the receipt and disbursement of funds from state and local governments for civil defense purposes.

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

Sheriff Basic 911 – accounts for grant money received in fiscal year 2004 to be used for the installation of a County 911 system.

**NOWATA COUNTY
DESCRIPTION OF COUNTY FUNDS AND TRANSFERS
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Sheriff Commissary Account – accounts for collection of fees transferred from inmate trust funds for commissary items and disbursement of funds as restricted by state statute.

Sheriff Donations – accounts for monies received from donations and disbursed for the purpose of the donation.

Sheriff Littering – accounts for the monies collected from fines imposed for littering and disbursed to citizens involved in the reporting of 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 as restricted by state statute.

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

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

County Use Tax – accounts for receipts of Oklahoma Tax Commission collections of County use tax. Disbursements are for the construction, purchase, and/or maintenance of County buildings.

Department of Human Services – accounts for state funds received to pay the Sheriff for expenses incurred for the transportation of juvenile offenders.

Nowata County Fair Board Grant – accounts for receipts and disbursement of Oklahoma Rural Rehabilitation grant funds for the purpose of repairs to the Nowata County Fair building.

Sheriff Equipment Grant – accounts for federal grant revenues used to assist the County in purchasing a fingerprint machine.

Nowata County Industrial Authority Grant – accounts for receipts and disbursement of Public Service Company of Oklahoma donation for the purpose of constructing a website for Nowata County.

Nowata County Senior Citizens Grant – accounts for grant revenue from Rural Economic Development to fund improvement projects for Nowata County Senior Citizen's Center.

Sheriff Drug Forfeiture – accounts for receipts from forfeited assets in drug related cases. Disbursements are for drug enforcement expenses.

**NOWATA COUNTY
DESCRIPTION OF COUNTY FUNDS AND TRANSFERS
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Court Clerk Payroll – accounts for funds deposited to be used for payroll for the Court Clerk's office.

Interfund Transfers

During the fiscal year, the County made the following interfund transfers:

- \$210,000 was transferred from the County Bridge and Road Improvement fund to the County General Fund to meet requirements of appropriations in accordance with 68 O.S. § 3021.
- \$210,000 was transferred from the County General Fund into the County Bridge and Road Improvement fund for repayment of the loan in accordance with 68 O.S. § 3021.
- \$600,000 was transferred from the County Bridge and Road Improvement fund to the T-Highway fund to cover road and bridge project costs.
- \$22,537 was transferred from the Excess Resale Property fund, a trust and agency fund, to the Resale Property fund as authorized by 68 O.S. § 3131.

NOWATA COUNTY, OKLAHOMA
COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES—BUDGET AND ACTUAL—BUDGETARY BASIS—
COUNTY GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	General Fund		
	Budget	Actual	Variance
Beginning Cash Balances	\$ 219,556	\$ 219,556	\$ -
Less: Prior Year Outstanding Warrants	(63,929)	(63,929)	-
Less: Prior Year Encumbrances	(8,479)	(8,309)	170
Beginning Cash Balances, Budgetary Basis	147,148	147,318	170
 Receipts:			
Ad Valorem Taxes	531,464	551,885	20,421
Charges for Services	53,004	49,003	(4,001)
Intergovernmental Revenues	179,915	186,597	6,682
Miscellaneous Revenues	25,688	28,228	2,540
Total Receipts, Budgetary Basis	790,071	815,713	25,642
 Expenditures:			
District Attorney	1,002	-	1,002
County Sheriff	150,000	149,586	414
County Treasurer	57,074	57,074	-
County Clerk	89,957	89,945	12
Court Clerk	50,932	50,932	-
County Assessor	60,832	60,762	70
Revaluation	154,938	131,913	23,025
General Government	95,411	42,904	52,507
Excise Equalization	3,400	2,783	617
County Election Expense	51,316	51,270	46
Insurance - Benefits	209,245	197,039	12,206
County Audit Budget Account	11,112	6,659	4,453
Provision for Interest on Warrants	2,000	-	2,000
Total Expenditures, Budgetary Basis	937,219	840,867	96,352

Continued on next page

Source: County Estimate of Needs (presented for informational purposes)

NOWATA COUNTY, OKLAHOMA
COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES—BUDGET AND ACTUAL—BUDGETARY BASIS—
COUNTY GENERAL FUND - CONTINUED
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	General Fund		
	Budget	Actual	Variance
Continued on next page			
Excess of Receipts and Beginning Cash			
Balances Over Expenditures, Budgetary Basis	<u>\$ -</u>	122,164	<u>\$ 122,164</u>
Interfund Transfers:			
Interfund Transfer In		210,000	
Interfund Transfer Out		<u>(210,000)</u>	
Net Interfund Transfers		<u>-</u>	
Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances			
Add: Current Year Outstanding Warrants		65,063	
Add: Current Year Encumbrances		<u>3,321</u>	
Ending Cash Balance		<u>\$ 190,548</u>	

Source: County Estimate of Needs (presented for informational purposes)

**NOWATA COUNTY
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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.

