



NOWATA COUNTY

Financial Report

For the fiscal year ended June 30, 2017

Cindy Byrd, CPA
State Auditor & Inspector

**NOWATA COUNTY, OKLAHOMA
FINANCIAL STATEMENT
AND INDEPENDENT AUDITOR'S REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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OKLAHOMA
Office of the State Auditor & Inspector

Cindy Byrd, CPA | State Auditor & Inspector

2300 N. Lincoln Blvd., Room 123, Oklahoma City, OK 73105 | 405.521.3495 | www.sai.ok.gov

May 16, 2022

TO THE CITIZENS OF
NOWATA COUNTY, OKLAHOMA

Transmitted herewith is the audit of Nowata County, Oklahoma for the fiscal year ended June 30, 2017. 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.

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.

Sincerely,

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

CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR

**NOWATA COUNTY OFFICIALS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

Board of County Commissioners

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

County Assessor

Dave Neely

County Clerk

Chris Freeman

County Sheriff

Sandy Hadley

County Treasurer

Lynn Wesson

Court Clerk

April Frauenberger

District Attorney

Kevin Buchannan

**NOWATA COUNTY, OKLAHOMA
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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FINANCIAL SECTION



Independent Auditor's Report

TO THE OFFICERS OF
NOWATA COUNTY, OKLAHOMA

Report on the Financial Statement

We have audited the 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, 2017, and the related notes to the financial statement, which collectively comprise the County's basic financial statement as listed in the table of contents.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the regulatory basis of accounting described in Note 1, and for determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1, the financial statement is prepared by Nowata County using accounting practices prescribed or permitted by Oklahoma state law, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of Nowata County as of June 30, 2017, or changes in financial position for the year then ended.

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the total receipts, disbursements, and changes in cash balances for all county funds of Nowata County, as of and for the year ended June 30, 2017, in accordance with the basis of accounting described in Note 1.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the total of all county funds on the financial statement. The 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.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statement.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 3, 2022, 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 solely 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 effectiveness of the County’s internal control over financial reporting or on compliance. That report is an integral part

of an audit performed in accordance with *Government Auditing Standards* in considering Nowata County's internal control over financial reporting and compliance.

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

CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR

May 3, 2022

REGULATORY BASIS FINANCIAL STATEMENT

NOWATA COUNTY, OKLAHOMA
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES—REGULATORY BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Beginning Cash Balances July 1, 2016	Receipts Apportioned	Transfers In	Transfers Out	Disbursements	Ending Cash Balances June 30, 2017
County Funds:						
County General Fund	\$ 208,851	\$ 917,858	\$ 210,000	\$ 210,000	\$ 897,363	\$ 229,346
General Cash Insurance	342	-	-	-	-	342
T-Highway	1,957,619	1,628,883	300,000	-	1,898,730	1,987,772
County Bridge and Road Improvement	828,395	366,907	210,000	510,000	182,952	712,350
Alluwe Property	2,660	101	-	-	-	2,761
Animal Damage	397	-	-	-	-	397
County Assessor Revolving Fund	10,649	2,854	-	-	1,793	11,710
County Clerk Lien Fee	1,022	8,015	-	-	8,861	176
County Clerk Preservation Fee	7,516	10,386	-	-	15,277	2,625
Court Clerk Payroll	11,875	30,000	-	-	35,631	6,244
Emergency Management	2,133	-	-	-	35	2,098
Sales Tax Cash Account	956,254	977,163	-	-	889,428	1,043,989
Sheriff Basic 911	3	-	-	-	-	3
Sheriff Commissary Account	26,283	26,729	-	-	42,622	10,390
Sheriff Donations	6,446	12,757	-	-	13,188	6,015
Sheriff Littering	236	-	-	-	-	236
Sheriff Prisoner Boarding	136,924	355,411	-	-	441,481	50,854
Sheriff Service Fee	26,115	60,011	-	-	58,378	27,748
Treasurer Mortgage Certification Fee	23,806	1,840	-	-	2,691	22,955
Resale Property	113,407	98,597	-	-	63,874	148,130
County Use Tax	176,022	56,694	-	-	100,145	132,571
Department of Human Services	1,399	-	-	-	-	1,399
Sheriff Equipment Grant	5,978	-	-	-	3,539	2,439
Nowata County Industrial Authority Grant	70	-	-	-	-	70
Sheriff Drug Forfeiture	2,756	-	-	-	-	2,756
E911	-	26,130	-	-	-	26,130
Nowata County Fair Board Grant	2,940	150	-	-	-	3,090
Total - All County Funds	\$ 4,510,098	\$ 4,580,486	\$ 720,000	\$ 720,000	\$ 4,655,988	\$ 4,434,596

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, 2017**

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 libraries, 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 within the financial statement:

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

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

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

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

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

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

**NOWATA COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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

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

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

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

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

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

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

Sheriff Commissary Account – accounts for profits on commissary sales in the County jail. Disbursements are to improve or provide jail services.

