

COUNTY AUDIT

NOWATA COUNTY

For the fiscal year ended June 30, 2012



*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, OKLAHOMA
FINANCIAL STATEMENT
AND INDEPENDENT AUDITOR'S REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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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

November 4, 2014

TO THE CITIZENS OF
NOWATA COUNTY, OKLAHOMA

Transmitted herewith is the audit of Nowata County, Oklahoma for the fiscal year ended June 30, 2012. The audit was conducted in accordance with 19 O.S. § 171.

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

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

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

Sincerely,

A handwritten signature in blue ink, appearing to read "Gary A. Jones", is written over a horizontal line.

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

**NOWATA COUNTY, OKLAHOMA
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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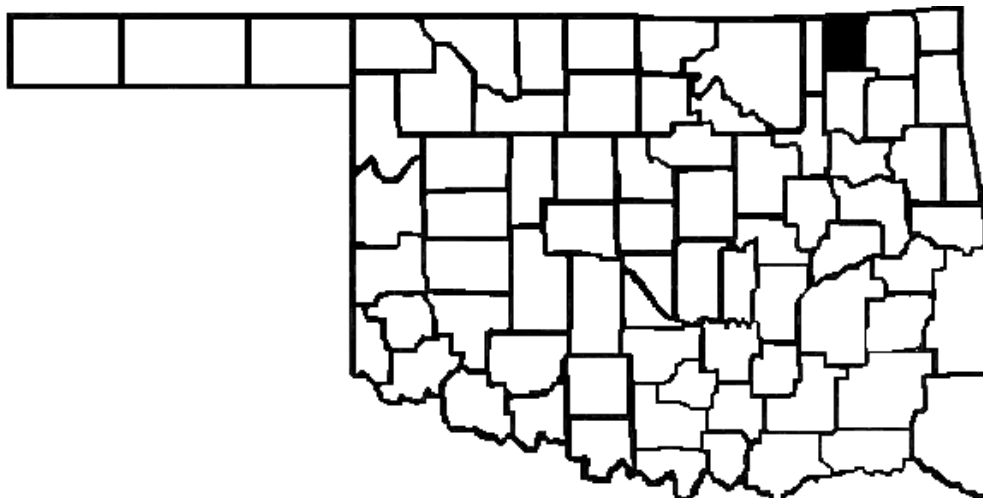
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PRESENTED FOR INFORMATIONAL PURPOSES ONLY**

**NOWATA COUNTY, OKLAHOMA
STATISTICAL INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**



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

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

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

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

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

County Seat – Nowata

Area – 580.87 Square Miles

County Population – 10,528
(2009 est.)

Farms – 912

Land in Farms – 354,636 Acres

Primary Source: Oklahoma Almanac 2011-2012

Board of County Commissioners

District 1 – Curtis Barnes
District 2 – Dean Bridges
District 3 – Tim Kilpatrick

County Assessor

Carey Pearsall

County Clerk

Teresa Jackson

County Sheriff

James Hallet

County Treasurer

Bonnie Workman

Court Clerk

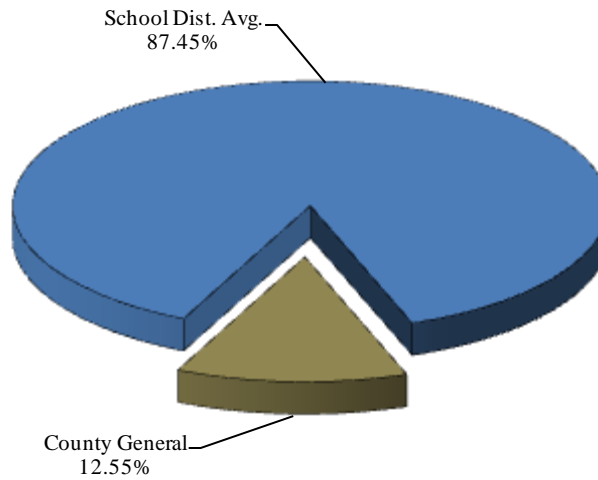
Shiloh Freeman

District Attorney

Kevin Buchanan

**NOWATA COUNTY, OKLAHOMA
AD VALOREM TAX DISTRIBUTION
SHARE OF THE AVERAGE MILLAGE
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

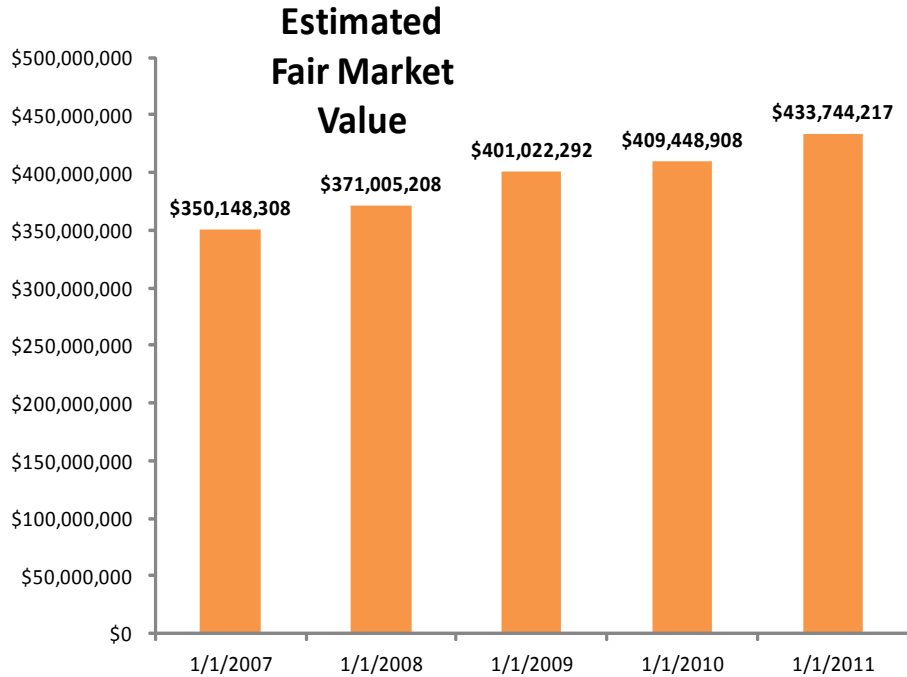
Property taxes are calculated by applying a millage rate to the assessed valuation of property. Millage rates are established by the Oklahoma Constitution. One mill equals one-thousandth of a dollar. For example, if the assessed value of a property is \$1,000.00 and the millage rate is 1.00, then the 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	10.49		Gen.	Bldg.	Skg.	Career Tech	Common	Total	
		Nowata	I-40	36.61	5.23	10.21	15.74	4.20	71.99
		Oklahoma Union	I-3	36.89	5.27	17.28	15.74	4.20	79.38
		South Coffeyville	I-51	36.89	5.27	-	15.74	4.20	62.10
		Copan	JT	37.98	5.43	13.99	15.74	4.20	77.34
		Chelsea	JT	36.44	5.21	17.44	11.45	4.20	74.74

**NOWATA COUNTY, OKLAHOMA
 ASSESSED VALUE OF PROPERTY
 TREND ANALYSIS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