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.

In planning and conducting our audit, we focused on the major financial related areas of operations based on assessment of materiality and risk for the fiscal year ended June 30, 2015. Our audit procedures included:

- Inquiries of appropriate personnel,
- Inspections of documents and records,
- Observations of the County's operations,
- Reconciling total apportionments, disbursements, and balances presented on the County's Presentation of Apportionments, Disbursements, and Cash Balances of County Funds for the fiscal year to the County Treasurer's and County Clerk's financial ledgers,
- Confirming third party confirmations to the financial ledgers,
- Selecting representative samples to determine disbursements were made in accordance with state statutes, approved ballots, and county purchasing procedures, and
- Gaining an understanding of the County's internal controls as it relates to each audit objective.

To ensure the samples were representative of the population and provided sufficient, appropriate evidence, both random sample and judgmental sample methodologies were used. We identified specific attributes for testing each of the samples and when appropriate, we projected our results to the population.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, errors or fraud may occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

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 2015.

Conclusion: With respect to the items reconciled and reviewed; the receipts apportioned, disbursements, and cash balances are accurately presented on the County Treasurer's monthly reports. However, we noted some deficiencies in internal controls regarding the financial reporting process.

FINDINGS AND RECOMMENDATIONS

Finding 2015-3 – Inadequate Internal Controls Over Monthly Reports and Lack of Segregation of Duties - County Treasurer (Repeat Finding)

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

- Duties were not adequately segregated in the County Treasurer's office, due to:
 - All employees working from the same cash drawer.
 - In addition to taking collections and issuing receipts, one employee can also balance the cash drawer, prepare the depository deposit ticket, and perform the bank reconciliations.
- There is no indication of independent review of the daily close out processes and subsidiary ledger reconciliation.
- Deposits and withdrawals were not posted to the general ledger for IRS account in the months of September 2014, and December 2014 through June 2015.

Cause of Condition: Policies and procedures have not been designed and implemented to separate key functions and processes among various employees in the office; to have levels of review over the processes performed; or to ensure all bank accounts in the County's name, under the County's employer identification number, or in use by the County are accounted for accurately on the County Treasurer's general ledger and are being reconciled monthly with proof of preparation and review noted.

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

Recommendation: The Oklahoma State Auditor & Inspector's Office (OSAI) recommends management be aware of these conditions and realize that concentration of duties and responsibilities in a limited number of individuals is not desired from a control point of view. The most effective controls lie in management's overseeing of office operations and a periodic review of operations. OSAI recommends management provide segregation of duties so that no one employee is able to perform all accounting functions. 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

**NOWATA COUNTY
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

would include separating key processes and/or critical functions of the office, and having management's review and approval of accounting functions.

OSAI also recommends that any accounts or investments recorded under the County's tax identification number should be included accurately on the general ledger. Reconciliations should be performed on a monthly basis, in a timely manner.

Management Response:

County Treasurer: I was not in office for fiscal year 2015; however, I will review this finding and take steps to ensure that the items noted in the finding are not future issues.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. An important aspect of internal controls is the safeguarding of assets. Internal controls over safeguarding of assets constitute a process, affected by an entity's governing body, management, and other personnel, designed to provide reasonable assurance regarding prevention or timely detection of unauthorized transactions, and safeguarding assets from misappropriation. To help ensure a proper accounting of funds, the duties of receiving, receipting, recording, depositing cash and checks, reconciliations, and transaction authorization should be separated and all accounts under the County's tax identification number should be included on the general ledger, and reconciliations should be performed monthly and denote indication of being reviewed and approved by someone other than the preparer.

Finding 2015-5 – Inadequate Internal Controls Over the Reconciliation of Appropriation Ledger to General Ledger (Repeat Finding)

Condition: A monthly reconciliation is not performed between the County Clerk's appropriation ledger and the County Treasurer's general ledger for all County funds.

