

OPERATIONAL AUDIT

WOODWARD COUNTY

For the period July 1, 2009 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

**WOODWARD COUNTY OPERATIONAL AUDIT
FOR THE PERIOD JULY 1, 2009 THROUGH JUNE 30, 2011**

This publication, issued by the Oklahoma State Auditor and Inspector's Office as authorized by 19 O.S. § 171, has not been printed, but is available on the agency's website (www.sai.ok.gov) and in the Oklahoma Department of Libraries Publications Clearinghouse Digital Collection, pursuant to 74 O.S. § 3105.B.



Oklahoma State Auditor & Inspector

2300 N. Lincoln Blvd. • State Capitol, Room 100 • Oklahoma City, OK 73105 • Phone: 405.521.3495 • Fax: 405.521.3426

June 19, 2012

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

Transmitted herewith is the audit report of Woodward County for the period July 1, 2009 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

BACKGROUND

When the Cherokee Outlet was opened to settlement in 1893, the name “Woodward” was given to Atchison, Topeka, and Santa Fe station in central “N” County, Oklahoma Territory. The name was later given to the County.

Agriculture and petroleum have contributed to the County’s economy.

Scenic areas include Boiling Springs State Park northeast of Woodward, and Alabaster Caverns State Park in the northern section of the County. Fort Supply reservoir provides hunting, fishing, camping, and swimming activities.

For additional information, call the county clerk’s office at 580/256-3625 or the Plains Indians and Pioneers Museum at 580/256-6136.

County Seat – Woodward

Area – 1,246.01 Square Miles

County Population – 19,959
(2009 est.)

Farms – 892

Land in Farms – 783,200 Acres

Primary Source: Oklahoma Almanac 2010-2011

COUNTY OFFICIALS

Mistie Dunn County Assessor
Ron Hohweiler County Clerk
Tommy Roedell County Commissioner District 1
Ted Craighead County Commissioner District 2
Vernie R. Matt County Commissioner District 3
Gary Stanley County Sheriff
Sonya Coleman County Treasurer
Jenny Hopkins Court Clerk

**WOODWARD COUNTY
OPERATIONAL AUDIT**

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

	Beginning Cash Balance July 1, 2010	Receipts Apportioned	Transfer In	Transfer Out	Disbursements	Ending Cash Balance June 30, 2011
Combining Information:						
County General Fund	\$ 1,432,546	\$ 2,701,646			\$ 2,467,218	\$ 1,666,974
T-Highway	1,632,534	4,014,414	126,177		3,792,794	1,980,331
Roads and Bridges	-	2,036,554		126,177	-	1,910,377
Sales Tax	991,711	3,080,429			2,133,061	1,939,079
Sanitary Landfill	492,611	920,460			905,677	507,394
County Health	176,118	218,200			114,181	280,137
Remaining Aggregate Funds	649,858	879,687			762,672	766,873
Combined Total - All County Funds	\$ 5,375,378	\$ 13,851,390	\$ 126,177	\$ 126,177	\$ 10,175,603	\$ 9,051,165

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, 2009 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 Treasurer's monthly reports for FY 2011.

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 Treasurer's monthly reports through discussions with the Treasurer, observation, and review of documents.
- Performed the following to ensure receipts apportioned, disbursements, and cash balances were accurately presented on the Treasurer's monthly reports:
 - Reconciled Treasurer's receipts to amounts apportioned on the Treasurer's monthly reports.
 - Reconciled the County Clerk's warrants issued to disbursements paid by the 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.

Finding: Inadequate Internal Controls over the Treasurer's Monthly Reports

Condition: When documenting the process over the monthly reports we noted the following:

- Journal entries (error corrections made by transfers) are not reviewed by an employee independent of recording them.
- There is no documentation to confirm that the Treasurer has performed independent oversight of the accuracy of the monthly reports.

