

OPERATIONAL AUDIT

WOODS COUNTY

For the period July 1, 2008 through June 30, 2011



*Independently serving the citizens of
Oklahoma by promoting the
accountability and fiscal integrity of
governmental funds.*



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

**WOODS COUNTY OPERATIONAL AUDIT
FOR THE PERIOD JULY 1, 2008 THROUGH JUNE 30, 2011**

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Oklahoma State Auditor & Inspector

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March 26, 2012

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

Transmitted herewith is the audit report of Woods County for the period July 1, 2008 through June 30, 2011.

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 "Gary A. Jones". The signature is fluid and cursive, with a long horizontal stroke at the end.

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

**WOODS COUNTY
OPERATIONAL AUDIT**

Background

Woods County was created at statehood from portions of Woods and Woodward counties, Oklahoma Territory. It was part of the Cherokee Outlet, given to the Cherokees in 1828 as a hunting outlet. In 1893, the Cherokee Outlet was opened to white settlement by a land run, the greatest horserace in history. The area, which was to become Woods County, was originally designated as County "M."

The Oklahoma Constitutional Convention divided old Woods County. The eastern portion became Alfalfa County, a southern portion became Major County, and part of Woodward County north and east of the Cimarron River was added to the remainder to make up present-day Woods County.

County Seat – Alva	Area – 1,290.07 Square Miles
County Population – 8,418 (2009 est.)	
Farms – 840	Land in Farms – 833,775 Acres

Primary Source: Oklahoma Almanac 2011-2012

- County Officials:**
- Monica Schmidt..... County Assessor
 - Pam InmanCounty Clerk
 - Clint Strawn County Commissioner District 1
 - Randy McMurphy..... County Commissioner District 2
 - Mike Goucher County Commissioner District 3
 - Rudy Briggs, Jr. County Sheriff
 - David Manning County Treasurer
 - Della Dunnigan Court Clerk

**WOODS COUNTY
OPERATIONAL AUDIT**

Presentation of Apportionments, Disbursements, and Cash Balances of County Funds for FY 2011

	Beginning Cash Balance July 1, 2010	Receipts Apportioned	Disbursements	Ending Cash Balance June 30, 2011
Combining Information:				
County General Fund	\$ 2,433,346	\$ 2,804,820	\$ 2,410,134	\$ 2,828,032
County Health Department	117,547	171,908	133,735	155,720
County Highway	2,287,853	4,734,029	4,956,218	2,065,664
E-911	78,109	343,631	288,030	133,710
CBRI Funds		1,250,864	190,098	1,060,766
Remaining Aggregate Funds	805,631	625,550	331,614	1,099,567
Combined Total - All County Funds	<u>\$ 5,722,486</u>	<u>\$ 9,930,802</u>	<u>\$ 8,309,829</u>	<u>\$ 7,343,459</u>

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, 2008 through June 30, 2011.

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 2011.
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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, 2011, 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.

Observation

Inadequate Internal Controls Over the County Treasurer's Monthly Reports

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.

- Upon inquiry and observation of the recordkeeping process, the following was noted:
 - The County Treasurer's monthly reports are compiled from an information system in which the County Treasurer and one deputy perform daily activity using the information system such as issuing receipts and posting disbursements.
- 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.

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.

Further, 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. Also, having management review and approval of accounting functions would provide independent oversight of the accuracy of the County Treasurer's monthly reports.

**Management
Response**

The apportionments, disbursements, and cash balances between the County Treasurer and County Clerk have always been reconciled monthly to prevent errors or misappropriated funds. We have, by recommendation of the State Auditor, implemented supporting documentation of such by adding two or more signatures to said reports.

Objective 2: To determine if the County's internal controls provide reasonable assurance that revenues were accurately reported in the accounting records.

Conclusion

The County's internal controls do not provide reasonable assurance that revenues were accurately reported in the accounting records.

Methodology

To accomplish our objective, we performed the following:

- Gained an understanding of the internal controls related to the receipting process through discussions with County personnel, observation and review of documents.

