

OPERATIONAL AUDIT

NOWATA COUNTY

For the fiscal year ended June 30, 2016



*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, 2016**

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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, 2016.

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 style.

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

**NOWATA COUNTY, OKLAHOMA
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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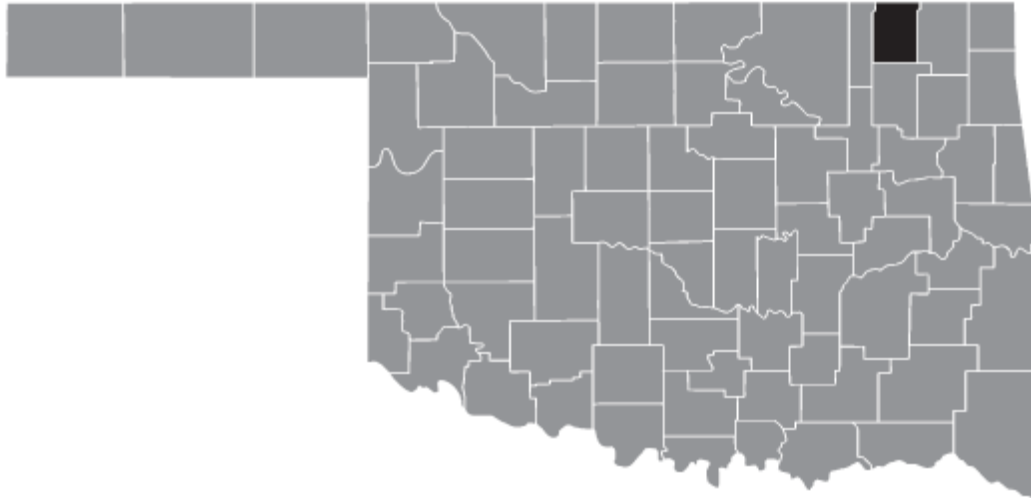
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**NOWATA COUNTY, OKLAHOMA
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**



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 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 Sale 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 (Land & Water) – 580.87 Square Miles

County Population – 10,524
(2014 est.)

Farms – 899

Land in Farms – 292,122 Acres

Primary Source: Oklahoma Almanac 2015-2016

Board of County Commissioners

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

County Assessor

Dave Neely

County Clerk

Phyllis Albertston

County Sheriff

Rick Miller

County Treasurer

Lynn Wesson

Court Clerk

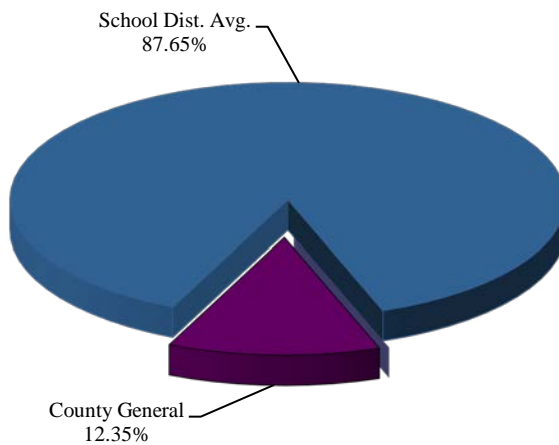
April Frauenberger

District Attorney

Kevin Buchanan

**NOWATA COUNTY, OKLAHOMA
AD VALOREM TAX DISTRIBUTION
SHARE OF THE AVERAGE MILLAGE
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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.



County-Wide Millages		School District Millages							
County General			Gen.	Bldg.	Skg.	Career Tech.	Common	Total	
County General	10.49	Nowata	I-40	36.61	5.23	25.91	15.74	4.20	87.69
		Oklahoma Union	I-3	36.89	5.27	18.93	15.74	4.20	81.03
		South Coffeyville	I-51	36.89	5.27	-	15.74	4.20	62.10
		Copan	J-I-4	37.98	5.43	3.42	15.74	4.20	66.77
		Chelsea	J-I-3	36.44	5.21	17.25	11.45	4.20	74.55

**NOWATA COUNTY, OKLAHOMA
SALES TAX DISTRIBUTIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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 in the Sales Tax Cash Account fund.

