Oklahoma County, Oklahoma

Report on Internal Control Over

Financial Reporting and on Compliance

For the year ended June 30, 2010

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

OKLAHOMA COUNTY, OKLAHOMA
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***,**
FOR THE YEAR ENDED JUNE 30, 2010

February 24, 2011

TO THE CITIZENS OF
OKLAHOMA COUNTY, OKLAHOMA

Transmitted herewith is 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* of Oklahoma County, Oklahoma for the fiscal year ended June 30, 2010. The audit was conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards.*

A report of this type is critical in nature; however, we do not intend to imply that our audit failed to disclose commendable features in the present accounting and operating procedures of the County.

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

The Office of the State Auditor and Inspector is committed to serve the public interest by providing independent oversight and to issue reports that serve as a management tool to the State to ensure a government which is accountable to the people of the State of Oklahoma.

Sincerely,

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

**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
OKLAHOMA COUNTY, OKLAHOMA

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of Oklahoma County, Oklahoma as of and for the year ended June 30, 2010, which collectively comprise Oklahoma County's basic financial statements and have issued our report thereon dated January 28, 2011. Our report was modified to include a reference to other auditors. 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. Other auditors audited the financial statements of the Oklahoma County Public Buildings Authority, the Oklahoma County Finance Authority, and the defined benefit retirement plan of the Employees' Retirement System of Oklahoma County, as described in our report on Oklahoma County's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Oklahoma 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 the County's internal control over financial reporting.

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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, 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. (2010-7, 10-055-02IT, 10-055-03IT, 10-055-04IT, 10-055-05IT, 10-055-06IT, 10-055-07IT) 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Oklahoma 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Oklahoma County's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Oklahoma County's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the management of Oklahoma County and should not be used for any other purpose. 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

January 28, 2011

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 2010-7—Payroll-Internal Controls (Repeat Finding)

Criteria: A component objective of an effective internal control system is to provide accurate and reliable information. Internal controls are designed to analyze and check accuracy, completeness, and authorization of payroll calculations and/or transactions.

Condition: During the examination of internal controls over processing of payroll, we noted certain weaknesses in that:

> Each department submits a monthly payroll claim; however, controls are not in place to verify the accuracy of the payroll calculations that have been submitted by the individual department.

Effect: This condition could result in unrecorded transactions, misstated payroll records, or undetected errors.

Recommendation: OSAI recommends Oklahoma County implement internal controls that will ensure that all payroll calculations and/or transactions which are submitted by each department are properly verified for accuracy, completeness, and authorization. Our recommendation includes creating a centralized payroll department that has use of an automated, integrated payroll system. The accuracy of the time records can also be accomplished by independent oversight until an integrated resource information system is implemented

Views of responsible officials and planned corrective actions: In an effort to provide a permanent solution for this finding, Oklahoma County, during the current fiscal year (FY10-11), has purchased and is implementing *Kronos* payroll and time-keeping software. It is anticipated the implementation will be complete by October 2011.

IT Audit Findings:

Board of County Commissioners General Response
With regard to the findings and recommendations noted for the fiscal year ended June 30, 2010, the Board of County Commissioners, through its IT Department, has taken steps to work with the affected officers' and their respective IT departments to place the recommended controls into production. It is anticipated the cooperation between County IT Department and the IT Department's from individual elected officers will address these issues and prevent repeat findings of this nature.

Finding 10-055-02IT – Information Systems – Oklahoma County Clerk's Office

Criteria: According to CobiT AI2.3 Application Control and Auditability, management should implement business controls, where appropriate, into automated application controls such that processing is accurate, complete, timely, authorized, and auditable.

Condition: We inquired about the Oracle Audit Logs and were informed that they had not been enabled, preventing us from attesting that the changes made to the system where the changes reported to have been made. We noted that the current settings for the Clerk's Oracle database are "audit_trail" and set to none turning off auditing, and the "audit_syslog_level" is set to false meaning that some of the system and DBA level audit logs are also disabled.

Effect: Without auditing activated we cannot attest to the accuracy of data in the database.

Recommendation: We recommend that the MIS department enable the audit functionality of the database and that MIS regularly review the logs, or have an application that monitors and reports suspicious activities. We also recommend that the MIS department keep some record of their review of this data.

