



WASHINGTON COUNTY

Operational Audit

For the fiscal year ended June 30, 2015

Cindy Byrd, CPA
State Auditor & Inspector

**WASHINGTON COUNTY OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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Cindy Byrd, CPA | State Auditor & Inspector

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

March 8, 2019

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

Transmitted herewith is the audit report of Washington County for the fiscal year ended June 30, 2015.

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

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

Sincerely,

A handwritten signature in blue ink that reads "Cindy Byrd". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

CINDY BYRD, CPA,
OKLAHOMA STATE AUDITOR & INSPECTOR



**WASHINGTON COUNTY, OKLAHOMA
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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INTRODUCTORY SECTION
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**WASHINGTON COUNTY OFFICIALS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Board of County Commissioners

District 1 – Mitchell Antle
District 2 – Michael Bouvier
District 3 – Mike Dunlap

County Assessor

Todd Mathes

County Clerk

Marjorie Parrish

County Sheriff

Rick Silver

County Treasurer

Brad Johnson

Court Clerk

Jill Spitzer

District Attorney

Kevin Buchanan

**WASHINGTON COUNTY, OKLAHOMA
SALES TAX DISTRIBUTION
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Sales Tax

Sales Tax of December 1, 2002

The voters of Washington County approved a permanent one-half percent (1/2%) sales tax effective December 1, 2002. This sales tax was established to provide revenue for the construction, operation and maintenance of the road and bridge system of Washington County and to equip and maintain the County Jail and other Courthouse facilities. These funds are accounted for in the County General Fund.

Sales Tax of July 1, 2009

The voters of Washington County approved a one-half percent (1/2%) sales tax effective July 1, 2009. The revenue from this sales tax was pledged toward the retirement of indebtedness incurred for the acquisition, construction and equipping a new Washington County Detention Facility; operating and maintaining the Washington County Detention Facility; and certain Courthouse improvements. One-quarter (1/4%) of one cent shall have a limited duration of ten (10) years from the date of commencement, or until the principal and interest upon indebtedness incurred on behalf of Washington County Correctional Facilities Authority in furtherance of the new County Detention Facility and certain Courthouse improvements is paid in full, whichever occurs earlier; while the remaining portion of the one-quarter (1/4%) of one cent to continue and be permanent. These funds are accounted for in the Correctional Facility Sales Tax fund.

During the fiscal year the County collected \$6,281,224 in total sales tax.

**WASHINGTON COUNTY
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Presentation of Apportionments, Disbursements, and Cash Balances of County Funds for the Fiscal Year Ended June 30, 2015

	Beginning Cash Balances July 1, 2014	Receipts Apportioned	Transfers In	Transfers Out	Disbursements	Ending Cash Balances June 30, 2015
Combining Information:						
County Funds:						
County General Fund	\$ 3,458,207	\$ 7,545,608	\$ 11,163	\$ -	\$ 7,838,282	\$ 3,176,696
Highway Cash	2,022,836	2,835,274	-	-	2,958,374	1,899,736
Emergency Operations Center Grant	51,647	110,213	-	-	86,393	75,467
Hazard Mitigation Emergency Preparedness Grant	1,620	1,000	-	-	1,222	1,398
Juvenile Detention	6,488	-	-	-	-	6,488
Sheriff Service Fees	412,175	336,468	-	-	365,363	383,280
Sheriff Lake Patrol	9,230	-	-	-	-	9,230
Treasurer Fees	9,618	9,295	-	-	8,589	10,324
County Clerk Lien Fees	21,485	15,691	-	-	22,813	14,363
County Health	610,584	846,625	-	-	935,965	521,244
Assessor Visual Inspection	16,310	1,401	-	-	4,540	13,171
D.A.R.E. Program	15,470	1,088	-	-	1,540	15,018
Oklahoma Highway Safety Grant	13,545	20,276	-	-	15,782	18,039
Board of Prisoners	615,018	335,275	-	-	85,327	864,966
Sheriff Commissary	241,301	268,112	-	-	255,879	253,534
Forestry Grant	26,041	25,469	-	-	19,531	31,979
County Clerk Preservation	280,549	47,445	-	-	28,520	299,474
State Grant	119	-	-	-	-	119
Correctional Facility Sales Tax	1,876,646	3,161,355	-	-	3,258,663	1,779,338
Community Development	11,592	-	-	11,163	-	429
Tyler Agriculture Cash	6,142	6,412	-	-	8,250	4,304
Community Development Block Grant	1,500	-	-	-	-	1,500
Resale	932,880	258,616	-	-	536,345	655,151
Court Clerk Payroll	15,157	123,311	-	-	124,552	13,916
Commissioners Trash Reward	200	100	-	-	-	300
Combined Total - All County Funds, as Restated	\$ 10,656,360	\$ 15,949,034	\$ 11,163	\$ 11,163	\$ 16,555,930	\$ 10,049,464

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

**WASHINGTON COUNTY
DESCRIPTION OF COUNTY FUNDS AND TRANSFERS
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Description of County Funds

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

Following are descriptions of the county funds within the Presentation of Apportionments, Disbursements, and Cash Balances of County Funds:

County General Fund – accounts for the general operations of the government. This fund also accounts for the collection of ½ cent sales tax collections and is disbursed for the purpose of construction, operation and maintenance of the road and bridge system of Washington County and to equip and maintain Washington County courthouse facilities.

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

Emergency Operations Center Grant – accounts for the receipt and disbursement of funds from federal, state, and local governments for the operations of the Emergency Management office.

Hazard Mitigation Emergency Preparedness Grant - accounts for revenues from an environmental protection grant. Disbursements are for the controlling of hazardous materials.

Juvenile Detention – accounts for revenues from the State of Oklahoma. Disbursements are for travel reimbursements for juvenile offender transport.

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

Sheriff Lake Patrol – accounts for revenues from the Corps of Engineers. Disbursements are for the expense of patrolling Corp of Engineers lands.

Treasurer Fees – accounts for the collection of fees by the County Treasurer for mortgage tax certificates and disbursements as restricted by state statute.

County Clerk Lien Fees – accounts for the collections and disbursements of lien fees as restricted by state statute.

County Health – accounts for monies collected on behalf of the county health department from ad valorem taxes and state and local revenues.

Assessor Visual Inspection – accounts for revenues from fees collected from the County Assessor's office. Disbursements are for any lawful expenses of the County Assessor's office.

**WASHINGTON COUNTY
DESCRIPTION OF COUNTY FUNDS AND TRANSFERS
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

D.A.R.E. Program – accounts for revenues from a federal grant and donations for drug education. Disbursements are for payroll of drug officers who teach Drug Abuse Resistance Education in schools.

