

OPERATIONAL AUDIT

NOWATA COUNTY

For the period July 1, 2009 through June 30, 2011



*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 PERIOD JULY 1, 2009 THROUGH JUNE 30, 2011**

This publication, issued by the Oklahoma State Auditor and Inspector's Office as authorized by 19 O.S. § 171, has not been printed, but is available on the agency's website (www.sai.ok.gov) and in the Oklahoma Department of Libraries Publications Clearinghouse Digital Collection, pursuant to 74 O.S. § 3105.B.



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 7, 2012

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

Transmitted herewith is the audit report of Nowata County for the period July 1, 2009 through June 30, 2011.

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

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

Sincerely,

A handwritten signature in blue ink, appearing to read "Gary A. Jones".

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

BACKGROUND

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.

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 – 10,528 (2009 est.)	
Farms – 912	Land in Farms – 354,636 Acres
Primary Source: Oklahoma Almanac 2011-2012	

COUNTY OFFICIALS

Carey Pearsall	County Assessor
Teresa Jackson	County Clerk
Curtis Barnes.....	County Commissioner District 1
Dean Bridges.....	County Commissioner District 2
Tim Kilpatrick.....	County Commissioner District 3
James Hallett.....	County Sheriff
Bonnie Workman	County Treasurer
Shiloh Freeman	Court Clerk

**NOWATA COUNTY
OPERATIONAL AUDIT**

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

	Beginning Cash Balance July 1, 2010	Receipts Apportioned	Transfer In	Transfer Out	Disbursements	Ending Cash Balance June 30, 2011
Combining Information:						
County General Fund	\$ 170,652	\$ 790,327	\$ 321,000	\$ 321,000	\$ 767,783	\$ 193,196
T-Highway	2,427,749	2,261,704	337,754	321,000	2,381,341	2,324,866
Sheriff Service Fee	37,398	63,763			57,319	43,842
Sales Tax	887,168	910,533	2,211		864,921	934,991
Board of Prisoners	161,057	446,892			427,562	180,387
County Bridge & Road Improvement		919,156		18,965	253,661	646,530
Remaining Aggregate Funds	252,636	152,876			136,622	268,890
Combined Total - All County Funds	\$ 3,936,660	\$ 5,545,251	\$ 660,965	\$ 660,965	\$ 4,889,209	\$ 4,592,702

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

PURPOSE, SCOPE, AND SAMPLE METHODOLOGY

This audit was conducted in response to 19 O.S. § 171, which requires the State Auditor and Inspector's Office to audit the books and accounts of county officers.

The audit period covered was July 1, 2009 through June 30, 2011.

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

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

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

Conclusion: With respect to the items reconciled and reviewed; the receipts apportioned, disbursements, and cash balances appear to be accurately presented on the County Treasurer's monthly reports. However, controls could be strengthened over the process of receipts and disbursements.

Methodology: To accomplish our objective, we performed the following:

- Gained an understanding of internal controls related to the process of accurately presenting the receipts apportioned, disbursements, and cash balances on the County Treasurer's monthly reports through discussions with the County Treasurer, observation, and review of documents.
- Performed the following to ensure receipts apportioned, disbursements, and cash balances were accurately presented on the County Treasurer's monthly reports:
 - Reconciled Treasurer's receipts to amounts apportioned on the County Treasurer's monthly reports.
 - Reconciled the County Clerk's warrants issued to disbursements paid by the County Treasurer.
 - Re-performed the bank reconciliations at June 30, 2011, to determine that all reconciling items were valid, and ending balances on the General Ledger agreed to the ending balances reflected on the Treasurer's monthly reports.

Finding: Inadequate Internal Controls over the County Treasurer's Monthly Reports and Lack of Segregation of Duties in the Treasurer's Office

Condition: When documenting the process over the monthly reports, we noted the duties are not adequately segregated. Monthly reports are not being reconciled monthly to the General Ledger.