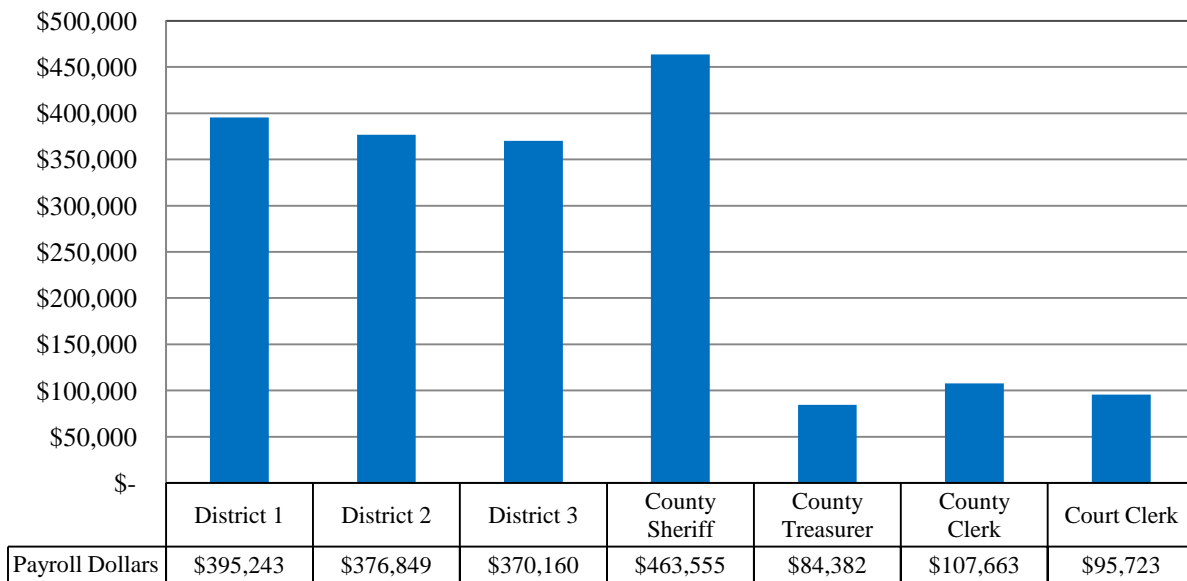
Valuation Date	Personal	Public Service	Real Estate	Homestead Exemption	Net Value	Estimated Fair Market Value
1/1/2011	\$7,271,238	\$13,589,590	\$34,357,546	\$3,165,468	\$52,052,906	\$433,744,217
1/1/2010	\$7,094,431	\$11,663,777	\$33,527,881	\$3,152,220	\$49,133,869	\$409,448,908
1/1/2009	\$6,678,756	\$11,961,140	\$32,682,015	\$3,199,236	\$48,122,675	\$401,022,292
1/1/2008	\$6,187,713	\$10,012,350	\$31,501,442	\$3,180,880	\$44,520,625	\$371,005,208
1/1/2007	\$6,364,988	\$8,544,818	\$30,328,482	\$3,220,491	\$42,017,797	\$350,148,308



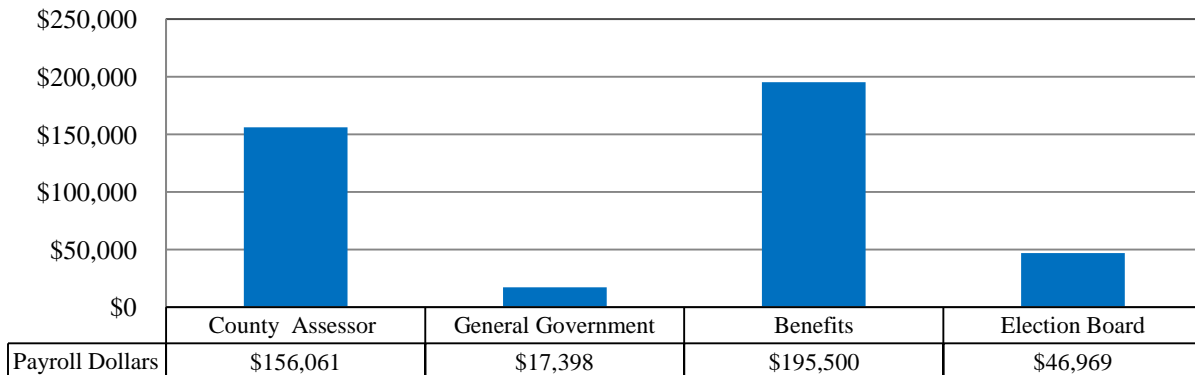
**NOWATA COUNTY, OKLAHOMA
COUNTY PAYROLL EXPENDITURES ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

County officers' salaries are based upon the assessed valuation and population of the counties. State statutes provide guidelines for establishing elected officers' salaries. The Board of County Commissioners sets the salaries for all elected county officials within the limits set by the statutes. The designated deputy or assistant's salary cannot exceed the principal officer's salary. Salaries for other deputies or assistants cannot exceed the principal officer's salary. The information presented below is for the fiscal year ended June 30, 2012.

