OPERATIONAL AUDIT

WASHINGTON COUNTY

For the period July 1, 2007 through June 30, 2008

Oklahoma State
Auditor & Inspector
Gary A. Jones, CPA, CFE

WASHINGTON COUNTY OPERATIONAL AUDIT
FOR THE PERIOD JULY 1, 2007 THROUGH JUNE 30, 2008

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Oklahoma State Auditor & Inspector

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December 6, 2012

TO THE CITIZENS OF
WASHINGTON COUNTY, OKLAHOMA

Transmitted herewith is the audit report of Washington County for the period July 1, 2007 through June 30, 2008.

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,

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

BACKGROUND

Originally a part of the Cherokee Nation, Indian Territory, Washington County was created at statehood and named for President George Washington.

Bartlesville, the county seat, was the first oil-boom in Indian Territory. George B. Keeler, local fur trader, knew of the existence of oil in this area as early as 1875, but lacked the financial support and tribal permission necessary to exploit his discovery. It was not until April 15, 1897, that the No. 1 Nellie Johnstone, the first commercial oil well in Oklahoma, was brought in by the Cudahy Oil Company. W.W. "Bill" Keeler, grandson of George, eventually became head of Phillips Petroleum Company and chief of the Cherokee Nation.

Home of the Phillips Petroleum Company, Bartlesville is also the site of the Frank Phillips Home, the restored twenty-six room mansion of the founder of Phillips Petroleum.

Dewey, the first town in Oklahoma to have electric lights, waterworks, and a telephone line, is the sight of the Tom Mix Museum. Mix, one-time deputy sheriff and night marshal in Dewey, was an early-day silent film star.

The Bartlesville Historical Commission published two volumes of *History of Washington County* by Margaret Teague. For more information, call the county clerk's office at 918-337-2840.

County Seat – Bartlesville | Area – 424.15 Square Miles

County Population – 49,149
(2005 est.)

Farms – 847 | Land in Farms – 222,882 Acres

Primary Source: Oklahoma Almanac 2007-2008

COUNTY OFFICIALS

Todd Mathes .... County Assessor
Marjorie Parrish .... County Clerk
Gary Deckard .... County Commissioner District 1
Linda Herndon .... County Commissioner District 2
Mike Dunlap .... County Commissioner District 3
Patrick Ballard .... County Sheriff
Stan Stevens .... County Treasurer
Martha Mersch .... Court Clerk

Presentation of Apportionments, Disbursements, and Cash Balances of County Funds for FY 2008

	Beginning Cash Balance July 1, 2007		Receipts Apportioned	Disbursements	Ending Cash Balance June 30, 2008
Combining Information:					
County General Fund	$ 1,993,160		$ 7,003,227	$ 7,038,126	$ 1,958,261
T-Highway	524,177		2,788,985	2,227,698	1,085,464
County Health	623,751	*	713,502	977,050	360,203
Safe Room Grant	3		-	3	-
Equipment Grant	(38)		5,589	-	5,551
Forestry Grant	19,091		30,787	27,559	22,319
State Grant	413		-	3	410
Stop Grant	5,611		-	-	5,611
COPS Grant	110		-	-	110
Remaining Aggregate Funds	761,629	*	783,899	702,609	842,919
Combined Total - All County Funds	$ 3,927,907		$ 11,325,989	$ 10,973,048	$ 4,280,848

* *The beginning fund balances for these cash funds have been restated from the ending cash balances reported at June 30, 2007.*

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

PURPOSE, SCOPE, AND SAMPLE 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.

The audit period covered was July 1, 2007 through June 30, 2008.

Sample methodologies can vary and are selected based on the audit objective and whether the total population of data was available. Random sampling is the preferred method; however, we may also use haphazard sampling (a methodology that produces a representative selection for non-statistical sampling), or judgmental selection when data limitation prevents the use of the other two methods. We selected our samples in such a way that whenever possible, the samples are representative of the populations and provide sufficient evidential matter. We identified specific attributes for testing each of the samples. When appropriate, we projected our results to that population.

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. 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.

Objective 1:	To determine the receipts apportioned, disbursements, and cash balances are accurately presented on the County Treasurer's monthly reports for FY 2008.

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.

Methodology: To accomplish our objective, we performed the following:

- Gained an understanding of internal controls related to the process of accurately presenting the receipts apportioned, disbursements, and cash balances on the County Treasurer's monthly reports through discussions with the County Treasurer, observation, and review of documents.

- Performed the following to ensure receipts apportioned, disbursements, and cash balances were accurately presented on the County Treasurer's monthly reports:
  - Reconciled Treasurer's receipts to amounts apportioned on the County Treasurer's monthly reports.
  - Reconciled the County Clerk's warrants issued to disbursements paid by the County Treasurer.
  - Re-performed the bank reconciliations at June 30, 2008, to determine that all reconciling items were valid, and ending balances on the General Ledger agreed to the ending balances reflected on the Treasurer's monthly reports.

Finding: Inadequate Internal Controls over the County Treasurer's Monthly Reports and Lack of Segregation of Duties in the Treasurer's Office

Condition: Upon inquiry of the reconciliation process of apportioned receipts, disbursements, and cash balances between the County Treasurer and County Clerk, supporting documentation of the reconciliation is not maintained by either of the officials.

Duties are not adequately segregated in the County Treasurer's Office:
  - The same person preparing the daily deposit, issues receipts and reconciles the bank accounts.
  - One employee is responsible for recording all miscellaneous receipts, preparing monthly apportionments and performing all bank reconciliations.

Cause of Condition: Procedures have not been designed and implemented to provide for reconciliations between the County Clerk and the County Treasurer to ensure financial records are presented accurately, and to ensure key functions and processes are divided among various employees in the office.