Cause of Condition: Policies and procedures have not been designed and implemented regarding a monthly reconciliation of the County Clerk's appropriation ledger to the County Treasurer's general ledger.

Effect of Condition: This condition could result in unrecorded transactions, misstated financial reports, undetected errors, or misappropriation of assets, or clerical errors that are not detected in a timely manner.

Recommendation: OSAI recommends that the County Clerk's appropriation ledger be reconciled monthly to the County Treasurer's general ledger. The reconciliation should be reviewed and approved by someone other than the preparer and documentation of the reconciliation should be maintained.

Management Response:

County Treasurer: I was not in office for fiscal year 2015 but understand the importance of the reconciliation of the appropriation ledger to the general ledger.

**NOWATA COUNTY
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

County Clerk: I was not the County Clerk during this fiscal year. Since I have taken over, we have made changes to this by working with the County Treasurer monthly to make sure county accounts are balanced.

Criteria: Safeguarding controls are an important aspect of internal controls. Safeguarding controls relate to the prevention or timely detection of unauthorized transactions and unauthorized access to assets. Failure to perform tasks that are part of internal controls, such as reconciliations not prepared or not timely prepared, are deficiencies in internal control. To help ensure a proper accounting of funds, all reconciliations should be documented and approved by someone other than the preparer.

Objective 2: To determine the County's financial operations complied with 68 O.S. § 1370E, which requires the sales tax collections to be deposited in the general revenue or Sales Tax Revolving Fund of the County and be used only for the purpose for which such sales tax was designated.

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

FINDINGS AND RECOMMENDATIONS

Finding 2015-4 – Inadequate Internal Controls and Noncompliance Over County Sales Tax Collections (Repeat Finding)

Condition: During our review of the procedures involved in the receipt, apportionment, and disbursement of sales tax collections, the following was noted:

- Sales tax collections appear to be co-mingled with other funds; \$48,667.42 in revenues, other than sales tax collections, were apportioned to the Sales Tax Cash Account.
- The calculation of sales tax collections performed and apportioned by the County Treasurer is not reviewed or approved, by someone other than the preparer.
- There are no internal controls in place to ensure sales tax funds are appropriated in accordance with the sales tax ballots.
- There are no reviews to ensure that unencumbered balances at fiscal year-end are rolled forward correctly.
- The Purchasing Agent relies solely on the individual offices to ensure the disbursement of sales tax funds is made in accordance with the sales tax ballots.

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- One (1) Sales Tax Cash Account purchase order totaling \$15,420.30 could not be located; therefore, we could not determine if expenditures were made in accordance with the sales tax ballot.

Cause of Condition: Policies and procedures have not been designed and implemented to oversee and review sales tax collections to ensure collections are apportioned, appropriated, and disbursed in accordance with sales tax ballots.

Effect of Condition: These conditions resulted in noncompliance with state statute. Additionally, these conditions could result in unrecorded transactions, undetected errors, or misappropriation of funds.

Recommendation: OSAI recommends the County design and implement policies and procedures to ensure sales tax collections are apportioned, appropriated, and disbursed in accordance with the sales tax ballots.

Management Response:

County Treasurer: I was not in office for fiscal year 2015 but I will review this finding and take steps to avoid the recurrence of any like issues.

County Clerk: I was not the County Clerk during this fiscal year. Since I have taken over, we ensure that a copy of the signed appropriation that details the breakdown of the sales tax to each account is given to the County Treasurer and the Board of County Commissioners (BOCC) each month after the appropriations have been made, so that they may review to ensure compliance with the sales tax ballot and sales tax agreement.

Additionally, I have made sure that the current Purchasing Agent is aware and trained to flag and bring to the attention of the County Clerk any purchase that does not seem to meet the appropriate use of sales tax funds. The filing and organization for purchase orders long term has been improved upon for an easier index search. The County Sales Tax Plan is now divided in accordance to the ballot for easy reference and transparency.

Criteria: Accountability and stewardship are overall goals in evaluating management's accounting of funds. Effective internal controls require management to design procedures to ensure sales tax revenue is correctly distributed, recorded, and expended for the purpose it was intended.

Title 68 O.S. § 1370(E) 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.

Objective 3: 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.