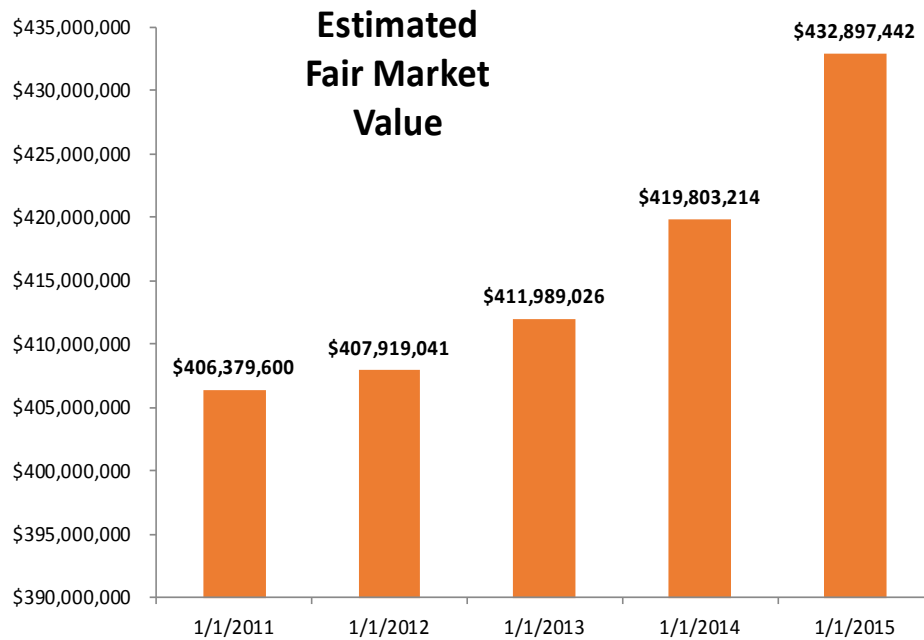
Sales Tax of May 14, 2013

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 \$913,185 in total sales tax.

**NOWATA COUNTY, OKLAHOMA
 ASSESSED VALUE OF PROPERTY
 TREND ANALYSIS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

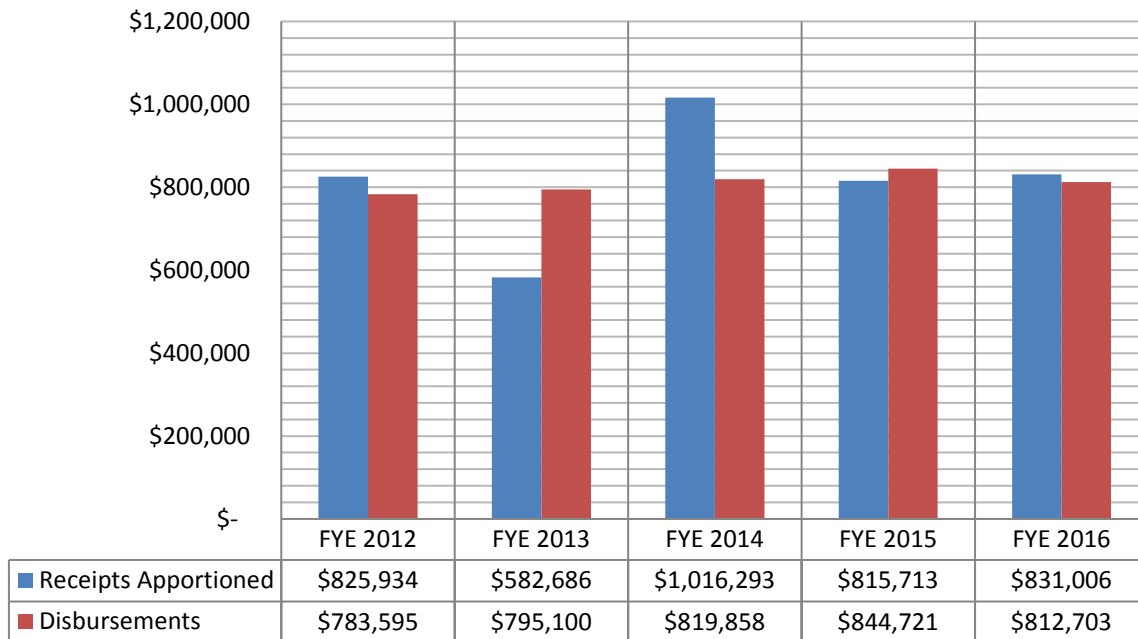
Valuation Date	Personal	Public Service	Real Estate	Homestead Exemption	Net Value	Estimated Fair Market Value
1/1/2015	\$6,848,948	\$12,336,955	\$38,619,819	\$2,930,847	\$54,874,875	\$432,897,442
1/1/2014	\$7,228,360	\$12,091,669	\$36,797,915	\$2,920,846	\$53,197,098	\$419,803,214
1/1/2013	\$6,877,446	\$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