Oklahoma Highway Safety Grant – accounts for revenues from grant monies received from the National Highway Traffic Safety Administration to be used to reimburse the County Sheriff's office for extra law enforcement shifts put in place to enforce seatbelt usage and to deter impaired driving.

Board of Prisoners – accounts for revenues from fees charged for boarding prisoners of non-county entities in the county jail. Disbursements are for feeding and housing inmates of the county jail.

Sheriff Commissary – accounts for profits on commissary sales in the county jail and disbursements for the fund are for the operation of the jail as restricted by state statute.

Forestry Grant – accounts for revenues from federal, state, and local governments. Disbursements are for the purchase of communication equipment for the Emergency Management Office.

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

State Grant – accounts for revenues from the State of Oklahoma. Disbursements are for REAP projects.

Correctional Facility Sales Tax – accounts for the collection of ½ cent sales tax revenue and the disbursement of funds as restricted by the sales tax resolution for the acquisition, construction, equipping, operating and maintaining of the Washington County Detention Center.

Community Development – accounts for monies received from private telephone companies for the operation of emergency 911 services.

Tyler Agriculture Cash – accounts for revenues generated from renting the Tyler Agricultural Building. Disbursements are for the utilities of the building.

Community Development Block Grant – accounts for collections and disbursements of federal Community Development Block Grant monies.

Resale – accounts for the collection of interest and penalties on delinquent ad valorem taxes. Disbursements are to offset the expense of collecting delinquent ad valorem taxes.

Court Clerk Payroll – accounts for collections from the state to pay for Court Clerk office employees' salaries.

WASHINGTON COUNTY
DESCRIPTION OF COUNTY FUNDS AND TRANSFERS
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

Commissioners Trash Reward – accounts for revenue collected in accordance with 21 O.S. § 1753.3 and funds can be expended by the Board of County Commissioners in accordance with 22 O.S. § 1334.

Transfer

During the fiscal year, the County made the following transfer between funds:

- \$11,163 was transferred from the Community Development fund to the County General Fund in accordance with 19 O.S. § 1418.

Restatement of Fund Balance

During the fiscal year, the County had a reclassification of funds. Court Fund Payroll was reclassified as a county fund and represents payroll expenditures of County employees.

Prior year ending balance, as reported	\$10,641,203
Funds reclassified to County Funds:	
Court Funded Payroll reclassified from a	
Trust and Agency Fund to a County Fund	<u>15,157</u>
Prior year ending balance, as restated	<u>\$10,656,360</u>

WASHINGTON COUNTY, OKLAHOMA
COMPARATIVE SCHEDULE OF RECEIPTS, EXPENDITURES, AND
CHANGES IN CASH BALANCES—BUDGET AND ACTUAL—BUDGETARY BASIS—
COUNTY GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	General Fund		
	Budget	Actual	Variance
Beginning Cash Balances	\$ 3,469,370	\$ 3,458,207	\$ (11,163)
Less: Prior Year Outstanding Warrants	(241,151)	(241,151)	-
Less: Prior Year Encumbrances	(531,925)	(495,599)	36,326
Plus: Cancelled Warrants	-	142	142
Beginning Cash Balances, Budgetary Basis	2,696,294	2,721,599	25,305
Residual Equity Transfer - In	-	11,163	11,163
Receipts:			
Ad Valorem Taxes	3,190,109	3,309,597	119,488
Charges for Services	257,000	263,681	6,681
Intergovernmental Revenues	511,600	540,332	28,732
Sales Tax	2,900,000	3,159,563	259,563
Miscellaneous Revenues	82,000	272,435	190,435
Total Receipts, Budgetary Basis	6,940,709	7,545,608	604,899
Expenditures:			
District Attorney	27,520	27,501	19
County Sheriff	1,086,701	1,076,945	9,756
County Treasurer	240,803	240,793	10
County Commissioners	185,402	184,713	689
OSU Extension	116,218	109,798	6,420
County Clerk	414,764	414,428	336
Court Clerk	451,602	432,494	19,108
County Assessor	214,100	182,915	31,185
Revaluation of Real Property	315,851	312,798	3,053
General Government	1,256,129	354,921	901,208
Excise-Equalization Board	3,800	1,266	2,534
County Election Board	179,441	179,433	8
Insurance - Benefits	130,182	115,000	15,182
Information Technology	330,801	318,740	12,061
Fire Fighting Services	9,501	9,457	44
Charity	2,000	1,250	750
Emergency Management	154,050	152,631	1,419
Community Development	71,600	63,049	8,551
County Audit Budget Account	79,123	62,597	16,526
Free Fair Budget Account	74,880	71,455	3,425

Continued on next page

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

WASHINGTON COUNTY, OKLAHOMA
COMPARATIVE STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES—BUDGET AND ACTUAL—BUDGETARY BASIS—
COUNTY GENERAL FUND - CONTINUED
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	General Fund		
Continued from previous page			
Sales Tax Jail	1,101,487	1,088,511	12,976
Sales Tax District 1	865,402	573,750	291,652
Sales Tax District 2	716,961	715,856	1,105
Sales Tax District 3	794,526	788,090	6,436
Sales Tax General	774,159	282,112	492,047
Sales Tax Renovation	10,000	8,601	1,399
Sales Tax Juvenile Detention	30,000	16,180	13,820
Total Expenditures, Budgetary Basis	<u>9,637,003</u>	<u>7,785,284</u>	<u>1,851,719</u>
Excess of Receipts and Beginning Cash			
Balances Over Expenditures, Budgetary Basis	<u>\$ -</u>	2,493,086	<u>\$ 2,493,086</u>
Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances			
Add: Current Year Outstanding Warrants		258,173	
Add: Current Year Encumbrances		<u>425,437</u>	
Ending Cash Balance		<u>\$ 3,176,696</u>	

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

**WASHINGTON COUNTY
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

PURPOSE, SCOPE, AND GENERAL METHODOLOGY

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

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In planning and conducting our audit, we focused on the major financial related areas of operations based on assessment of materiality and risk for the fiscal year ended June 30, 2015.

Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of the County's operations. Further details regarding our methodology are included under each objective.

We utilized sampling of transactions to achieve our objectives. To ensure the samples were representative of the population and provided sufficient, appropriate evidence, the random and judgmental sample methodologies were used. We identified specific attributes for testing each of the samples and when appropriate, we projected our results to the population.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, errors or fraud may occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

This report is a public document pursuant to the Oklahoma Open Records Act (51 O.S. § 24A.1 et seq.), and shall be open to any person for inspection and copying.