Additionally, the computer system in use did not provide the County with the bookkeeping functions needed to provide adequate controls to safeguard the County's financial data from unauthorized modification, loss, or disclosure.

Effect of Condition: These conditions could result in unrecorded transactions, misstated financial reports, undetected errors, or misappropriation of funds.

Recommendation: OSAI recommends that the County Treasurer implement a system of internal control to provide reasonable assurance that receipts apportioned, disbursements, and cash balances are accurately presented on the County Treasurer's monthly reports.

Duties should be adequately segregated so that individuals issuing receipts should not prepare the deposits, deliver the deposits to the financial institutions, or reconcile the bank statements. Further, in the event that segregation of duties is not possible due to the limited personnel, OSAI recommends implementing compensating controls to mitigate the risks involved with a concentration of duties. Compensating controls would include separating key processes and/or critical functions of the office, and having management review and approval of accounting functions which would provide independent oversight of the accuracy of the County Treasurer's monthly reports.

Management Response: A great deal of thought and consideration is now given to the issue of segregation of duties as it relates to the logistics of this operation. It should be also noted that I, Brad Johnson, was sworn into office on June 8, 2008 (22 days prior to the close of fiscal year under review).

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. An important aspect of internal controls is the safeguarding of assets. 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, the duties of receiving, receipting, recording, depositing cash and checks, reconciliations, and transaction authorization should be segregated.

Objective 2:	To determine the County's financial operations complied with 62 O.S. § 517.4, which requires county deposits with financial institutions be secured with collateral securities or instruments.

Conclusion: With respect to the days tested, the County generally complied with 62 O.S. § 517.4, which requires county deposits with financial institutions be secured with collateral securities or instruments. However, internal controls should be strengthened regarding the security of investments.

Methodology: To accomplish our objective, we performed the following:

- Gained an understanding of the internal controls related to pledged collateral through discussions with the Treasurer, observation, and review of ledgers and documents.

- Tested compliance under 62 O.S. § 517.4, which included selecting two days per month from banks holding deposits of county funds to determine that bank balances were adequately collateralized.

Finding: Inadequate Internal Controls over Pledged Collateral

Condition: It was determined through discussions with County personnel, observation, and review of documents that procedures have not been designed to monitor pledged collateral to ensure bank balances are adequately collateralized. During our review of the bank balances, we noted that County funds were not adequately pledged at one financial institution for 6 of the 24 days reviewed.

Cause of Condition: The County Treasurer has not designed procedures to ensure collateral requirements are met.

Effect of Condition: Failure to monitor pledged collateral amounts could result in unsecured county funds and possible loss of county funds.

Recommendation: OSAI recommends that the County Treasurer implement a system of internal controls to provide reasonable assurance that county funds are adequately secured. Additionally, evidence of monitoring pledged collateral amounts to bank balances on a daily basis should be maintained.

Management Response: The amount of non-collateralized funds (less than $ 400.00) is, in my opinion, insignificant as it relates to the total investment dollars and the collateral covering said amounts. It should also be noted that I, Brad Johnson, assumed the duties of County Treasurer on June 8, 2008 (22 days prior to the fiscal year end).

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. An important aspect of internal controls is the safeguarding of assets. 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.

Objective 3:	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 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.

Methodology: To accomplish our objective, we performed the following:

- Gained an understanding of the internal control process of receipting, apportioning, and disbursing sales tax collections through discussions with County personnel, observation, and review of documents.

- Tested compliance of the significant law, which included the following:
  - Reviewed sales tax ballots to determine designation and purpose of sales tax collections.
  - Obtained confirmations from the Oklahoma Tax Commission for sales tax payments made to the County and recalculated the amounts apportioned by the County Treasurer to ensure sales tax collections were apportioned to the proper funds.
  - Selected a random sample of 55 purchase orders from the sales tax revolving fund and determined that expenditures were made for purposes designated on the sales tax ballot.

Finding: Inadequate Controls and Segregation of Duties over Apportionment, Recording, and Expending of Sales Tax Collections

Condition: Upon inquiry and observation of the record-keeping process of collecting and expending sales tax, the following was noted:

- There was no independent oversight of the calculations of sales tax collections that were presented for appropriation by the County Treasurer to the County Clerk.

Cause of Condition: Procedures have not been designed and implemented to provide independent review of sales tax appropriations, recording, and expenditures.

Effect of Condition: These conditions could result in undetected errors in the apportioning, recording, and expending of sales tax collections.

Recommendation: OSAI recommends that a system of internal control, including the segregation of duties and independent oversight, be implemented to provide reasonable assurance that sales tax collections are distributed, recorded, and expended in accordance with the sales tax ballot.

Management Response: All apportionments are now reviewed for accuracy by the Treasurer or First Deputy. It should be also noted that I, Brad Johnson, was sworn into office on June 8, 2008 (22 days prior to the close of fiscal year under review).

Criteria: Effective internal controls require management to design procedures to ensure sales tax revenue is correctly distributed, recorded, and expended for the purpose it was intended. Title 68 O.S. § 1370E, 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.

Objective 4:	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.

Conclusion: With respect to the items tested, the County did comply 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.

Methodology: To accomplish our objective, we performed the following:

- Gained an understanding of the internal controls related to the process of apportioning and distributing ad valorem tax collections, which included discussions with County personnel, observation, and review of documents.

- Tested compliance of the significant law, which included the following:
  - Compared the certified levies for the audit periods to the computer system to determine the Treasurer applied the certified levies, as fixed by the Excise Board of the County, to the tax rolls.
  - Recalculated the apportionment of ad valorem tax collections to determine collections were accurately apportioned to the taxing entities.

Finding: Inadequate Internal Controls and Segregation of Duties over Ad Valorem Tax Apportionments and Distributions

Condition: Through inquiry, observation, and review of documents, we determined that the ad valorem distribution process was not adequately monitored and segregated.