Views of responsible officials and planned corrective actions:

Board of County Commissioners
Upon being notified of this issue County IT enabled the log files that will record changes to the database. In addition, all changes made to the application or database will go through the IT standard change control process which involves the creation of an electronic document for each change detailing all elements, whether hardware or software, that is to be changed. This document will be discussed at the weekly change control meeting with all departments for verification/validation. Once the change is completed, it will be archived in an electronic system that can be used to produce an accurate history of all changes to each system.

County Clerk
The County Clerk agrees completely with auditor's recommendation for MIS to active system in order to scrutinize systems database. Since recommendation was made to MIS Department, County Clerk does not feel as we can attest to corrective action that another dept has taken. The only documentation County Clerk has received regarding this issue is from Mike Harmon, date 12/03/2010. Mike says on this date a 3rd party vendor (AST) MIS contracted with has successfully enabled audit log. To date County Clerk has not been provided any documentation generated from the enabling of the audit logs and or any proposed applications that monitors or reports suspicious activity. We will request that from MIS for our files. (Issue was not brought to County Clerk's attention until the later part of November 2010). Mr. Jon Nichols came to our office and said they were unable to get requested information from Smart Dog. We immediately contacted Smart Dog and asked for the documentation; the attached e-mail was received from Smart Dog on Nov. 23, 2010, as you can see from their response Smart Dog did not disable the audit function. They further state these functions are disabled by default when the software was installed. Also, information from prior MIS directors & other county employees that these logs have never been enabled; we were later informed via Treasurer that their logs were not enabled until recently.

OSAI Response: We will review the corrective actions taken in the next audit.

Finding 10-055-03IT – Information Systems – Oklahoma County Clerk's Office

Criteria: According to CobiT AI2.3 Application Control and Auditability, management should implement business controls, where appropriate, into automated application controls such that processing is accurate, complete, timely, authorized, and auditable.

Condition: When the MIS Department attempted to update the Oracle System with the third quarterly update they discovered the update would not work. This possibly came from a failed prior update, a work around or a change made to the systems settings. When the MIS Department requested information from the prior vendor/service, they were unable to receive help, or information about the changes. The MIS Department then had to restart the entire process of updating the software from a baseline.

Effect: The coupling of no audit logs and weak, undocumented, or ignored change control procedures can lead to errors in system configuration, delays in completing work, increased security risks, and unnecessary re-performance of work.

Recommendation: All actions taken to resolve problems and work-a-rounds should be documented for reference during updates.

Views of responsible officials and planned corrective actions:

Board of County Commissioners
Upon notification of this issue, County IT, with the assistance of an outside vendor, successfully applied all end of year patches to the Oracle Financial system without issues. Going forward, these and all other changes will go through the standard change control process which includes detailed documentation on every aspect of items changed.

County Clerk
Again, since this recommendation only affects the MIS Dept, the County Clerk is unable to respond to the County's plan for corrective action. (This is not the first time MIS has had to restart the entire process of updating the software from a baseline.) The Clerk's office has experienced this on a yearly basis since the inception of Oracle. The State Auditor & Inspector's Audit report 2003 appears to have the same type findings as well as the 2003 Canadian Valley Technology Center report to the Commissioners. This may explain why the County Clerk has had constant delays in completing our work, why we have increased security risks, and why we have had to repeat our work. For all these years the County Clerk's office has repeatedly asked for documentation as to how the system works. Also, why we have to manually reconcile, and why patches were not installed for more than 2 years causing us to have to re-do W-2's due to lack of federal tax updates being done with the patches. We have asked over and over for an explanation as to why none of these issues were not documented. Now we understand Oracle functions had not been activated & County not having applications in place to monitor our database. Hopefully MIS corrections with Oracle will better serve the County Clerk.

OSAI Response: We will review the corrective actions taken in the next audit.

Finding 10-055-04IT—Information Systems – Oklahoma County Clerk's Office

Criteria: According to CobiT Deliver and Support 2.4 Supplier Performance Monitoring, management should establish a process to monitor service delivery to ensure that the supplier is meeting current business requirements and continuing to adhere to the contract agreements and SLAs, and that performance is competitive with alternative suppliers and market conditions.

Condition: During FY 2010, changes were made to the database that adversely affected the operations of the County. These changes were made without consulting the other county offices and possibly without notifying the County Clerk.

