



WASHINGTON COUNTY

Operational Audit

For the fiscal year ended June 30, 2016

Cindy Byrd, CPA
State Auditor & Inspector

**WASHINGTON COUNTY OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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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, 2016.

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.

CINDY BYRD, CPA,
OKLAHOMA STATE AUDITOR & INSPECTOR



**WASHINGTON COUNTY, OKLAHOMA
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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INTRODUCTORY SECTION
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**WASHINGTON COUNTY OFFICIALS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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

Melissa Thornbrugh

Court Clerk

Jill Spitzer

District Attorney

Kevin Buchanan

**WASHINGTON COUNTY, OKLAHOMA
SALES TAX DISTRIBUTION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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 \$6,082,318 in total sales tax.

**WASHINGTON COUNTY
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Presentation of Apportionments, Disbursements, and Cash Balances of County Funds for the Fiscal Year Ended June 30, 2016

	Beginning Cash Balances July 1, 2015	Receipts Apportioned	Transfers In	Transfers Out	Disbursements	Ending Cash Balances June 30, 2016
Combining Information:						
County Funds:						
County General Fund	\$ 3,176,696	\$ 7,484,312	\$ 2,760	\$ -	\$ 7,167,313	\$ 3,496,455
Highway Cash	1,899,736	2,939,754	-	-	3,014,147	1,825,343
Emergency Operations Center Grant	75,467	114,927	-	-	124,516	65,878
Hazardous Mitigation Preparedness Grant	1,398	1,000	-	-	2,068	330
Juvenile Detention	6,488	-	-	-	-	6,488
Sheriff Service Fees	383,280	292,941	-	-	309,948	366,273
Sheriff Lake Patrol	9,230	-	-	-	-	9,230
Treasurer Fees	10,324	8,970	-	-	13,555	5,739
County Clerk Lien Fees	14,363	10,864	-	-	15,360	9,867
County Health	521,244	892,154	-	-	1,007,759	405,639
Assessor Visual Inspection	13,171	1,872	-	-	2,411	12,632
D.A.R.E. Program	15,018	4,672	-	-	563	19,127
Oklahoma Highway Safety Grant	18,039	4,919	-	-	4,340	18,618
Board of Prisoners	864,966	236,011	-	-	231,017	869,960
Sheriff Commisary	253,534	313,545	-	-	189,710	377,369
Forestry Grant	31,979	23,643	-	-	32,708	22,914
County Clerk Preservation	299,474	47,231	-	-	74,073	272,632
State Grant	119	-	-	-	-	119
Correctional Facility Sales Tax	1,779,338	3,046,026	-	-	3,316,462	1,508,902
Community Development	429	-	-	-	-	429
Tyler Agriculture Cash	4,304	-	-	2,760	1,544	-
Community Development Block Grant	1,500	70,267	-	-	70,267	1,500
Resale	655,151	506,633	-	-	397,540	764,244
Court Clerk Payroll	13,916	123,311	2,471	-	134,983	4,715
Commissioners Trash Reward	300	101	-	-	-	401
Sheriff Grants	-	10,000	-	-	-	10,000
Combined Total - All County Funds	\$ 10,049,464	\$ 16,133,153	\$ 5,231	\$ 2,760	\$ 16,110,284	\$ 10,074,804

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, 2016**

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, 2016

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, 2016

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.

Sheriff Grants – accounts for monies received from local businesses to purchase equipment for the County Sheriff's office and conduct community training.

Transfers

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

- \$2,760 was transferred from the Tyler Agriculture Cash fund to the County General Fund in accordance with 19 O.S. § 1418.
- \$2,471 was transferred from the Court Clerk Revolving Fund, a trust and agency fund, to the Court Clerk Payroll fund in accordance with 19 O.S. § 1418.