Cause of Condition: Procedures have not been designed and implemented to independently document the review of journal entries and source data that is used in the monthly reports.

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

Recommendation: OSAI recommends the following, in order to improve controls over the County Treasurer's monthly report:

- Journal entries should be reviewed by someone other than the preparer.
- A review performed by an employee independent of the process should be noted by the initials and date of the reviewer.

Management Response: County Treasurer: While working within a limited budget, utilizing existing staffing, we will make every effort to see that the person who prepares the deposit will not be receipting

collections. Journal entries will now be reviewed by the County Clerk's office during their review of source documentation on the daily reports. All reviews will be dated and initialed.

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

Objective 2: 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 complied 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 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 the six banks to the amount of pledged collateral to determine that deposits were adequately secured.

Finding: Inadequate Internal Controls over Pledged Collateral

Condition: It was determined through discussions with County personnel, observation, and review of documents that the process of monitoring pledged collateral was not adequately documented. It was also noted that the face value of the pledged collateral was relied upon rather than the market value to determine that County deposits were adequately safeguarded from loss.

Cause of Condition: The Treasurer monitored the pledged collateral process based upon the face value of the collateral instruments, rather than the market value.

Effect of Condition: Because of the condition mentioned above, an opportunity for assets to be inadequately pledged exists.

Recommendation: OSAI recommends the Treasurer document the monitoring of the daily bank balances to the market value of the pledged collateral to provide reasonable assurance that assets are adequately safeguarded.

Management Response: In the future, the general ledger will reflect the market value of pledged collateral instead of face value. The software calculates the collateral to bank balance ratio on the general ledger. I have previously attempted to compensate for any possible difference in the two calculation methods by maintaining 125% face value collateral rather than 110% market value. Pledged collateral

amounts are monitored daily on the general ledger with the monthly collateral report from the bank to the general ledger. The monthly collateral report from the bank to the general ledger balance will be reconciled and initialed. The 1st deputy will verify and initial these figures.

Criteria: Effective internal controls require that monitoring pledged securities be adequately documented to allow for prevention and detection of errors and abuse, including using the market value for determination of adequate pledged collateral.

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.
 - Randomly selected a sample of 40 purchase orders from the Sales Tax Fund and determined that expenditures were made for purposes designated on the sales tax ballot.

Finding: Inadequate Internal Controls over the Calculation of Sales Tax

Condition: Upon inquiry and observation of the recordkeeping process of apportioning sales tax collections, the following was noted:

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

Cause of Condition: Procedures have not been designed and developed to monitor the calculation of sales tax distribution.

Effect of Condition: This condition could result in miscalculation of sales tax revenue.

Recommendation: OSAI recommends an employee recalculate the apportionment of sales tax collections that is presented for appropriation by the Treasurer to the County Clerk. The documentation should provide evidence of who performed the recalculation and the date of the review.

Management Response: Our current sales tax procedures verify total amounts with monthly appropriation reconciliations with the County Clerk's office. We realize, however, they do not ensure the correct apportionment percentages to the proper funds. There will be documentation of the accuracy of fund percentages and designation as TM consulting Software transfers the information as secured information from the old fiscal year program to the new one. Another deputy will recalculate the percentages and verify apportionment to the correct funds directly from the ballots at this time also. All evidence of the same will be initialed and dated by both the Treasurer and an assigned deputy.

Criteria: Effective internal controls would include procedures that ensure compliance with 68 O.S. § 1370E.

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 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, 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 approved 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 over Ad Valorem Tax Distribution

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

- One employee is primarily responsible for entering the mill levies, receipting and depositing ad valorem taxes, and generating the list of receipts.
- The same employee has full administrative authority over the software program.
- There was no documentation of the review of the mill levies entered into the system to ensure they were input correctly.

Cause of Condition: In an effort to maximize efficiency and available resources, the County Treasurer has delegated a majority of the duties to one employee to perform the majority of the ad valorem tax process.