Objective 4: To determine whether the County's internal controls provide reasonable assurance that expenditures (including payroll) were accurately reported in the accounting records and financial operations complied with significant laws and regulations.

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

The County's financial operations did not comply with 19 O.S. § 1505, which requires that disbursements be timely encumbered, properly authorized, and supported with adequate documentation.

FINDINGS AND RECOMMENDATIONS

Finding 2015-6 – Inadequate Internal Controls and Noncompliance Over the Disbursement Process (Repeat Finding)

Condition: Upon inquiry and observation of the County's disbursement process, we noted the following:

- Due to the significant turnover, we were unable to document if the disbursement process was adequately segregated during the audit period.
- The warrant register is not always signed by the person or persons picking up warrants.
- The County could not provide the warrant registers for the months of September 2014, December 2014, March 2015, and June 2015.
- The Payroll Clerk enrolls new hires, inputs payroll information into the system, calculates withholdings and prepares withholding reports, prints and reviews payroll verification reports, prepares, prints, and distributes payroll warrants, removes terminated employees from the system, and maintains personnel files.

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The audit of sixty-six (66) cash vouchers reflected the following:

- The County could not provide the cash voucher claims or support documentation for sixty-six (66) cash vouchers totaling \$23,781.10 as recorded in the County Clerk’s data.

The audit of sixty-one (61) purchase orders reflected the following noncompliance with regard to purchasing statutes:

Not timely encumbered:

Fund	Responsible Office	Purpose	Warrant	Amount
County Sales Tax Revolving Fund	OSU Extension	Internet	442	\$146.00
County Sales Tax Revolving Fund	District 2	Tires	473	\$662.20
Emergency Management	Emergency Management	Operations Plan Update	1	\$7,000.00

No invoice – Unable to determine timely encumbrance:

Fund	Responsible Office	Purpose	Warrant	Amount
T-Highway	District 2	Truck	943	\$15,000.00
T-Highway	District 2	Vehicle Equipment	944	\$30,000.00

The audit of sixty-four (64) payroll expenditures reflected the following:

- Two (2) timesheets could not be located for Assessor Visual Inspection account.
- One (1) timesheet could not be located for Sheriff Board of Prisoner fund.
- One (1) timesheet could not be located for the Sheriff General Fund account.
- Two (2) timesheets could not be located for the Court Clerk General Fund account.
- Timesheets for the employees of the County Sheriff, Highway District 2, and County Commissioner’s offices were not always signed by both the employee and a supervisor.

Cause of Condition: Policies and procedures have not been designed and implemented with regard to the disbursement process to ensure adequate internal controls and compliance with state statute.

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

Recommendation: OSAI recommends management be aware of this condition 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 risk 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.

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

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

Additionally, timesheets should be signed by a supervisor and attached to the payroll claim.

OSAI recommends the following regarding internal controls:

- The County Clerk should require all officials, employees, or vendors to sign the warrant register when picking up warrants. If warrants are disbursed through the mail, then the warrant register should indicate the warrant as mailed.
- All payroll expenditures should be supported by timesheets that are signed by both the employee and a supervisor.

OSAI recommends that the County adhere to state purchasing and documentation retention guidelines.

- Purchase orders should be encumbered before goods or services are ordered, encumbrances should be certified by the County Clerk or Deputy.
- Adequate supporting documentation should be attached to the purchase order and reviewed to ensure accuracy.
- Warrant registers should be retained as required by state statute.
- All county claims and claim calendars should be retained in the County Clerk's office for a period of five years.

Management Response:

Chairman of the Board of County Commissioners/County Commissioner District 3: The BOCC will emphasize to all departments and offices the importance of encumbering funds prior to the receipt of goods and/or services and ensuring supporting documentation is attached to all purchase orders and all payroll claims are supported by approved timesheets.

County Commissioner District 2: The Commissioner and Commissioner's Assistant will work to do a better job on encumbrances. Additionally, we will make sure all employees have time cards that are signed by both the employee and the commissioner.

County Clerk: I was not the County Clerk in fiscal year 2015. Since I came into office, we have made changes to this by having either the County Clerk or First Deputy initial all cash vouchers in addition to the employee preparing cash vouchers. All warrants are reconciled to the warrant register and proof is stapled to the register. No checks are released without a signature in person and if mailed it is indicated on said register. Additionally, the County Clerk proofs every step of payroll from beginning to end and ensures the minutes of the BOCC reflect approval of payroll. We will also be working with all offices and departments in the County to ensure they know the importance of encumbering properly and making sure all expenditures are supported by adequate documentation.