- There was no documentation that the certified levies were independently reviewed for accuracy after they were entered into the system.
- One employee was responsible for recording ad valorem tax collections and distributions on the monthly reports, manually preparing ad valorem apportionments in accordance with certified levies, and preparing remittance warrants.

Cause of Condition: Procedures have not been designed and implemented to provide independent review of the input of certified levies and apportionment of ad valorem collections. Also, internal controls have not been designed and implemented to ensure key functions and processes over the ad valorem apportionments distribution are properly segregated.

Effect of Condition: This could result in misstated financial reports, clerical errors, or misappropriation of funds not being detected in a timely manner.

Recommendation: OSAI recommends that the Treasurer implement internal control procedures to adequately segregate the duties over distribution of ad valorem taxes and document that an independent review of mill levies is performed to ensure that data is entered in the system correctly.

Management Response: Levies entered into the system are verified with the Assessor's certified levy report as well as the affected county(s) submissions. Apportionments are handled by several employees each month and approved by the Treasurer or his First Deputy.

Criteria: Accountability and stewardship are overall goals in evaluating management's accounting of funds. Internal controls should be designed to analyze and check accuracy and completeness. To help ensure proper accounting of funds, the duties of apportioning ad valorem tax should be segregated and reviewed by an independent party.

Further, 68 O.S. § 2923 requires the ad valorem tax collections to be apportioned and distributed monthly among the different funds to which they belong.

Objective 5:	To determine the County's financial operations complied with 19 O.S. § 1505C, 19 O.S. § 1505E, and 19 O.S. § 1505F, which outlines procedures for expending county funds.

Conclusion: With respect to the items tested, the County did not comply with 19 O.S. § 1505C, 19 O.S. § 1505E, and 19 O.S. § 1505F, which outlines procedures for acquisition, purchasing and receiving goods and services.

Methodology: To accomplish our objective, we performed the following:

- Gained an understanding of the internal controls related to the process of encumbering purchase orders, authorization of payment of purchase orders, and documenting goods and services received, which included discussions with County personnel, observation, and review of documents.

- Tested compliance of the significant law, which included the following:
  - Purchase orders were properly requisitioned as required by 19 O.S. §1505C.
  - Purchase orders were properly encumbered as required by 19 O.S. §1505C.
  - The receiving officer prepared and signed a receiving report as required by 19 O.S. §1505E.
  - The County Clerk or designee compared the purchase order to the invoices, receiving report, and delivery documents as required by 19 O.S. § 1505E.
  - Purchase orders were approved for payment by the Board of County Commissioners as required by 19 O.S. § 1505F.

Finding: Inadequate Controls and Noncompliance over Purchasing Procedures

Condition: Upon observation and inquiry of the officers and staff, we determined the following weaknesses in the controls over the expenditures process:

- The County Clerk did not record the warrant payment dates on the appropriation ledger.
- A reconciliation of the Clerk's warrants issued to warrants paid in the Treasurer's office was not performed.

Additionally, our test of 55 purchase orders revealed the following noncompliance with statutes:

- Three purchase orders did not have supporting documentation.
- Eight purchase orders did not have receiving report attached.

Cause of Condition: Procedures have not been implemented to provide adherence to the statutes and ensure internal controls are in place to mitigate the risks over safeguarding the County's assets with regard to purchasing procedures.

Effect of Condition: These conditions could result in unrecorded transactions, undetected errors, misappropriation of funds, inaccurate records, incomplete information, and noncompliance with state statutes.

Recommendation: OSAI recommends the County implement procedures to ensure compliance with purchasing statutes. Further, OSAI recommends the County consider the risks concerning the expenditure process and implement a system of internal controls to eliminate or reduce those risks.

Management Response:
County Treasurer: The Treasurer and County Clerk now reconcile warrants issued to the warrant paid ledgers.

County Clerk: The software we used at the time was not ever capable of showing warrants on the Appropriations. We have since changed software companies and the issue has been resolved. The County Clerk's office and Treasurer's office was not ever able to reconcile warrants paid in the Treasurer's office until both offices changed our software. We have since been balancing each month since FY 08-09.The purchase orders that did not have support documentation or receiving reports have been addressed and a double check is being made to ensure all documentation is attached to the Purchase Orders.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. An important aspect of internal controls is the safeguarding of assets. 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.

Objective 6:	To determine the County's financial operations complied with 19 O.S. § 1505B, which requires county purchases in excess of $10,000 be competitively bid.

Conclusion: With respect to the items tested, the County did comply with 19 O.S. § 1505B, which requires that purchases in excess of $10,000 be competitively bid.

Methodology: To accomplish our objective, we performed the following:

- Gained an understanding of the internal controls related to the process of competitively bidding purchases in excess of $10,000, which included discussions with County personnel, observation, and review of documents.

- Selected a random sample of five purchases in excess of $10,000 and determined that the County followed statutes regarding public notice, handling of unopened bids, awarding bid to best bidder, recording appropriate information in BOCC minutes, and notification to successful bidders.

Objective 7:	To determine the County's financial operations complied with 19 O.S. § 180.62 and § 180.63 regarding amounts allowed for officers' salaries.

Conclusion: With respect to amount allowed for officers' salaries, the County complied with 19 O.S. § 180.62 and § 180.63.

Methodology: To accomplish our objective, we performed the following:

- Gained an understanding of the internal controls related to the process of determining amounts allowed for officers' salaries, which included discussions with County personnel, observation, and review of documents.

- Tested compliance of the significant law, which included:
  - Recalculating the maximum amount allowed for officers' salaries as set forth in 19 O.S. § 180.74 and § 180.75.
  - Reviewing the salaries of Washington County officials to ensure that the amounts paid did not exceed statutory limits.