Effect of Condition: Because of the condition mentioned above, errors or misappropriation of county assets could exist.

Recommendation: OSAI recommends the Treasurer segregate the key processes in the distribution of ad valorem taxes and provide documentation of the verification of entering mill levies into the system.

Management Response: It is with significant difficulty that we are to segregate duties concerning ad valorem taxes. This office feels that the taxpayers of Woodward County expect and deserve prompt and efficient processing when they make over-the-counter tax payments. Customer Service is always a priority even during our busiest tax collections.

In order to comply with the recommendation of the State Auditor & Inspector's Office for adequate segregation to prevent and detect errors and abuse, we are concentrating our efforts to ensure that the employee who prepares the deposit has not receipted taxes on any given day.

Each employee initials the "Tax Collections by User" report to verify their individual collections of cash and checks.

I then, verify the total tax amount as exported from the state tax program to my daily report.

I also plan to document verification of mill levies input into the system by signing and dating the printed levies.

Criteria: Effective internal controls include key functions within a process be adequately segregated to allow for prevention and detection of errors and abuse, and that adequate documentation of verifications be maintained.

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 the 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 laws, 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 invoice, receiving report, and delivery document 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 Internal Controls over Purchasing Procedures

Condition: Internal controls have not been implemented to ensure compliance with purchasing statutes. Our test of 80 purchase orders revealed the following noncompliance with regard to purchasing statutes:

- Ten instances were noted where goods were purchased before the purchase order was properly encumbered.
- One instance was noted where the purchase order did not have a receiving report.
- Three instances were noted where the receiving report did not have a signature.
- Two purchase orders did not have a signature to signify the encumbrance.
- One purchase order could not be located.

Cause of Condition: In an effort to facilitate cooperation among the different offices, procedures have not been implemented to provide adherence to the statutes and ensure internal controls are in place.

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

Recommendation: OSAI recommends the County implement procedures to ensure compliance with purchasing statutes.

Management Response:

County Clerk's Office: The County Clerk's office will give a written notice to individual offices and departments to make certain they are aware of the importance of following proper procedures for obtaining purchase orders and the consequences of not doing so.

Copies of the Requisitioning and Receiving Officers list will be given to County Officials for any changes or additions that may need to be made and approved by the Board of County Commissioners. This will be done annually or as needed.

The County Clerk's office will be more diligent in ensuring that all correct signatures and dates are on Purchase Orders and Receiving Reports.

The County Clerk was not aware that Blanket Purchase Orders are to be signed by the County Clerk and the Requisitioning Officer in the bottom left hand corner of the purchase order. We are now signing that form.

Woodward County District 1 Commissioner: As Requisitioning Officer, I will sign the form in the bottom left hand corner of purchase order when the purchase is a blanket purchase order.

Woodward County District 2 Commissioner: We will comply with all purchasing procedures in 19 O.S. §1505C, 19 O.S. §1505E and 19 O.S. § 1505F.

Criteria: Effective internal controls require that management properly implement procedures to ensure that purchases comply with 19 O.S. §1505C, 19 O.S. §1505E, and 19 O.S. §1505F.

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 bids tested, the County did not 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 seven 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 Board of County Commissioners minutes, and notification to successful bidders.

Finding: Inadequate Internal Controls over Bidding Process

Condition: Controls over the bidding process have not been properly implemented and as a result the following discrepancies have occurred:

- Notification of successful bidders was not documented for the seven bids tested.
- Three of the bids received were not time stamped to ensure bids were received prior to deadline.
- For three of the seven bids tested, proof of publication was not maintained in the bid file.

Cause of Condition: Procedures have not been developed and designed to document compliance with state statutes and provide assurance that controls are in place.

Effect of Condition: These conditions could result in noncompliance with state statutes.

Recommendation: OSAI recommends the County implement procedures to ensure bidding is properly performed. These procedures should include:

- Documentation of notification of successful bidder maintained in the bid file.
- Documentation of bids date and time stamped on the bid package.
- Proof of publication maintained in the bid file.