Sheriff Donations – accounts for donations received. Disbursements are made by the Sheriff's office for the purpose it was donated.

Sheriff Littering – accounts for the monies collected from fines imposed for littering and disbursed to citizens involved in the reporting of littering offenses.

Sheriff Prisoner Boarding – accounts for the monies received from federal, state, and local municipalities for the boarding and feeding of prisoners.

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

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

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

**NOWATA COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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

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

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

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

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

E911 – accounts for receipts of Oklahoma Tax Commission collections on cell phone bills. Disbursements are made for the implementation of a county-wide 911 system.

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

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 allows 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, which specifies the format and presentation of such regulator basis financial statements: 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 with all other funds included in the audit presented in the aggregate in a combining statement. However, the County has elected to present all funds included in the audit in the Statement of Receipts, Disbursements, and Changes in Cash Balances—Regulatory Basis.

**NOWATA COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

D. Budget

Under current Oklahoma Statutes, a general fund and a county health department fund are the only funds 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.

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."

**NOWATA COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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. The County Treasurer, according to the law, shall give notice of delinquent taxes and special assessments by publication once a week for two consecutive weeks at any time after April 1, but prior to the end of September following the year the taxes were first due and payable. Unpaid real property taxes become a lien upon said property after the treasurer has perfected the lien by public notice.

Unpaid delinquent personal property taxes are usually published in May. If the taxes are not paid within 30 days from publication, they shall be placed on the personal tax lien docket.

3. Other Information

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 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; however, the County expects such amounts, if any, to be immaterial.

**NOWATA COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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

Sales Tax of May 14, 2002

The voters of Nowata County approved the extension of a one-cent sales tax on May 14, 2002. This sales tax was established to 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 life of said sales tax to be unlimited in duration. The specific percentage to each of the foregoing purposes funded from the County General Fund to be determined according to need by the Board of County Commissioners. These funds are accounted for in the Sales Tax Cash Account fund.

Sales Tax of May 14, 2013

The voters of Nowata County approved an excise tax of one percent (1%) for roads on May 14, 2013. Levying a five-year excise tax of one percent (1%) upon the gross proceeds of gross receipts derived from all sales or services in the County which are taxable under the sales tax law of Oklahoma, allocating the monthly income of the said tax specifically for the construction, operation and maintenance; including the purchase of machinery and equipment to be used in the county road and bridge system of Nowata County. These funds are accounted for within the Sales Tax Cash Account fund.

E. Interfund Transfers

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

- \$210,000 was transferred from the County Bridge and Road Improvement fund to the County General Fund to meet requirements of appropriation in accordance with 68 O.S. § 3021.
- \$210,000 was transferred from the County General Fund to the County Bridge and Road Improvement fund for repayment of the loan in accordance with 68 O.S. § 3021.
- \$300,000 was transferred from County Bridge and Road Improvement fund to the T-Highway fund per Board of County Commissioners Resolution 17-18.

SUPPLEMENTARY INFORMATION

NOWATA COUNTY, OKLAHOMA
COMPARATIVE SCHEDULE OF EXPENDITURES—BUDGET AND ACTUAL—
BUDGETARY BASIS—GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	General Fund		
	Budget	Actual	Variance
District Attorney - State	\$ 1,002	\$ -	\$ 1,002
County Sheriff	150,219	149,871	348
County Treasurer	58,634	57,352	1,282
County Clerk	94,762	94,663	99
Court Clerk	52,952	52,952	-
County Assessor	60,922	60,837	85
Revaluation of Real Property	170,793	144,703	26,090
General Government	82,541	29,952	52,589
Excise - Equalization Board	3,500	3,050	450
County Election Expense	54,092	53,976	116
Insurance - Benefits	210,600	199,458	11,142
County Audit Budget Account	15,117	15,117	-
Provisions for Interest	2,000	-	2,000
Total Expenditures, Budgetary Basis	<u>\$ 957,134</u>	<u>\$ 861,931</u>	<u>\$ 95,203</u>

**NOWATA COUNTY, OKLAHOMA
NOTE TO SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

1. Budgetary Schedules

The Comparative Schedule of Expenditures—Budget and Actual—Budgetary Basis for the General Fund present comparison 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 Statement of Receipts, Disbursements, and Changes in Cash Balances 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.