Observation

Inadequate Internal Controls Over the Receipting Process

Accountability and stewardship are overall goals of management in the accounting of funds. To help ensure a proper accounting of funds, the duties of receiving, receipting, recording, depositing cash and checks, reconciliations, and transaction authorization should be separated.

Upon inquiry and observation of the receipting process for each office, the following was noted:

County Treasurer's Office: The County Treasurer maintains one cash drawer, has one employee who issues receipts, posts receipts to the general ledger, reconciles the cash drawer, and prepares the deposit.

County Clerk's Office: The County Clerk has one employee that issues receipts, reconciles the cash drawer, prepares the deposit, and takes the deposit to the County Treasurer.

County Sheriff's Office: The County Sheriff has one employee that issues receipts, reconciles the cash drawer, prepares the deposit, and takes the deposit to the County Treasurer.

County Assessor's Office: The County Assessor has one employee that issues receipts, reconciles the cash and checks deposited, prepares the deposit, and takes the deposit to the County Treasurer.

Court Clerk's Office: All Court Clerk employees issue receipts, maintain one cash drawer, and the person preparing the deposit issues receipts, prepares the deposit, takes the deposit to the County Treasurer, and reconciles accounts to the County Treasurer.

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 management be aware of these conditions and determine how to properly segregate duties. OSAI further 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.

Further, the following duties should be separated in the respective offices:

County Treasurer's Office: Employees should not all work from the same cash drawer. The person preparing the deposit should not issue receipts and reconcile the cash drawer.

County Assessor's Office: One employee should not be performing all of the duties regarding opening mail, issuing receipts, preparing the deposit, and delivering the deposit to the County Treasurer's Office.

County Clerk's Office: Employees should not all work from the same cash drawer. The person reconciling the cash drawer and delivering the deposit to the Treasurer should not be issuing receipts.

County Sheriff's Office: One employee should not be performing all of the duties regarding opening mail, issuing receipts, preparing the deposit, and delivering the deposit to the County Treasurer's Office.

Court Clerk's Office: Employees should not all work from the same cash drawer. The duties of issuing receipts, preparing the deposit, taking the deposit to the County Treasurer, and reconciling the accounts should be performed by different individuals.

**Management
Response**

County Treasurer: We have a limited number of individuals in the Treasurer's Office. Consequently, over the years, I have extensively observed our protocol, analyzed and implemented controls to mitigate the risk involved in the day to day operations of this office. The possibility of hiring the number of deputies for the "ideal" general accounting principles would not be cost effective or essential for smaller rural counties.

We understand that a limited number of individuals are not desired from a control point of view. Nevertheless, the budget and sensible business practices guides our decision of an efficient minimized staff. It is on a very rare occasion that one employee would issue and post receipts, reconcile the cash drawer, and prepare the deposit.

The Wood's County Treasurer's Office has a fine balance of being cross-trained (knowing how to do one another's duties) and sustaining segregated duties. It is important to maintain this balance to keep the office running efficiently in the event we may lose an employee for a period of time and to minimize control risks.

We maintain one cash drawer in our office because it limits the amount of cash we keep in our office. If we kept three cash drawers, our control risk would increase in my opinion. The cash drawer consists of only \$150.00. I will assume the responsibility and will replace any cash in the event of it being "misplaced." It was recommended to me by the State Auditor's Office to keep \$50.00 in each drawer, but this is not enough cash in one drawer to make change resulting in being in each other's cash trying to make change. One cash drawer is the safest option, for the least amount of cash kept in one place is the logical choice for this office. The cash drawer is counted and balanced on a daily basis.

County Clerk: I now have four employees with one cash drawer and each employee has their own long-in.

County Sheriff's Office: The Sheriff's Office is in the process of implementing a policy whereby several employees are responsible for issuing receipts, reconciling the cash drawer, etc. The policy will also address having more than one employee opening mail, preparing deposits, and delivering deposits to the County Treasurer's Office.