**WASHINGTON COUNTY
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Objective 1: To determine the receipts apportioned, disbursements, and cash balances are accurately presented on the County Treasurer's monthly reports for FY 2015.

Conclusion: With respect to the items reconciled and reviewed; the receipts apportioned, disbursements, and cash balances are accurately presented on the County Treasurer's monthly reports.

Objective 1 Methodology: To accomplish objective 1, we performed the following:

- Evaluated significant internal controls related to preparing the County Treasurer's Monthly Reports, which included:
 - Reviewing all the County Treasurer's monthly reports for the fiscal year to ensure the monthly reports were signed and approved by someone other than the preparer, reconciled to the general ledger, and reconciled to the bank statement.
 - Reviewing a judgmentally selected sample of 7 bank statements and related bank reconciliations (15% of the total bank statements in the population tested) to ensure bank reconciliations were signed and approved by someone other than the preparer and correctly reconciled to the bank statement.
- Reconciled total collections from the monthly reports to the apportionment ledger for each month and to the annual summary of the County Treasurer's reports.
- Confirmed \$13,390,086 in cash receipts (84% of total cash receipts) received from the Oklahoma Tax Commission, Federal grantor agencies, and the State Treasurer's Office, and determined that these receipts were apportioned to the proper fund in the proper amount.
- Prepared a general ledger schedule of cash and investments at June 30 to ensure the schedule reconciled to the annual summary of the County Treasurer's reports.
- Confirmed all cash and investment balances.
- Re-performed the June 30 bank reconciliation and confirmed reconciling items.
- Reviewed bank balances of all accounts at June 30 on the County Treasurer's general ledger to ensure that investments were adequately secured as required by 62 O.S. § 517.4.
- Examined the County Treasurer's total cash disbursements and compared it to the County Clerk's total checks and cash vouchers issued to ensure the totals reconciled.

Objective 2: To determine the County's financial operations complied with 68 O.S. § 1370E, which requires the sales tax collections to be deposited in the general revenue or Sales Tax Revolving Fund of the County and be used only for the purpose for which such sales tax was designated.

Conclusion: With respect to the items tested, the County did not comply with 68 O.S. § 1370E, which requires the sales tax collections to be deposited in the general revenue or Sales Tax Revolving Fund of the County and be used only for the purpose for which such sales tax was designated.

**WASHINGTON COUNTY
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Objective 2 Methodology: To accomplish objective 2, we performed the following:

- Evaluated significant internal controls related to sales tax, which included:
 - Reviewing sales tax collections to ensure the collection was apportioned and appropriated in accordance with the sales tax ballot and that the apportionment and appropriation were reviewed and approved, as well as determining that prior year ending balances, excess prior year collections, and the current budget were appropriated accurately.
 - Reviewing a sample of 40 randomly selected and 30 judgmentally selected sales tax disbursements totaling \$39,203 (1.07% of sales tax disbursements in the population tested) to ensure the expenditure was approved and made for the purposes designated in the sales tax ballot.
- Confirmed all sales tax receipts received from the Oklahoma Tax Commission.

FINDINGS AND RECOMMENDATIONS

Finding 2015-006 – Inadequate Internal Controls and Noncompliance with State Statute Regarding Sales Tax Appropriations

Condition: The proceeds from the one-half percent (1/2%) sales tax of December 1, 2002 are budgeted in County General Fund. However, budgeted sales tax appropriation for fiscal year 2015 exceeded 90% of prior year actual collections by \$233,862.24.

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

Effect of Condition: This condition resulted in noncompliance with state statute and could have resulted in the County expending funds in excess of collections.

Recommendation: The Oklahoma State Auditor & Inspector's Office (OSAI) recommends the County design and implement policies and procedures to ensure compliance with 68 O.S. § 3003(B).

Further, OSAI recommends the County review the Estimate of Needs prior to approval to ensure that all funds are accounted for and are accurately presented.

Management Response:

Chairman of the Board of County Commissioners: The County Treasurer has made corrections and taken steps, so this does not happen again.

County Clerk: The County Clerk's office was unaware of the statute reference of 90% on the Sales Tax Appropriations. To the best of our knowledge, we thought we were in compliance. We assure you the 2019-2020 fiscal year the Estimate of Needs will be reviewed and in compliance.

**WASHINGTON COUNTY
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County Treasurer: We will implement procedures to follow statutory guidelines for the computation of appropriation as defined in Title 68 O.S. § 3003(B). Due to time frame in reporting of the audit findings, this could be an issue until the 2020 budget.

Criteria: The adopted budget is an expression of public policy and financial intent and is a method of providing controls over that intent. Effective internal controls as they relate to government entities financial reporting should assist in fulfilling the government's duty to be publicly accountable and should enable users' access to that accountability by demonstrating whether resources were obtained and used in accordance with the entity's adopted budget.

Title 68 O.S. § 3003 (B) states in part... "The unappropriated cash balance on hand may be appropriated as needed upon the request of the governing board of the recipient government and approval by the county excise board, provided, if the governing board of the recipient government determines the need to do so, it may estimate the amount remaining to be collected from its entitlement from federal funds during the remainder of its fiscal year and include such estimate in its request for appropriations. The estimate shall not exceed the amount of the entitlement which is to be received during the remainder of the recipient government's fiscal year or, if the amount of the entitlement has not been certified, ninety percent (90%) of such funds received during a corresponding period of the previous fiscal year; provided that if the entitlement is less than that estimated or if the entitlement to be collected during the recipient government's fiscal year, in addition to the unappropriated cash balance, is reduced below the amount appropriated for the fiscal year, the governing board of the recipient government shall request the county excise board for an adequate reduction of appropriations in the fund..."

Finding 2015-007 – Inadequate Internal Controls and Noncompliance Over County Sales Tax Disbursements

Condition: Upon inquiry, observation, and review of documents, regarding the disbursement of sales tax funds the following was noted:

On November 7, 2000, the voters of Washington County approved a permanent one-half percent (1/2%) sales tax effective December 1, 2002. This sales tax was established to provide revenue for the construction, operation and maintenance of the road and bridge system of Washington County and to equip and maintain the County Jail and other Courthouse facilities.

Then on June 9, 2009, the voters of Washington County approved a one-half percent (1/2%) sales tax effective July 1, 2009. The revenue from this sales tax was pledged toward the retirement of indebtedness incurred for the acquisition, construction and equipping a new Washington County Detention Facility; operating and maintaining the Washington County Detention Facility; and certain Courthouse improvements. One-quarter (1/4%) of one cent shall have a limited duration of ten (10) years from the date of commencement, or until the principal and interest upon indebtedness incurred on behalf of Washington County Correctional Facilities Authority in furtherance of the new County Detention Facility and certain

**WASHINGTON COUNTY
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Courthouse improvements is paid in full, whichever occurs earlier; while the remaining portion of the one-quarter (1/4%) of one cent to continue and be permanent.