Payroll Expenditures by Department



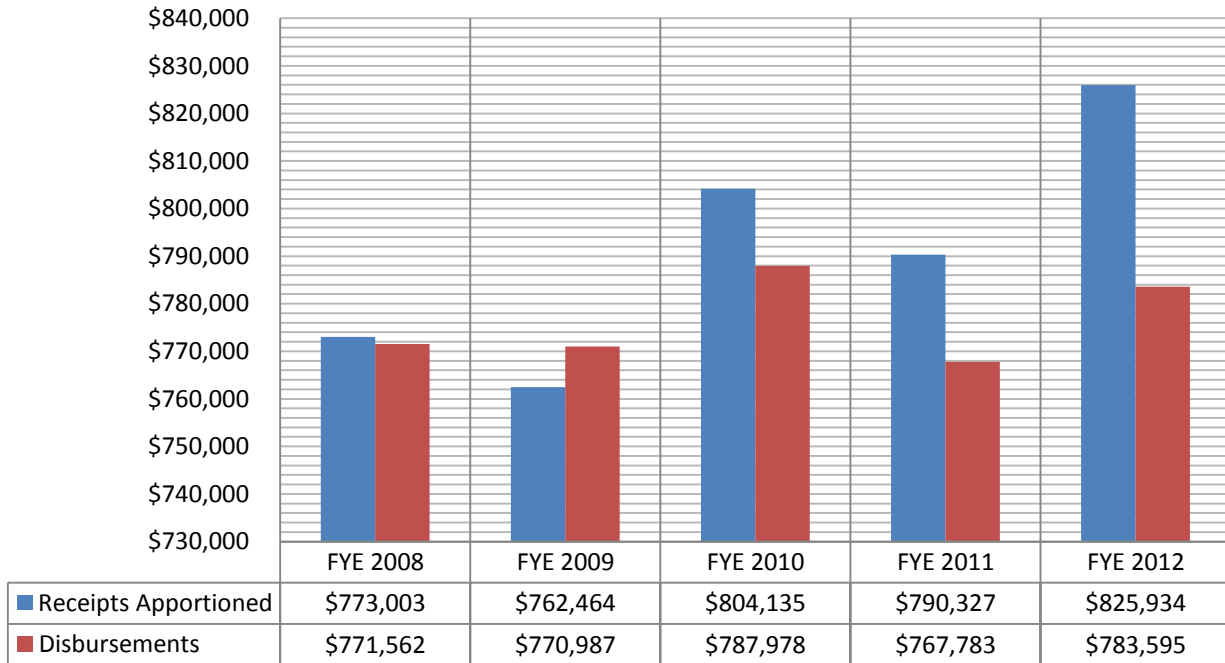
Payroll Expenditures by Department



**NOWATA COUNTY, OKLAHOMA
COUNTY GENERAL FUND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

County General Fund

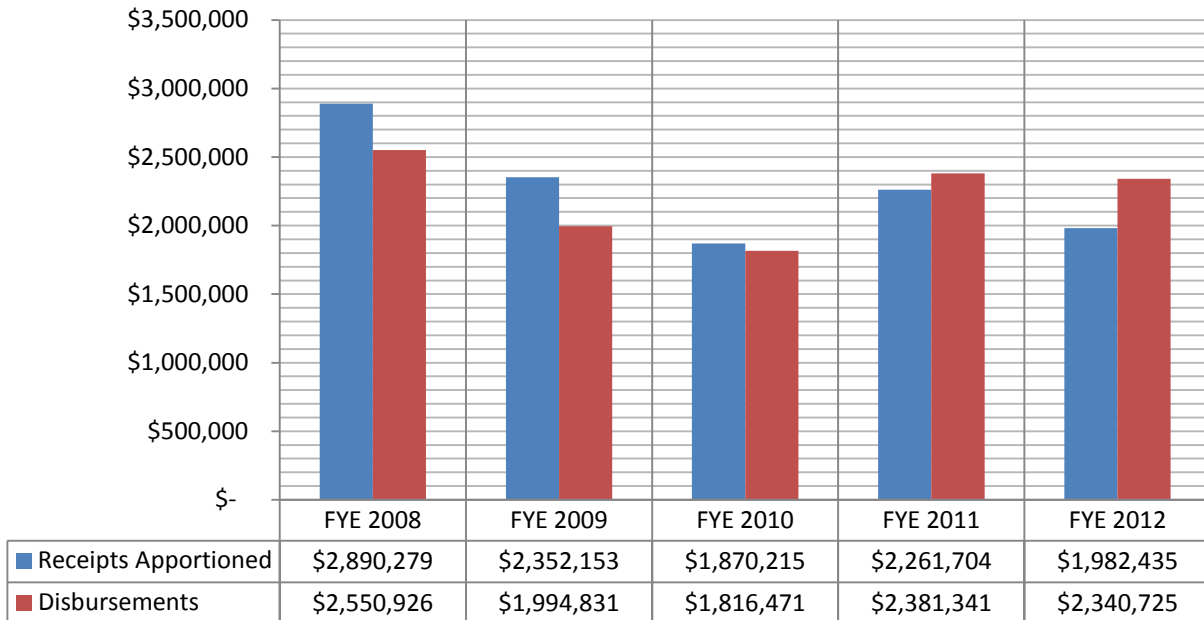
The Oklahoma Constitution and the Oklahoma Statutes authorize counties to create a County General Fund, which is the county's primary source of operating revenue. The County General Fund is typically used for county employees' salaries plus many expenses for county maintenance and operation. It also 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, 2012**

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.



FINANCIAL SECTION



Oklahoma State Auditor & Inspector

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

Independent Auditor's Report

TO THE OFFICERS OF
NOWATA COUNTY, OKLAHOMA

We have audited the combined total—all county funds on the accompanying regulatory basis Statement of Receipts, Disbursements, and Changes in Cash Balances of Nowata County, Oklahoma, as of and for the year ended June 30, 2012, listed in the table of contents as the financial statement. This financial statement is the responsibility of Nowata County's management. Our responsibility is to express an opinion on the combined total—all county funds on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, this financial statement was prepared using accounting practices prescribed or permitted by Oklahoma state law, which practices differ from accounting principles generally accepted in the United States of America. The differences between this regulatory basis of accounting and accounting principles generally accepted in the United States of America are also described in Note 1.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of Nowata County as of June 30, 2012, or changes in its financial position for the year then ended.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the combined total of receipts, disbursements, and changes in cash balances for all county funds of Nowata County, for the year ended June 30, 2012, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2014, on our consideration of Nowata County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the combined total of all county funds on the financial statement. The Other Supplementary Information, as listed in the table of contents, is presented for purposes of additional analysis, and is not a required part of the financial statement. Such supplementary information has been subjected to the auditing procedures applied in the audit of the combined total—all county funds on the regulatory basis Statement of Receipts, Disbursements and Changes in Cash Balances and, in our opinion, is fairly stated, in all material respects, in relation to the combined total—all county funds. The information listed in the table of contents under Introductory Section has not been audited by us, and accordingly, we express no opinion on it.

A handwritten signature in blue ink, appearing to read "Gary A. Jones". The signature is fluid and cursive, with a long horizontal stroke at the end.

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

October 27, 2014

REGULATORY BASIS FINANCIAL STATEMENT

**NOWATA COUNTY, OKLAHOMA
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES—REGULATORY BASIS
(WITH COMBINING INFORMATION)—MAJOR FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	Beginning Cash Balances July 1, 2011	Receipts Apportioned	Transfers In	Transfers Out	Disbursements	Ending Cash Balances June 30, 2012
Combining Information:						
Major Funds:						
County General Fund	\$ 193,196	\$ 825,934	\$ 321,000	\$ 321,000	\$ 783,595	\$ 235,535
T-Highway	2,324,866	1,982,435	321,000	321,000	2,340,725	1,966,576
County Bridge and Road Improvement	646,530	255,834	-	-	47,456	854,908
13974 SEECBG	-	250,000	-	-	250,000	-
Sales Tax Cash Account	934,991	1,021,082	-	-	845,076	1,110,997
Sheriff Prisoner Boarding	180,387	448,761	-	-	448,866	180,282
Remaining Aggregate Funds	317,283	219,584	4,890	4,890	261,350	275,517
Combined Total - All County Funds, as Restated	<u>\$ 4,597,253</u>	<u>\$ 5,003,630</u>	<u>\$ 646,890</u>	<u>\$ 646,890</u>	<u>\$ 4,977,068</u>	<u>\$ 4,623,815</u>

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

**NOWATA COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

1. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

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

B. Fund Accounting

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

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

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

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

County Bridge and Road Improvement – accounts for state receipts and disbursements for the purpose of constructing and maintaining county roads and bridges.

13974 SEECBG – accounts for the collection and disbursement of Federal Energy Efficiency and Conservation Block Grant monies.

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

Sheriff Prisoner Boarding – accounts for the monies received from the State of Oklahoma for the boarding and feeding of Department of Corrections' prisoners.

**NOWATA COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

C. Basis of Accounting

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

Title 19 O.S. § 171 specifies the format and presentation for Oklahoma counties to present their financial statement in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) or on a regulatory basis. The County has elected to present their financial statement on a regulatory basis in conformity with Title 19 O.S. § 171. County governments (primary only) are required to present their financial statements on a fund basis format with, at a minimum, the general fund and all other county funds, which represent ten percent or greater of total county revenue. All other funds included in the audit shall be presented in the aggregate in a combining statement.

D. Budget

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

E. Cash and Investments

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

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

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

**NOWATA COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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

2. Ad Valorem Tax

The County's property tax is levied each October 1 on the assessed value listed as of January 1 of the same year for all real and personal property located in the County, except certain exempt property. Assessed values are established by the County Assessor within the prescribed guidelines established by the Oklahoma Tax Commission and the State Equalization Board. Title 68 O.S. § 2820.A. states, ". . . Each assessor shall thereafter maintain an active and systematic program of visual inspection on a continuous basis and shall establish an inspection schedule which will result in the individual visual inspection of all taxable property within the county at least once each four (4) years."

Taxes are due on November 1 following the levy date, although they may be paid in two equal installments. If the first half is paid prior to January 1, the second half is not delinquent until April 1. Unpaid real property taxes become a lien upon said property on October 1 of each year.

3. Other

A. Pension Plan

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

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

B. Other Post Employment Benefits (OPEB)

In addition to the pension benefits described in the Pension Plan note, OPERS provides post-retirement health care benefits of up to \$105 each for retirees who are members of an eligible

**NOWATA COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

group plan. These benefits are funded on a pay-as-you-go basis as part of the overall retirement benefit. OPEB expenditure and participant information is available for the state as a whole; however, information specific to the County is not available nor can it be reasonably estimated.