**NOWATA COUNTY, OKLAHOMA
COUNTY GENERAL FUND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

County General Fund

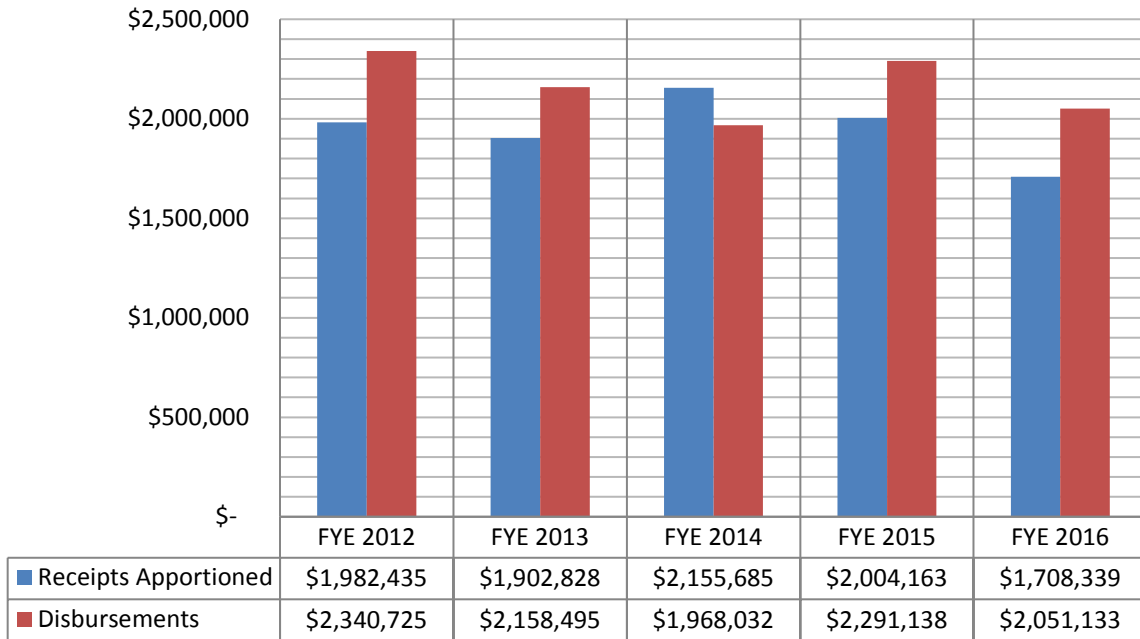
The Oklahoma Constitution and the Oklahoma Statutes authorize counties to create a County General Fund, which is the county’s primary source of operating revenue. The County General Fund is typically used for county employees’ salaries plus many expenses for county maintenance and operation. It also 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, 2016**

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, 2016**

Presentation of Apportionments, Disbursements, and Cash Balances of County Funds for the Fiscal Year Ended June 30, 2016