A sample test of seventy (70) purchase orders reflected:

- Twenty-eight (28) purchase orders totaling \$15,226.92 were issued to pay for cost related to the detention of juveniles in the County's custody in facilities outside Washington County.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure sales tax collections are disbursed in accordance with sales tax ballots.

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

Recommendation: OSAI recommends management design and implement policies and procedures to provide assurance that sales tax collections are expended in accordance with purposes specified by the ballot as outlined by 68 O.S. § 1370E.

Management Response:

Chairman of the Board of County Commissioners: This has been corrected and the County will no longer be using sales tax collections to pay for cost related to the detention of juveniles in the County's custody in facilities outside Washington County.

County Clerk: The County is being more diligent on what is paid from the Sales Tax and will strive to comply with the requirements of the Sales Tax Initiative.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. To help ensure the proper accounting of funds, sales tax disbursements should only be made for the purpose for which the sales tax was designated as required by 68 O.S. § 1370E.

Objective 3:	To determine the County's financial operations complied with 68 O.S. § 2923, which requires the ad valorem tax collections to be apportioned and distributed monthly among the different funds to which they belong.
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Conclusion: With respect to the items tested, the County complied with 68 O.S. § 2923, which requires the ad valorem tax collections to be apportioned and distributed monthly among the different funds to which they belong.

Objective 3 Methodology: To accomplish objective 3, we performed the following:

- Evaluated significant internal controls related to ad valorem tax collections, which included comparing the certified levies to the approved levies entered into the computer system to ensure levies were entered correctly.

**WASHINGTON COUNTY
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

- Recalculated the apportionment of ad valorem tax collections to determine collections were accurately apportioned to the taxing entities.

Objective 4: To determine whether the County's internal controls provide reasonable assurance that expenditures (including payroll) were accurately reported in the accounting records and financial operations complied with significant laws and regulations.

Conclusion: The County's internal controls do not provide reasonable assurance that expenditures, including payroll, were accurately reported in the accounting records.

The County's financial operations did not comply with 19 O.S. § 1505, which requires that disbursements be properly supported and charged to the appropriate fund and account.

Objective 4 Methodology: To accomplish objective 4, we performed the following:

- Evaluated significant internal controls related to the expending of County funds through purchase orders, which included reviewing a random sample of purchase orders totaling \$543,913 (6% of purchase orders in the population tested) to ensure:
 - The purchase order was requisitioned and signed by an approved Requisition County Official,
 - The encumbrance was made or funds were available prior to ordering goods or services and the encumbrance was approved by the County Clerk/Deputy,
 - The disbursement was reviewed and authorized and supported by adequate documentation, and
 - The Board of County Commissioners (BOCC) reviewed and approved the disbursement and the disbursement was made for the appropriate amount.
- Evaluated significant internal controls related to the expending of County funds through cash vouchers, which included reviewing a random sample of cash vouchers totaling \$4,054 (.9% of cash vouchers in the population tested) to ensure:
 - The disbursement was reviewed and authorized,
 - The claimant signed the cash voucher claim,
 - The disbursement was made for the appropriate amount, and
 - The disbursement was supported by adequate documentation.
- Evaluated significant internal controls related to payroll expenditures, which included reviewing a randomly selected sample of 6 payroll claims (.7% of payroll claims in the population tested) to ensure:
 - Timesheets are accurate and are signed by the employee and supervisor,
 - The payroll claim was reviewed and approved, and
 - The payroll claim was supported by adequate documentation.
 - Total payroll paid via direct deposit was compared and agreed to payroll claims.

**WASHINGTON COUNTY
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

FINDINGS AND RECOMMENDATIONS

Finding 2015-008 – Inadequate Internal Controls and Noncompliance Over the Disbursement Process

Condition: A sample test of fifty (50) purchase orders reflected the following noncompliance with regard to purchasing statutes:

- Nine (9) purchase orders totaling \$25,309 were not encumbered properly.

Fund	Responsible Office	Purpose	Warrant	Amount
County General Fund	District Attorney	Water/Cooler Rent	1447	\$72
County General Fund	County Assessor	Directory Listing	280	\$365
County General Fund	County Assessor	Pictometry	2397	\$21,903
County General Fund - Sales Tax	County Sheriff	Medical	525	\$768
County General Fund - Sales Tax	County Sheriff	Medical	526	\$575
County General Fund - Sales Tax	County Sheriff	Uniforms	750	\$485
County General Fund - Sales Tax	District 3	Tires	221	\$193
Forestry Grant	Emergency Management	Locksmith	20	\$918
Emergency Operations Center Grant	Emergency Management	Uniforms	1155	\$30

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: This condition resulted in noncompliance with state statute and could result in unrecorded transactions, misstated financial reports, undetected errors, and misappropriation of funds.

Recommendation: OSAI recommends that the County adhere to state purchasing guidelines. Purchase orders should be encumbered prior to the receipt of goods and/or services.

Management Response:

Chairman of the Board of County Commissioners: The BOCC has taken this under serious advisement and has or will discuss the importance of encumbering prior to the ordering or purchasing of goods or services with all department heads.

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County Clerk: The County Clerk diligently attempts to flag all purchase orders that do not adhere with the purchasing guidelines for the BOCC consideration. The BOCC has addressed this issue with the Budget Board and their Department Heads. The BOCC notes each purchase order that is noncompliant during the regular meeting of the Board.

More authority given to the County Clerk to refuse the encumbrance of such purchase orders and to the BOCC to disallow without county liability would be appreciated. Neither the Purchasing Agent nor the County Clerk has the authority to change a purchase order that should be marked “EMERGENCY”, is paid out of the wrong account, or to correct other violations if the Requisitioning Officer refuses to make corrections prior to the encumbrance.

County Assessor: We will make a better effort to encumber before services or goods are provided or purchased.

County Sheriff: We will do a better job encumbering to prevent this from reoccurring.

District 3 Commissioner: I will work to ensure purchase orders are encumbered properly.

District Attorney: I have spoke to members of my staff and we all now understand the importance of encumbering before the purchasing or ordering of goods or services.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. Internal controls should be designated to analyze and check accuracy, completeness, and authorization of disbursement calculations and/or transactions. To help ensure a proper accounting of funds, management should implement procedures to ensure that purchases are made in compliance with 19 O.S. § 1505.