Cause of Condition: Procedures have not been designed to monitor and independently review the monthly reports for accuracy. Also, procedures have not been designed to adequately segregate the duties related to the receipting process.

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

Recommendation: OSAI recommends that the County Treasurer implement a system of internal control to provide reasonable assurance that receipts apportioned, disbursements, and cash balances are accurately presented on the County Treasurer's monthly reports.

Duties should be adequately segregated so that individuals issuing receipts do not prepare the deposits, deliver the deposits to the financial institutions, or reconcile the bank statements. Further, in the event that segregation of duties is not possible due to the 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 which would provide independent oversight of the accuracy of the County Treasurer's monthly reports.

Management Response: I feel since we have gotten the computer program that carries everything over, we have probably corrected this. Before, it was an oversight that balances didn't agree.

Criteria: Effective internal controls require that key functions within a process be adequately segregated to allow for prevention and detection of errors and misappropriation of funds.

Objective 2: To determine the County's financial operations complied with 62 O.S. § 517.4, which requires county deposits with financial institutions be secured with collateral securities or instruments.
--

Conclusion: With respect to the days tested, the County did not comply with 62 O.S. § 517.4, which requires county deposits with financial institutions be secured with collateral securities or instruments.

Methodology: To accomplish our objective, we performed the following:

- Gained an understanding of the internal controls related to pledged collateral through discussions with the Treasurer, observation, and review of ledgers and documents.
- Tested compliance of the significant law, which included the following:
 - Selected two balances per month for the two banks to the amount of pledged collateral to determine that deposits were adequately collateralized.

Finding: Inadequate Internal Controls over Pledged Collateral

Condition: It was determined through discussion with County personnel, observation, and review of documents that procedures have not been designed to monitor pledged collateral to ensure bank balances are adequately collateralized. During our review of the bank balances, we noted the County funds were not adequately pledged at one financial institution for 4 of the 48 days reviewed.

Cause of Condition: Procedures have not been designed to review daily bank deposits to determine they are adequately secured.

Effect of Condition: Failure to monitor pledged collateral amounts could result in unsecured county funds and possible loss of county funds.

Recommendation: OSAI recommends that the County Treasurer implement a system of internal controls to provide reasonable assurance that county funds are adequately secured. These controls should include monitoring the bank balances daily.

**NOWATA COUNTY
OPERATIONAL AUDIT**

Further, OSAI recommends the County Treasurer maintain evidence of monitoring pledged collateral amounts to bank balances on a daily basis to ensure that county funds are adequately secured.

Management Response: Pledged collateral was just an oversight. We will keep better control on it from here on out.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. An important aspect of internal controls is the safeguarding of assets. Internal controls over safeguarding of assets constitute a process, affected by an entity's governing body, management, and other personnel, designed to provide reasonable assurance regarding prevention or timely detection of unauthorized transactions and safeguarding assets from misappropriation.

Objective 3: To determine 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: The County complied with 68 O.S. § 1370E, which requires the sales tax collections to be deposited in the general revenue or sales tax revolving fund of the County and be used only for the purpose for which such sales tax was designated.

Methodology: To accomplish our objective, we performed the following:

- Gained an understanding of the internal control process of receipting, apportioning, and disbursing sales tax collections through discussions with County personnel, observation, and review of documents.
- Tested controls which included reviewing 100% of sales tax revenue received.
 - Reconciliations were performed to ensure the proper amount was received, recorded and apportioned to the proper funds.
- Tested compliance of the significant law, which included the following:
 - Reviewed sales tax ballots to determine designation and purpose of sales tax collections.
 - Obtained confirmations from the Oklahoma Tax Commission for sales tax payments made to the County and recalculated the amounts apportioned by the County Treasurer to ensure sales tax collections were apportioned to the proper funds.
 - Selected a random sample of 80 purchase orders from the sales tax revolving fund and determined that expenditures were made for purposes designated on the sales tax ballot.
 - Verified that an end of year reconciliation of sales tax apportionment to the percentages received from the Treasurer is being performed by the County Clerk.