Management Response: The County Clerk's office will document the date and time when a successful bidder is notified by telephone. We will be more diligent in stamping the date and time when bids are received. An electronic date/time stamp will be purchased to accomplish this. A check list will be included in each bid folder to ensure that all requirements have been met and signed off on.

Criteria: Effective internal controls require that management properly implement procedures to ensure that purchases comply with 19 O.S. § 1505B.

Objective 7: To determine the County's financial operations complied with 19 O.S. § 180.74 and 180.75 regarding amounts allowed for officers' salaries.

Conclusion: With respect to the salaries tested, the County complied with 19 O.S. § 180.74 and 180.75, which establish limitations on the amount of county officers' salaries.

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

- Gained an understanding of the internal controls through discussions with County personnel, observation, and review of documents related to:
 - The process of determining the amounts allowed for officers' salaries.
 - The process for the payment and recording of salaries and related payroll expenses.
- Recalculated the maximum amount allowed for officers' salaries as set forth in 19 O.S. § 180.74 and 180.75.
- Reviewed the salaries of Woodward County officials to ensure that amounts paid did not exceed statutory limits.

Finding: Inadequate Internal Controls over Compliance with Salary Limitations

Condition: The County does not have procedures in place to ensure that salaries are calculated in accordance with state statutes.

Cause of Condition: Procedures to ensure compliance with this statute were not designed and implemented due to the County officials being unaware of a need for such procedures.

Effect of Condition: This condition could result in noncompliance with salary limitations; particularly in the event of fluctuations in the ad valorem tax revenue and population of the County that determines salary limitations.

Recommendation: OSAI recommends the County implement procedures to ensure that the amounts paid to the County officers do not exceed the amounts allowed. These procedures should include calculating the maximum amount allowable and having an independent review of those calculations.

Management Response: Woodward County will have the budget maker calculate the salaries of the elected officials annually and we will verify their calculations.

Criteria: Effective internal controls include management design procedures to ensure that officers' salaries comply with 19 O.S. § 184.74 and 180.75.

Finding: Concentration of Payroll Duties

Condition: It was determined through discussions with County personnel, observation, and review of documents that the payroll process was not adequately segregated.

- The payroll clerk enters new employees into the system, inputs payroll information into the system, maintains personnel files, and prepares the OPERS reports and state and federal tax reports.

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: Because of the condition mentioned above, an opportunity for errors and misappropriation of County assets exists.

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: The County Clerk's office will have one employee, separate from the payroll process, to enter new employee information into our system. The Payroll Clerk will not have computer capabilities to enter new employees. The County Commissioner's secretary now maintains all personnel files and the Payroll Clerk prepares the OPERS reports and state and federal tax reports. The Payroll Clerk will be notified in writing of any new hires, payroll changes or termination of employees and will be signed by the elected official.

Criteria: Effective internal controls include key functions within a process be adequately segregated to allow for prevention and detection of errors and abuse.

Finding: Inadequate Internal Controls over the Payroll Process

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

- New hires, payroll changes and terminations are communicated through verbal notification in an untimely manner.
- Timesheets are not centrally located.
- Payroll information is entered into the system by a payroll claim prepared by each officer.
- In some instances, the hours claimed as overtime included holiday, sick, or annual leave. The handbook states "hours worked in a work week in excess of 40 hours" will be accrued at 1½ times for each hour.
- The timesheet formats were unique to each office. No standard form was used to document time.
- There were instances where the timesheets and leave records did not have signatures of approval by the employee and/or the supervisor.

Cause of Condition: Procedures have not been developed to adequately establish controls over the time recording and leave balance reporting.

Effect of Condition: The above condition could result in errors in the amount that employees are being paid and the payment of the employees after they have terminated.