Finding 2015-009 – Inadequate Internal Controls Over Payroll

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

- One employee enrolls new hires; reviews payroll claims; inputs payroll information into the system; calculates withholdings and prepares withholding reports; prepares and prints payroll warrants; removes terminated employees from payroll system; and maintains personnel files.
- Timesheets for the County Sheriff and Court Clerk’s offices are not submitted to the County Clerk’s Office.

The audit of six (6) payroll claims which included the review of fifty-three (53) timesheets resulted in the following exceptions:

- The July 2014 payroll claim issued on the County General Fund for the County Sheriff’s payroll was not signed by an approving officer.
- Two (2) timesheets for County Assessor employees and one (1) timesheet for a District 3 employee were not signed by the employee.

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- One (1) timesheet for a District 1 employee was not signed by a supervisor.

Cause of Condition: Policies and procedures have not been designed and implemented with regard to segregation of duties and/or compensating controls of the payroll process. Additionally, procedures have not been designed and implemented to ensure time records are maintained in a manner to support payroll expenditures.

Effect of Condition: These conditions could result in unrecorded transactions, misstated financial records, 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 approve 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, and
- Distributing payroll warrants to individuals.

Additionally, OSAI recommends time records be used to document hours worked and leave used each day, be signed by the employee, be signed by the Supervisor/County Official certifying the validity of the hours worked and/or leave used. Timesheets should be submitted to the County Clerk's Office and payroll claims indicated review and approval of the elected official.

Management Response:

Chairman of the Board of County Commissioners: Per discussion with County Clerk, these issues have been corrected.

County Clerk: The following was the segregation of duties over Payroll for 2015:

- Enrolling new employees and maintaining personnel files: First Deputy.
- Reviewing time records and preparing payroll – Individual Officers or their First Deputy/ reviewed by County Clerk First Deputy (when applicable).
- Processing payroll claims – proofing change sheets – Payroll Clerk.
- Distributing payroll warrants and/or payroll stubs to individual – Purchasing Agent.

The deputy processing the payroll claim is responsible to make sure all payroll claims are signed. We will have them double checked for signature and initialed in the future.

The County Clerk's office does not ensure all timesheets are filed in this office. This office has never been requested to compare timesheets to payroll.

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The Washington County Budget Board is reviewing a computerized timekeeping program and will implement that process as soon as possible.

Auditor Response: The County Clerk's First Deputy is responsible for enrolling new hires; reviewing payroll claims; updating payroll information into the system; calculating withholdings and preparing withholding reports; preparing and printing payroll warrants; removing terminated employees from payroll system; and maintaining personnel files.

Payroll is the largest expenditure of the County. Timesheet preparation, retention, approval, and review are essential processes to ensure payroll expenditures are adequately supported and accurate. The County Clerk generates all payroll and is the principal recordkeeper of the County.

Court Clerk: Each month I file a Summary of Hours Worked sheet with the County Clerk's office. I have been filing my timesheets in a desk drawer in my office since I became Court Clerk in 2012, with the previous Court Clerk's timesheets dating back to 2007. On November 16, 2018, I put all the timesheets from 2007 to present in a box and took them to the County Clerk's Office. I will submit them monthly to the County Clerk's office to be filed with the Summary of Hours Worked from this point on. Our Budget Board is in the process of reviewing a computerized timekeeping program for start-up sometime in 2019.

County Assessor: We currently have two employees reviewing all timesheets to ensure they are signed by both the employees and a supervisor.

County Sheriff: Currently, the Sheriff's department is preparing daily timesheets for each employee. Once the timesheets are completed, they are signed off on by the shift supervisor, the County Sheriff, and the employees. In the future we will also forward these timesheets to the County Clerk's office as well.

District 1 Commissioner: The timesheet of the District 1 Road Foreman will be signed by the Commissioner in the future.

District 3 Commissioner: This was an oversight, I will make sure to review and sign the road foreman's timesheet as a supervisor.

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; time records should be signed by both the employee and a Supervisor/County Official, and should be filed in the County Clerk's office; and payroll claims should be reviewed and approved by the elected official.

All Objectives:

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

Finding 2015-001 – Inadequate County-Wide Controls and Lack of Disaster Recovery Plan (Repeat Finding)

Condition: County-wide controls regarding Control Environment, Risk Assessment and Monitoring have not been designed. Additionally, the BOCC has not designed a County-Wide Disaster Recovery Plan.

Cause of Condition: Policies and procedures have not been designed and implemented to address County-wide controls or ensure all officials have prepared a formal Disaster Recovery Plan.

Effect of Condition: These conditions could result in unrecorded transactions, undetected errors, or misappropriation of funds. Further, the lack of a Disaster Recovery Plan could also result in the loss of data, the unreliability of data, and increase the risk that the County may not recover from an emergency and/or disaster.

Recommendation: OSAI recommends that the County design and implement 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.

OSAI further recommends that the BOCC prepare a Disaster Recovery Plan in order to maintain operations in the event of a disaster.

Management Response:

Chairman of the Board of County Commissioners: All offices now have a Disaster Recovery Plan. These Plans are retained at the dispatch center at the jail and at a local bank. Additionally, we are now having meetings to address risk assessment during every Budget Board meeting.

Criteria: Internal control is an integral component of an organization's management that provides reasonable assurance that the objectives of effectiveness and efficiency of operations, reliability of financial reporting and compliance with laws and regulations are being met. Internal control comprises the plans, methods, and procedures used to meet missions, goals, and objectives. Internal control also serves as the first line of defense in safeguarding assets and preventing and detecting errors and fraud. County management is responsible for designing a county-wide internal control system comprised of Control Environment, Risk Assessment and Monitoring for the achievement of these goals.

The Control Environment sets the tone of an entity and influences the control consciousness of its people. The Control Environment is the foundation for all other components of internal control and provides

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structure and discipline. Among the important elements of the control environment are the attitude, awareness, and actions of management, as well as those charged with governance, concerning internal control.

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

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

An important aspect of internal controls is the safeguarding of assets which includes adequate Disaster Recovery Plans. Internal controls over safeguarding of assets constitute a process, affected by an entity's governing body, management, and other personnel, designed to provide reasonable assurance regarding prevention in a County being unable to function in the event of a disaster. Disaster Recovery Plan(s) are an integral part of county operations to ensure that business can be continued as usual in the event of a disaster. Each office or the county as a whole should have a current, detailed Disaster Recovery Plan on file and should be aware of its content.

According to the standards of the Information Systems Audit and Control Association (CobiT, Deliver and Support 4), information services function management should ensure that a written Disaster Recovery Plan is documented and contains guidelines and instructions for the County to follow in the event of a disaster.