C. Contingent Liabilities

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

As of the end of the fiscal year, there were no claims or judgments that would have a material adverse effect on the financial condition of the County; however, the outcome of any lawsuit would not be determinable.

D. Sales Tax

On 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.

On February 5, 2008, 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.

E. Interfund Transfers

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

- During the fiscal year ended June 30, 2012, the T-Highway fund made an interfund loan to the County General Fund in the amount of \$321,000 and the County General Fund repaid T-Highway fund during the fiscal year.

**NOWATA COUNTY, OKLAHOMA
 NOTES TO THE FINANCIAL STATEMENT
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

- During the fiscal year ended June 30, 2012, a Free Fair Sales Tax warrant in the amount of \$4,890 was written to the Nowata County Treasurer’s Office to be placed in the Free Fair Coupon Bank account and ultimately placed in the Free Fair Coupon general ledger account via a transfer. These funds were noted as a transfer from the Free Fair general ledger account in the amount of \$4,890, as Free Fair Coupons were presented at the bank for payment.

F. Restatement Prior Year Ending Balance

Due to the reclassification of funds, the ending balance as reported at June 30, 2011 is different than the July 1, 2011 beginning balance. The difference is due to six (6) funds reported as trust and agency funds at June 30, 2011 that should have been reported as county funds and a small rounding error also noted on the June 30, 2011 financial statements. The restatement of the prior ending balance resulted in an increase of \$4,551.

Prior year ending balance, as reported	\$4,592,702
Plus: Funds moved to county funds:	
Emergency Management	1,983
Sheriff Basic 911	283
Free Fair Coupon	0
Dept. of Human Services	1,399
Sheriff Trash Cop (SWI)	88
Board of County Commissioners Office	800
Less: Overstatement	<u>(2)</u>
Prior year ending balance, as restated	<u>\$4,597,253</u>

OTHER SUPPLEMENTARY INFORMATION

**NOWATA COUNTY, OKLAHOMA
COMPARATIVE SCHEDULE OF RECEIPTS, EXPENDITURES, AND
CHANGES IN CASH BALANCES—BUDGET AND ACTUAL—BUDGETARY BASIS—
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	General Fund		
	Budget	Actual	Variance
Beginning Cash Balances	\$ 193,196	\$ 193,196	\$ -
Less: Prior Year Outstanding Warrants	(41,505)	(41,505)	-
Less: Prior Year Encumbrances	(7,584)	(7,584)	-
Plus: Lapsed Balance	-	18	18
Plus: Estopped Warrants	-	219	219
Beginning Cash Balances, Budgetary Basis	144,107	144,344	237
Receipts:			
Ad Valorem Taxes	506,810	549,685	42,875
Charges for Services	33,622	56,624	23,002
Intergovernmental Revenues	168,870	177,202	8,332
Miscellaneous Revenues	42,662	42,423	(239)
Total Receipts, Budgetary Basis	751,964	825,934	73,970
Expenditures:			
District Attorney	6,000	3,491	2,509
County Sheriff	144,869	144,781	88
County Treasurer	57,074	57,074	-
County Clerk	95,419	95,399	20
Court Clerk	47,219	47,219	-
County Assessor	60,336	58,955	1,381
Revaluation of Real Property	151,989	112,320	39,669
General Government	43,731	18,261	25,470
Excise-Equalization Board	3,500	2,842	658
County Election Board	52,277	52,233	44
Insurance Benefits	216,292	195,500	20,792
County Audit Budget Account	15,365	15,365	-
Provision for Interest on Warrants	2,000	-	2,000
Total Expenditures, Budgetary Basis	896,071	803,440	92,631

Continued on next page

**NOWATA COUNTY, OKLAHOMA
 COMPARATIVE SCHEDULE OF RECEIPTS, EXPENDITURES, AND
 CHANGES IN CASH BALANCES—BUDGET AND ACTUAL—BUDGETARY BASIS—
 GENERAL FUND - CONTINUED
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	General Fund		
	Budget	Actual	Variance
Continued from previous page			
Excess of Receipts and Beginning Cash Balances Over Expenditures, Budgetary Basis	\$ -	166,838	\$ 166,838
Operating Transfers:			
Operating Transfers In		321,000	
Operating Transfers Out		(321,000)	
Net Operating Transfers		-	
Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances			
Add: Current Year Outstanding Warrants		49,502	
Add: Current Year Encumbrances		19,195	
Ending Cash Balance		\$ 235,535	

NOWATA COUNTY, OKLAHOMA
COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES—REGULATORY BASIS—
REMAINING AGGREGATE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Beginning Cash Balances July 1, 2011	Receipts Apportioned	Transfers In	Transfers Out	Disbursements	Ending Cash Balances June 30, 2012
Remaining Aggregate Funds:						
Alluwe Property	\$ 1,990	\$ 146	\$ -	\$ -	\$ -	\$ 2,136
Animal Damage	397	-	-	-	-	397
County Assessor Revolving Fund	10,251	2,172	-	-	2,275	10,148
Board of County Commissioners Office	800	-	-	-	800	-
County Clerk Lien Fee	23,016	4,223	-	-	15,671	11,568
County Clerk Preservation Fee	22,044	11,420	-	-	13,577	19,887
Courthouse Sidewalk Bricks	4,675	-	-	-	4,675	-
Emergency Management	1,983	-	-	-	-	1,983
Sheriff Basic 911	283	-	-	-	-	283
Sheriff Commissary Account	18,663	25,873	-	-	33,541	10,995
Sheriff Donations	3,977	260	-	-	985	3,252
Sheriff Littering	15	16	-	-	-	31
Sheriff Service Fee	43,841	51,985	-	-	56,137	39,689
Resale Property	52,200	73,160	-	-	73,089	52,271
County Use Tax	92,815	45,429	-	-	47,253	90,991
Free Fair Coupon Account	-	-	4,890	4,890	-	-
Department of Human Services	1,399	-	-	-	-	1,399
Fishing for Kids	-	2,500	-	-	2,500	-
Sheriff Trash Cop	88	-	-	-	-	88
Treasurer Mortgage Certification Fee	38,504	2,400	-	-	10,847	30,057
General Cash Insurance	342	-	-	-	-	342
Combined Total - Remaining Aggregate Funds	\$ 317,283	\$ 219,584	\$ 4,890	\$ 4,890	\$ 261,350	\$ 275,517

**NOWATA COUNTY, OKLAHOMA
NOTES TO OTHER SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

1. Budgetary Schedules

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

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

2. Remaining County Funds

Remaining aggregate funds as presented on the financial statement are as follows:

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 assessor fee collections. Disbursements are for any legal expense of the Assessor's office.

Board of County Commissioners Office – accounts for fiscal year 2010 hazard mitigation plan grant reimbursement. Disbursements are for the operations of the Board of County Commissioners office.

County Clerk Lien Fee – revenues are from a fee charged by the County Clerk for filing liens. Disbursements are for any lawful expense of the County Clerk's office.

County Clerk Preservation Fee – revenues are from a fee charged by the County Clerk for recording instruments. Disbursements are for the maintenance and preservation of public records.

Courthouse Sidewalk Bricks – accounts for donations made to the County from the sale of bricks for the purpose of building new sidewalks at the courthouse.

**NOWATA COUNTY, OKLAHOMA
NOTES TO OTHER SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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

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

Sheriff Commissary Account – revenues are from profits on commissary sales in the County jail. Disbursements are for jail improvements.

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 Service Fee – accounts for the collection and disbursement of sheriff process service fees as restricted by state statute.