	Beginning Cash Balances July 1, 2015	Receipts Apportioned	Transfers In	Transfers Out	Disbursements	Ending Cash Balances June 30, 2016
Combining Information:						
County Funds:						
County General Fund	\$ 190,548	\$ 831,006	\$ 210,000	\$ 210,000	\$ 812,703	\$ 208,851
General Cash Insurance	342	-	-	-	-	342
T-Highway	2,300,413	1,708,339	-	-	2,051,133	1,957,619
County Bridge and Road Improvement	737,369	369,744	210,000	210,000	278,718	828,395
Alluwe Property	2,465	195	-	-	-	2,660
Animal Damage	397	-	-	-	-	397
County Assessor Revolving Fund	10,394	2,861	-	-	2,606	10,649
County Clerk Lien Fee	1,983	3,322	-	-	4,283	1,022
County Clerk Preservation Fee	6,334	10,443	-	-	9,261	7,516
Court Clerk Payroll	16,077	30,000	-	-	34,202	11,875
Emergency Management	2,233	-	-	-	100	2,133
Sales Tax Cash Account	1,105,559	916,797	-	-	1,066,102	956,254
Sheriff Basic 911	3	-	-	-	-	3
Sheriff Commissary Account	20,687	35,545	-	-	29,949	26,283
Sheriff Donations	5,140	4,537	-	-	3,231	6,446
Sheriff Littering	136	100	-	-	-	236
Sheriff Prisoner Boarding	107,844	522,300	-	-	493,220	136,924
Sheriff Service Fee	73,428	45,130	-	-	92,443	26,115
Treasurer Mortgage Certification Fee	34,912	1,895	-	-	13,001	23,806
Resale Property	77,304	95,375	6,908	-	66,180	113,407
County Use Tax	156,266	76,807	-	-	57,051	176,022
Department of Human Services	1,399	-	-	-	-	1,399
Nowata County Fair Board Grant	2,940	-	-	-	-	2,940
Sheriff Equipment Grant	5,978	-	-	-	-	5,978
Nowata County Industrial Authority Grant	70	-	-	-	-	70
Sheriff Drug Forfeiture	2,756	-	-	-	-	2,756
Combined Total - All County Funds	\$ 4,862,977	\$ 4,654,396	\$ 426,908	\$ 420,000	\$ 5,014,183	\$ 4,510,098

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

**NOWATA COUNTY
DESCRIPTION OF COUNTY FUNDS
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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 – revenues are from an insurance reimbursement for a water leak at the Courthouse. Disbursements are to repair the damages the water leak caused.

T-Highway – 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, local and miscellaneous receipts and disbursements for the purpose of constructing and maintaining county roads and bridges.

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

Animal Damage – accounts for state collections. Disbursements are 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.

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

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.

**NOWATA COUNTY
DESCRIPTION OF COUNTY FUNDS
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Sheriff Basic 911 – Grant money received in FY 2004 to be used for the installation of a County 911 system.

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 donations received. Disbursements are made by the Sheriff's Office.

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 – revenues are from fees charged for serving summons and notices. Disbursements are for any lawful expense of the Sheriff's Office.

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 made for the construction, purchase, and/or maintenance of county buildings.

Department of Human Services – revenues from the state 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 – grant from the District Attorney's Council. Monies to be used for the purchase of 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.

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

**NOWATA COUNTY
DESCRIPTION OF COUNTY FUNDS
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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.
- \$6,908 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, 2016

	General Fund		
	Budget	Actual	Variance
Beginning Cash Balances	\$ 190,748	\$ 190,548	\$ (200)
Less: Prior Year Outstanding Warrants	(65,063)	(65,063)	-
Less: Prior Year Encumbrances	(3,321)	(3,334)	(13)
Beginning Cash Balances, Budgetary Basis	<u>122,364</u>	<u>122,151</u>	<u>(213)</u>
Receipts:			
Ad Valorem Taxes	548,226	573,393	25,167
Charges for Services	48,087	40,790	(7,297)
Intergovernmental Revenues	199,191	196,835	(2,356)
Miscellaneous Revenues	24,875	19,988	(4,887)
Total Receipts, Budgetary Basis	<u>820,379</u>	<u>831,006</u>	<u>10,627</u>
Expenditures:			
District Attorney - State	1,003	-	1,003
County Sheriff	150,219	149,490	729
County Treasurer	57,074	56,785	289
County Clerk	89,957	89,603	354
Court Clerk	52,952	52,294	658
County Assessor	60,922	60,848	74
Revaluation	163,668	152,900	10,768
General Government	91,478	33,086	58,392
Excise Equalization	3,546	2,195	1,351
County Election Expense	50,511	50,308	203
Insurance - Benefits	209,179	198,926	10,253
County Audit Budget Account	10,234	1,200	9,034
Provision for Interest on Warrants	2,000	-	2,000
Total Expenditures, Budgetary Basis	<u>942,743</u>	<u>847,635</u>	<u>95,108</u>

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, 2016

	General Fund		
	Budget	Actual	Variance
Continued from previous page			
Excess of Receipts and Beginning Cash			
Balances Over Expenditures, Budgetary Basis	\$ -	105,522	\$ 105,522
Interfund Transfers:			
Interfund Transfer In		210,000	
Interfund Transfer Out		(210,000)	
Net Interfund Transfers		-	
Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances			
Add: Cancelled Warrants		175	
Add: Current Year Outstanding Warrants		90,591	
Add: Current Year Encumbrances		12,563	
Ending Cash Balance		\$ 208,851	

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

**NOWATA COUNTY
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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, 2016. 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 2016.