Court Clerk's Office: We have a rotation program for monthly accounting. This is a small office, one cash drawer is sufficient. I assume all risk involved.

County Assessor's Office: I have arranged for receipts, checks, a depository ticket, and spreadsheet for our accounting purposes. Effective March 1, 2012, the County Assessor's Office will have two people issue receipts, another will reconcile the cash and checks, and one of the receipt writers will then prepare the deposit and take the deposit to the County Treasurer. I am the one that opens most all correspondence. This should provide for an adequate checks and balances system within my office.

Auditor Response

Employees issuing receipts should have separate cash drawers in order to reduce the risk of error and fraud. Employees issuing receipts should be performing the duties of delivering the deposit. In order to mitigate a concentration of duties in a limited number of employees, monitoring procedures should be implemented in to provide reviews for accuracy.

Observation

Inadequate Controls Over IT

Accountability and stewardship are overall goals of management in the accounting of funds. To help ensure a proper accounting of funds, the County should use complex alpha numeric passwords, including special characters and at least six characters in length. Passwords should be changed at regular intervals or at a minimum once every six months.

Based upon inquiry and observation of the receipting process for each office, the following was noted.

County Treasurer: The County Treasurer's office utilizes passwords, but employees are not required to change passwords at regular intervals.

County Clerk: The County Clerk's office utilizes passwords, but employees are not required to change passwords at regular intervals.

This condition could allow for unauthorized access to the office's information systems, resulting in the possible loss and corruption of recorded information.

Recommendation

OSAI recommends that management implements and utilizes complex alpha numeric passwords and that passwords be changed on a regular basis.

**Management
Response**

County Clerk: Passwords are the responsibility of the employees and they have been informed of the recommendation to change passwords once every six months. I do not want to know their passwords.

County Treasurer: On recommendation of the State Auditor's Office, the Treasurer's Office changes passwords on or around the 15th of every month to prevent unauthorized access to the Office's information system.

Objective 3: To determine if the County's internal controls provide reasonable assurance that expenditures were accurately reported in the accounting records.

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

Methodology To accomplish our objective, we performed the following:

- Gained an understanding of the internal controls related to the expenditure process through discussions with County personnel, observation and review of documents.
- Tested controls which included reviewing a random sample of 75 expenditures for the following:
 - Ensuring that claims reflected authorized signatures for the requisitioning officer, receiving officer, and approval for payment by a majority of the Board of County Commissioners.
 - Ensuring that claims were signed by the County Clerk attesting all supporting documentation was attached to claim prior to submission for payment.

Observation **Internal Controls Not Operating Properly Over Highway Funds, Inadequate Segregation of Duties Over Court Fund and Court Clerk Revolving Fund Expenditures**

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 preparing a claim, writing a voucher, signing a voucher, and recording the transaction should be separated.

Regarding the Highway Districts, we observed the three County Commissioners sign several blank purchase orders to requisition before the purchase orders are needed. These blank purchase orders are maintained by the county purchasing agent to be completed when needed. Thus, the three County Commissioners have relinquished their requisitioning duties to the county purchasing agent and created inadequate segregation of duties in the Highway District for requisitioning and ordering goods. Highway expenditures comprise 60% of the total expenditures of the County.

Upon inquiry and observation of court fund expenditures, one individual prepares the claim, issues the voucher, signs the voucher, and records the transaction.

Upon inquiry and observation of court clerk revolving fund expenditures, a lack of segregation of duties exists because the duties related to expenditures of the fund have not been properly segregated and the fund is not established as a cash fund in accordance with state statutes.

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

Further, the duties of requisitioning and ordering goods and services for the Highway Districts should not be performed by one individual. In no instances should the County Commissioners sign blank purchase orders.

Regarding the court fund and the court clerk revolving fund, the duties of preparing claims, writing vouchers, signing vouchers, and recording transactions, should not be performed by one individual. Additionally, the court clerk revolving fund should be established as a cash fund in accordance with 19 O.S. § 220.