Finding: Inadequate Internal Controls and Lack of Segregation of Duties over Payroll

Condition: Through discussions with County personnel, observation, and review of documents, we noted the following concerns regarding payroll:

- One employee was responsible for enrolling new employees into the system, activating withholding tables with the software, updating the master payroll file with changes, reviewing updates for accuracy, preparing deduction reports, and posting payroll expenditures to the general ledger via journal entries.

Cause of Condition: In an effort to maximize efficiency and available resources, the County has relied upon one individual to perform the majority of the payroll process.

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 the following key accounting functions of the payroll process be adequately segregated:

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

Management Response: Inadequate internal controls and lack of segregation of duties over payroll was due to the passing away of our First Deputy (November 2007) which enrolled new employees, activated withholding tables with software and updated the master payroll file with changes. The Second Deputy would double check the changes and processes the payroll. Because of the software we were using at the time did not work properly and did not have the GL ability to post automatically, the Second Deputy had to post payroll expenditure manually for each department. When we switched computer systems in FY 08-09, we were able to train additional personnel to process and post payroll which allowed us to segregate the duties of payroll processing.

Criteria: Accountability and stewardship are overall goals in evaluating management's 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 distributing payroll should be segregated.

Objective 8:	To determine the County's financial operations complied with 19 O.S. § 1504A, which requires the receiving officer to maintain a record of all supplies, materials, and equipment received, disbursed, stored, and consumed by his department.

Conclusion: The County's financial operations did not comply with 19 O.S. § 1504A, which requires the receiving officer to maintain a record of all supplies, materials and equipment received, disbursed, stored, and consumed.

Methodology: To accomplish our objective, we performed the following:

- Gained an understanding of the internal controls related to the process of maintaining a record of all supplies, materials, and equipment received, disbursed, stored, and consumed by a department, which included discussions with County personnel, observation, and review of documents.

Finding: Inadequate Internal Controls over Consumable Inventories

Condition: The County did not have procedures in place to ensure that consumable inventory was maintained in accordance with19 O.S. § 1504A.

- As a result, Districts 1, 2, and 3 did not maintain accurate, up-to-date consumable inventory lists, and we were unable to perform a test of compliance for consumable items.

Cause of Condition: Procedures have not been designed and implemented with regard to effective internal controls over safeguarding consumable inventories.

Effect of Condition: Opportunities for loss and misappropriation of county assets may be more likely to occur when the County does not have procedures in place to account for consumable inventories.

Recommendation: OSAI recommends management implement internal controls to ensure compliance with 19 O.S. § 1504A. These procedures would include filing monthly consumable reports with the County Clerk and performing a periodic physical count of inventory. Additionally, the key functions of receiving duties and inventory control duties should be performed by separate employees in order to effectively segregate those duties.

Management Response:
Court Clerk: I was not in Office at the time. I am working to rectify this situation. We are currently preparing an inventory list and attaching inventory numbers to the item.

County Sheriff: The Washington County Sheriff's Department has already implemented a system for controls of consumable inventories. Also note that I did not come into office until October 1st of 2008.

County Commissioner District 1: We will implement a policy of signing and dating the consumable items and inventory reports when they are reviewed for accuracy.

County Commissioner District 2: We have put in place a new procedure to maintain more accurate consumable and inventory records. I have designated one of my field crew with inventory experience as my "Inventory Control" officer which will include maintaining consumable controls. We have also created forms to be filled out by anyone using consumables to be double-checked and initialed by the person using the items and another member of my crew performing the verification step.

County Commissioner District 3: Washington County Districts did not maintain accurate, up-to-date consumable inventory records. As a result of the audit, District 3 now has a separate spreadsheet in place to assist us in better tracking our consumable inventory. The road foreman and the administrative assistant at the road shop are trained in the new procedure.

County Assessor: In response to the State Auditor's findings concerning inadequate internal controls over consumable inventories, we have established a process to further maintain satisfactory records of all county-owned property in possession by the Washington County Assessor's Office. Furthermore, and in compliance with 19 O.S. § 1504A, we will maintain a separate receiving and requisition officer for all future acquisitions. In addition, all items will be clearly marked "Property of Washington County Assessor."

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 items, and safeguarding consumable items from loss, damage, or misappropriation.

Objective 9:	To determine the County's financial operations complied with 19 O.S. § 178.1 and 69 O.S. § 645, which requires the maintenance of inventory records, periodic inventory verifications, and that equipment be clearly and visibly marked "Property of" the county.

Conclusion: With respect to the items tested, the County did not comply with 19 O.S. §178.1 and 69 O.S. § 645, which requires the maintenance of inventory records, periodic inventory verifications, and that equipment be clearly and visibly marked "Property of Washington County."

Methodology: To accomplish our objective, we performed the following:

- Gained an understanding of the internal controls related to the process of maintaining inventory records, verifying inventory, and marking equipment "Property of" the county, which included discussions with County personnel, observation, and review of documents.

Finding: Inadequate Internal Controls over Fixed Assets and Segregation of Duties

Condition: The County does not have procedures in place to ensure the fixed asset inventory was maintained in accordance with 19 O.S. § 178.1. Furthermore, the County has not designed internal controls to provide for adequate segregation of duties over the fixed asset inventory process.

- Districts 2 and 3 have inadequate segregation of duties over fixed assets inventory. There is one employee in each District that is primarily responsible for requisitioning the inventory item, receiving the inventory item, attaching the inventory numbers to the item, and keeping track of the location of the item.

- Within the courthouse offices and the County Sheriff, there is also inadequate segregation of duties. One employee is primarily responsible for requisitioning the inventory item, receiving the inventory item, attaching the inventory numbers to the item, and keeping track of the location of the item.