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 2016-3 – 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:

- The security log within the Treasurer information system is not reviewed and utilized by the Treasurer.
- Duties were not adequately segregated in the County Treasurer's office, due to:
 - No independent review of each cash drawer's daily close-out reconciliation is performed.
 - Only one person's approval, the issuer, is required to void a receipt.
- Deposits and withdrawals were not posted to the general ledger for IRS account in the months of July 2015 through May 2016.

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.

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, 2016**

would include separating key processes and/or critical functions of the office, having management's review and approval of accounting functions, and having management review the security log within the information system on a regular basis.

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: While the security log was not reviewed on a regular basis, it will be reviewed on a regular basis in the future. Due to the limited number of employees in the County Treasurer's Office it is not possible to have the level of segregation of duties that is desired. This results in all employees of the Nowata County Treasurer's Office taking in cash or other forms of payment and issuing receipts. Although, all receipts issued are reviewed and reconciled on a daily basis, we will implement procedures to ensure the review is performed by someone other than the person who performed the initial reconciliation. In order to address the concern with the issuer of a receipt also being allowed to approve the voiding of a receipt, it has come to my attention that there is a Cash Register report available that includes all voided receipts. The Cash Register Void report will now be printed and reviewed on a daily basis and any activity involving a voided receipt will be discussed. Additionally, we have worked with our computer programmers to ensure that the deposits and withdrawals within the IRS account are being posted to the General Ledger.

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; management should review the information system's security log on a regular basis; 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 2016-5 – 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.

**NOWATA COUNTY
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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 understand the importance of the reconciliation of the appropriation ledger to the general ledger; therefore, I am working with the County Clerk to ensure a monthly reconciliation between the County Clerk's appropriation ledger and the County Treasurer's general ledger is being performed on all County funds. I have prepared an Excel spreadsheet where information from the County Clerk's appropriation ledger and the Treasurer's General Ledger is entered and compared to make sure that the offices balance. The County Clerk and the Treasurer sign and date that spreadsheet acknowledging that the balancing procedure has been completed.

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 2016-4 – 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:

- 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.
- 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.
- Two (2) Sales Tax Cash Account purchase orders totaling \$20,232.20 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 statutes. 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: The calculation of sales tax collections is performed and apportioned by the County Treasurer's office. The preparer gives a copy of the report from the Oklahoma Tax Commission along with her calculations to the Treasurer. This information is also input into an Excel spreadsheet that is reviewed by the County Treasurer. From this point forward, these reports received from the Oklahoma Tax Commission along with the calculations will be reviewed, dated and initialed by the County Treasurer to ensure the accuracy of these calculations.

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 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

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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.

The County's internal controls do 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 2016-6 – 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:

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- One employee prepares, signs and issues handwritten cash vouchers, with little or no review.

The audit of seventy-eight (78) cash vouchers reflected the following:

- The County could not provide the cash voucher claims or support documentation for seventy-eight (78) cash vouchers totaling \$26,045.00 as recorded in the County Clerk's data.

The audit of sixty (60) purchase orders reflected the following noncompliance with regard to purchasing statutes:

Not timely encumbered:

Fund	Responsible Office	Purpose	Warrant	Amount
County Road and Bridge 105	District 2	Relocation of Waterline – Water District 1	5	\$28,925.00
County Road and Bridge 105	District 2	Waterline Installation – Bridge 17	10	\$22,199.70
County Road and Bridge 105	District 2	Curl Creek Bridge Construction	13	\$15,010.01
County Road and Bridge 105	District 2	Relocation Gas and Salt Water Lines - Opossum Creek	27	\$23,147.56
County Sales Tax Revolving Fund	BOCC	Air Conditioner Repair	664	\$5,000.00
County General Fund	Assessor	Magnetic Car Signs	497	\$70.00

No supporting documentation:

Fund	Responsible Office	Purpose	Warrant	Amount
Sheriff Service Fee	Sheriff Department	Tag and Registration	26	\$50.00
T-Highway	District 2	Lease Payment	205	\$1,381.40

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 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 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.