Recommendation: OSAI recommends all new hires, terminations and changes in payroll amounts be communicated in written form in a timely manner. Overtime should be calculated in accordance with the policy established by the County and in compliance with IRS guidelines. We also recommend that the County adopt a uniform timesheet that requires signatures of the employee and the appropriate approving personnel. We further recommend the timesheets be centrally located in the County Clerk’s office in order to facilitate a control environment that promotes stewardship and accountability over the time recording process.

Management Response:

County Clerk’s Office: The County Clerk’s office will implement a payroll program to track and reconcile leave accruals and usage on a monthly basis.

Woodward County District 1 Commissioner: District 1 has implemented a payroll form where employees will enter the number hours worked for each day. At end of 4 week payroll, employees will sign the form. The time-sheet information will also be entered in a book which will be kept at District 1 barn. The signed payroll sheet will be turned into the County Clerk’s office.

Woodward County District 2 Commissioner: We will support the adoption of a new uniform county time sheet.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. Internal controls should be designed to analyze and check accuracy, completeness, and authorization of payroll calculations and/or transactions. To help ensure a proper accounting of funds, the duties of processing, authorizing, and payroll distribution should be segregated.

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: With respect to the discussion held with County personnel and observance of documentation, the County 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 by his department.

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 with 19 O.S. § 1504A.

- As a result, Districts 1, 2, and 3 do not maintain accurate, up-to-date consumable inventory lists and we were not able 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:

County Clerk's Office: The Districts have been made aware that their consumable inventory will need to be on file in the County Clerk's office.

Woodward County District 1 Commissioner: District 1 has implemented an inventory form to list consumable inventory and make adjustments to the inventory. This form will be turned into the County Clerk's office monthly. We also have a form to record the fuel inventory. This form will also be turned into County Clerk's office monthly.

Woodward County District 2 Commissioner: District 2 will bring the consumable inventory control sheets up to date, and file in County Commissioners' secretary's office.

Woodward County District 3 Commissioner: Will start an inventory monthly on consumable goods and keep a copy and turn a copy into the County Clerk.

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 safeguard consumables inventory 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 Woodward 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.
- Tested compliance of the significant law which included the following:
 - Randomly selected 53 fixed assets and verified the items were properly marked with County identification numbers and “Property of Woodward County” as required by 69 O.S. § 645

Finding: Inadequate Internal Controls over Fixed Asset Labeling

Condition: The County does not have procedures in place to ensure that fixed asset inventory was maintained in accordance with 69 O.S. § 645.

- 4 of the 13 items selected requiring identification for District 3 were not properly marked with “Property of Woodward County.”

Cause of Condition: Procedures have not been designed to ensure internal controls over marking equipment with “Property of Woodward County” have been implemented.

Effect of Condition: When fixed assets are not monitored and equipment is not marked with “Property of Woodward County,” opportunities for misuse or loss of equipment can occur.

Recommendation: OSAI recommends that management implement internal controls to ensure compliance with 69 O.S. § 645.

Management Response: The Woodward County District 3 Commissioner has attached the Woodward County property stickers to the four motor graders that did not have them applied.

Finding: Inadequate Internal Controls over Fixed Asset Inventories

Condition: The following offices of the County do not have procedures in place to ensure that fixed asset inventory was maintained in accordance with 19 O.S. §178.1:

- County Clerk
- County Assessor
- County Sheriff
- Districts 1, 2, and 3
 - The designated employee for inventory recordkeeping is also responsible for numbering the fixed assets and is a receiving agent for goods and services including fixed assets.
 - There was no documentation retained to verify that an annual physical inventory count was performed.

Cause of Condition: Procedures have not been designed to implement internal controls over the safeguarding of fixed assets by performing an annual physical inventory count and separating the duties of receiving fixed assets and assigning inventory numbers.

Effect of Condition: When documentation of an annual inventory count is not maintained and duties of receiving fixed assets and numbering them are not adequately segregated, there is opportunity for misuse or loss of equipment.