**Management
Response**

Court Clerk's Office: Procedures will be examined for management of the Court Fund. The legislature is in the process of returning the Revenue Fund to the Court Clerk as it should be. Appropriate changes will be considered. I have control over the Court Fund and totals are checked by deputies on a monthly basis.

County Clerk: Signed purchase orders are kept in a locked drawer by the Purchasing Agent. It has been discussed using a name stamp. Commissioners feel comfortable with the hand signed purchase orders given in limited quantities.

The original purchase orders are distributed to the offices or Districts. Offices and Districts are responsible for receiving reports, statements, payment and

inventory. This is a system which helps keep the Districts track their supplies and inventory.

Each purchase order is reviewed by the Commissioners. A list of unpaid warrants is faxed before payment is made for easy access and reference.

Auditor Response

Employees issuing receipts should have separate cash drawers in order to reduce the risk of error and fraud. Authorizations of signatures should never be used on blank purchase orders. The purpose of a requisitioning signature on a purchase order is to ensure the good and/or service is needed and that it is a lawful expenditure of the fund. A person having a blank purchase order with a requisitioning signature could lead to misappropriation of assets authorized by the official requisitioning officer.

Objective 4:

To determine if the County's internal controls provide reasonable assurance that payroll expenditures were accurately reported in the accounting records.

Conclusion

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

Methodology

To accomplish our objectives, we performed the following:

- Gained an understanding of the internal controls related to the payroll expenditure process through discussions with County personnel, observation and review of documents.

Observation

Inadequate Segregation of Duties Over Payroll Expenditures

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 enrolling new personnel, processing payroll information and records, preparing OPERS reports and state and federal tax reports, printing and signing the payroll warrants, and maintaining personnel files should be separated.

Upon inquiry and observation, it was determined that the payroll clerk enrolls new employees, processes payroll information and records, prepares the OPERS report and the state and federal tax reports, reviews timesheets, prints the payroll warrants, and maintains the personnel files.

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 management be aware of these conditions and determine how to properly segregate the duties of the payroll process. 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.

Further, the duties of enrolling new employees, maintaining personnel files, preparing retirement reports and state and federal tax reports, and distributing payroll warrants should not all be performed by one individual. The duties of posting payroll information into the system, printing payroll claims, printing payroll warrants, and distributing payroll checks should be adequately segregated.

**Management
Response**

County Clerk: I have two computers now with KPO/Inventory. This allows two employees to have access to payroll and share the duties of entries and balancing.

The Payroll/Accounting Supervisor also maintains an excel spreadsheet for easy cross reference. Currently, I am in the process of training a third employee for Insurance and OPERS.

Objective 5: To determine if the County's internal controls provide reasonable assurance that inventories were accurately reported in the accounting records.

Conclusion The County's internal controls do not provide reasonable assurance that fixed asset inventories and consumable inventories were accurately reported in the accounting records.

Methodology To accomplish our objective, we performed the following:

- Gained an understanding of the internal controls related to the fixed asset inventory process and the consumable inventory process through discussions with County personnel, observation and review of documents.

Observation

Inadequate Internal Controls Over Fixed Assets

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 safeguard fixed assets from loss, damage, or misappropriation.

Upon inquiry and observation of the internal control process over fixed asset inventories, the following was noted:

County Treasurer's Office: The County Treasurer's office has not designed and or implemented a formal annual inventory of fixed assets.

County Clerk's Office: The County Clerk's office lacks adequate segregation of duties over the inventory process because the same employee is the receiving officer and the inventory officer. The inventory officer prepares inventory cards, marks new equipment with County identification numbers, and performs the annual physical inventory. The County Clerk's office has not designed and or implemented a formal annual inventory.

County Assessor's Office: The Assessor's office lacks adequate segregation of duties over the inventory process because the same employee is the receiving officer and the inventory officer. The inventory officer marks new equipment with county identification numbers and performs the annual physical inventory. The County Assessor's office has not designed and or implemented a formal annual inventory of fixed assets.