Cause of Condition: Procedures have not been implemented regarding the accurate reporting of fixed assets. In addition, procedures have to been designed to adequately segregate key functions regarding fixed asset records.

Effect of Condition: These conditions resulted in noncompliance with 19 O.S. § 178.1

Recommendation: OSAI recommends the County comply with 19 O.S. § 178.1 by performing and documenting a periodic inventory of fixed assets performed by an individual independent of the fixed asset record-keeping process.

Management Response:
County Sheriff: The Washington County Sheriff's Department will immediately begin to put into effect an internal policy in regard to the accounting of the Sheriff's Department physical inventory on items

over $500.00. The Sheriff's Department will update this list monthly if any items are bought and received that would meet the inventory requirements. Annually we will perform a complete physical inspection of the items on the list and it will be conducted by not only the person who places the items on the inventory list but also another employee of the department to ensure the items are in fact still in our possession and accounted for. Both people will then sign off on the document showing the inventory was done and note any inaccuracies, if any. Also note I was not sheriff during this audit period. I came into office on October 1st 2008.

County Commissioner District 2: District 2 has a limited number of staff due to financial constraints. However, with the implementation of the "Inventory Control" officer (as described in Objective 8,) I believe some of the audit findings will be corrected.

County Commissioner District 3: Each District has inadequate segregation over fixed asset inventory. This is now being managed by the road foreman, bridge foreman, and administrative assistant in the shop, with supporting backup from personnel in the County Clerk's office.

Criteria: An important aspect of internal controls is the safeguarding of assets which includes adequate segregation of duties. Internal controls over safeguarding of assets constitutes a process, affected by an entity's governing body, management, and other personnel, designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of fixed assets and safeguarding fixed assets from loss, damage, or misappropriation.

Objective 10:	To determine the County's financial operations complied with 19 O.S. § 682, which requires officers to deposit daily in the official depository all collections received under the color of office.

Conclusion: With respect to the days tested and items reconciled, the County did comply with state statute 19 O.S. § 682, which requires offices to deposit daily in the official depository all collections received under the color of office.

Methodology: To accomplish our objective, we performed the following:

- Gained an understanding of the internal controls related to the process of officers depositing daily in the official depository all collections received under the color of office, which included discussions with County personnel, observation, and review of documents.

- Tested compliance with 19 O.S. § 682, by performing cash compositions for one week on the official depository accounts for the County Treasurer, Court Clerk, County Clerk, County Assessor, and Sheriff and verifying the following:
  - Official depository receipts are deposited daily.
  - Deposits are promptly and accurately recorded as to account, amount, and period.
  - Official Depository receipts agree to the amounts recorded on the deposit.

Finding: Inadequate Internal Controls and Lack of Segregation of Duties over Official Depository Accounts

Condition: When documenting the receipting process for official depository collections in each office, we noted the following:

- County Treasurer
  - Bank reconciliations were not performed between October 2007 and February 2008.
  - One person was responsible for preparing the daily reports, posting to the general ledger, and issuing official depository vouchers.
- Court Clerk
  - Reconciliations were not reviewed or approved by someone other than the preparer and were not prepared in a timely manner.
- County Clerk
  - One employee is responsible for balancing the cash drawer, reconciling collections to the various collection reports, generating the deposit ticket, and taking the deposit to the County Treasurer.
- County Sheriff
  - One employee is responsible for reconciling collections to receipts, preparing the deposit, taking the deposit to the Treasurer's office, reconciling collections to the Treasurer, and writing official depository vouchers.
- County Assessor
  - One employee is responsible for reconciling collections to receipts, preparing the deposit and taking the deposit to the Treasurer's office.
- Election Board
  - One employee is responsible for receiving collections, issuing receipts, preparing deposit, tickets, taking deposits to the Treasurer, reconciling to the Treasurer, and issuing official depository vouchers.

Cause of Condition: Management has not implemented procedures to ensure adequate controls are in place to safeguard assets and to separate key functions and processes among various employees in the office or to have levels of review over the processes performed.

Effect of Condition: A single person having responsibility for more than one area of recording, authorization, custody of assets, and execution of transactions could result in unrecorded transactions, misstated financial reports, clerical errors, or misappropriation of funds not being detected in a timely manner.

Recommendation: OSAI recommends establishing a system of controls to adequately safeguard the collections of each office, which include, but are not limited to, the following:

- The person delivering the deposit should not issue receipts or reconcile the account to the Treasurer's monthly report.
- Each office should establish separate cash drawers for all employees receiving cash.

Management Response:
County Treasurer: Bank reconciliations are performed on a monthly basis and presented to the Treasurer for review. Additionally, duties related to the administration of the Official Depository Fund are segregated as much as the limited number of personnel permits.

County Clerk: We have one more employee signing off and taking the deposit to the Treasurer's Office.

Court Clerk: I was not in Office at the time. I am working to rectify this situation. We are currently preparing our reconciliation reports in a timely manner and they are being prepared by the Bookkeeper, reviewed by myself, signed off by District Judge and County Treasurer and approved by the County Commissioners. As far as separate cash drawers for all employees receiving cash, we have a plan in place included in a remodel project that will take place possibly in the next year or two.

County Sheriff: Currently the Washington County Sheriff's Department has one person that is responsible for doing the deposits, monthly reports and writing an official depository voucher. Effective immediately we will have a second person checking and signing off on deposits, monthly reports and official depository vouchers and delivering them to the Treasurer's office.

County Assessor: In response to the State Auditor's findings concerning inadequate internal controls and lack of segregation of duties over depository accounts, we have established a process to ensure that the records of the Washington County Assessor's Office depository account comply with current auditing procedures. Furthermore, and in compliance with 19 O.S. § 682, we will on all future deposit records have two deputy assessors both count monies being deposited and then initial the depository receipt before <u>and</u> after taking the monies to the office of the County Treasurer. This will ensure proper segregation of duties involving our depository records.