Recommendation: OSAI recommends that management realize the importance of implementing internal controls over fixed assets. We also recommend that the County Clerk, County Assessor, County Sheriff, and Districts 1, 2, and 3 perform an annual inventory count and retain documentation to verify the physical inventory counts are performed. This inventory count should be performed by someone other than the receiving officer or inventory officer.

Management Response:

County Clerk's Office: The County Clerk's office will conduct a physical inventory annually by an employee other than the Inventory Clerk and ensure that proper documentation of the physical inventory is maintained.

Assessor's Office: In the future, the County Assessor's office will annually check the inventory list by a deputy other than the inventory officer. After completing the inventory check, the deputy will sign and date the inventory listing to verify it is complete and correct.

Sheriff's Office: A physical count of inventory will be performed annually and logged to ensure all inventory is accounted for. The person performing the inventory count will be someone other than the person responsible for receiving reports and inventory.

Woodward County District 1 Commissioner: District 1 has conducted a visual inspection of all fixed assets. County identification numbers have been confirmed. Inventory list was signed and dated. This will be performed annually.

Woodward County District 2 Commissioner: District 2 will inventory and verify all fixed assets and replace all deteriorated and or non readable decals and identification numbers.

Woodward County District 3 Commissioner: District 3 will do quarterly inventory of all equipment.

Criteria: 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 acquisition, use, or disposition of fixed assets and safeguard fixed assets from loss, damage, or misappropriation.

Objective 10: To determine the County's financial operations complied with 19 O.S. § 682 which require 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 complied with state statute 19 O.S. § 682, which requires officers 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 which included reviewing a sample of receipts from each Officer's depository account 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 over Official Depository Receipts

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

- Court Clerk:
 - The computer system does not prompt employees to change their passwords.
 - All employees operate from the same cash drawer.

- Voided receipts are not reviewed by another employee for propriety.
- The cash drawer is not reconciled to the daily collections before placing it in the safe at the end of the work day.
- There is no evidence that the cash drawer is counted the following morning when it is removed from the safe.
- The employees that void receipts also have the combination to the safe.
- The bookkeeper issues receipts, voids receipts, prompts the computer system to generate deposit slips, and performs the monthly reconciliation. She also has access to passwords and to the safe.
- Assessor:
 - The cash receipt ledger does not specify the mode of payment as “cash” or “check.”
 - The employee that makes the deposit also reconciles the monthly activity to the Treasurer.
- County Clerk:
 - The same employee issues receipts, prepares the deposit, takes the deposit to the Treasurer, reconciles to the Treasurer, issues the voucher to transfer fees, and prepares the monthly report to the County Commissioners.
 - The computer system does not prompt employees to change their passwords.
 - All employees operate from the same cash drawer.
- Treasurer:
 - The same employee issues the receipts, prepares the deposit, reconciles the bank statements, issues the voucher to transfer fees, and prepares the monthly report to the County Commissioners.
 - The computer system does not prompt employees to change their passwords.
 - All employees operate from the same cash drawer.
- Sheriff:
 - The same employee issues receipts, prepares the deposit, reconciles the account to the Treasurer, issues the voucher to transfer fees, and prepares the monthly report to the County Commissioners.
 - The same employee also counts the cash received in the office without another employee verifying the amount to be deposited.

Cause of Condition: In an order to provide prompt services to the citizens of Woodward County and for ease of operations, the offices of the County utilize all employees to issue receipts. Additionally, due to the limited number of personnel within each office, one individual is sometimes responsible for all the key functions of the office.

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

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

- The person preparing 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.
- Each office should have a process of documenting the review of voided receipts.
- Passwords should be changed at least every ninety days.