WASHINGTON COUNTY, OKLAHOMA
COMPARATIVE STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES—BUDGET AND ACTUAL—BUDGETARY BASIS—
COUNTY GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	General Fund		
	Budget	Actual	Variance
Continued from previous page			
Beginning Cash Balances	\$ 3,176,696	\$ 3,176,696	\$ -
Less: Prior Year Outstanding Warrants	(258,173)	(258,173)	-
Less: Prior Year Encumbrances	(425,437)	(357,689)	67,748
Plus: Cancelled Warrants	-	314	314
Beginning Cash Balances, Budgetary Basis	2,493,086	2,561,148	68,062
Residual Equity Transfer - In	-	2,760	2,760
Receipts:			
Ad Valorem Taxes	3,328,183	3,500,536	172,353
Charges for Services	248,000	250,536	2,536
Intergovernmental Revenues	519,500	576,473	56,973
Sales Tax	2,900,000	3,041,159	141,159
Miscellaneous Revenues	86,000	115,608	29,608
Total Receipts, Budgetary Basis	7,081,683	7,484,312	402,629
Expenditures:			
District Attorney	27,520	27,517	3
County Sheriff	1,128,904	1,128,368	536
County Treasurer	240,803	240,789	14
County Commissioners	165,402	165,219	183
OSU Extension	116,218	88,096	28,122
County Clerk	420,194	415,764	4,430
Court Clerk	449,968	449,965	3
County Assessor	217,106	217,102	4
Revaluation of Real Property	363,724	363,700	24
General Government	1,396,542	305,634	1,090,908
Excise-Equalization Board	2,100	1,909	191
County Election Board	184,654	184,298	356
Insurance - Benefits	138,182	127,238	10,944
Information Technology	332,549	326,300	6,249
Fire Fighting Services	9,501	9,456	45
Charity	2,000	-	2,000
Emergency Management	156,003	155,458	545
Community Development	71,600	58,135	13,465
County Audit Budget Account	35,300	5,327	29,973
Free Fair Budget Account	75,963	74,375	1,588

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, 2016

	General Fund		
	Budget	Actual	Variance
Continued from previous page			
Sales Tax Jail	1,101,487	1,015,493	85,994
Sales Tax District 1	665,402	336,840	328,562
Sales Tax District 2	668,778	596,079	72,699
Sales Tax District 3	744,526	574,766	169,760
Sales Tax General	830,343	134,618	695,725
Sales Tax Juvenile Detention	30,000	17,213	12,787
Total Expenditures, Budgetary Basis	<u>9,574,769</u>	<u>7,019,659</u>	<u>2,555,110</u>
Excess of Receipts and Beginning Cash			
Balances Over Expenditures, Budgetary Basis	<u>\$ -</u>	3,028,561	<u>\$ 3,028,561</u>
Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances			
Add: Current Year Outstanding Warrants		185,349	
Add: Current Year Encumbrances		<u>282,545</u>	
Ending Cash Balance		<u>\$ 3,496,455</u>	

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

**WASHINGTON COUNTY
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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, 2016.

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, 2016**

Objective 1: To determine the receipts apportioned, disbursements, and cash balances are accurately presented on the County Treasurer's monthly reports for FY 2016.

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 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 \$12,985,604 in cash receipts (80% 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 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, 2016**

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 35 judgmentally selected sales tax disbursements totaling \$28,558 (1.03% 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 2016-005 – Inadequate Internal Controls and Noncompliance with State Statute Regarding Sales Tax Appropriations (Repeat Finding)

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 2016 exceeded 90% of prior year actual collections by \$133,152.

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
OPERATIONAL AUDIT
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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 2016-006 – Inadequate Internal Controls and Noncompliance Over County Sales Tax Disbursements (Repeat Finding)

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
OPERATIONAL AUDIT
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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-five (75) purchase orders reflected:

- Thirty-three (33) purchase orders totaling \$17,213 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, 2016**

- 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 \$580,360 (7% 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 \$4,252 (1.5% 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 random 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, 2016**

FINDINGS AND RECOMMENDATIONS

Finding 2016-008 – Inadequate Internal Controls and Noncompliance Over the Disbursement Process (Repeat Finding)

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

- Five (5) purchase orders totaling \$4,238 were not encumbered properly.