INTERNAL CONTROL AND COMPLIANCE SECTION



**Independent Auditor's 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, 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, the total—all county funds of the accompanying Statement of Receipts, Disbursements, and Changes in Cash Balances of Nowata County, Oklahoma, as of and for the year ended June 30, 2017, and the related notes to the financial statement, which collectively comprise Nowata County's basic financial statement, prepared using accounting practices prescribed or permitted by Oklahoma state law, and have issued our report thereon dated May 3, 2022.

Our report included an adverse opinion on the financial statement because the statement is prepared using accounting practices prescribed or permitted by Oklahoma state law, which is a basis of accounting other than 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 as of and for the year ended June 30, 2017, on the basis of accounting prescribed by Oklahoma state law, described in Note 1.

Internal Control Over Financial Reporting

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

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be material weaknesses: 2017-001, 2017-004, and 2017-005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Nowata County's financial statement is free from 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 financial statement. 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2017-004.

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 Response to Findings

Nowata County's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Nowata County's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR

May 3, 2022

**NOWATA COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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 2017-001 – Lack of County-Wide Controls and Disaster Recovery Plans (Repeat Finding 2016-001)

Condition: Through the process of gaining an understanding of the County’s internal control structure, it was noted that county-wide controls regarding Control Environment, Risk Assessment, Information and Communication, and Monitoring have not been designed.

Further, the County Commissioners, County Clerk, County Assessor, Court Clerk, and County Sheriff have not designed and implemented Disaster Recovery Plans.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure that an adequate system of county-wide internal controls exist and to ensure all county offices have a Disaster Recovery Plan.

Effect of Condition: Without an adequate system of county-wide controls, there is greater risk of a breakdown in control activities which could result in unrecorded transactions, undetected errors, or misappropriation of funds. Further, without a Disaster Recovery Plan these conditions could also result in the loss of data, the unreliability of data, and increase the risk that the County may not recover from an emergency and/or disaster.

Recommendation: The Oklahoma State Auditors & Inspector’s Office (OSAI) recommends the County design and implement a system of county-wide procedures to identify and address risks related to financial reporting and to ensure that information is communicated effectively. OSAI also recommends the County design monitoring procedures to assess the quality of performance over time. These procedures should be written policies and procedures and could be included in the County’s policies and procedures handbook.

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

Management Response:

Commissioner District 1: I was not in office at this time, but I will work with the other elected officials to design and implement a system of county-wide procedures and include these in our updated handbook. A Disaster Recovery Plan was started October 10, 2017 and maintained each year after. It is also my plan to get our Employee Handbook updated.

Commissioner District 2: I will work with other elected officials to develop policies and procedures regarding Control Environments, Risk Assessment, Information and Communication, and Monitoring. Further, I will work to develop a Disaster Recovery Plan for my district barn.

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Commissioner District 3: I was not in office at that time. We now have a Disaster Recovery Plan for our office. I will work with the other elected officials to design and implement policies and procedures to ensure we have a system of county-wide internal controls and include those controls in our meetings on a regular basis.

County Clerk: I was not in office at that time, but my office now has a Disaster Recovery Plan. I will work with the other County Officials to design and implement a system of county-wide procedures to identify and address risks related to financial reporting.

County Treasurer: I am willing to meet with other Nowata County Officials to design and implement a system of county-wide procedures to identify and address risks related to financial reporting to ensure effective communication and assess the quality of performance. It is acknowledged by the County Treasurer that there is a need to update the County's policies and procedures handbook with regard to numerous county policies and procedures.

County Assessor: I was not in office at that time. Currently, we do have a Disaster Recovery Plan in place now in the Nowata County Assessor's Office and filed in the Nowata County Clerk's Office.

Court Clerk: I will work with the other officials on getting a county-wide controls and Disaster Recovery Plan. I currently have a Disaster Recovery Plan for my office stored off site and by electronical means.

County Sheriff: I was not in office at that time. I do have a Disaster Recovery Plan in place and will work with other elected officials to design and implement a system of county-wide procedures to identify and address risks related to financial reporting and to ensure that information is communicated effectively.

Criteria: The United States Government Accountability Office's *Standards for Internal Control in the Federal Government* (2014 version) aided in guiding our assessments and conclusion. Although this publication (GAO Standards) addresses controls in the federal government, this criterion can be treated as best practices and may be applied as a framework for an internal control system for state, local, and quasi-governmental entities.

The GAO Standards – Section 1 – Fundamental Concepts of Internal Control – OV1.01 states in part:

Definition of Internal Control

Internal control is a process effected by an entity's oversight body, management, and other personnel that provides reasonable assurance that the objectives of an entity will be achieved.