Criteria: Effective internal controls require that key functions within a process be adequately segregated to allow for prevention and detection of errors and possible misappropriation of funds.

Objective 11:	To determine the County Court Clerk's financial operations complied with 19 O.S. § 220 and 20 O.S. § 1304, which outlines procedures for expending court clerk revolving fund monies and court fund monies, respectively.

Conclusion: With respect to items tested, the County Court Clerk's financial operations did not comply with 19 O.S. § 220 and 20 O.S. § 1304, which outlines procedures for expending Court Clerk Revolving Fund monies and Court Fund monies, respectively.

Methodology: To accomplish our objective, we performed the following:

- Gained an understanding of the internal controls related to expending Court Fund monies and Court Clerk Revolving Fund monies, which included discussions with County personnel, observation, and review of documents.

- Tested compliance with 19 O.S. § 220 for the Court Clerk Revolving Fund, which included reviewing 100% of Court Clerk Revolving Fund expenditures for the following:
  - Expenditure was for the lawful operation of the Court Clerk's office.
  - Expenditure claim is approved by the Court Clerk and either the District Judge or the Associate Judge of the County.
  - Claims are supported by adequate documentation.

- Tested compliance with 20 O.S. § 1304 for the Court Fund, which included the following:
  - Randomly selected 41 Court Fund claims and verified the following:
    - Expenditures were made for the lawful operation of the office.
    - Claims were approved by the Court Clerk and either the District or Associate District Judge.
    - Expenditures from restricted categories have prior written consent or approval of the Chief Justice and are approved by the District Judge and one other Board member.
    - Claims are supported by adequate documentation.

Finding: Inadequate Segregation of Duties over Court Clerk Revolving Fund and Court Fund Expenditures

Condition: Internal controls have not been adequately implemented to ensure that Court Fund and Court Clerk Revolving Fund monies are expended in accordance with state statutes.

There is a lack of segregation of duties in the Court Clerk's office. All Court Clerk employees issue receipts. The employees also rotate performing the duties of counting the cash drawer, preparing the deposit, reconciling the cash drawer, and taking the deposit to the Treasurer.

- Of the 41 Court Fund expenditures tested, the following were noted:
  - Twenty-two of the claims did not have two signatures from the governing board.
  - Four claims did not have supporting documentation.
- Of the 17 Court Clerk Revolving Fund expenditures tested, the following was noted:
  - Eleven claims did not have the approval signature of the Court Clerk.

Cause of Condition: Procedures have not been designed or implemented to ensure adequate segregation of key accounting functions regarding the receipts and expenditures process of the Court Fund and Court Clerk Revolving Fund and to ensure compliance with state statutes.

Effect of Condition: A single person have responsibility over more than one area of recording, authorizing, custody of assets, and execution of transactions could result in unrecorded transactions, incorrect financial reports, undetected errors, or misappropriation of funds.

Recommendation: OSAI recommends that the Court Clerk implement procedures to ensure receipting of funds and expenditures from the Court Fund monies and Court Clerk Revolving Fund monies are in accordance with state statutes.

OSAI also recommends management be aware of these conditions and determine if duties can be properly segregated. In the event that segregation of duties is not possible due to limited personnel, OSAI recommends implementing compensating controls to mitigate the risks involved with a concentration of duties. Compensating controls would include separating key processes and/or critical funds of the office, and having management review and approval of accounting functions.

Management Response: I was not in Office at the time. I am working to rectify this situation.

Criteria: Effective internal controls include management design procedures to ensure Court Fund and Court Clerk Revolving Fund monies are spent in according with 19 O.S. § 220 and 20 O.S. § 1304.

Objective 12:	To determine the County Sheriff's Inmate Trust Fund financial operations complied with 19 O.S. § 531A, which requires these funds only be expended to refund monies to inmates or to transfer funds to the Sheriff's Commissary Fund for inmate expenditures.

Conclusion: With respect to the County Sheriff's Inmate Trust Fund, the Sheriff did comply with 19 O.S. § 531A, which requires these funds only be expended to refund monies to inmates or to transfer funds to the Sheriff's Commissary Fund for inmate expenditures.

Methodology: To accomplish our objective, we performed the following:

- Gained an understanding of the internal controls related to expending funds from the Sheriff's Inmate Trust Fund, which included discussions with County personnel, observation, and review of documents.

- Tested compliance of the significant law, which included the following:
  - Selected a random sample of 55 Inmate Trust disbursements to determine that monies were properly expended.

Finding: Inadequate Internal Controls over the Inmate Trust Fund

Condition: Internal controls have not been designed to ensure an accurate accounting of the Sheriff's Inmate Trust Fund. An examination of the Inmate Trust Account revealed the following:

- Bank reconciliations were not approved by someone other than the preparer.
- Inmate Trust checks did not have two signatures as required on the face of the check.
- Inmate Trust checks can be issued and signed by every employee within the Sheriff's office.
- Blank checks are maintained in an unsecured bookshelf in the booking area, which is assessable to everyone.

Cause of Condition: Procedures have not been designed to ensure accurate reporting of the Inmate Trust Fund and ensure adequate controls are in place to safeguard assets.

Effect of Condition: These conditions could result in unrecorded transactions, incorrect financial reports, undetected errors, or misappropriation of funds.

Recommendation: OSAI recommends that the Sheriff's office ensure that all bank reconciliations be reviewed and approved by someone other than the preparer. Additionally, OSAI recommends that the Sheriff implement procedures to ensure all checks have two signatures and that only authorized personnel perform the duties of issuing checks.