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County Sheriff: I was not the Sheriff during this audit time period. An advisement notice of a new employee is sent to the County Clerk who sets an enrollment date for new employee benefits. Each employee will submit a timesheet to the department Supervisor. Supervisors will review timesheet for errors prior to turn them into the Sheriff for review of the amount of comp time and signature. Each employee will provide their signature to receive their monthly pay checks.

County Assessor: One of the missing timesheets was for an employee that left employment before I was elected. The second missing timesheet could not be located. We have checked everywhere possible and have been unable to find it. We are currently making every effort to make sure this will not happen again.

Court Clerk: I have and will continue to get timesheets monthly. I was not in office during this audit period.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. Internal controls should be designated to analyze and check accuracy, completeness, and authorization of disbursement calculations and/or transactions. To help ensure a proper accounting of funds, the duties of processing, authorizing, and distribution should be segregated, all expenditures should be supported by adequate documentation, and warrant registers should be signed by officials, employees, or vendors and/or show as mailed.

Effective internal controls require that management implement procedures to ensure that purchases are made in compliance with 19 O.S. § 1505.

Title 19 O.S. § 155.2 provides guidelines for the retention and destruction of County records.

All Objectives:

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

Finding 2015-1 – Inadequate County-Wide Controls and Lack of Disaster Recovery Plans (Repeat Finding)

Condition: County-wide controls regarding Control Environment, Risk Assessment, Information and Communication, and Monitoring have not been designed. Further, the County Commissioners, County Clerk, County Treasurer, County Assessor, Court Clerk, and County Sheriff have not designed and implemented Disaster Recovery Plans.

Cause of Condition: Policies and procedures have not been designed and implemented to address risks of the County.

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Effect of Condition: These conditions could result in unrecorded transactions, undetected errors, or misappropriation of funds. Further, without a Disaster Recovery Plan these conditions could also result in the loss of data, the unreliability of data, and increase the risk that the County may not recover from an emergency and/or disaster.

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.

Further, the County Commissioners, County Clerk, County Treasurer, County Assessor, Court Clerk, and County Sheriff should each prepare a Disaster Recovery Plan in order to maintain operations in the event of a disaster.

Management Response:

Chairman of the Board of County Commissioners: The BOCC will work towards assessing and identifying risks and to design written policies and procedures regarding County-wide controls. Additionally, the BOCC will strive to ensure all employees receive adequate training and will implement procedures to ensure each office has designed a Disaster Recovery Plan. The procedures will include setting yearly reminders for each officer to update the plan and an annual meeting to include all County officers to discuss any changes or additional information that needs to be included in the plan.

County Clerk: I was not the County Clerk during the audit of fiscal year 2015. Since I have taken over, we have made changes to this by having all departments submit a Disaster Recovery Plan to each of the Commissioners and have one on file in the County Clerk's office. Plans are also being stored off site in a secured location if needed in a time of emergency.

County Treasurer: I was not in office for fiscal year 2015; but will review this finding and take steps to ensure that these issues are addressed.

County Assessor: After you had informed us of the need for a Disaster Recovery Plan, our office executed a manual with all procedures and assignments of each employee responsible for recovery of any lost data. Each employee has a copy of the manual in their desks and at their homes in the event a disaster strikes the courthouse. All our information is backed up nightly by Oklahoma State University.

Court Clerk: I was not in office during the audit period; however, as of August 2, 2017, I have begun working on updating my Disaster Recovery Plan.

County Sheriff: I was not the Sheriff during this audit period. However, upon being notified of this issue, a Disaster Recovery Plan will be submitted to each of the Commissioners and have the plan on file in this office as well as the County Clerk's office. Plans are also being stored off site in a secured location if needed in a time of emergency. Also, to clarify with other county officials, a meeting will be set to present clear understanding for all offices on the Disaster Recovery Plans.

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

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

According to the standards of the Information Systems Audit and Control Association (CobiT, Deliver and Support 4), information services function management should ensure that a written Disaster Recovery Plan is documented and contains guidelines and instructions for the County to follow in the event of a disaster.

Finding 2015-2 – Inadequate Internal Controls Over Information System Security – County Clerk and County Treasurer's Offices (Repeat Finding)

Condition: Upon review of the computer systems within the County Clerk and County Treasurer's offices, it was noted that there does not appear to be adequate controls in place to safeguard data from unauthorized modification, loss or disclosure. The specifics of the condition will be sanitized to protect the County pursuant to the provision of 51 O.S. § 24A.28.