Resale Property – revenues are from interest and penalties on delinquent ad valorem taxes. Disbursements are to offset the expense of collecting delinquent ad valorem taxes.

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.

Free Fair Coupon Account – accounts for funds received from the Fairboard and placed in the Nowata County Treasurer Free Fair Coupon bank account to be used to pay for free fair awards and premiums.

Department of Human Services – revenues from the state to pay the Sheriff for expenses incurred for the transportation of juvenile offenders.

Fishing for Kids – accounts for collections and disbursements of local foundation grant monies.

Sheriff Trash Cop – accounts for state grant collections. Disbursements are for the disposal of trash collection in the County.

Treasurer Mortgage Certification Fee – revenues are from a fee for certifying mortgages. Disbursements are for any lawful expense of the Treasurer's office.

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.

INTERNAL CONTROL AND COMPLIANCE SECTION



Oklahoma State Auditor & Inspector

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

TO THE OFFICERS OF
NOWATA COUNTY, OKLAHOMA

We have audited the combined totals—all funds of the accompanying Combined Statement of Receipts, Disbursements, and Changes in Cash Balances of Nowata County, Oklahoma, as of and for the year ended June 30, 2012, which comprises Nowata County's basic financial statement, prepared using accounting practices prescribed or permitted by Oklahoma state law, and have issued our report thereon dated October 27, 2014. Our report on the basic financial statement was adverse because the statement is not a presentation in conformity with accounting principles generally accepted in the United States of America. However, our report also included our opinion that the financial statement does present fairly, in all material respects, the receipts, disbursements, and changes in cash balances – regulatory basis of the County for the year ended June 30, 2012, on the basis of accounting prescribed by Oklahoma state law, described in Note 1. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in internal control described in the accompanying schedule of findings and responses to be material weaknesses in internal control over financial reporting. 2012-1, 2012-2, 2012-4, 2012-5, 2012-6, and 2012-8.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting. 2012-3 and 2012-7.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Nowata County's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2012-8.

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

Nowata County's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit Nowata County's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, those charged with governance, others within the entity, [and identify the legislative or regulatory body] and is not intended to be and should not be used by anyone other than the specified parties. This report is also 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.



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

October 27, 2014

**NOWATA COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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

Finding 2012-1 – Inadequate County-Wide Controls (Repeat Finding)

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: The Oklahoma State Auditor and Inspector's Office (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.

Management Response:

BOCC Chairman/District 2 County Commissioner: A meeting will be planned with all County Officers to discuss risk management.

County Clerk: I am a new officer and had no control of the period of July 2011 through June 2012. This office will implement a discussion meeting twice a year to discuss things that cause a risk to the financial stability of the County. At that meeting, we will set out a plan to monitor and remove potential risks. The meetings and the outcome of the meetings will be documented.

County Treasurer: Each officer will meet with his or her employees to determine risks. The officers will then meet to discuss the risks identified and to work out plans that are suitable for the entire county.

County Assessor: All officers will meet a couple times annually to discuss concerns that can cause a risk to the County and develop a plan to alleviate those risks.

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 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

**NOWATA COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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 2012-2 – Disaster Recovery Plan (Repeat Finding)

Condition: Upon inquiry, the following offices do not have a Disaster Recovery Plan for Information Systems:

- County Assessor
- Court Clerk
- County Sheriff

Also, the County Clerk's Disaster Recovery Plan is not updated.

Cause of Condition: Policies and procedures have not been designed and implemented to prepare a formal 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 the County officials develop a Disaster Recovery Plan that addresses how critical information and systems within their offices would be restored in the event of a disaster.

Management Response:

BOCC Chairman/District 2 County Commissioner: All Officers are working on or have completed a current disaster recovery plan for their respective offices.

County Assessor: The Assessor's office will develop a Disaster Recovery Plan.

Court Clerk: I was not in office during this audit period. This office is working on a Disaster Recovery Plan at this time.

**NOWATA COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

County Sheriff: The Nowata County Sheriff's Department shall have a Disaster Recovery Plan in place in case of major emergencies involving the courthouse and jail. The plan shall include evacuation procedures and the housing and transport of prisoners to surrounding facilities. There shall be inter-agency agreements in place with other agencies for temporary patrolling and security.

County Clerk: The Disaster Recovery Plan for the office of the County Clerk has been updated. I am a new officer and had no control of the period of July, 2011 through June, 2012.

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 numbers of key personnel;
- Business resumption alternatives for all users for establishing alternative work locations once IT services are available.

Finding 2012-3 – Inadequate Internal Controls Over Information Systems Security – County Treasurer and County Clerk

Condition: Upon review of the computer systems within the County Treasurer's and County Clerk's offices, instances were noted in which IT controls were not properly in place to ensure the integrity of the County recordkeeping and financial systems.

**NOWATA COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

The following was noted:

County Treasurer:

- Policies and procedures (have not been designed or are not operating) effectively to address the expectation and responsibilities of the County employees in the IT functions.
- Passwords are not set to expire after a 90 day period of time.
- The audit log is not being utilized as a form of management oversight.
- Transactions are not being monitored regularly for exceptions or unique payments/voids.

County Clerk:

- Policies and procedures (have not been designed or are not operating) effectively to address the expectation and responsibilities of the county employees in the IT functions.
- Passwords are not set to expire after a 90 day period of time.
- User roles are not being used in the program to segregate duties and responsibilities. All the employees in the County Clerk's office had full administrative rights.

Cause of Condition: Procedures have not been designed to address security management over the County's information systems.

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

Recommendation: OSAI recommends management be aware of and provide oversight for the various control risks present in the IT systems used by their office. This includes defining user roles to segregate duties and responsibilities, ensuring the audit log is active and being reviewed, reviewing transactions for exceptions and unique transactions, and changing passwords on a regular basis.

Management Response:

BOCC Chairman/ District 2 County Commissioner: Both the County Treasurer and the County Clerk have taken measures to ensure that no social media is used and password expiration is being assessed. The County Clerk has reviewed and made changes to the administrative rights on her systems and the County Treasurer has implemented a daily monitoring of payments and voids.

County Clerk: I am a new officer and had no control over the audit period of July 1, 2011 to June 30, 2012. A review of the IT policy will be made and changes will be made as deemed necessary. I will have the administrative rights changed. Password expiration will be discussed with our computer system vendor.

County Treasurer: We, as a County, need to have more detail in our handbook in regard to personal use of the computers. I will be reviewing policy and procedures for IT functions. I will also be utilizing the audit logs and be reviewing them weekly and initialing any findings. I will also be asking our computer programmers to set our passwords to expire and be changed every ninety (90) days.

**NOWATA COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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.

Finding 2012-4 – Inadequate Internal Controls and Segregation of Duties - County Treasurer’s Office (Repeat Finding)

Condition: A concentration of duties exists in the County Treasurer’s office. The following was noted:

- Inadequate segregation of duties exists in the County Treasurer’s office because all three employees take collections, issue receipts, and utilize one cash drawer. In addition to taking collections and issuing receipts, one employee can also balance the cash drawer, prepare the depository deposit ticket, and perform the bank reconciliations.
- A mail log is not maintained.
- There is no indication of independent review of the daily close out processes, bank reconciliations, tax levy input, and subsidiary ledger reconciliation.
- Receipts are not always issued for direct deposits. Payments received for 5 year exempt manufacturing or on behalf of another office are not receipted in but rather the County Treasurer obtains a cashier’s check from the bank in the amount of the deposit and either posts the amount to the ad valorem tax system and obtains an ad valorem receipt (exempt manufacturing) or gives the cashier’s check to the officer on whose behalf it was received so that the officer can post the collection to their system.
- The bank account “Warrant Account” from which the County’s highway warrants are issued from is not on the County’s general ledger and is therefore, not being reconciled on a monthly basis. The account had a negative balance of \$67,479.73 at June 30, 2012.