Additionally, GAO Standards – Section 2 – Establishing an Effective Internal Control System – OV2.04 states in part:

Components, Principles, and Attributes

Control Environment - The foundation for an internal control system. It provides the discipline and structure to help an entity achieve its objectives.

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Risk Assessment - Assesses the risks facing the entity as it seeks to achieve its objectives. This assessment provides the basis for developing appropriate risk responses.

Information and Communication - The quality information management and personnel communicate and use to support the internal control system.

Monitoring - Activities management establishes and operates to assess the quality of performance over time and promptly resolve the findings of audits and other reviews.

Further, 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.

Finding 2017-004 – Noncompliance Over the Disbursement Process (Repeat Finding 2013-007, 2014-006, 2015-006, 2016-006)

Condition: During the audit of sixty-four (64) disbursements, the following exceptions were noted:

- Six (6) were not timely encumbered.
- Two (2) were not for the appropriate amount.
- Two (2) timesheets could not be located.
- One (1) invoice was not adequate.
- One (1) was not reviewed or authorized.
- One (1) timesheet was not signed by official or supervisor.

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

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

Recommendation: OSAI recommends management implement internal control procedures to ensure compliance with 19 O.S. § 1505. Purchase orders should be encumbered before goods and services are ordered and supported by adequate documentation.

Management Response:

County Commissioner District 1: I was not in office at that time. I will work to ensure purchase orders are in place before ordering goods or services, supported by adequate documentation, encumbered for the proper amount, and reviewed and authorized by appropriate personnel prior to approving payment. As for the payroll that was not paid in the appropriate amount, my office turns in the gross payroll amount to the County Clerk and does not calculate withholdings, which appears to be where the error in payment to the employee was made.

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County Commissioner District 2: I will work to ensure a purchase order is in place before ordering goods or services. I will also review purchase orders to ensure they are signed before approving for payment.

County Commissioner District 3: I was not in office at that time. I will work to ensure the purchase orders have been reviewed and authorized prior to being approved for payment.

County Clerk: I was not in office at that time. I have implemented that there are three people that look over the purchase orders, invoices, and receiving reports to make sure that it is from the correct account and that the invoices and receiving reports amounts are correct and included. If purchase orders are not encumbered timely, they are red stamped to show the Board of County Commissioners (BOCC) there is a problem.

County Sheriff: I was not in office at that time. Since taking office, I have done my best to ensure a purchase order is encumbered prior to ordering or receiving goods or services. I also review employee timesheets and sign off on them.

Court Clerk: The net pay amount approved by this Court Clerk was for \$1,580.31. This claim was in fact signed by the County Clerk and the three Commissioners. However, a new claim was prepared by the County Clerk for the net amount of \$1,597.91. As to why this was done, I do not know. This Court Clerk has no knowledge of the change made and failed to compare the check amount written to the claim amount approved. I have since learned to check these amounts.

Criteria: The GAO Standards – Section 2 – Establishing an Effective Internal Control System – OV2.23 states in part:

Compliance Objectives

Management conducts activities in accordance with applicable laws and regulations. As part of specifying compliance objectives, the entity determines which laws and regulations apply to the entity. Management is expected to set objectives that incorporate these requirements.

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

Finding 2017-005 – Lack of Internal Controls and Segregation of Duties Over Payroll (Repeat Finding 2012-005)

Condition: Upon inquiry and observation of the County's payroll process, we noted the County does not have an adequate segregation of duties to ensure that duties assigned to individuals are done so in a manner that would not allow one individual to control both the recording function and the procedures relative to processing a transaction.

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

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.

Management Response:

County Clerk: I was not in office at that time, but I have changed how this is handled. My First Deputy enrolls new employees and puts their information in the computer. I run the verification report and each officer reviews the verification and signs them, then that is taken to the BOCC. After that is approved, I run payroll and print the checks. They are reviewed and signed by the Chairman of the BOCC and me. My First Deputy then adds the checks and verifies the totals match the reports and then takes the checks to the County Treasurer. My First Deputy distributes the checks to each department on payday with the person picking up the checks signing for them. I do the terminations and maintain the personnel files.

Criteria: The GAO Standards – Principle 10 – Design Control Activities – 10.03 states in part:

Segregation of Duties

Management divides or segregates key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud. This includes separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets so that no one individual controls all key aspects of a transaction or event.

Additionally, Principle 10 - Segregation of Duties states:

10.12 – Management considers segregation of duties in designing control activity responsibilities so that incompatible duties are segregated and, where such segregation is not practical, designs alternative control activities to address the risk.