Cause of Condition: Policies and procedures have not been designed and implemented to prevent unauthorized access to data.

Effect of Condition: These conditions could result in compromised security for the computers, computer programs, and data.

Recommendation: OSAI recommends the County comply with best practices presented in the criteria. The specifics of the recommendation will be sanitized to protect the County pursuant to the provision of 51 O.S. § 24A.28.

Management Response:

County Clerk: I was not the County Clerk in fiscal year 2015. Since I have taken over, we have made changes to this by having extensive training in on our computer system for each area within the County Clerk's office and have taken the necessary steps to ensure the security for computer programs and data.

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County Treasurer: I will review this finding and take steps to ensure that these issues are not recurrent.

Criteria: According to the standards of the Information Systems Audit and Control Association (CobiT, Deliver and Support Ds5), the need to maintain the integrity of information and protect IT assets requires a security management process. This process includes establishing and maintaining IT security roles and responsibilities, policies, standards, and procedures. Security management also includes performing security monitoring and periodic testing and implementing corrective actions for identified security weaknesses or incidents. Effective security management protects all IT assets to minimize the business impact of security vulnerabilities and incidents.

Other Item(s) Noted:

Finding 2015-12 – Inadequate Internal Controls Over the Schedule of Expenditures of Federal Awards (Repeat Finding)

Condition: The County has not designed and implemented formal internal controls for the reporting of its federal programs as required by OMB Circular A-133. The Schedule of Expenditures of Federal Awards (SEFA) for the fiscal year ended June 30, 2015 was not prepared by the County until August 26, 2016.

Cause of Condition: Policies and procedures have not been designed and implemented by the County to establish a uniform recording system of federal revenues and expenditures and to ensure required reporting of federal revenues are presented accurately and prepared in a timely manner.

Effect of Condition: This condition resulted in the required reporting to be delayed by one year.

Recommendation: OSAI recommends the County have a policy for handling all federal grants awarded to the County. These policies should incorporate by reference applicable federal regulations to be followed, as well as the appropriate policy for the application, receipt, and expenditure of federal funds. OSAI also recommends that amounts reported on the SEFA be reconciled to accounting records.

Management Response:

Chairman of the Board of County Commissioners: We will make sure the individual officers' SEFA reports are turned into the County Clerk's office on or shortly after June 30th of the fiscal year. I will ask the County Clerk to present a reminder on the agenda for the BOCC and the officers.

County Commissioner District 1: The District secretary was new and had never prepared the SEFA or the supporting paperwork. Now that she is more familiar with this work, we will work with the County Clerk to ensure the District's SEFA is completed accurately and turned in timely.

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County Commissioner District 2: The Commissioner and Commissioner's Assistant will work with the County Clerk to ensure completion of the SEFA in a timely manner.

County Clerk: I was not the County Clerk at this time but since I became County Clerk, we have made changes to this process by having each department/office turn in an annual SEFA at the end of the fiscal year in order to avoid them being late.

Criteria: OMB A-133, Subpart C, §___.300 (b)(d) reads as follows:

Subpart C—Auditees

§___.300 Auditee responsibilities.

The auditee shall:

(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

(d) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with §___.310.

Further, accountability and stewardship are overall goals of management in the accounting of funds. To help ensure a proper accounting of funds, an accurate record of federal expenditures should be maintained.

Finding 2015-7 – Inadequate Internal Controls and Noncompliance with State Statutes Regarding Sales Tax Appropriations (Repeat Finding)

Condition: During our review of the appropriation ledgers to verify the June 30 balance of sales tax monies were carried forward, we noted the following exception:

- The County did not prepare a sales tax plan for fiscal year 2015 that denotes the breakout of the collections of the 15% sales tax that is to be distributed to undesignated funds.
- On July 1, 2014, the accounts receiving sales tax collections were appropriated \$4,262.83 less than June 30, 2014 unencumbered balances as follows:
 - Designated sales tax accounts receiving the 35% split received \$1,541.06 less,
 - Highway sales tax account receiving the 45% split received \$2,074.32 less,
 - Undesignated sales tax receiving the 15% split received \$47.45 less, and
 - The Courthouse Improvement sales tax account receiving the 5% split received \$600.00 less.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure sales tax funds were appropriated in accordance with state statute and to ensure the County has an approved detailed sales tax plan for the of the collections of the 15% sales tax that is to be distributed to undesignated funds.