Management Response: In regard to the Inmate Trust fund, some of the following have already been implemented and the others are in the process. All voided checks are being retained. Corporals and Sergeants are the only ones who can issue or sign checks. Each item will be checked and signed off on by two officers. Deposits are made daily except on holidays and weekends. Collections are always compared back to deposits. Reconciliations will be checked and signed off on by two officers, the Assistant Jail Administrator, and Jail administrator. Stamps with the Sheriff's name on them have been returned. All checks are located in a locked drawer. An annual report will be prepared by January 15th of each year for the Board of County Commissioners.

Criteria: Effective internal controls require that management properly implement procedures to ensure compliance with 19 O.S. § 531A with regard to Inmate Trust Funds.

Further, accountability and stewardship are overall goals in evaluating management's accounting of funds. To help ensure a proper accounting of financial records, the duties of receipting, depositing, posting amounts to accounts, maintaining records, issuing checks, and performing bank reconciliations should be segregated.

All Objectives:

The following finding is not specific to any objective, but is considered significant to all of the audit objectives.

Finding: Inadequate County-Wide Controls

Condition: County-wide controls regarding Risk Management and Monitoring have not been designed.

Cause of Condition: Procedures have not been designed to address risks of the County.

Effect of Condition: This condition could result in unrecorded transactions, undetected errors, or misappropriation of funds.

Recommendation: OSAI recommends that the County design procedures to identify and address risks. OSAI also recommends that the County design monitoring procedures to assess the quality of performance over time. These procedures should be written policies and procedures and could be included in the County's policies and procedures handbook.

Examples of risks and procedures to address risk management:

Risks	Procedures
Fraudulent activity	Segregation of duties
Information lost to computer crashes	Daily backups of information
Noncompliance with laws	Attend workshops
Natural disasters	Written disaster recovery plans
New employee errors	Training, attending workshops, monitoring

Examples of activities and procedures to address monitoring:

Monitoring	Procedures
Communication between officers	Periodic meetings to address items that should be included in the handbook and to determine if the County is meeting its goals and objectives.
Annual Financial Statement	Review the financial statement of the County for accuracy and completeness.
Schedule of Expenditures of Federal Awards (SEFA)	Review the SEFA of the County for accuracy and to determine all federal awards are presented.
Audit findings	Determine audit findings are corrected.
Financial status	Periodically review budgeted amounts to actual amounts and resolve unexplained variances.
Policies and procedures	Ensure employees understand expectations in meeting the goals of the County.
Following up on complaints	Determine source of complaint and course of action for resolution.
Estimate of needs	Work together to ensure this financial document is accurate and complete.

Management Response:
County Clerk: All Objectives – 1) We have changed the segregation of duties by having different employees in the office be involved in the different processes; 2) Our new computer system and the County's IT Department have a daily back up; 3) We will be working with our EOC Director on obtaining a written Disaster Recovery Plan; and 4) We have been attending training, attending workshops and monitoring our work to do a better job.

Court Clerk: I was not in Office at the time. As for segregation of duties, we are working on a plan that will rectify the situation. We are currently going to as many classes as we can. As far as Monitoring and Communication between officers, I try to attend all the Monday morning Commissioner meetings, Budget Board meetings, and Building committee meetings that I can. I am aware of the audit findings and am going to work on the recommendations. I will communicate with my employees on the policies and procedures and am dedicated to cross-training in all areas.

County Commissioner District 2: The segregation of duties has been improved with the implementation of the documentation and the designation of an “Inventory Control” officer. The Disaster Recovery Plan for the first time was brought to our attention. We are in the process of making a written plan to be reviewed by our Emergency Management Director and then exercised with the District 2 crew.

County Assessor: In response to the State Auditor’s findings concerning inadequate county-wide controls regarding risk management and monitoring, we have as a county designed a process to address risks of the County. It is our goal to ensure that unrecorded transactions, undetected errors, or misappropriation of funds does not occur during our respective tenures at Washington County.

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 made. Internal control comprises the plans, methods, and procedures used to meet missions, goals, and objectives. Internal control also serves as the first line of defense in safeguarding assets and preventing and detecting errors and fraud. County management is responsible for designing a county-wide internal control system comprised of Risk Assessment and Monitoring for the achievement of these goals.

Risk Assessment is a component of internal control which should provide for an assessment of the risks the County faces from both internal and external sources. Once risks have been identified, they should be 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.

Other Item(s) Noted:

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

Finding: Information System

Condition: Upon inquiry of the County Clerk and County Treasurer, we noted the following deficiencies with the information software system:

- The IT system did not generate a general ledger for the period of July 1, 2007 through December 31, 2007. This information is necessary for accurate financial reporting.
- The IT system did not have audit logs within the system that records the entries made and the related user identification.

Cause of Condition: The County did not ensure that the computer system purchased would provide reliability and availability consistent with the County's needs and provide adequate controls to safeguard the County's data from unauthorized modification, loss, or disclosure.

Effect of Condition: The condition mentioned above could increase the likelihood of misstatements and possible misappropriation of funds. Coupled together with no Disaster Recovery Plan in place, this increases the chances of the County being unable to function in the event of a disaster.

Recommendation: OSAI recommends the County consider the upgrade or possible replacement of the County's information system. The County should ensure that the recordkeeping software:

- provides reliability and availability consistent with the County's needs, and
- provides adequate controls to safeguard the County's data from unauthorized modification, loss, or disclosure.

Management Response:
County Treasurer: The computer system used by the County Treasurer during the FY 07-08, did not provide the County with the ability to maintain an accurate General Ledger. Use of said software was terminated for FY 08-09 and a federal lawsuit is pending against the vendor.

County Clerk: Other Items – Our new computer system allows us the ability to audit logs within the system, records the entries made and the related user identification.