Objective 4: 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. However, controls could be strengthened over the monitoring process of the ad valorem tax collections being distributed accurately.

Methodology: To accomplish our objective, we performed the following:

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

Finding: Inadequate Internal Controls over Ad Valorem Distribution

Condition: Upon inquiry of County personnel, observation, and review of documents, we determined that the ad valorem tax distribution process was not adequately monitored.

- There was no documentation of the review of the mill levies entered into the system to ensure they were input correctly.

Cause of Condition: Procedures have not been designed to review ad valorem collections and determine ad valorem collections are accurately apportioned in accordance with certified levies.

Effect of Condition: Because of the condition mentioned above, errors or misappropriation of county assets could exist.

Recommendation: OSAI recommends that the County Treasurer's office implement a procedure to verify that the levies applied in the tax collection software are accurate and retain documentation with initials and dates that an independent reviewer verified the accuracy of the certified levies applied to the tax roll.

Management Response: I feel this was just an oversight. It was placed in the wrong district.

**NOWATA COUNTY
OPERATIONAL AUDIT**

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. An important aspect of internal controls is the safeguarding of assets. Internal controls over safeguarding of assets constitute a process, affected by an entity's governing board, management, and other personnel, designed to provide reasonable assurance regarding prevention or timely detection of unauthorized transactions and safeguarding assets from misappropriation. Evidence of internal controls operating effectively should be properly documented.

Objective 5: To determine the County's financial operations complied with 19 O.S. § 1505C, 19 O.S. § 1505E, and 19 O.S. § 1505F, which outlines procedures for expending county funds.

Conclusion: The County complied with 19 O.S. § 1505C, 19 O.S. § 1505E, and 19 O.S. § 1505F, which outlines procedures for expending county funds.

Methodology: To accomplish our objective, we performed the following:

- Gained an understanding of the internal controls related to the process of encumbering purchase orders, authorization of payment of purchase orders, and documenting goods and services received, which included discussions with County personnel, observation, and review of documents.
- Tested internal controls which included reviewing a random sample of 80 purchase orders for the following:
 - Ensuring that claims reflected the authorized signature of the requisitioning officer.
 - Ensuring that receiving reports were attached to the claims and reflected the authorized signature of the receiving officer verifying goods and/or services were received.
 - Ensuring that claims reflected authorized signatures of the Board of County Commissioners for the approval of payment.
 - Ensuring expenditures were recorded and encumbered by the County Clerk/Purchasing Agent or deputy.
- Tested compliance of the significant law, which included selecting a random sample of 80 purchase orders from county funds and determining the following:
 - Purchase orders were properly requisitioned as required by 19 O.S. §1505C.
 - Purchase orders were properly encumbered as required by 19 O.S. §1505C.
 - The receiving officer prepared and signed a receiving report as required by 19 O.S. §1505E.
 - The County Clerk or designee compared the purchase order to the invoices, receiving report, and delivery documents as required by 19 O.S. § 1505E.
 - Purchase orders were approved for payment by the Board of County Commissioners as required by 19 O.S. § 1505F.

Objective 6: To determine the County's financial operations complied with 19 O.S. § 1505B, which requires county purchases in excess of \$10,000 be competitively bid.

Conclusion: The County complied with 19 O.S. § 1505B, which requires that purchases in excess of \$10,000 be competitively bid.