Other Item(s) Noted:

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

Finding 2015-002 – Inadequate Internal Controls Over the Presentation Financial Statements

Condition: The County has not designed and implemented internal controls for the presentation of the County financial statement. During the review and reconciliation of the financial statement as initially

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prepared by the County, we determined the preparer of the financial statement did not report accurate numbers.

The beginning and ending fund balances were reported as \$9,712,975 and \$9,382,076, respectively. A review of the records provided by the County Treasurer determined that the actual beginning and ending balances were \$10,656,360 and \$10,049,464; an understatement of \$943,385 and \$667,388, respectively.

Additionally, the cash receipts and cash disbursements were reported as \$15,567,006 and \$15,898,883, respectively. A review of the records provided by the County Treasurer determined that the actual receipts and disbursements amounts were \$15,949,034 and \$16,555,930; an understatement of \$382,028 and \$657,047, respectively.

Cause of Condition: Internal controls have not been designed and implemented to ensure the accuracy of the fund balances, cash receipts and disbursements presented on the financial statement.

Effect of Condition: This condition resulted in the inaccurate presentation of the County's financial statement.

Recommendation: OSAI recommends the County design and implement procedures to ensure the information reported on the financial statement is presented accurately.

Management Response:

Chairman of the Board of County Commissioners: We will present the financial statements to the members of the Budget Board for review before sending to auditors.

County Treasurer: Financial statements will be reviewed by the County Treasurer, as well as presented to BOCC for review. The understatements were due to the Resale fund not being reported as a county fund on the County's financial statement. The Resale fund has now been added to the County's financial statements.

County Clerk: We need more training on the preparation of the financial statements. The County Clerk's office has never been involved in the preparation of the County's financial statements and has never been instructed to do so. This is the first time this issue has been brought to our attention by the State Auditor's office.

If this is a direction from the Oklahoma State Auditor, we need more input on our responsibilities from the Auditor's Office and will comply with their instruction.

Auditor Response: The County has hired a CPA firm to prepare the County's financial statement. These financial statements need to be reviewed for accuracy by the County. The County Clerk is the official recordkeeper of the County and is responsible for recording all expenses of the County which flow into the County's financial statements. Therefore, the County Clerk should be actively involved in reviewing the County's financial statements to ensure accuracy.

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Criteria: Effective internal controls are essential to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, and compliance with applicable laws and regulations. An effective internal control system has in place policies and procedures that reduce the risk of errors and fraud within an organization.

The County's management is responsible for establishing internal control procedures to prevent or detect misstatements in a timely manner. Professional audit standards preclude the external financial statement auditor from performing any part of management's control activities or be a component of the internal controls over financial reporting as this would impair their independence.

Finding 2015-003 – Inadequate Internal Controls Over Reporting - Schedule of Expenditures of Federal Awards (SEFA) (Repeat Finding)

Condition: During our audit, we identified federal programs that were not listed accurately on the County's Schedule of Expenditures of Federal Awards (SEFA). Federal expenditures were understated by \$67,346.

The following misstatements in expenditures were noted:

- The actual expenditures for Payments in Lieu of Taxes, CFDA 15.226 were \$31,938 and the County reported \$0, which understated expenditures by \$31,938.
- The actual expenditures for the Edward Byrne Memorial Justice Assistance Grant Program, CFDA 16.738 were \$0 and the County reported \$3,515, which overstated expenditures by \$3,515.
- The actual expenditures for the State and Community Highway Safety, CFDA 20.600 were \$12,438 and the County reported \$0, which understated expenditures by \$12,438.
- The actual expenditures for the National Priority Safety Programs, CFDA 20.616 were \$581 and the County reported \$0, which understated expenditures by \$581.
- The actual expenditures for Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements, CFDA 93.069 were \$9,473 and the County reported \$0, which understated expenditures by \$9,473.
- The actual expenditures for Hazard Mitigation Grant, CFDA 97.039 were \$14,463 and the County reported \$0, which understated expenditures by \$14,463.
- The actual expenditures for Citizens-Community Resilience Innovation Challenge, CFDA 97.053 were \$1,968 and the County reported \$0, which understated expenditures by \$1,968.

Reported Total Expenditures of Federal Awards	\$ 3,515
Plus: Payments in Lieu of Taxes (CFDA 15.226)	31,938
Less: Edward Byrne Memorial Justice Assistance Grant Program (CFDA 16.738)	3,515
Plus: State and Community Highway Safety (CFDA 20.600)	12,438
Plus: National Priority Safety Programs (CFDA 20.616)	581
Plus: Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements (CFDA 93.069)	9,473
Plus: Hazard Mitigation Grant (CFDA # 97.039)	14,463

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Plus: Citizens-Community Resilience Innovation Challenge (CFDA 97.042)	<u>1,968</u>
Actual Federal Expenditures of Federal Awards	<u>\$ 70,861</u>
Original SEFA Understated by	<u>\$ 67,346</u>

Additionally, the County could not provide documentation to support the expenditure of \$40,286 in federal revenues received in fiscal year 2015.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure accurate reporting of expenditures for all federal awards.

Effect of Condition: These conditions resulted in the erroneous reporting and/or a material misstatement of the County's SEFA and noncompliance with federal requirements.

Recommendation: OSAI recommends county officials and department heads gain an understanding of federal programs awarded to Washington County. Internal control procedures should be designed and implemented to ensure accurate reporting of expenditures and revenues on the SEFA and to ensure compliance with federal requirements.

Management Response:

Chairman of the Board of County Commissioners: The BOCC will work with all officers to make sure procedures are followed to ensure the accuracy of the SEFA.

District 1 Commissioner: Washington County has implemented the new Chart of Accounts recommended by State Auditor, in doing this it should help identify the federal money received and expended and make tracking these funds easier for reporting. The budget board is working on communication between all departments receiving federal funds in order to identify the funds correctly.

District 3 Commissioner: The Board of Washington County Commissioners will work with all offices to make certain all procedures are followed to ensure the accuracy of the SEFA.

County Clerk: There is an issue with communication between offices concerning the SEFA. We are not given the needed information from each officer receiving federal grants for us to accurately prepare and review the SEFA. We hope the new Chart of Accounts will help with the preparation of the SEFA. The County Clerk's office will strive to improve our knowledge of the federal programs awarded to Washington County.

County Sheriff: Upon review, it appears the only possible explanation is that in this instance a SEFA was not submitted from our office to the secretary of the Commissioners, who in turn prepares a SEFA for filing. We no longer are participating in any grants that would require any kind of further reporting on federal funding; however, we will do our best to gain a better understanding of the SEFA requirements for any future federal grants.