Fund	Responsible Office	Purpose	Warrant	Amount
County General Fund	County Sheriff	Labor Cost for Simplex 1605 Time Stamp	997	\$230.00
County General Fund	OSU Extension	Cleaning Services	1854	\$150.00
Emergency Operations Center Grant	Emergency Management	Professional Services	114	\$2,987.00
Highway Cash	District 1	Lease Agreement	1590	\$312.00
County Health	County Health Department	Heating/Air Repair	242	\$559.00

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.

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, their Department Heads, and the Health Department. 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

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out of the wrong account, or to correct other violations if the Requisitioning Officer refuses to make corrections prior to the encumbrance.

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

District 1 Commissioner: We are working with personnel to insure future compliance by utilization the records management system for accurate and timely data entry for purchase requests.

Health Department: While we strive to be good stewards of tax payer monies, we do realize there was a transaction that was not pre-encumbered. Training will be reinforced with all staff who are completing purchase orders for the health department.

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 2016-009 – Inadequate Internal Controls Over Payroll (Repeat Finding)

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 sixty (60) timesheets resulted in the following exceptions:

- The August 2015 payroll claim issued on the County General Fund for Emergency Management payroll was not signed by an approving officer.

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

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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. Additionally, regarding the Emergency Management Department's timesheets, the BOCC will discuss the matter and make sure all timesheets of Emergency Management employees are approved and signed by a supervisor.

County Clerk: The following was the segregation of duties over Payroll for 2016:

- 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.

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.

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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 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 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.

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 2016-001 – 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.

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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 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

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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 2016-002 – Inadequate Internal Controls Over the Presentation Financial Statements (Repeat Finding)

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 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 9,382,076 and \$9,307,425, respectively. A review of the records provided by the County Treasurer determined that the actual beginning and ending balances were \$10,049,464 and \$10,074,804; an understatement of \$667,388 and \$767,379, respectively.

Additionally, the cash receipts and cash disbursements were reported as \$15,512,068 and \$15,587,759, respectively. A review of the records provided by the County Treasurer determined that the actual receipts and disbursements amounts were \$16,133,152 and \$16,110,283; an understatement of \$612,084 and \$522,524, 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.

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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.

Auditors 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.

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 2016-003 – 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 \$14,980.

The following misstatements in expenditures were noted:

- The actual expenditures for Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii, CFDA 14.228 were \$37,500 and the County reported \$0, which understated expenditures by \$37,500.

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- The actual expenditures for Payments in Lieu of Taxes, CFDA 15.226 were \$38,020 and the County reported \$0, which understated expenditures by \$38,020.
- The actual expenditures for the State and Community Highway Safety, CFDA 20.600 were \$4,281 and the County reported \$0, which understated expenditures by \$4,281.
- The actual expenditures for the Emergency Management Performance Grants (EMPG), CFDA 97.042 were \$0 and the County reported \$57,716, which overstated expenditures by \$57,716.
- The actual expenditures for Fire Management Assistance Grant (DR-5117), CFDA 97.046 were \$3,488 and the County reported \$0, which understated expenditures by \$3,488.
- The County reported \$10,593 in federal expenditures for non-federal programs, which overstated expenditures by \$10,593.

Reported Total Expenditures of Federal Awards	\$106,402
Plus: Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii (CFDA 14.228)	37,500
Plus: Payments in Lieu of Taxes (CFDA 15.226)	38,020
Plus: State and Community Highway Safety (CFDA 20.600)	4,281
Less: Emergency Management Performance Grants (EMPG) (CFDA 97.042)	57,716
Plus: Fire Management Assistance Grant (DR-5117) (CFDA 97.046)	3,488
Less: Non-federal expenditures recorded as federal expenditures	<u>10,593</u>
Actual Federal Expenditures of Federal Awards	<u>\$121,382</u>
Original SEFA Understated by	<u>\$ 14,980</u>

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.