Effect of Condition: This condition resulted in noncompliance with state statutes.

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Recommendation: OSAI recommends the County design and implement procedures to ensure compliance with Title 68 O.S. § 1370 (I) and 68 O.S. § 3018.

Management Response:

Chairman of the Board of County Commissioners: Although we failed to prepare and approve a sales tax plan for fiscal year 2015, we have taken the necessary steps to ensure a plan is prepared and approved by the BOCC since then.

County Treasurer: I was not in office for fiscal year 2015 but I will review this finding and take steps to avoid the recurrence of any like issues.

County Clerk: I was not the County Clerk during this fiscal year. Since I have taken over, we ensure that a copy of the signed appropriation that details the breakdown of the sales tax to each account is given to the County Treasurer and BOCC each month after the appropriations have been made, so that they may review to ensure compliance with the sales tax ballot and sales tax agreement.

Criteria: Title 68 O.S. § 1370(I), requires a county sales tax revolving fund shall be a continuing fund not subject to fiscal year limitations.

Title 68 O.S. § 3018 states in part... “If and when an actual cash fund balance shall accrue in any fund for any prior fiscal year, such balance shall forthwith be transferred to the same fund for the year next succeeding the year for which the taxes were originally levied.... The term “actual cash fund balance”, as used herein, is hereby defined to mean an excess of actual cash actually on hand over and above all legal obligations. Taxes in process of collection shall not be considered in determining the actual cash fund balance for any fund for any fiscal year or years.”

REPORT ON STATUTORY COMPLIANCE – OTHER MATTERS



Oklahoma State Auditor & Inspector

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Nowata County
Board of County Commissioners
Nowata County Courthouse
Nowata, Oklahoma 74048

Dear Chairman:

For the purpose of complying with 19 O.S. § 171 and 20 O.S. § 1312, we have performed statutory procedures regarding the following offices and departments for the fiscal year ended June 30, 2015:

- All County Offices - Fixed Assets procedures (19 O.S. § 178.1, 19 O.S. § 178.2, and 69 O.S. § 645).
- All County Offices - Consumable Inventories procedures (19 O.S. § 1502 and 19 O.S. § 1504).
- Court Clerk procedures (20 O.S. § 1304 and 19 O.S. § 220).
- Inmate Trust Fund procedures (19 O.S. § 531 and 19 O.S. § 180.43).

Our statutory compliance engagement was limited to the procedures related to the statutes above and was less in scope than an audit performed in accordance with generally accepted auditing standards. Accordingly, we do not express an opinion on any basic financial statement of Nowata County.

Based on our procedures performed, we have presented our findings in the accompanying schedule.

This report is intended for the information and use of the management of the County. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

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

November 20, 2017

SCHEDULE OF FINDINGS AND RESPONSES

Finding 2015-9 – Inadequate Internal Controls and Noncompliance Over Court Fund Expenditures (Repeat Finding)

Condition: Upon inquiry of the Court Clerk and staff, observation of financial activities and reconciliation of accounting records, the following internal control weaknesses were determined:

- One person prepares Court Fund claims, inputs the claim information into the computer system, signs the claim as acknowledgment of goods/services, prepares and prints the Court Fund vouchers, signs and registers the Court Fund vouchers with the Treasurer, and mails/distributes the vouchers to the vendors.

The audit of five (5) Court Fund claims reflected the following:

- Five (5) were not approved by a majority of the Court Fund board.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure adequate internal controls over the Court Fund expenditure process.

Effect of Condition: These conditions resulted in noncompliance with state statute and could result in misstated financial reports and/or 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.

OSAI also recommends that the Court Clerk comply with Title 20 O.S. § 1304, that outlines procedures for expending Court Fund monies, including proper authorization and approval of claims.

Management Response:

Court Clerk: I was not in office in fiscal year 2015. However, I have been made aware of the correct procedures for completing a Court Claim form and the appropriate places to sign. I am now having my first deputy sign acknowledging the delivery of supplies and materials and I am signing the claim as a member of the governing board.

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 disbursements calculations and/or transactions. To help ensure a proper accounting of funds, the duties of processing, authorizing, and distribution of Court Fund disbursements should be segregated.