Methodology: To accomplish our objective, we performed the following:

- Gained an understanding of the internal controls related to the process of competitively bidding purchases in excess of \$10,000, which included discussions with County personnel, observation, and review of documents.
- Tested controls which included:
 - Determining that all purchases for \$10,000 or more are initiated in a Board of County Commissioners' open meeting with a majority approval to go out for bids.
 - Through interviews, determining that the purchasing agent is aware of statutory bid limits and reviews all requisitions to determine if the purchase should be bid.
 - Reviewing tabulations of submitted bids prepared by the purchasing agent and reviewing minutes of the Board of County Commissioners' open meeting for documentation of the discussion of submitted bids.
 - Determining that a majority of the Board of County Commissioners approved the bid in an open meeting and recorded reasons for not accepting the lowest bid.
- Tested compliance with significant law, which included the following:
 - Selected 100% of purchases in excess of \$10,000 and determined that the County followed statutes regarding public notice, handling of unopened bids, awarding bid to best bidder, recording appropriate information in BOCC minutes, and notification to successful bidders.

Objective 7: To determine the County's financial operations complied with 19 O.S. § 180.62 and § 180.63 regarding amounts allowed for officers' salaries.

Conclusion: With respect to amounts allowed for officers' salaries, the County complied with 19 O.S. § 180.62 and § 180.63. However, controls need to be strengthened over the payroll process.

Methodology: To accomplish our objective, we performed the following:

- Gained an understanding of the internal controls related to the process of determining amounts allowed for officers' salaries, which included discussions with County personnel, observation, and review of documents.

- Reviewed the salaries paid to officials to determine that amounts paid did not exceed statutory limits.

Finding: Inadequate Segregation of Payroll Duties

Condition: It was determined through discussions with County personnel, observation, and review of documents that the payroll process was not adequately segregated.

- The payroll clerk enrolls new employees, maintains personnel files, reviews the payroll claims, calculates amounts to be paid to the employees and payroll related agencies, updates the master payroll file, issues and prints payroll warrants, prepares OPERS reports and state and federal tax reports. The payroll clerk also removes terminated employees from the system.

Cause of Condition: Procedures have not been designed to adequately segregate the duties related to the payroll process.

Effect of Condition: These conditions could result in unrecorded transactions, misappropriation of funds, or clerical errors that are not detected in a timely manner.

Recommendation: OSAI recommends the following key accounting functions of the payroll process be adequately segregated:

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

Management Response: We will make every effort to segregate the payroll duties with the current staff available. We will have someone else other than the payroll check deliver the warrants for payroll and mail out the warrants paying vendors.

Criteria: Effective internal controls include key functions within a process be adequately segregated to allow for prevention and detection of errors and abuse.

<p>Objective 8: To determine the County's financial operations complied with 19 O.S. § 1504A, which requires the receiving officer to maintain a record of all supplies, materials, and equipment received, disbursed, stored, and consumed by his department.</p>
--

Conclusion: With respect to the discussion held with County personnel and observance of documentation, the County did not comply with 19 O.S. § 1504A, which requires the receiving officer to maintain a record of all supplies, materials, and equipment received, disbursed, stored, and consumed by his department.

Methodology: To accomplish our objective, we performed the following:

- Gained an understanding of the internal controls related to the process of maintaining a record of all supplies, materials, and equipment received, disbursed, stored, and consumed by a department, which included discussions with County personnel, observation, and review of documents.
- Tested a sample of consumable records to determine that the district barns are maintaining accurate records and that they agree to a physical count of records.

Finding: Inadequate Internal Controls over Consumable Inventories

Condition: The County did not have procedures in place to ensure that consumable inventory was maintained in accordance with 19 O.S. § 1504A.

As a result, the following was noted:

- County Commissioner District 1:
 - There is no documentation to support that a review of consumable items on hand is being reconciled to the consumable records.
- County Commissioner District 2:
 - Balances on the consumable records did not agree to the consumable items on hand for three of the ten items tested.
 - There is no documentation to support that a review of consumable items on hand is being reconciled to the consumable records.
- County Commissioner District 3:
 - There is no documentation to support that a review of consumable items on hand is being reconciled to the consumable records

Cause of Condition: Procedures have not been designed and implemented with regard to effective internal controls over safeguarding consumable inventories.