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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 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: 2 CFR § 200.303(a) *Internal Controls* reads as follows:

The non-Federal entity must:

Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in "Standards for Internal Control in the Federal Government" issued by the Comptroller General of the United States or the "Internal Control Integrated Framework", issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

2 CFR § 200.508(b) *Auditee responsibilities* reads as follows:

The auditee must:

Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with §200.510 Financial statements.

2 CFR § 200.510(b) *Financial statements* reads as follows:

Schedule of expenditures of Federal awards. The auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with §200.502 Basis for determining Federal awards expended. [...]

Further, accountability and stewardship should be overall goals in management's accounting of federal funds. Internal controls should be designed to monitor compliance with laws and regulations pertaining to grant contracts.

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Finding 2016 - 014 – Inadequate Internal Controls and Noncompliance Over Estimate of Needs – Supplemental Appropriations (Repeat Finding)

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 \$15,942, 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.

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 Statue 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

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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, 2016:

- 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 2016-011 – Inadequate Internal Controls Over Court Fund Disbursement Processes (Repeat Finding)

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 2016-012 – 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 and Sheriff Commissary:

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 February 2, 2016 totaling \$10,866.18 were noted as reconciling items on the June 30, 2016 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).

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

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

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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.

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 though 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 though 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.

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 though 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

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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.

For the 2 (two) transactions in FY 2016 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 both 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.

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.

Auditor Response: Based on review of documentation and inquiry, in fiscal year 2016 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 transaction and unauthorized access 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.

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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..."

Finding 2016-013 – Inadequate Internal Controls and Noncompliance Over Consumable Inventories

Condition: Upon inquiry of County personnel, observation of consumable inventory items, and review of consumable inventories records, the following weaknesses were noted:

District 1:

At the time of the audit:

- The unit price was not listed on consumable records for all consumable items.
- Of the six (6) items selected for inspection, two (2) items had a variance greater than 5% from OSAI calculations.

Item	Count Per County	Count Per OSAI	Variance	Variance Percentage
Sign Posts 10 ft.	140 units	103 units	(37) units	26.43%
1 ½ inch Crusher Run	(62) ton	400 ton	462 ton	745.16%

District 2:

At the time of the audit:

- The unit price was not listed on consumable records for all consumable items.
- Transfer documents were not used for consumable items.
- Of the six (6) items selected for inspection, two (2) items had a variance greater than 5% from OSAI calculations.

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Item	Count Per County	Count Per OSAI	Variance	Variance Percentage
U Channel Post (Delineator Pole)	-9 units	95 units	104 units	1155.56%
Breakaway Square 10' Post	41 units	45 units	4 units	9.76%

District 3:

At the time of the audit:

- The unit price was not listed on consumable records for all consumable items.
- Of the six (6) items selected for inspection, two (2) items had a variance greater than 5% from OSAI calculations.

Item	Count Per County	Count Per OSAI	Variance	Variance Percentage
Mower Blades	36 units	24 units	(12) units	33.33%
3-inch Crusher Run	395 ton	120 ton	(275) ton	69.62%

Cause of Condition: Policies and procedures have not been designed and implemented with regard to accounting for and safeguarding of consumable items.

Effect of Condition: These conditions resulted in noncompliance with state statutes. Additionally, when consumable inventory items are not adequately accounted for and safeguarded there is an opportunity for misappropriation and undetected errors.

Recommendation: OSAI recommends management design and implement internal controls to ensure compliance with 19 O.S. § 1504A, which would provide assurance that the consumable items of the County are protected from loss and misuse.

OSAI also recommends the performing and documenting of a monthly consumable inventory count. Counts should be initialed and dated by the employee performing the physical count and retained to show the design and implementation of internal controls by the County Commissioners.

Management Response:

District 1 Commissioner: We are working with personnel to ensure future compliance by utilization the records management system for accurate and timely data entry.

District 2 Commissioner: As of 2018, these issues have been corrected.

District 3 Commissioner: We will work to ensure accurate records are maintained.

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

Title 19 O.S. § 1504A provides guidance with regard to accounting for the consumable items.



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