County Sheriff's Office: The Sheriff's office lacks adequate segregation of duties over the inventory process because the same employee is the receiving officer and the inventory officer. The inventory officer receives inventory and marks new inventory with the county identification number. The Sheriff's office has not designed and or implemented a formal annual inventory.

Court Clerk's Office: The Court Clerk's office lacks adequate segregation of duties over the inventory process because the same employee prepares the inventory cards, marks new inventory with county identification number, and annually reviews inventory. The Court Clerk's office has not designed and or implemented a formal annual inventory.

County Commissioner District 1: District 1 has not designed and/or implemented a formal annual inventory.

County Commissioner District 2: District 2 lacks adequate segregation of duties over the fixed asset inventory process because the same employee is the receiving officer and the inventory officer. The inventory officer receives inventory and marks new inventory with the county identification number, and carries out the annual physical inventory. District 2 has not designed and/or implemented a formal annual inventory.

County Commissioner District 3: District 3 has not designed and/or implemented a formal annual inventory.

Failure to maintain accurate records of fixed asset inventory, failure to adequately segregate the duties of receiving and maintaining a physical verification of fixed assets, and failure to perform an annual physical inventory count of fixed assets could result in inaccurate records, unauthorized use of fixed assets, or misappropriation of fixed assets.

Recommendation

OSAI recommends that each County office implement procedures to accurately account for fixed asset records and segregate the duties over fixed assets. Records should be maintained in such a manner that assets can be identified by serial number, date of acquisition, and purchase price. Additionally, rolling stock should be marked with “Property of Woods County” and should be identified with an identification number that is clearly visible. Further, an annual verification of fixed asset items should be performed and documented to properly account for fixed assets.

**Management
Response**

Court Clerk’s Office: A formal inventory is filed each year with the County Clerk and in the future, it will be signed.

County Assessor’s Office: Effective March 1, 2012, I have changed my personnel so that the inventory person will not be the same person as the receiving agent. We have always done a formal annual inventory of fixed assets at the end of June, but someone in this office will actually sign and date this list for auditing purposes.

County Clerk: Each office and District is handling their own inventory. Consumable inventories will be kept in the County Clerk’s Office; however, the County Clerk’s Office still tracks new purchases, traded and junked items, for easy reference and resolutions. It is important to obtain a dated and signed copy from each office at the end of the fiscal year.

County Treasurer’s Office: The Woods County Treasurer’s Office maintains a fixed asset and consumable inventory report. The fixed asset report is reviewed and maintained when a new entry is added or at least once a year in June. The consumable inventory is updated and checked quarterly. We have, by

recommendation of the State Auditor's Office, applied a "formal" annual report by having at least two signatures on the fixed assets report.

County Sheriff's Office: As of this date, the County Sheriff's Office will begin conducting formal annual inventories. These inventories will be performed by the County Sheriff's Office employees who are not responsible for receiving and marking new inventory.

County Commissioner District 1: We have purchased the Kellpro/Inventory Software for purchase orders and inventory.

County Commissioner District 2: We have purchased the Kellpro/Inventory Software for purchase orders and inventory.

County Commissioner District 3: We have the OSU County Program and have updated our computer hardware.

Observation

Inadequate Internal Controls Over Consumable Inventories

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 consumable assets and safeguard consumable assets from loss, damage, or misappropriation.

Upon inquiry and observation of the internal control process over consumable inventories, the following was noted:

County Commissioner District 1:

- District 1 lacks adequate segregation of duties over consumable inventories because one employee receives inventory and maintains consumable inventory records.
- District 1 has not designed and/or implemented a formal monthly count of consumable inventory.

County Commissioner District 2:

- District 2 lacks adequate segregation of duties over consumable inventory because one employee receives inventory, maintains consumable inventory records, and performs the monthly count of consumable inventory.
- District 2 has not designed and/or implemented a formal monthly count of consumable inventory.

County Commissioner District 3:

- District 3 lacks adequate segregation of duties over consumable inventory because one employee receives inventory, maintains consumable inventory records, and performs the monthly count of consumable inventory.
- District 3 has not designed and/or implemented a formal monthly count of consumable inventory.