County Treasurer: Washington County has implemented the new Chart of Accounts recommended by State Auditor, in doing this it should help identify the federal money received and expended and make

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tracking these funds easier for reporting. The County Treasurer's office is working on communication between all departments receiving federal funds in order to identify the funds correctly.

Criteria: *OMB A-133, Subpart C, § ___.300 (b)(d)* reads as follows:

Subpart C—Auditees

§ ___.300 Auditee responsibilities.

The auditee shall:

(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

(d) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with § ___.310.

Further, accountability and stewardship should be the overall goals of management in the accounting of federal funds. To help ensure a proper accounting of funds, an accurate record of federal expenditures should be maintained.

Finding 2015-013 – Inadequate Internal Controls and Noncompliance Over Estimate of Needs – Supplemental Appropriations

Condition: During the review of the County's Estimate of Needs, the following was noted:

- The County's budgeted revenues and beginning balance for the Health Fund exceeded the amount of budgeted expenditures by \$18,016, the exact amount noted on the Estimate of Needs as supplemental appropriations.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure the County's Estimate of Needs is presented in a manner that can be reconciled to the underlying financial statements and the information presented is accurate and free from error.

Effect of Condition: This condition resulted in noncompliance with state statute and the County approving and operating on a budget that is not a true reflection of the County's financial condition.

Recommendation: OSAI recommends the County review the Estimate of Needs prior to approval to ensure that financial information is accurately presented. Also, the estimate of needs should be prepared in accordance with 68 O.S. § 3002(A).

Management Response:

District 1 Commissioner: The Budget Board will review the Health Fund Budget and check for accuracy.

District 2 Commissioner: We will review Health Fund Budget more closely.

District 3 Commissioner: The Board of Washington County Commissioners will work with the budget maker to try and prevent discrepancies in the future.

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County Treasurer: We will review the Health Fund Budget and check for accuracy.

County Clerk: This is the first time this issue has been brought to our attention by the State Auditor's office. Although I am unsure of the role the County Clerk plays in the preparation and/or balancing of the County Treasurer's Financial Report to the Hybrid State Agency (Washington County Health Department) Estimate of Needs and Financial Statement, we will follow State Statute and the instruction of the State Auditor and Inspector as directed.

Criteria: The adopted budget is an expression of public policy and financial intent and is a method of providing controls over that intent.

Title 68 O.S. § 3002(A) states in part, "...each board of county commissioners...shall prior to October 1 of each year, make, in writing, a financial statement, showing the true fiscal condition of their respective political subdivisions as of the close of the previous fiscal year ended June 30th, and shall make a written itemized statement of estimated needs and probable income from all sources including ad valorem tax for the current fiscal year. Such financial statement shall be supported by schedules or exhibits showing, by classes, the amount of all receipts and disbursements, and shall be sworn to as being true and correct..."

REPORT ON STATUTORY COMPLIANCE – OTHER MATTERS

Washington County
Board of County Commissioners
Washington County Courthouse
Bartlesville, Oklahoma 74003

Dear Chairman:

For the purpose of complying with 19 O.S. § 171 and 20 O.S. § 1312, we have performed statutory procedures regarding the following offices and departments for the fiscal year ended June 30, 2015:

- All County Offices - Fixed Assets procedures (19 O.S. § 178.1, 19 O.S. § 178.2, and 69 O.S. § 645).
- All County Offices - Consumable Inventories procedures (19 O.S. § 1502 and 19 O.S. § 1504).
- Court Clerk procedures (20 O.S. § 1304 and 19 O.S. § 220).
- Inmate Trust Fund procedures (19 O.S. § 531 and 19 O.S. § 180.43).

Our statutory compliance engagement was limited to the procedures related to the statutes above and was less in scope than an audit performed in accordance with generally accepted auditing standards. Accordingly, we do not express an opinion on any basic financial statement of Washington County.

Based on our procedures performed, we have presented our findings in the accompanying schedule.

This report is intended for the information and use of the management of the County. This restriction is not intended to limit the distribution of this report, which is a matter of public record.



CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR

March 6, 2019



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SCHEDULE OF FINDINGS AND RESPONSES

Finding 2015-011 – Inadequate Internal Controls Over Court Fund Disbursement Processes

Condition: Upon inquiry and observation of the Court Fund disbursement processes, the following was noted:

- The Court Clerk performs the duties of requisitioning, receiving bills or estimates, preparing Court Fund claims, recording expenditures, preparing financial records, signing claims, maintaining custody of claims, preparing vouchers, printing vouchers, comparing claims to the invoices or bills, receiving registered vouchers, and mailing out the vouchers.
- Claims for court ordered attorney fees are not supported by invoices.
- Claims for court reporter fees are prepared by the court reporters and signed by the judge prior to being requisitioned by the Court Clerk.

Cause of Condition: Policies and procedures have not been designed and implemented with regard to the segregation of duties and internal controls over the disbursement process of Court Fund.

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

Recommendation: OSAI recommends that the duties of the disbursement process be adequately segregated regarding requisitioning and approving the claims, issuing vouchers, and mailing or delivering vouchers to vendors. Additionally, all claims should be requisitioned by the Court Clerk and supported by adequate documentation.

Management Response:

Court Clerk: In response to the Court Clerk lack of segregation of duties issue: We are implementing a plan to have more segregation of duties when it comes to the Court Fund disbursement process. The Court Clerk will prepare the claim and print the voucher. She will then give them to one of the receiving officers, along with a receiving report. The receiving officer will verify that the amount of the voucher is the amount on the claim, sign the voucher and the receiving report, and initial the amount on the claim. Once the voucher is registered in the County Treasurer's office, it will be given to the receiving officer to mail.

In response to claims for court ordered attorney fees are not supported by invoices: The coordinator of our Court Appointed Attorney contract has agreed to submit a monthly summary to the Court Clerk to attach to a Court Fund Claim prepared by the Court Clerk, which will be submitted to the District Judge.

In response to the claims for Court Reporter fees being prepared by the Court Reporters and signed by the Judge prior to being requisitioned by the Court Clerk: The Court Reporters will now submit the Court Fund claim to the Court Clerk to be requisitioned by the Court Clerk prior to being signed by the Judge.

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Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. Internal controls over safeguarding of assets constitute a process, affected by an entity's governing body, management, and other personnel, designed to provide reasonable assurance regarding prevention or timely detection of unauthorized transactions and safeguarding assets from misappropriation. To help ensure a proper accounting of funds key processes and/or critical functions should be adequately segregated, all claims should be requisitioned by the Court Clerk, and all claims should be supported by adequate documentation.