Cause of Condition: 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 receipts are written for all collections upon receipts of payment and all bank accounts in the County’s name, under the County’s EIN number or in use by the County are accounted for on the County Treasurer’s general ledger and are being reconciled monthly.

Effect of Condition: Accounting for all of the County’s bank accounts on the general ledger, issuing receipt for all collections, and 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.

**NOWATA COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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

OSAI also recommends that receipts be issued for all collections upon receipt and any accounts or investments recorded under the County's tax identification number should be included on the general ledger. Reconciliations should be performed on a monthly basis, in a timely manner, and all bank reconciliations should reflect an indication of review and approval by someone other than the preparer.

Management Response:

BOCC Chairman/District 2 County Commissioner: A mail log is now being maintained in the Treasurer's office. More than one person is now reviewing the daily close out, and segregation of duties is being assessed. Steps are being taken to include all accounts on the general ledger and to ensure that bank reconciliations are being reviewed by someone other than the preparer. Cashier's checks are no longer obtained and receipts are issued for all direct deposits, with such receipts being given to the officer on whose behalf it was received.

County Treasurer: A review of the collections by office/type to the receipt reports and deposit tickets has been implemented and the deposit ticket will be initialed by the person performing the review. All bank reconciliations will be reviewed by someone other than the preparer and prior to the issuance of the tax statements. Tax levies will be reviewed for accuracy by someone other than the person inputting the levies. On October 3, 2013, the Treasurer's office began using a mail log. During the busy tax time, the Commissioners' secretary will assist the Treasurer with logging in the mail.

Additionally, we no longer obtain money orders when we receive notice of direct deposit to our bank account. Upon receipt of the notice of direct deposit, I will take the notice of the direct deposit to the office for which it was received; the deposit will be placed on the officer's deposit ticket and receipted into the officer's depository account.

We are no longer issuing warrants on the Highway Warrant Account. As soon as all warrants have cleared or can be cancelled, the account will be closed.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. 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; receipts should be written for all collections upon receipt of payment; all accounts under the County's tax identification number should be included on the general ledger and reconciliations should be performed monthly and be reviewed and approved by someone other than the preparer.

**NOWATA COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Finding 2012-5 – Inadequate Internal Controls and Segregation of Duties Over Payroll (Repeat Finding)

Condition: Upon inquiry and observation of the County's payroll process, it was noted that the Payroll Clerk enrolls new hires, makes payroll changes, runs verification reports, prints payroll checks, distributes payroll checks, and maintains personnel files.

Additionally, during our review of the procedures involved in the issuance of disbursements and payroll, the following was noted:

- There are no internal controls in place to ensure that the verification reports signed by the officers are compared to the payroll claim.
- There are no controls in place to ensure that the warrants issued agree to the purchase orders approved for payment.

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

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

Additionally, OSAI recommends management implement procedures to ensure the signed verification reports are being compared to the payroll claims and that warrants issued agree to the purchase orders approved for payment.

Management Response:

BOCC Chairman/District 2 County Commissioner: The County Clerk has established a policy to distribute payroll duties to more than one person and the County Clerk is now reviewing and signing all verification reports for payroll claims and warrants issued.

County Clerk: I am a new officer and had no control over the audit period of July 1, 2011 to June 30, 2012. This office will implement the following policies:

**NOWATA COUNTY, OKLAHOMA
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- The Payroll Clerk will no longer disburse payroll checks; this will be done by either the Purchasing Agent or the County Clerk.
- The Payroll Clerk will no longer be enrolling new employees or removing terminated employees from the system; this will be done by the County Clerk and the Payroll Clerk will check additions and removals for accuracy.
- Each officer will be reviewing, verifying, initialing, and dating the payroll reports.
- The tapes for the payroll purchase orders approved for payment and the tapes of the payroll warrants issued will be compared for accuracy, initialed, and dated.

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.

Finding 2012-6 – Inadequate Internal Controls Over the Reconciliation of the Appropriation Ledger to General Ledger

Condition: The County Clerk's appropriation ledger was not reconciled to the County Treasurer's general ledger during the 2012 fiscal year.

Cause of Condition: Policies and procedures were not designed 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, misappropriation of funds, or clerical errors that are not detected in a timely manner.

Recommendation: OSAI recommends that the County Clerk's appropriation ledger (record of disbursements) be reconciled monthly to the County Treasurer's general ledger.

Management Response:

BOCC Chairman/District 2 County Commissioner: The Clerk and the Treasurer will establish a system to reconcile the warrants issued and the warrants paid. Also, a system will be established to ensure that a third party is reviewing the reconciliation of ledgers.

County Clerk: I am a new officer and had no control over the audit period of July 1, 2011 to June 30, 2012. As the County Clerk, I will be reconciling the cash fund balances per the general ledger to the appropriation ledger balances. These reconciliations will be given to the County Treasurer to review for accuracy, and initial and date. I will be working with the County Treasurer to reconcile and review for accuracy of warrants issued to warrants paid.

County Treasurer: I will be working with the County Clerk in preparing and reviewing the reconciliations of the general ledger to the appropriation ledger and warrants issued to warrants paid.

**NOWATA COUNTY, OKLAHOMA
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Criteria: Safeguarding controls are an 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 timely prepared, are deficiencies in internal control. Further, reconciliations should be performed on a monthly basis.

Finding 2012-7 – Inadequate Internal Controls Over County Sales Tax Collections and Noncompliance with State Statutes

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

- There are no internal controls in place to ensure sales tax funds are appropriated in accordance with the sales tax ballots.
- Documentation to support the intra-fund transfers of \$139,689.92 between the various accounts within the sales tax fund could not be located.
- On July 1, 2011, sales tax accounts were appropriated \$21,623.74 more than had been collected at the time.
- The Highway Sales Tax account was appropriated \$240.48 less in August, 2011 than collections during July, 2011.
- The sales tax accounts receiving the 35% split were appropriated \$598.00 and \$1,769.68 more than the July, 2011 and June, 2012 collections, respectively.
- The sales tax accounts receiving the 15% split were appropriated \$1,290.00 more than August, 2011 collections.
- The unencumbered balances at June 30, 2012 for the accounts receiving the 35% split were overstated \$24,310.06 and \$2,426.38 for the accounts receiving the 15% split.

Cause of Condition: Management has not established nor implemented procedures to oversee and review County sales tax appropriations.

Effect of Condition: These conditions resulted in noncompliance with state statutes. By appropriating more funds than have been collected, the County runs the risk of expending more funds than they have collected. Additionally, these conditions could result unrecorded transactions, undetected errors, or misappropriation of funds.

Recommendation: OSAI recommends the County design procedures to ensure sales tax collections are appropriated in accordance with the sales tax ballots and appropriations not exceed funds collected.

Management Response:

BOCC Chairman/District 2 County Commissioner: The County Clerk and the Treasurer have reviewed the sales tax ballot to ensure that money collected will be apportioned and expended in accordance with the ballot. Additionally, the Clerk will ensure money is appropriated in accordance with the ballot and that no sales tax funds are being appropriated until they are collected.

**NOWATA COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

County Clerk: I am a new officer and had no control over the period of July, 2011 through June, 2012. A spreadsheet has been developed to ensure that the amount collected is no more than the amount appropriated each month. A review of the sales tax ballot has been performed to ensure that all money is being appropriated in accordance with the ballot.

Criteria: 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(I), requires the sales tax collections to be deposited in the a sales tax revolving fund of the County and be used only for the purpose for which such sales tax was designated. 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.”