10.13 – Segregation of duties helps prevent fraud, waste, and abuse in the internal control system. Management considers the need to separate control activities related to authority, custody, and accounting of operations to achieve adequate segregation of duties. In particular, segregation of duties can address the risk of management override. Management override circumvents existing control activities and increases fraud risk. Management addresses this risk through segregation of duties but cannot absolutely prevent it because of the risk of collusion, where two or more employees act together to commit fraud.

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10.14 – If segregation of duties is not practical within an operational process because of limited personnel or other factors, management designs alternative control activities to address the risk of fraud, waste, or abuse in the operational process.

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 2017-009 – Lack of Internal Controls and Noncompliance Over Inmate Trust Fund Checking Account and Sheriff Commissary Fund (Repeat Finding)

Condition: Upon inquiry, observation of procedures and records for the Inmate Trust Checking Account and Sheriff Commissary Fund, OSAI noted the Inmate Trust Fund Checking Account does not have adequate segregation of duties to ensure that duties assigned to individuals are done so in a manner that would not allow one individual to control both the recording function and the procedures relative to processing a transaction.

Additionally, OSAI noted the following:

Inmate Trust Fund Checking Account:

- There is no oversight over the Inmate Trust Fund Checking Account bookkeeping processes to ensure completeness and accuracy. Bank statement and Inmate Trust Fund ledger reconciliations could not be provided.

Sheriff Commissary Fund:

- The County Sheriff’s office does not file an annual report for the Sheriff Commissary Fund with the Board of County Commissioners by January 15th of each year in accordance with state statute.

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

Effect of Condition: These conditions resulted in noncompliance with state statutes. Also, without proper accounting and safeguarding of the Inmate Trust Fund Checking Account and the Sheriff Commissary, there is an increased risk of 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.

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OSAI recommends the County Sheriff implement procedures to ensure:

- Bank reconciliations are performed on a monthly basis, reviewed for accuracy, and approved by someone other than the preparer.
- The individual inmates' trust fund balances are reconciled to the bank statements each month.
- The County Sheriff files a report of the commissary with the County Commissioners by January 15th of each year in accordance with 19 O.S. § 180.43 (D).

Management Response:

County Sheriff: I was not in office at that time. Since taking office I have done my best to work to ensure duties are segregated and review processes are in place with limited staff. I am also working to ensure the annual report is filed by January 15th.

Criteria: The GAO Standards – Principle 10 – Design Control Activities – 10.03 states in part:

Establishment of review of performance measurers and indicators

Management establishes physical control to secure and safeguard vulnerable assets. Examples include security for and limited access to assets such as cash, securities, inventories, and equipment that might be vulnerable to risk of loss or unauthorized use. Management periodically counts and compares such assets to control records.”

Segregation of duties

Management divides or segregates key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud. This includes separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets so that no one individual controls all key aspects of a transaction or event.

Accurate and timely recording of transactions

Transactions are promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from its initiation and authorization through its final classification in summary records. In addition, management designs control activities so that all transactions are completely and accurately recorded.”

Additionally, GAO Standards – Section 2 – Establishing an Effective Internal Control System – OV2.23 states in part:

Objectives of an Entity – Compliance Objectives

Management conducts activities in accordance with applicable laws and regulations. As part of specifying compliance objectives, the entity determines which laws and regulations apply to the entity. Management is expected to set objectives that incorporate these requirements.

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Title 19 O.S. § 180.43 D. states in part, "...Any funds received pursuant to said operations shall be the funds of the county where the persons are incarcerated and shall be deposited in the Sheriff's Commissary Account. The sheriff shall be permitted to expend the funds to improve or provide jail services. The sheriff shall be permitted to expend any surplus in the Sheriff's Commissary Account for administering expenses for training equipment, travel or for capital expenditures. The claims for expenses shall be filed with and allowed by the board of county commissioners in the same manner as other claims. The Sheriff shall receive no compensation for the operation of said commissary. The sheriff shall file an annual report on any said commissary under his or her operation no later than January 15 of each year."

Title 19 O.S. § 531 A. states in part, "...The county sheriff may establish a checking account, to be designated the "Inmate Trust Checking Account"... The county sheriff shall deposit all monies collected from inmates incarcerated in the county jail into this checking account and may write checks to the Sheriff's Commissary Account for purchases made by the inmate during his or her incarceration and to the inmate from unencumbered balances due the inmate upon his or her discharge."



Cindy Byrd, CPA | State Auditor & Inspector

2300 N. Lincoln Blvd., Room 123, Oklahoma City, OK 73105 | 405.521.3495 | www.sai.ok.gov