Failure to maintain accurate records of consumable inventory, failure to adequately segregate the duties of receiving, maintaining a physical verification of consumable inventory and failure to perform a periodic physical inventory count of consumable items could result in inaccurate records, unauthorized use of fixed assets, or misappropriation of consumable inventories.

Recommendation

OSAI recommends that each County office implement procedures to accurately maintain consumable inventory records and segregate the duties over consumable inventories. The individual assigned to maintain records of consumable inventories should not be responsible for the physical custody of consumable inventories. Records should be maintained in such a manner that reflects consumable inventory by category, amount and current balances. Further a monthly physical verification of consumable inventories should be performed and reconciled to inventory records and filed with the County Clerk.

**Management
Response**

County Commissioner District 1: We have purchased the Kellpro/Inventory Software for purchase orders and inventory.

County Commissioner District 2: We have purchased the Kellpro/Inventory Software for purchase orders and inventory.

County Commissioner District 3: We have the OSU County Program and have updated our computer hardware.

Objective 6:

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 did not comply with 62 O.S. §517.4, which requires county deposits with financial institutions be secured with collateral securities or instruments.

Methodology

To accomplish our objective, we performed the following:

- Gained an understanding of the internal controls related to pledged collateral through discussions with the County Treasurer, observation and review of ledgers and documents.
- Tested compliance of the significant law which included the following:
 - Compared the largest balances per month for 36 months for all the banks holding County money to the amount of pledged collateral to determine that deposits were adequately secured.

Observation

Inadequate Internal Controls Over Pledged Collateral

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.

The County Treasurer has not properly designed and implemented internal controls related to pledged collateral. As a result, we noted the following:

- Funds were inadequately pledged at Community State Bank on May 21, 2009, in the amount of \$66,976.82 and on June 19, 2009, in the amount of \$60,155.75.
- Daily balances were not monitored to determine that adequate pledged securities were available to ensure that deposits were secured at each bank. The Treasurer relied on the banks to notify the County when additional securities were required to cover deposits.

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. The County Treasurer should design and implement internal controls to monitor pledged collateral amounts to bank balances on a daily basis.

Further, OSAI recommends the County Treasurer maintain evidence of monitoring pledged collateral amounts to bank balances on a daily basis to ensure that County funds are adequately secured.

**Management
Response**

The Wood's County Treasurer's Office changed the pledge collateral policy in 2009 due to lower interest payments from our investments. I allowed my pledged collateral to drop from 110% to 100-105%. The market value of said collateral took a significant drop in 2009, causing my pledged collateral to go under 100% for a period in May and June 2009.

I requested an increase in pledged collateral from the bank, and I will begin signing the pledge collateral reports to maintain evidence of monitoring pledged amounts associated with the bank balances in order to prevent an oversight such as in 2009.

Objective 7:

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. However, we were unable to determine that the sales tax was being 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 and apportioning 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.

Observation

Inadequate Internal Controls Over the Apportionment of Sales Tax

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.

The County Clerk is responsible for appropriating sales tax on a monthly basis to the proper funds.

- There is no record of a monthly reconciliation between the County Clerk and the County Treasurer with regard to verifying the sales tax was accurately apportioned and appropriated.
- The sales tax is deposited in the County General Fund and the Board of County Commissioners determines the accounts that receive the funds. The sales tax ballot designates the collections to be used for the health and well-being of the people and capital improvements of the government of Woods County. There is no resolution on file to document how the money is to be appropriated. Therefore, we could not determine that the sales tax was being used only for the purpose for which such sales tax was designated.

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

Recommendation

OSAI recommends that the County implement a system of internal controls to provide reasonable assurance that County sales tax funds are appropriated correctly. The County Treasurer and County Clerk should design and implement internal controls to accurately apportion and appropriate the sales tax amounts on a monthly basis to the correct fund. In addition, the County Clerk should maintain evidence of the physical reconciliation documenting signatures and dates of the reconciliation.