Title 20 O.S. § 1304(A) states in part, "...Payment of the expenses may be made after the claim is approved by the district judge who is a member of the governing board of the court fund and either the local court clerk or the local associate district judge who is a member of the governing board."

Finding 2015-10– Inadequate Internal Controls Over the Reconciliation Process of the Court Clerk Revolving Fund (Repeat Finding)

Condition: The Court Clerk Revolving Fund reconciliations performed for fiscal 2015 did not reflect accurate beginning balances and the ending balance at June 30, 2015 did not reconcile to the County Treasurer’s general ledger balance at June 30, 2015. Additionally, it was noted that the County Treasurer certified the accuracy of the June 30 reconciliation even though the County Treasurer’s balance recorded was incorrect.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure reconciliations performed by the Court Clerk are presented with accurate information.

Effect of Condition: This condition resulted in inaccurate information being reported.

Recommendation: OSAI recommends that the Court Clerk reconcile the Revolving Fund to the County Treasurer quarterly and these reconciliations be reviewed for accuracy and approved by someone other than the preparer and the County Treasurer ensure all reconciliations presented to her for certification be reviewed prior to signing.

Management Response:

Court Clerk: I was not in office in fiscal year 2015; however, I will balance and reconcile with the County Treasurer’s general ledger monthly and quarterly.

County Treasurer: I was not in office for fiscal year 2015; however, I will review this finding to ensure that the issue is not repeated.

Criteria: Safeguarding controls are an important aspect of internal control. Safeguarding controls relate to the prevention or timely detection of unauthorized transactions and unauthorized access to assets. Failure to perform tasks that are part of internal controls, such as reconciliations not prepared or not accurately prepared, are deficiencies in internal control. Further, reconciliations should be reviewed and approved by someone other than the preparer and document evidence of the review.

Finding 2015-11 - Inadequate Internal Controls and Noncompliance Over the Inmate Trust Fund and Annual Commissary Report (Repeat Finding)

Condition: Based on inquiry of the County Sheriff’s staff and observation of records, we noted the following:

- One employee issues receipts, prepares and makes deposits, performs all daily activities for the Inmate Trust Fund, performs monthly close out of inmate trust system, prepares and signs inmate trust checks, and performs bank reconciliations.
- Bank reconciliations were not reviewed and approved by someone other than the preparer. Deposits are not made on a daily basis.
- Copies of Inmate Trust Bank Account checks were not maintained by the County Sheriff for fiscal year 2015.
- All receipts issued in fiscal year 2015 were not maintained.

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- An annual report for the Sheriff Commissary Fund is not filed with the BOCC by January 15th, of each year.

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

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. Further, these conditions resulted in noncompliance with state statute.

Recommendation: OSAI recommends management be aware of these conditions and realize that concentration of duties and responsibilities in a limited number of individuals is not desired from a control point of view. Management should provide segregation of duties so that no employee is able to perform all accounting functions. Also, OSAI recommends that bank reconciliations be reviewed by someone other than the preparer, deposits be made daily, and that all check and receipts issued within a fiscal year be retained.

Further, OSAI recommends the Sheriff's office to file an annual report for the Commissary Fund with the BOCC in accordance with 19 O.S. § 180.43D.

Management Response:

County Sheriff: I was not Sheriff during fiscal year 2015. However, upon being notified of these issue, deposits are taken to the bank daily after the Office Manager completes the deposit ticket and another department supervisor checks for mistakes and initialing the deposit slip as well. Additionally, a monthly statement will be obtained by the Office Manager to double check for any errors and then turned into the Sheriff. We will prepare and present a Commissary Report to the BOCC by January 15th of each year and will retain all inmate trust checks and receipts issued in the fiscal year for audit purposes and in accordance with state statute.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. An important aspect of internal controls is the safeguarding of assets. Internal controls over safeguarding of assets constitute a process, affected by an entity's governing body, management, and other personnel, designed to provide reasonable assurance regarding prevention or timely detection of unauthorized transactions, and safeguarding assets from misappropriation. To help ensure a proper accounting of funds, the duties of receiving, receipting, recording, depositing cash and checks, reconciliations, and transaction authorization should be separated; collection should be deposited daily, reconciliations should be performed monthly and be reviewed and approved by someone other than the preparer, and all financial records should be retained by the County and available for inspection.

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

**NOWATA COUNTY, OKLAHOMA
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an annual report on any said commissary under his or her operation no later than January 15 of each year.”



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