Effect of Condition: Opportunities for loss and misappropriation of county assets may be more likely to occur when the County does not have procedures in place to account for consumable inventories.

Recommendation: OSAI recommends management implement internal controls to ensure compliance with 19 O.S. § 1504A. These procedures would include filing monthly consumable reports with the County Clerk and performing a periodic physical count of inventory. Additionally, the key functions of receiving duties and inventory control duties should be performed by separate employees in order to effectively segregate those duties.

Management Response: We will perform an annual inventory count and retain documentation to verify the physical inventory counts are performed.

Criteria: Title 19 O.S. § 1504 describes the manner in which the receiving officer shall maintain a record of all supplies, materials, and equipment received, disbursed, stored, and consumed by his department.

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

<p>Objective 9: To determine the County's financial operations complied with 19 O.S. § 178.1 and 69 O.S. § 645, which requires the maintenance of inventory records, periodic inventory verifications, and that equipment be clearly and visibly marked "Property of" the county.</p>

Conclusion: With respect to the items tested, the County did not comply with 19 O.S. § 178.1 and 69 O.S. § 645, which requires the maintenance of inventory records, periodic inventory verifications, and that equipment be clearly and visibly marked "Property of Nowata County."

Methodology: To accomplish our objective, we performed the following:

- Gained an understanding of the internal controls related to the process of maintaining inventory records, verifying inventory, and marking equipment "Property of" the county, which included discussions with County personnel, observation, and review of documents.
- Tested compliance of the significant law, which included the following:
 - Randomly selected 45 fixed assets and verified the items were properly marked with "Property of Nowata County."

Finding: Inadequate Internal Controls over Fixed Assets Labeling

Condition: The County does not have procedures in place to ensure that fixed asset inventory was maintained in accordance with 69 O.S. § 645.

- 1 of 15 items selected for District 3 was not properly marked with "Property of Nowata County."
- 2 of 10 items selected at the Sheriff's office were not properly marked with "Property of Nowata County."

Cause of Condition: Procedures have not been designed to ensure internal controls over marking equipment with "Property of Nowata County" have been implemented.

Effect of Condition: When fixed assets are not monitored and equipment is not marked with "Property of Nowata County," opportunities for misuse or loss of equipment can occur.

Recommendation: OSAI recommends that management implement internal controls to ensure compliance with 69 O.S. § 645.

Management Response:

County Sheriff: In the Nowata County Sheriff's Department, the 2 of 10 items that were not marked "Property of Nowata County" were a 2001 Dodge Ram pickup ID#301-0001 and a 1997 Ford F-150 pickup ID#301-0004. Both vehicles are now marked with "Property of Nowata County."

County Commissioners: We will create a written procedure for performing an annual inventory count and retain documentation to verify the physical inventory counts. A responsible employee will perform and sign off on the annual inventory count to verify that the inventory numbers are visibly marked on the equipment. The reports will be reviewed by the Board of County Commissioners and entered into the minutes.

Finding: Inadequate Internal Controls over Fixed Asset Inventories

Condition: The following offices of the County do not have procedures in place to ensure that fixed asset inventory was maintained in accordance with 19 O.S. § 178.1:

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

Cause of Condition: Procedures have not been designed to implement internal controls over the safeguarding of fixed assets by performing a physical inventory count and assigning inventory numbers.

Effect of Condition: When documentation of an inventory count is not maintained and fixed asset duties are not adequately segregated, there is opportunity for misuse or loss of equipment.

Recommendation: OSAI recommends that management realize the importance of implementing internal controls over fixed assets. We also recommend that the County Assessor, Court Clerk, County Commissioners 1 and 2, County Clerk, and County Sheriff perform an inventory count and retain documentation to verify the physical inventory counts are performed. This inventory count should be performed by someone other than the receiving officer or inventory officer.

Management Response:

County Sheriff: The Nowata County Sheriff's Department will implement a policy that will comply with 69 O.S. § 645, which requires the maintenance of inventory records, periodic inventory verifications, and that equipment be clearly and visibly marked "Property of Nowata County." This policy will be in place by January 1, 2013.