Finding 2012-8 – Inadequate Internal Controls and Noncompliance Over Purchasing

Condition: While testing sixty-four purchase orders, we noted the following:

Not Timely Encumbered:

Fund	Responsible Party	Purpose	Purchase Order #	Amount
SEECBG	Commissioners	Heat and Air	2878	\$ 18,204.00
Highway	District 3	Payment	3020	51,341.45
General	Assessor	Travel	3001	59.94
SEECBG	Commissioners	Heat and Air	2486	85,230.00
SEECBG	Commissioners	Heat and Air	2602	130,500.00
Total				<u>\$285,335.39</u>

No Receiving Report:

Fund	Responsible Party	Purpose	Purchase Order #	Amount
SEECBG	Commissioners	Heat and Air	2878	\$ 18,204.00
SEECBG	Commissioners	Heat and Air	2486	85,230.00
SEECBG	Commissioners	Heat and Air	2602	130,500.00
Total				<u>\$233,934.00</u>

Cause of Condition: The County did not follow the policies and procedures designed by state statutes regarding the purchasing process.

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Effect of Condition: These conditions resulted in noncompliance with state statutes, laws, regulations or legislative intent, and could result in inaccurate records, incomplete information, or a misappropriation of assets.

Recommendation: OSAI recommends that the County adhere to state purchasing guidelines. Purchase orders should be encumbered before goods or services are ordered. A receiving report that has been signed should be attached to purchase orders.

Management Response:

BOCC Chairman/District 2 County Commissioner: All utilities consisting of water, electric, etc. have a purchase order and receiving report completed the same day in order for them to be encumbered the same day. A memo has been distributed and all offices have been made aware of correct procedures for encumbering and receiving goods or services.

District 1 County Commissioner: A memo has been distributed and all offices have been made aware of correct procedures for encumbering and receiving goods or services.

District 3 County Commissioner: The one purchase order that was not timely encumbered was a one time instance.

County Assessor: All goods or services will be encumbered before they are ordered.

County Clerk: I am a new officer and had no control over the period of July, 2011 through June, 2012. There were purchase orders with no receiving reports; this appears to be an isolated incident. I will do my very best to see that this does not happen again. When utility bills are received they will be stamped with the date received and encumbered that day. A memo will be sent to all officers conveying the importance of encumbering prior to ordering goods and services. It will also address the fact that a receiving report must be done for everything. A review of statements will be done to ensure that charges actually belong to the County and those charges are on the receiving report.

Criteria: 19 O.S. § 1505 prescribes the procedures established for the requisition, purchase, lease-purchase, rental, and receipt of supplies, material, and equipment for maintenance, operation, and capital expenditures of county government.

Further, good internal controls would include all supporting documentation related to disbursements be attached to the purchase order prior to approval for payment.

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

Finding 2012-11 – Inadequate Internal Controls and Noncompliance Over Fixed Assets (Repeat Finding)

Condition: Upon inquiry and documentation of internal controls over fixed assets, the following was noted:

County Commissioner District 1:

- Of the fifteen fixed asset items tested, three pieces of equipment did not have an inventory asset number or the number was incorrect.
- Not every piece of rolling stock was marked with “Property of Nowata County.”
- There were no records indicating when the last physical inventory of fixed assets was taken.

County Commissioner District 2:

- Of the fifteen fixed asset items tested, one item noted on inventory had been sold at auction and had not been removed from the inventory list.
- Not every piece of rolling stock was marked “Property of Nowata County.”
- Barns and equipment were not secure when employees were absent.
- There were no records indicating when the last physical inventory of fixed assets was taken.

County Commissioner District 3:

- Of the fifteen fixed asset items tested, one item noted on inventory did not have a visible inventory asset number.
- Not every piece of rolling stock was marked “Property of Nowata County.”
- There were no records indicating when the last physical inventory of fixed assets was taken.

County Sheriff:

- Fixed assets inventory records were incomplete.
- There were no records indicating when the last physical inventory of fixed assets was taken.

Court Clerk:

- There were no records indicating when the last physical inventory of fixed assets was taken.
- The County does not surplus inventory items prior to disposal.

Cause of Condition: Procedures have not been designed to perform periodic inventories of fixed assets on hand to inventory records and procedures have not been implemented regarding the accurate identification and reporting of fixed assets and surplus of fixed assets inventory items prior to the disposal.

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Effect of Condition: These conditions resulted in noncompliance with state statutes. Failure to maintain accurate identification and records of fixed assets, failure to perform a periodic physical inventory of assets, and failure to surplus items prior to the disposing of items could result in inaccurate records, unauthorized use of assets, or misappropriation of assets.

Recommendation: OSAI recommends the County implement internal control procedures to ensure the periodic physical verification of fixed assets to inventory records. Additionally, inventory records should be maintained for all fixed assets items in an accurate manner. OSAI also recommends fixed asset inventories be documented and filed with the County Clerk and inventory items only be disposed of upon being declared surplus by the Board of County Commissioners.

Further, OSAI recommends the County comply with Title 19 O.S. § 178.1 that provides guidance with regard to officials maintaining an inventory of fixed assets and taking an inventory of those fixed assets including initials and date of the employee conducting the verification. Title 69 O.S. § 645 provides guidance with regard to maintaining inventory records and properly marking assets with county identification numbers and “Property of the County.” OSAI additionally recommends the County comply with Title 19 O. S. § 421.2 that provides guidance with regard to the surplus of any machinery, equipment or vehicle deemed by the board to be surplus.

Management Response:

BOCC Chairman/District 2 County Commissioner: Fixed assets inventory has been completed and was matched with everything we currently in stock. All officers have taken steps to ensure that all items are inventoried on an annual or semi-annual basis and that all property of Nowata County is marked as required.

District 1 County Commissioner: All officers have taken steps to ensure that all items are inventoried on a semi-annual or annual basis and that all property of Nowata County is marked as required.

District 3 County Commissioner: We were unaware of the missing number and items not properly marked, “Property of Nowata County.” New numbers have been put on the road grader that was missing a number and Property of Nowata County has been placed on those items as required. Additionally, a physical inventory will be performed at least yearly.

County Sheriff: The Nowata County Sheriff’s Department shall make a complete and comprehensive inventory record of all items purchased. The inventory shall have county identification numbers, serial numbers, a description of item, and original cost. Nowata County shall be marked on all trailers.

Court Clerk: I was not in office during this audit period. The office will be performing a complete inventory to ensure the physical verification of all assets.

Criteria: An important aspect of internal controls is the safeguarding of assets. Internal controls 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 items from loss, damage, or misappropriation.

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Finding 2012-12 – Inadequate Internal Controls and Noncompliance Over Consumable Inventories (Repeat Finding)

Condition: Upon inquiry and documentation of internal controls over consumable inventories and review of inventory records to consumable items on hand, we noted the following:

County Commissioner District 1:

- Calculation charts are not used to determine the amount of fuel in the tanks. The fuel on hand is not properly measured to indicate gallons on hand.
- Of the six consumable items tested, one item (grader blades) did not agree to consumable records and there was no consumable record for the 30”x 30’ tin horn.
- There were no records indicating when the last physical inventory of consumable items was taken.

County Commissioner District 2:

- Barns and equipment were not secure when employees were absent.
- Fuel tanks and barns were not secure when employees were absent.
- Of the seven consumable items tested, two items did not agree to consumable records.
- There were no records indicating when the last physical inventory of consumable items was taken.

County Commissioner District 3:

- Calculation charts are not used to determine the amount of fuel in the tanks. The fuel on hand is not properly measured to indicate gallons on hand.
- Grader blades were not recorded on consumable inventory records.
- There were no records indicating when the last physical inventory of consumable items was taken.