Further, OSAI recommends that the Board of County Commissioners formally document the distribution of sales tax to the designated accounts within the General Fund and track the expenditures as being used only for the purpose for which such sales tax was designated.

**Management
Response**

County Clerk: Resolution #11-12-41 was done on February 29, 2012, by the Board of Woods County Commissioners, authorizing the Woods County Treasurer to deposit sales tax collections, as approved in the election March 10, 1992, County Question Resolution #91-1 for purposes pertaining to the health and well-being of the people, and capital improvements of the government of Woods County into the County General Building Fund.

County Treasurer: The apportionments, disbursements, and cash balances (including sales tax apportionments) between the County Treasurer and County Clerk have always been reconciled monthly to prevent errors or misappropriated funds. We have, by recommendation of the State Auditor, implemented supporting documentation of such by having two or more sign said reports.

Objective 8: 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 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.

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 through discussions with County personnel, observation and review of documents.
- Tested internal controls which included determining that the County Treasurer used the levies as certified by the Excise Board and filed with the County Clerk to input levies into the tax system.
- 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 County Treasurer applied the certified levies as fixed by the Excise Board of Woods County to the tax rolls.
 - Recalculated the apportionment of ad valorem tax collections to determine collections were accurately apportioned to the taxing entities.

All Objectives:

Observation Inadequate County-Wide Controls

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 Control Environment, Risk Assessment, Information and Communication, 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.

Information and Communication is a component of internal control which should provide for a county to run and control its operations. A county must have relevant, reliable information, both financial and nonfinancial. That information should be recorded and communicated to management and others within the county who need it and in a form and within a time frame that enables them to carry out their internal control and operational responsibilities. In addition, the county needs to make sure that the forms of communications are broad-based and that information technology management assures useful, reliable, and continuous communications.

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, comparison, 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.

County-wide controls regarding Risk Assessment, Information and Communication, and Monitoring have not been designed.

- As part of our assessment of the county-wide controls, we reviewed the Employee Personnel Policy Handbook. Through observation and inquiry, we determined that the policies established by the handbook do not reflect actual practices. Because of these inconsistencies there is a perception among employees of favoritism.

These conditions could result in unrecorded transactions, undetected errors, or misappropriation of funds. The lack of an adherence to an established policy and procedures handbook could cause significant problems in ensuring County business is conducted in a professional and ethical manner.

Recommendation

OSAI recommends that the County implement a system of internal controls to provide reasonable assurance regarding the achievement of goals and objectives.

Further, we recommend that the elected officials discuss discrepancies within policies and actual practices and strive to provide an environment that is perceived to be fair for those employees that work for the County.

**Management
Response**

Court Clerk's Office: Favoritism will always exist as each officer has a different idea, and the Court Clerk's office is always set apart from others.

County Clerk: Woods County Officers are in the process of updating the 2012 Policy Manual to avoid favoritism.

Observation

Disaster Recovery Plan

Disaster Recovery Plans are an integral part of county operations to ensure that business can be continued as usual in the event of a disaster. Each office or the County as a whole should have a current, detailed Disaster Recovery Plan on file and should be aware of its content.

According to the standards of the Information Systems Audit and Control Association (CobiT Delivery and Support 4), information services management should ensure that a written disaster recovery plan is documented and contains the following:

- All pertinent County officers with emergency contact information.
- Minimum of two locations for temporary relocation of County offices and contact information for the relocation process.
- List of all numbers to contact to continue operations (computer vendor, internet provider, etc.)

Upon inquiry, the following offices do not have a written Disaster Recovery Plan:

- County Commissioners
- County Sheriff

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 that management work together to create a Disaster Recovery Plan with the above listed requirements.

**Management
Response**

County Sheriff: A Disaster Recovery Plan has been made and placed on file in the County Clerk's Office and the Sheriff's Office.

County Clerk: Woods County Officers are in the process of updating the Disaster Recovery Plan with current information and mutual agreements working with other entities involved. This should be completed by the Emergency Management Safety Director by June 1, 2012.



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