County Clerk: We will perform an annual inventory count and retain documentation to verify the physical inventory counts are performed.

County Commissioners: We will create a written procedure for performing an annual inventory count and retain documentation to verify the physical inventory counts. A responsible employee will perform and sign off on the annual inventory count to verify that the inventory numbers are visibly marked on the equipment. The reports will be reviewed by the Board of County Commissioners and entered into the minutes.

Court Clerk: This office will start doing a quarterly inventory check on our fixed assets.

County Assessor: Our office will comply.

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

Objective 10: To determine the County's financial operations complied with 19 O.S. § 682, which requires officers to deposit daily in the official depository all collections received under the color of office.

Conclusion: With respect to the official depository accounts tested, the County did not comply with 19 O.S. § 682, which requires officers to deposit daily in the official depository all collections received under the color of office.

Methodology: To accomplish our objective, we performed the following:

- Gained an understanding of the internal controls related to the process of officers depositing daily in the official depository all collections received under the color of office, which included discussions with County personnel, observation, and review of documents.
- Tested compliance with 19 O.S. § 682, which included reviewing a sample of receipts from each Officer's depository account and verifying the following:
 - Official depository receipts are deposited daily.
 - Deposits are promptly and accurately recorded as to account, amount, and period.
 - Official depository receipts agree to the amounts recorded on the deposit.

Finding: Inadequate Internal Controls over Official Depository Receipts

Condition: When documenting the receipting process for official depository collections in each office, we noted the following:

- **Court Clerk:**
All employees open mail, issue receipts, prepare the deposit, and deliver deposits to the Treasurer's office.
- **County Treasurer:**
All employees operate from the same cash drawer and employees do not log off the computer when they are away from the cash drawer. All personnel can write official receipts, receive monies, prepare customer billings, mail billings or statements, and post payments and/or credits to customer accounts. The same person preparing the daily deposit issues receipts and reconciles the bank accounts. Receipts do not always denote type of payment received.
- **County Sheriff:**
Monies that are mailed in are not being receipted. Not all receipts that are written denote the type of currency (cash, check, money order). Not all monies are timely receipted when inmates are booked in at the Sheriff's office. The inmate's money is put into an envelope and signed by the inmate and deputy. Occasionally, an inmate's money will be receipted in but not deposited. If the inmate is released the next day, the money will be returned to the inmate before being deposited.
- **County Clerk:**
All employees operate from the same cash drawer. One employee is responsible for issuing receipts, preparing the deposit, and delivering the deposit to the County Treasurer's office.
- **County Assessor:**
All employees operate from the same cash drawer. The same person preparing the deposit issues receipts and delivers the deposit to the Treasurer's office. Receipts are not deposited daily.

Cause of Condition: In order to provide prompt services to the citizens of Nowata County and for ease of operations, the offices of the County utilize all employees to issue receipts. Additionally, due to the limited number of personnel within each office, one individual is sometimes responsible for all the key functions of the office.

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

Recommendation: OSAI recommends establishing a system of controls to adequately protect the collections of each office, which include, but are not limited to, the following:

- The person preparing the deposit should not issue receipts or reconcile the account to the Treasurer's monthly report.

- Each office should establish separate cash drawers for all employees receiving cash.
- Each office should have a process of documenting the review of voided receipts.

Management Response:

County Treasurer: Our second deputy balances the cash drawer at eleven o'clock. The first deputy gives a figure to her for the total amount we should deposit; if we don't balance, we look until we find the error. I then take deposits to the bank the next morning.

The computer password is being protected on the computer program we currently use. It locks us out after so long, but on the tax statement and payment program does not. We will talk with them in regards to having the program lock us out after a period of inactivity.