Finding 2015-012 – Inadequate Internal Controls and Noncompliance Over Inmate Trust Fund Checking Account, Sheriff Commissary, and Sheriff Commissary Fund (Repeat Finding)

Condition: Upon inquiry, observation of procedures and records, and testwork, we noted the following weaknesses regarding the Inmate Trust Fund Checking Account, Sheriff Commissary, and the Sheriff Commissary Fund:

Inmate Trust Fund Checking Account:

- One employee is responsible for accessing and balancing the lock box collections, preparing the deposit slip, and is denoted as an official check signer in the bank account. Additionally, there is no indication of independent monitoring or review of the bookkeeping functions of the Inmate Trust Fund Checking Account.
- Bank reconciliations are not always signed by preparer.
- Collections are not always deposited on a daily basis.
- Outstanding deposits from September 3, 2012 through March 28, 2015 totaling \$10,819.68 were noted as reconciling items on the June 30, 2015 bank reconciliation. These funds were noted as collections on the Inmate Trust ledgers but have not been deposited at the bank.
- Expenditures are made from the Inmate Trust Fund Checking Account for purposes other than statutorily allowed.

Sheriff Commissary:

- One employee is responsible for ordering or purchasing goods for the commissary, receiving items ordered, maintaining and updating inventory records, maintaining inventory items on hand, and calculating sales tax to be paid to the Oklahoma Tax Commission (OTC).

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.

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

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Effect of Condition: These conditions resulted in noncompliance with state statutes. In addition, without proper accounting and safeguarding of the Inmate Trust Fund Checking Account, 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 approve accounting functions.

OSAI further recommends the County Sheriff implement procedures to ensure:

- Bank reconciliations are performed on a monthly basis and reviewed and approved by someone other than the preparer.
- Collections are deposited on a daily basis.
- Expenditures are made from the Inmate Trust Fund Checking Account in accordance with 19 O.S. § 531 (A).
- Inmate Trust Fund Checking Account monies are maintained in a manner that reflects each inmate's trust deposits, disbursements, and account balances. The inmates' trust fund balances should be reconciled to the bank statements each month.
- Irregularities in financial records are investigated and resolved in a timely manner.
- 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 (A).

Management Response:

County Sheriff: Inmate Trust Fund Checking Account - In a recent FY 2015 audit, OSAI found 25 (twenty-five) transactions totaling \$10,819.68 that had not been accounted for as deposited into the bank. There were 4 (four) deposits from FY 2013 totaling \$2,358.68, 6 (six) deposits from FY 2014 totaling \$3,593.00 and 15 (fifteen) deposits from FY 2015 totaling \$4,868.00. All 25 (twenty-five) transactions have now been accounted for and appropriate corrections have been made to reflect the accuracy of the bank deposits as follows:

For the 4 (four) transactions in FY 2013 that were not showing as deposited into the bank, the bank statements for the dates of the unaccounted-for deposits have been thoroughly reviewed. It was found that 3 (three) of the transactions were verified through bank statements to have been deposited. These transactions were not reflected as deposited due to mathematical errors made during the reconciliation process and adjustments were made instead of the correct transactions confirmed and credited in the accounting software. Those records/statements have now been corrected and the noted corrections made. It was found that 1 (one) transaction for \$20.00 on September 4, 2012 was not accounted for as deposited into the bank. A member of the accounting team with our commissary vendor confirmed the deposit had not been made and they will be issuing a check for those funds during the week of November 19, 2018.

For the 6 (six) transactions in FY 2014 that were not showing deposited into the bank, the bank statements for the dates of the unaccounted-for deposits have been thoroughly reviewed. It was found that all 6 (six) of the transactions were verified through bank statements to have been deposited. These transactions were

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not reflected as deposited due to mathematical errors made during the reconciliation process and adjustments were made instead of the correct transactions confirmed and credited in the accounting software. Those records/statements have now been corrected and the noted corrections made.

For the 15 (fifteen) transactions in FY 2015 that were not showing deposited into the bank, the bank statements for the dates of the unaccounted-for deposits have been thoroughly reviewed. It was found that 11 (eleven) of the transactions were verified through bank statements to have been deposited. These transactions were not reflected as deposited due to mathematical errors made during the reconciliation process and adjustments were made instead of the correct transactions confirmed and credited in the accounting software. Those records/statements have now been corrected and the noted corrections made. Additionally, we determined that 4 (four) transactions totaling \$970.00 were not accounted for as deposited into the bank. A member of the accounting team with our commissary vendor confirmed the deposits for those transactions had not been made and they will be issuing a check for those funds during the week of November 19, 2018.

The personnel with our commissary vendor stated that the vendor they used to issue deposits during the time frame of these missing deposits was found to be inconsistent with making all required deposits. Our vendor remedied this problem by changing their vendors in November of 2017. We have not had any unaccounted-for deposits since this change was made. Also, changes were made internally within our office with the bank reconciliation process. In addition to the person completing and signing the reconciliation report, it must then be reviewed for accuracy and signed off on by a senior member of the administration.

Based on recommendations we will also make sure bank reconciliations are reviewed by someone other than the preparer and deposits will be done on a daily basis. Additionally, the issue with the segregation of duties over the Inmate Trust Fund Checking Account has been addressed; however, we will continue to monitor so this does not become an issue again.

Sheriff Commissary - One employee is responsible for ordering or purchasing goods for commissary and typically receiving them; however, that same employee is not the one who does the daily inventory of commissary items. The inventory report is submitted to the Jail administration for review. The assistant Jail administrator is in charge preparing the sales tax report for OTC; however, the report is reviewed prior to being submitted to OTC by the undersheriff in most cases.

Sheriff Commissary Fund - In 2016, the Sheriff's office did correct this problem by filing an annual report for the Sheriff Commissary Fund with the BOCC.

Auditor Response: Based on review of documentation and inquiry, in fiscal year 2015 one person was responsible for ordering or purchasing goods for the commissary, receiving items ordered, maintaining and updating inventory records, maintaining inventory items on hand, and calculating sales tax to be paid to OTC.

Criteria: Effective accounting procedures and internal controls are necessary to ensure stewardship and accountability of public funds. Safeguarding controls are an aspect of internal controls. Safeguarding controls relate to the prevention or timely detection of unauthorized transactions and unauthorized access

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to assets. Failure to perform tasks that are part of internal controls, such as segregating duties or implementing compensating reviews, performing bank reconciliation accurately and timely, and maintaining records in a manner to ensure compliance with state statutes and/or to minimize the risk of misappropriation, are deficiencies in internal control.

Title 19 O.S. § 531 (A) states in part, "...The county sheriff may establish a checking account, to be designated the "Inmate Trust Fund 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."

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..."



Cindy Byrd, CPA | State Auditor & Inspector

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