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

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- Preparing cash vouchers.
- Reviewing and signing cash vouchers.

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.
- 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 that supporting documentation is attached to all purchase orders.

County Commissioner District 2: The Commissioner and Commissioner's Assistant will work to do a better job on encumbrances.

County Assessor: I have taken the necessary steps to ensure this has been resolved and should never happen again.

County Clerk: I was not the County Clerk in fiscal year 2016. 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.

Sheriff: I was not Sheriff during this audit. However, at the present time, purchase orders are encumbered before goods or services are ordered. Encumbrances are certified by the County Clerk's Office. Adequate supporting documentation is attached to the purchase order and reviewed to ensure accuracy.

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 and all expenditures should be supported by adequate documentation.

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

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

Finding 2016-7 - Inadequate Internal Controls and Segregation of Duties Over Payroll (Repeat Finding)

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

- The minutes of the BOCC for April 2016 through June 2016 did not indicate BOCC approval of payroll for those months.
- 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.

The audit of the sixty-one (61) payroll expenditures reflected the following:

- Eleven (11) timesheets could not be located for the County Sheriff office.
- Three (3) timesheets could not be located for the Election Board office.
- One (1) timesheet could not be located for District 2.
- Two (2) timesheets could not be located for the County Clerk office.
- Three (3) timesheets could not be located for Court Clerk office.
- Timesheets for the employees of the County Sheriff 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 with regards to segregation of duties and/or compensating controls of the payroll process. Additionally, procedures have not been designed and implemented to ensure the minutes of the BOCC reflect BOCC approval of all payroll claims and all payroll expenditures are supported by signed timesheets.

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.

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.

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Additionally, OSAI recommends all payroll claims be approved by the BOCC in an open meeting and the minutes of the meeting reflect that approval and all payroll expenditures be supported by signed timesheets.

Management Response:

Chairman of the Board of County Commissioners: The approving of payroll was often just approved under the agenda item of “approval of claims”. In the future, the approval of payroll will be specified as an agenda item and will reflect approval of payroll in the minutes.

County Commissioner District 2: Commissioner and Commissioner’s Assistant will make sure all employees have timecards and that the employee and Commissioner both sign timesheets.

County Clerk: I was not the County Clerk in fiscal year 2016. Since I came into office, the County Clerk proofs every step of payroll from beginning to end and ensures the minutes of the BOCC reflect approval of payroll.

County Sheriff: I was not the Sheriff during this audit time period. However, 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 paychecks.

Court Clerk: I have and will continue to get timesheets monthly. I was not in office in office at the time of this audit.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. Internal controls should be designed to analyze and check accuracy, completeness, and authorization of payroll calculations and/or transactions. To help ensure a proper accounting of funds, the duties of processing, authorizing, and payroll distribution should be segregated, BOCC approval of all pay claims, and all payroll expenditures should be supported by sign timesheets.

All Objectives:

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

Finding 2016-1 – 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

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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.

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 2016. 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: A Disaster Recovery Plan was prepared and signed by me on June 23, 2016 and was approved by the Board of County Commissioners on June 27, 2016. An updated Disaster Recovery Plan will be prepared and presented to the Board of County Commissioners on an annual basis. With regard to internal controls of risk assessment, I will work with the other county officials to discuss potential issues and to add monitoring procedures to assess the quality of performance to the County's policy and procedure handbook.

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 our software vendor.

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Court Clerk: I was not in office at the time of this audit was taking place; 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.

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 2016-2 – 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.

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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 2016. 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.

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:

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

Finding 2016-8 – 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:

- On July 1, 2016, the accounts receiving sales tax collections were appropriated \$7,973.83 less than June 30, 2016 unencumbered balances as follows:
 - Designated sales tax accounts receiving the 35% split received \$45.50 less,
 - Highway sales tax account receiving the 45% split received \$7,393.74 less,
 - Undesignated sales tax receiving the 15% split received \$95.69 less, and
 - The Courthouse Improvement sales tax account receiving the 5% split received \$438.90 less.

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Cause of Condition: Policies and procedures have not been designed and implemented to ensure sales tax funds were appropriated in accordance with state statute.