County Sheriff:

- Nowata County Sheriff's Department presently retains records that support daily deposits.
- Nowata County Sheriff's Department presently deposits all monies received on a daily basis.
- Nowata County Sheriff's Department presently maintains control of the sequential order of which receipt books are used for inmate monies deposited in the Inmate Trust Fund Account and receipts written denote the type of currency taken in.
- Nowata County Sheriff's Department utilizes three separate receipt books. One is used only at the time of booking, one is used only for money orders that are hand carried into the Sheriff's Department, and one is used only for money orders that are mailed into the Sheriff's Department.
- Nowata County Sheriff's Department presently maintains a cash fund with the County Treasurer for commissary funds.
- Nowata County Sheriff's Department presently maintains voided receipts, which are kept with the receipt book.
- Nowata County Sheriff's Department presently segregates duties regarding the receipting, depositing, and bookkeeping/reconciling of inmate funds.
- Nowata County Sheriff's Department presently ensures that all receipts are deposited.

County Clerk: Both myself and the first deputy on any given day actually make the deposit, and the other one will take it to the Treasurer's office.

Court Clerk: This office is trying to find a solution to this issue. I review voided receipts done by my deputies. Our receipts state which form of payment was received and also has the name of the person that took the money. We will start initialing our receipts to ensure the correct person's name is on the receipt.

County Assessor: Our office will comply.

Criteria: Effective internal controls require that key functions within a process be adequately segregated to allow for prevention and detection of errors and possible misappropriation of funds.

Objective 11: To determine the County Court Clerk's financial operations complied with 19 O.S. § 220 and 20 O.S. § 1304, which outlines procedures for expending court clerk revolving fund monies and court fund monies, respectively.

Conclusion: With respect to the Court Clerk Revolving Fund, the County complied with 19 O.S. § 220, which outlines procedures for expending Court Clerk Revolving Fund monies; however, it was also noted that the County did not comply with 20 O.S. § 1304, which outlines procedures for expending Court Fund monies.

Methodology: To accomplish our objective, we performed the following:

- Gained an understanding of the internal controls related to expending Court Fund monies and Court Clerk Revolving Fund monies, which included discussions with County personnel, observation, and review of documents.
- Tested compliance with 19 O.S. § 220 for the Court Clerk Revolving Fund, which included the following:
 - Randomly selected 50 Court Clerk Revolving Fund expenditures and verified the following:
 - Ensuring the expenditure was for the lawful operation of the Court Clerk's office.
 - Ensuring that the expenditure claim is approved by the Court Clerk and either the District Judge or the Associate Judge of the County.
 - Ensuring that all claims are supported by adequate documentation.
- Tested compliance with 20 O.S. § 1304 for the Court Fund, which included the following:
 - Randomly selected 50 Court Fund expenditures and verified the following:
 - Expenditure was for the lawful operation of the Court Clerk's office.
 - Claim is approved by the Court Clerk and either the District Judge or the Associate Judge of the County.
 - All claims are supported by adequate documentation.

Finding: Inadequate Internal Control over Court Fund expenditures and Non-Compliance with Statute

Condition: Internal controls have not been adequately implemented to ensure that Court Fund monies are expended in accordance with state statutes.

- Of the 50 Court Fund expenditures tested, 4 of the 50 did not contain the approval of the Court Clerk.

Cause of Condition: Statutory procedures designed by 20 O.S. § 1304 for expending Court Fund monies have not been implemented.

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

Recommendation: OSAI recommends that the Court Clerk implement procedures to ensure that expenditures from Court Fund monies are in accordance with state statutes.

Management Response: The Court Clerk will personally approve all expenditures before they are made.

Criteria: Effective internal controls includes management design procedures to ensure Court Fund monies are spent in accordance with 20 O.S. § 1304.

Objective 12: To determine the County Sheriff's Inmate Trust Fund financial operations complied with 19 O.S. § 531A, which requires these funds only be expended to refund monies to inmates or to transfer funds to the Sheriff's Commissary Fund for inmate expenditures.