Effect: Unplanned changes could hinder the performance of the County's functions.

Recommendation: Planned changes should be brought to the MIS department's IT meetings and discussed to ensure the County's overall goals are achieved.

Views of responsible officials and planned corrective actions:

Board of County Commissioners
County IT, on behalf of the IT Committee (a group made up of representatives of county officers), will submit a proposal to the Budget Board for adoption of a policy that would require all agencies to participate in the IT change control process. Any change that occurs outside of this process would initiate an agenda item on the next available Budget Board meeting where the elected official of the department electing not to participate would provide an explanation of the change and the reason the change control process was not followed.

County Clerk
The County Clerk's IT staff plans to continue as we always have to attend all IT meetings. We have and will continue to bring all changes to these meetings to insure the County's overall goals are achieved.

OSAI Response: We will review the corrective actions taken in the next audit.

Finding 10-055-05IT – Information Systems – Oklahoma County Treasurer's Office

Criteria: According to the *Government Auditing Standards, July 2007 Revision* (GAO-07-731G 7.23) we are to evaluate general controls including security management, logical and physical access, configuration management, segregation of duties, and contingency planning.

According to CobiT Plan and Organize 4.11 Segregation of Duties, management should implement a division of roles and responsibilities that reduces the possibility for a single individual to compromise a

critical process. Also make sure that personnel are performing only authorized duties relevant to their respective jobs and positions.

Condition: The Treasurer's Office relies on two programmers to do all the development, maintenance, administration, quality control, and change management. Both of these users have DBA access. Proper segregation of duties is not possible without some mitigating controls with this number of employees.

Effect: With no segregation of duties the office's data, programs, and operations that depend on the data are exposed to risk.

Recommendation: The Treasurer's Office needs to establish some segregation of duties. We recommend that the Treasurer's office implement one of the following solutions:

- Put someone else in charge of migrating changes from the test environment to the production environment.
- Set up a workstation that resides in the MIS Department that is under their control that records when changes are made to production (this could allow Treasurer's Staff to perform the change but have it recorded on a system they cannot manipulate.)

Views of responsible officials and planned corrective actions: We plan to set up a workstation that resides in the County Treasurer's Office that is under MIS control that will record when changes are made to production.

OSAI Response: The corrective action planned should provide a mitigating control that will allow for tracking of changes made

Finding 10-055-06IT – Information Systems – Oklahoma County Treasurer's Office

Criteria: According to the *Government Auditing Standards, July 2007 Revision* (GAO-07-731G 7.23 & 7.24) and CobiT (AI6.2 Impact Assessment, Prioritization and Authorization) change for information systems should be authorized.

Condition: Requests that changes come to the IT group through e-mails or directly coming to them for changes.

Effect: This can lead to changes being implemented that are not documented, but can also lead to changes that are delayed or not appropriate.

Recommendation: We recommend that all changes come from e-mail or from a request form. These could begin as e-mails and when the change has been discussed, the change should be documented in a form or a tracking system (this form or system could be used for 10-055-07IT.)

Views of responsible officials and planned corrective actions: All requests for program change will be submitted to County Treasurer IT group by Department Supervisor via e-mail and cc sent to First Deputy to make sure changes are appropriate.

OSAI Response: This corrective action when implemented should resolve this issue.

Finding 10-055-07IT – Information Systems – Oklahoma County Treasurer's Office

Criteria: According to the *Government Auditing Standards, July 2007 Revision* (GAO-07-731G 7.23 & 7.24) and CobiT (AI6.2 Impact Assessment, Prioritization and Authorization) change for information systems should be authorized.

Condition: Testing of the changes made are reviewed in the test environment by the requestor and then placed into production after the supervisor approves of the change.

Effect: The informal acceptance can lead to changes not being fully tested, and cause confusion when a test is partially successful.

Recommendation: Create some form or system to record when a change has been fully tested and accepted by the Treasurer's Management (this form or system could be used for 10-055-06IT).

Views of responsible officials and planned corrective actions: County Treasurer IT group will contact requestor to test the changes by replying to the original e-mail. Upon completion of successful testing, Supervisor will e-mail County Treasurer IT group and cc First Deputy of a final acceptance of changes. The final e-mail will then be saved to document the change from original request to completion by IT and First Deputy.

OSAI Response: This corrective action when implemented should resolve this issue.