County Commissioner District 2: October of 2009, two new software packages were installed to replace an inadequate system in the County Clerk's office and in the Treasurer's office. This software was applied retroactively to July 2009 to allow for coverage during the entire 2009 fiscal year. With no additional findings in the 2009 fiscal year audit, I believe this has corrected the deficiencies listed.

County Commissioner District 3: There have been areas of concern in relation to the backup of sensitive data. These issues are now regularly discussed in Budget Board meetings and Computer Committee meetings. It is my opinion, that we have stabilized the IT department with new personnel, and there are better lines of communication between the user and support groups. IT is not my strength, but I do have confidence in the present staff.

I am aware that a general ledger was unavailable for part of the calendar year 2007. A new software program had been purchased, which apparently had poor programs, or ones that were not user-friendly for county government operations. It is my belief this situation has been corrected.

Criteria: An important aspect of internal controls is the safeguarding of assets which includes reliable information systems. 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 that the information from the County's information systems can be relied upon.

Finding: Disaster Recovery Plan

Condition: Upon inquiry, the County does not have a Disaster Recovery Plan.

Cause of Condition: Procedures have not been designed to develop and implement a Disaster Recovery Plan.

Effect of Condition: The failure to have a formal Disaster Recovery Plan could result in the County being unable to function in the event of a disaster. The lack of a formal plan could cause significant problems in ensuring County business could continue uninterrupted.

Recommendation: OSAI recommends the County officials develop a Disaster Recovery Plan that addresses how critical information and systems within their offices would be restored in the event of a disaster.

Management Response:
County Commissioner District 1: We will work with County Officers to resolve the findings and begin work on a Disaster Preparedness Recovery Plan for the County and each County office, including the District's road maintenance shops.

County Commissioner District 2: This is the first notification that we have received that each office should develop and have in place a Disaster Recovery Plan. Although, the County does have a county-wide Disaster Recovery Plan developed through Emergency Management, it does not comply with the criteria described here. We will work with the County Officers and staff to get these plans developed, reviewed by Emergency Management, and exercised in the various offices in an effort to comply.

County Commissioner District 3: The County does need to develop a Disaster Recovery Plan. I appreciate this being brought to my attention. My immediate plan would be to relocate to the County fairgrounds, where temporary partitions could be set up and offices put together in a short amount of time. I will direct Emergency Operations Center to work with the Commissioners for further preparedness measures.

County Treasurer: A backup is run every evening to a local external hard drive. There are 3 different hard drives that are used in rotation. I have 3 employees that are cross-trained to remove that backup and secure it in a Safety Deposit box with our bank weekly.

In addition, there is a backup run every evening through a consulting firm we have hired, who contracts out with a third-party; that backup is stored on the Cloud.

In addition to written instruction manuals on how to operate the system, which will be scanned to PDF and backed up, the consulting firm we hired would be available to train new employees. In the event the building is destroyed, the office would resume temporary operations in the Washington County Courthouse of Sheriff's Office until new office spaced could be acquired.

County Clerk: We are working on a plan to insure functionality of our office in case of a disaster. Example: extra Purchase Orders and check stock stored off site.

Court Clerk: I was not in Office at the time and was just made aware of the situation. I am going to start working on a plan.

County Assessor: In response to the State Auditor's findings concerning inadequate written Disaster Recovery Plans in place by Washington County officials, we as a county have determined to write individual natural Disaster Recovery Plans in case of a future natural disaster. As for the office of the Washington County Assessor, my plan will detail where a hard copy of the plan will be stored, when and where to assemble for work following a natural disaster, and what steps will be necessary to facilitate the duties of the County Assessor's Office in the event of a natural disaster or catastrophic emergency.

County Sheriff: In an effort to provide guidance for staff in the event of a natural disaster or fire the following directions will be followed:

Once smoke or fire is realized, the Fire Department will be notified immediately, regardless if the alarm system has activated.

Should there be a fire in one of the pods or if it should fill with smoke, the inmates in that pod will be evacuated to the adjoining pod through the door that opens directly into the adjoining pod. This evacuation process will continue until a decision is made that the jail is no longer inhabitable and at that time all inmates will then be evacuated into the evacuation yard located at the South end of the complex.

In the event of a tornado, all inmates will remain in their pods until the all clear is given. If the jail is no longer inhabitable due to damage, inmates will be evacuated to other county jails until such time as repairs are made to the facility.

If it is necessary to evacuate all inmates to other detention facilities due to fire damage or other loss that causes the jail to be uninhabitable, the following jails will be called and a request made for them to hold our inmates until we can return them to our jail:

Osage County (918)287-3131
Nowata County (918)273-2287
Craig County (918)256-6466

The dispatch center located in the Washington County Detention Center having been designed to withstand an F5 tornado and is fire resistant. The employees located in this area will remain until the all clear is given.

The Washington County Detention facility computer server is located in a server room located within the design of the emergency dispatch center and is protected by that design. The data stored on that server is backed up by a different server located off site at the Washington County Administration building located at 4th and Johnstone.

Criteria: According to the standards of the Information Systems Audit and Control Association (CobiT, Delivery and Support 4) information services function, management should ensure that a written Disaster Recovery Plan is documented and contains the following:

- Current names, addresses, contact numbers of key county personnel and their roles and responsibilities of information services function.
- Listing of contracted service providers.
- Information on location of key resources, including back-up site for recovery operating system, application, data files, operating manuals and program/system/user documentation.
- Alternative work locations once IT resources are available.

Also, according to the standards of the Information Systems Audit and Control Association (CobiT, Delivery and Support) DS11.6 Security Requirements for Data Management, management should define and implement policies and procedures to identify and apply security requirements applicable to the receipt, processing, storage, and output of data to meet business objectives, the organization's security policy, and regulatory requirements.

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