Conclusion: With respect to the items tested, the County complied with 19 O.S. § 531A, which requires Inmate Trust Funds to only be expended for a refund of monies to inmates or to transfer funds to the Sheriff's Commissary Fund for inmate expenditures. However, controls could be strengthened over the Inmate Trust Fund.

Methodology: To accomplish our objective, we performed the following:

- Gained an understanding of the internal controls related to expending funds from the Sheriff's Inmate Trust Fund, which included discussions with County personnel, observation, and review of documents.
- Tested compliance of the significant law, which included the following:
 - Selected 55 Inmate Trust checks for each fiscal year to determine that monies were properly expended.

Finding: Inadequate Internal Controls over Inmate Trust Fund Expenditures

Condition: Internal controls are not properly designed and implemented related to Inmate Trust Fund expenditures. One person closes out accounts, verifies account totals, issues checks, enters information into the system, and prepares and makes deposits.

Cause of Condition: Procedures have not been designed to ensure the duties related to the Inmate Trust Fund expenditures are adequately segregated.

Effect of Condition: These conditions could result in unrecorded transactions, misappropriation of funds, or clerical errors that are not detected in a timely manner.

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

Management Response: Nowata County Sheriff’s Department presently segregates duties regarding the receipting, depositing, and bookkeeping/reconciling of inmate funds.

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 segregated.

All Objectives:

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

Finding: Inadequate County-Wide Controls

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

Cause of Condition: Procedures have not been designed to address risks of the County.

Effect of Condition: This condition could result in unrecorded transactions, undetected errors, or misappropriation of funds.

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

Examples of risks and procedures to address risk management:

Risks	Procedures
Fraudulent activity	Segregation of duties
Information lost to computer crashes	Daily backups of information

**NOWATA COUNTY
OPERATIONAL AUDIT**

Risks	Procedures
Noncompliance with laws	Attend workshops
Natural disasters	Written disaster recovery plans
New employee errors	Training, attending workshops, monitoring

Examples of activities and procedures to address monitoring:

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

Management Response: The County will make every effort to design procedures to monitor, identify, and address risks for the County. We will be reviewing the County policy handbook to see if we can incorporate these procedures.

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 made. 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 Risk Assessment and Monitoring for the achievement of these goals.

Risk Assessment is a component of internal control which should provide for an assessment of the risks the County faces from both internal and external sources. Once risks have been identified, they should be analyzed for their possible effect. Management then has to formulate an approach for risk management and decide upon the internal control activities required to mitigate those risks and achieve the internal control objectives.

Monitoring is a component of internal control which should assess the quality of performance over time and ensure that the findings of audits and other reviews are promptly resolved. Ongoing monitoring occurs during normal operations and includes regular management and supervisory activities, comparisons, reconciliations, and other actions people take in performing their duties. It includes ensuring that management know their responsibilities for internal control and the need to make control monitoring part of their regular operating process.

Finding: Disaster Recovery Plan

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

- Court Clerk
- County Sheriff
- County Commissioners

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

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

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

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

Management Response:

County Treasurer: Our Disaster Recovery Plan is now current.

County Sheriff: The Nowata County Sheriff's Department has requested and received a copy of the Disaster Recovery Plan from the Nowata County Clerk. This request was made in order to use their plan as a guide to design a plan that will meet the needs of the Sheriff's Department in case of an emergency. This plan will be in place no later than January 1, 2013.

County Clerk: We have updated our Disaster Recovery Plan with current names and phone numbers.

County Commissioners: We will prepare a Disaster Recovery Plan for our office.

Court Clerk: I am going to work with the other offices to make a Disaster Recovery Plan.

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

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

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



OFFICE OF THE STATE AUDITOR AND INSPECTOR

2300 N. LINCOLN BOULEVARD, ROOM 100

OKLAHOMA CITY, OK 73105-4896

WWW.SAI.OK.GOV