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

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:

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 Board of County Commissioners 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, 2016:

- 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

**NOWATA COUNTY, OKLAHOMA
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SCHEDULE OF FINDINGS AND RESPONSES

Finding 2016-9 – 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 2016. 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.

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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 2016-10 – 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 2016 did not reflect accurate beginning balances and the ending balance at June 30, 2016 did not reconcile to the County Treasurer's general ledger balance at June 30, 2016. 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 2016; however, I will balance and reconcile with the County Treasurer's general ledger monthly and quarterly.

County Treasurer: The County Treasurer's Office relied on the accuracy of the information received from the Court Clerk's Office. Currently, copies of all reports are being maintained in order to verify the balances of each quarterly report. The County Treasurer's Office will work with the Court Clerk's Office to ensure the Court Clerk Revolving Fund balance reconciles to the County Treasurer's balance to insure accuracy.

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.

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Finding 2016-11 - Inadequate Internal Controls and Noncompliance Over the Inmate Trust Fund Checking Account 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 2016.
- All receipts issued in fiscal year 2016 were not maintained.
- 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 statutes.

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 2016. 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.

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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 an annual report on any said commissary under his or her operation no later than January 15 of each year."

Finding 2016-12 - Inadequate Internal Controls and Noncompliance Over Fixed Assets

Condition: Upon inquiry and observation of fixed assets inventory records, we noted the following offices are not performing an annual physical inventory count and not maintaining a fixed asset inventory listing on file with the County Clerk:

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

Cause of Condition: Policies and procedures have not been designed and implemented with regard to effective internal controls over safeguarding of fixed assets by performing an annual physical inventory count, and creating and maintaining of a fixed assets inventory records.

Effect of Condition: This condition resulted in noncompliance with state statutes. When fixed assets are not monitored, opportunities for misuse or loss of equipment can occur.

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Recommendation: OSAI recommends the County Officers implement internal controls to ensure compliance with 19 O.S. §§ 178.1 and 178.2 regarding fixed assets inventory records. These controls would include that all offices:

- Retain documentation to verify the physical inventory counts were performed and filed with the County Clerk.
- Inventory counts should be performed by someone other than the receiving officer or inventory officer.

Management Response:

Chairman of the Board of County Commissioner/County Commissioner District 3: An annual inventory list will be filed with the County Clerk's office. New items with inventory costing over \$500 will be added to a list and given to the County Clerk as items are received. A reminder will be made at a BOCC regarding new inventory listings being filed in the County Clerk's office at the beginning of the new fiscal year. Reminders will also be added to each office's calendars.

County Commissioner District 1: A list will be given to the County Clerk's office when items are added (signed and dated by the County Clerk or her staff) and an annual inventory list will be checked, signed, and dated.

County Commissioner District 2: The Commissioner's Assistant will have control of District 2's fixed assets inventory. Annually the Commissioner/Foreman will assign an employee to get a copy of a fixed asset sheet, and complete an inventory of all assets and file a list with the County Clerk.

County Clerk: I was not the County Clerk in fiscal year 2016. Since taking office, changes have been made by having each office provide an annual up-to-date inventory that is retained in the County Clerk's office. All surplus and disposal of equipment forms are stored with the department after they have gone in front of the Board of County Commissioners.

County Treasurer: Currently, the Nowata County Treasurer's Office has a complete listing of fixed assets inventory and has provided a copy of this information to the Nowata County Clerk's Office. This inventory record will be updated when an item needs to be added or deleted. In the future, the fixed assets inventory of the Nowata County Treasurer's Office will be reviewed annually and a second party will review the fixed assets inventory at that time.

County Assessor: We have done a complete audit of inventory and made the list of items and made copies which have been turned in to the County Clerk. Any time a new piece of equipment comes in, we now mark it with the assigned number and the date purchased.

Court Clerk: I was not in office during the audit period,. However, I will locate an inventory list and update it. Further, I will file a copy with the County Clerk and keep a copy off sight.

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County Sheriff: I was not the Sheriff during this audit time period. An updated inventory list will be completed and submitted to the County Clerk's office. All surplus and disposal of equipment forms will be completed and submitted to the County Clerk and Board of County Commissioners by November 15, 2017.

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.