Cause of Condition: Procedures have not been designed to perform periodic inventories of consumable items on hand to inventory records and procedures have not been implemented regarding the accurate identification and reporting of consumable items.

Effect of Condition: These conditions resulted in noncompliance with state statutes. These conditions could result in inaccurate records, unauthorized use of consumable inventories, or loss of consumable inventories.

Recommendation: OSAI recommends management implement internal controls to ensure compliance with 19 O.S. § 1504A. These controls would include:

- Performing and documenting a periodic physical count of consumable inventories.
- Separating the key functions of receiving, maintaining, and verifying consumable inventories.
- Maintaining a fuel log with all pertinent information and with a current balance.
- Reconciling the fuel log periodically to fuel on hand and explain any variance or adjustments.

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Management Response:

BOCC Chairman/District 2 County Commissioner: An inventory of consumable items is completed every two weeks. Additionally, every employee is to lock up everything (fuel tanks, shop, office, shed, gates, and anything that has a lock and key) before exiting the premises. All Districts have taken steps to update and maintain a consumable items inventory, obtain a fuel calculation chart, and to ensure fuel tanks and barns are secure at all times.

District 1 County Commissioner: All Districts have taken steps to update and maintain a consumable items inventory, obtain a fuel calculation chart, and to ensure fuel tanks and barns are secure at all times.

District 3 County Commissioner: The tanks are too old to get calculation charts. We do stick the tanks weekly and compare to the approximate amount to our usage and purchases. The grader blades will be added to the consumable records and consumables inventories will be performed every three months.

Criteria: Effective internal controls include designing and implementing procedures to ensure that all supplies, materials, and equipment received, disbursed, stored and consumed by their department comply with 19 O.S. § 1504A.

Finding 2012-13 – Inadequate Internal Controls and Noncompliance Over the Inmate Trust and Sheriff Commissary Funds (Repeat Finding)

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

- One employee issues receipts, prepares and makes deposits, and performs all daily activities for the Inmate Trust Fund.
- Inmate ledger balances are not reconciled to the Inmate Trust Fund.
- Deposits are not made daily.
- Not all Inmate Trust Fund expenditures have two authorized signatures.
- There is not a Sheriff Commissary Fund set up on the County Treasurer's general ledger.
- Profit from commissary sales is paid into the Sheriff Jail Fund instead of the Sheriff Commissary Fund as required by statute.
- The Sheriff does not have a Sheriff Commissary Fund therefore they are unable to file an annual report with the Board of County Commissioners by January 15th of each year.

Cause of Condition: Procedures have not been designed to ensure adequate internal controls are in place to safeguard assets. Further, there is a lack of knowledge regarding the preparation and presentation of the Commissary Report.

Effect of Condition: These conditions resulted in noncompliance with state statutes and could result in misappropriation of assets, unrecorded transactions, errors that could go undetected or unauthorized collections and disbursements.

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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 approval of accounting functions.

OSAI further recommends the Sheriff implement procedures to ensure:

- All collections are deposited daily.
- Receipts are reconciled to collections/deposits.
- All collections are deposited daily.
- Reconciliations are reviewed and approved by someone other than the preparer.

Additionally, OSAI recommends the Sheriff prepare and file an annual commissary report with the County Commissioners by January 15th of each year and all contracts be presented to the Board of County Commissioners to be renewed and approved.

Management Response:

BOCC Chairman/District 2 County Commissioner: Steps are being taken to ensure that deposits are made in a timely manner and that more than one person is involved in the preparation and review of such deposits. A commissary report is being prepared and presented to the Board of Commissioners yearly in January.

County Sheriff: The Nowata County Sheriff's Department has always had three people in place for issuance of checks. We now have two people responsible for accessing and balancing the drop box, preparing deposit slips, taking deposits to the bank, reconciling account balances and posting payments and disbursements to inmate records. Those responsible for these duties will initial paper work upon performing the duties.

As of October 3, 2013, the practice of comparing receipts to collection was put in place. We have also asked the County Clerk to contact our office the first week of January to remind us to have the Annual Commissary Report prepared no later than the 11th of January.

Additionally, the Nowata County Sheriff's Department has documentation showing that funds are deposited into the Inmate Trust Fund checking account on a daily basis and that a secondary person is reviewing and approving the bank reconciliations.

Criteria: To help ensure a proper accounting of funds, key duties and responsibilities should be segregated among different individuals to reduce the risk of error or fraud. No one individual should have the ability to authorize transactions, have physical custody of assets, and record transactions. All collections should be deposited daily, receipts should be reconciled to the collections/deposits, expenditures should only be made for authorized expenditures, checks be signed by two individuals, and bank reconciliations should be reviewed and approved by someone other than the preparer.

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19 O.S. § 531.A states in part, “The Sheriff...may write checks to the Sheriff’s Commissary Account... and to the inmate from unencumbered balances due the inmate upon his or her discharge...”

19 O.S. § 180.43 states in part...”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 2012-14 – Inadequate Internal Controls and Noncompliance Over Court Fund Expenditures (Repeat Finding)

Condition: Of the twenty-five Court Fund vouchers tested, there were eight voucher claims that did not have approval by a majority of the governing board.

Cause of Condition: The Court Clerk does not have internal controls in place to ensure that all expenditures are made with the approval by a majority of the governing board.

Effect of Condition: This condition resulted in noncompliance with state statute and could result in misstated financial reports and/or misappropriation of funds.

Recommendation: OSAI recommends that the Court Clerk take necessary steps to ensure that all voucher claims are approved by a majority of the governing board.

Management Response:

BOCC Chair/District 2 County Commissioner: The Court Clerk is new to the office and is taking steps to ensure all claims are approved by the governing board.

Court Clerk: I was not in office during this audit period. This office will be taking the necessary steps to ensure all the voucher claims are approved by a majority of the governing board.

Criteria: 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 2012-15 – Inadequate Internal Controls and Noncompliance Over Court Clerk Revolving Fund (Repeat Finding)

Condition: The Court Clerk’s Revolving Fund reconciliations performed for fiscal year 2012 did not reflect an accurate beginning balance and collections. Further, the ending balance at June 30, 2012 did not reconcile to the County Treasurers general ledger balance at June 30, 2012. Additionally, it was noted that the County Treasurer had certified the accuracy of the reconciliations.

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In the test of ten Court Clerk Revolving Fund expenditures, six instances were noted where there was no claim to support payroll expenditures.

Cause of Condition: Procedures have not been designed to ensure reconciliations performed by the Court Clerk are true and correct and that all expenditures are supported by a claim that is approved by the governing board.

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 reconcile the Court Clerk Revolving Fund to the Treasurer's general ledger balance monthly and these reconciliations be reviewed for accuracy and approved by someone other than the preparer. The County Treasurer should ensure all reconciliations presented to her for certification be reviewed prior to signing. OSAI further recommends the Court Clerk design and implement procedures to ensure compliance with 19 O.S. § 220.

Management Response:

BOCC Chairman/District 2 County Commissioner: The Court Clerk is new to the office and is working with the County Treasurer to ensure all accounts balance.

Court Clerk: I was not in office during this audit period. Since I took office, this office has taken the necessary steps to ensure true and correct reconciliations are completed on each fund.

County Treasurer: I will check the Court Clerk's reconciliation to the balance on the County Treasurer's general ledger for accuracy before signing the reconciliation.

Criteria: Effective internal controls require management to design and properly implement procedures to ensure that Court Clerk Revolving Fund expenditures comply with 19 O.S. § 220 and that reconciliations performed be prepared accurately and reviewed and approved by someone other than the preparer.



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