Title 19 O.S. § 178.1 states, "The board of county commissioners in each county of this state shall take, or cause to be taken, an inventory of all working tools, apparatus, machinery and equipment belonging to the county or leased or otherwise let to it or to any department thereof, other than that which is affixed to and made a part of lands and buildings, the cost of which as to each complete working unit thereof is more than Five Hundred Dollars (\$500.00), and thereafter maintain or cause to be maintained a continuous inventory record thereof and of like tools, apparatus, machinery and equipment purchased, leased or otherwise coming into the custody of the county or of any office, board, department, commission or any or either thereof, and the disposition thereof whether sold, exchanged, leased or let where authorized by statute, junked, strayed or stolen, and annually thereafter, or oftener in event of death, resignation or removal of an elective officer with a term, to verify or cause to be verified by count and report of the same as of the end of a term of office and as part and parcel of the accounting required by law of a retiring or re-elected officer, and, as to appointive heads of departments amenable directly to the board of county commissioners and as to quasi-governmental boards and commissions such as free fair boards, hospital boards and the like, the same shall be as of the last business day immediately preceding the day certain commencing a new term of the board of county commissioners; all in the manner as provided by law."

Title 19 O.S. § 178.2 states in part, "...It shall be the duty and responsibility of each elected county official to create and maintain inventory records of said office. Such inventory shall be filed with the county clerk."

Finding 2016-13 - Inadequate Internal Controls and Noncompliance Over Consumable Inventories

Condition: Upon inquiry of County personnel, observation, and review of documents regarding consumable inventories, the following weaknesses were noted:

District 1:

- The District did not maintain consumable records on all consumable items.
- Fuel logs are maintained; however, they are not adequately reconciled to the fuel on hand.
- Fuel tanks are not measured before and after the delivery of fuel.

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District 2:

- Consumable records indicated 944.74 tons of 1.5” Crusher Run Rock and the actual count on hand was on 15 tons for a variance of -929.74 tons resulting in a cost variance of \$5,578.44.
- Fuel logs are maintained; however, they are not adequately reconciled to the fuel on hand. Fuel tanks are only measured to know when to order fuel and not reconcile to fuel logs.
- Fuel tanks are not measured before and after the delivery of fuel.

District 3:

- Fuel logs are maintained on the satellite tanks; however, they are not adequately reconciled to the fuel on hand.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure compliance with the state statutes regarding consumable inventories to provide for accurate consumable inventory records.

Effect of Condition: These conditions resulted in noncompliance with state statutes. Failure to maintain accurate records of consumable inventories and to perform a periodic physical inventory of consumable inventories could result in inaccurate records, unauthorized use of consumable inventories, or misappropriation of consumable inventories.

Recommendation: OSAI recommends management implement internal controls to ensure compliance with 19 O.S. § 1502(A)(1), 19 O.S. § 1502(B)(1), and 19 O.S. § 1504 by maintaining consumable inventory records. OSAI also recommends that a fuel record with a balance be maintained and reconciliations to the actual fuel on hand be performed and documented.

Management Response:

County Commissioner District 1: Records are kept on each product such as: rock, sand, etc.; however, they do not contain a running total of tons on hand for each product. We have now added the running total to the paperwork. Fuel records will be reconciled to fuel on hand.

County Commissioner District 2: The Commissioner/Foreman will ensure every employee documents consumable inventory that is being removed from stock. The Commissioner’s Assistant will be informed when items are removed from stock, so it can be removed from inventory. Also, the Commissioner’s Assistant will be keeping a record for a fuel log, weekly measurements, reconciliations, and completing a transfer document for all fuel inventory.

County Commissioner District 3: If stock piles of consumable items are kept, record of those items will be maintained. Fuel currently is calculated daily by the gallons used and the tank is measured by inches to determine the amount of fuel on hand. Tanks are also measured before and after delivery. In the future, meters will be purchased and placed on the satellite tanks to obtain readings so that records can be kept by equipment operators and/or called in to the barn to be recorded in the District 3 County barn log.

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

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

Title 19 O.S. § 1502(A)(1) requires a prescribed uniform identification system for all supplies, materials, and equipment of a county used for maintenance for roads and bridges.

Title 19 O.S. § 1502(B)(1) requires a prescribed uniform identification system for all supplies, materials, and equipment of a county not used in the construction and maintenance for roads and bridges.

Title 19 O.S. § 1504 requires the receiving officer to maintain a record of all items received, disbursed, stored and consumed by the department.



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