Management Response:

- Court Clerk's Office:
 - No one has access to Kellpro passwords but the Court Clerk and they are never given to anyone. I will contact Kellpro and see if the programming can be changed to allow the system to prompt for new passwords every 90 days.
 - When we take cash we always show the denomination and how many of each denomination on the receipt. We also have two people count when we receive a large amount of money and initial the receipt. We have never had a problem with this procedure. I will designate 3 employees to have a locked cash drawer at their desk and only they may receive cash.
 - A void report is run daily and only prints if a receipt was voided. I review the report every day and check the receipts if there was a voided receipt. I now initial the reports and date them for proof of review.
 - This has been hard to do since we have customers many times after 5:00 p.m. We have started it again and count the cash, we run a tape, date and initial it and put in the cash drawer in the safe.
 - Our procedure involves 3 people every morning. The bookkeeper runs the daily deposit list. A different person each day counts the cash and checks then balances with the deposit list. The third person then counts the cash and checks to make sure it balances. She signs the deposit list then initials the daily reports. The deposit is then wrapped and taken to the Treasurer's office where they count the cash again. We now have a person that counts the cash and checks, initials and dates the deposit to show the employee performed the procedure.
 - There are only two people in the Court Clerk's office that may void a receipt and have the combination to the safe, the Court Clerk and the bookkeeper. This is a security issue with both items. The safe is only opened after at least two other people are present in the office. There are strict controls on voiding a receipt and only the Court Clerk and bookkeeper have security rights to do this procedure. These procedures have worked for us for several years and I feel should stay in place to ensure the integrity of the safe and receipts.
- Assessor's Office:
 - The employee making the daily deposits is no longer the same employee that reconciles the account at the end of the month. These duties have been segregated as requested.

- County Clerk's Office:
 - The County Clerk's office has implemented procedures to segregate the duties of receipting, daily depositing and preparing monthly reports. One employee will issue all receipts, another will balance the cash drawer and prepare the deposit and deliver it to the Treasurer's office. The County Clerk will reconcile with the Treasurer for the monthly reports to the County Commissioners.

- County Treasurer's Office:
 - We have already implemented procedures to ensure that the person who prepares the deposit and reconciles the bank statement does not receipt collections.
 - We are aware of the need to establish a procedure that prevents multiple employees from working out of a single cash drawer. Our office already maintains an additional cash drawer during peak times. There are concerns about the increased cash exposure overall. This office plans to limit the handling of cash transactions to specific individuals working from separate cash drawers. The number of cash drawers may vary according to anticipated office traffic.

- Sheriff's Office:
 - Passwords for the accounting program will be changed every six months.
 - An employee other than the person depositing monies into Official Depository will prepare a mail log – inventorying monies received.
 - Cash collected will be logged by all employees receiving money.

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 fund monies and court clerk revolving fund monies.
----------------------	---

Conclusion: With respect to court fund monies and court clerk revolving fund monies tested, the County complied with 19 O.S. § 220 and 20 O.S. §1304, which outlines procedures for expending court fund monies and court clerk revolving fund monies.

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 controls over Court Clerk Revolving Fund expenditures which included randomly selecting six claims (*a sample size of six was chosen due to the low volume of cash vouchers issued during this audit period*) and verifying the following:

- Claims were prepared for expenditures from the fund.
- The claim was properly authorized for payment.
- Tested compliance with 19 O.S. § 220 for the Court Fund, which included the following:
 - Randomly selected 40 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.
- Tested compliance with 20 O.S. § 1304 for the Court Clerk Revolving Fund, which included the following:
 - Randomly selected six claims from the Court Clerk Revolving Fund Claims (*a sample size of six was chosen due to the low volume of cash vouchers issued during this audit period*) and verified the following:
 - Expenditures were made for the operation of the court.
 - Claims were approved by the district judge and either the court clerk or the local associate district judge.

Finding: Inadequate Internal Controls over Court Fund Duties

Condition: It was determined through discussions with County personnel, observation, and review of documents that the court fund expenditure process was not adequately segregated.

- The Court Clerk orders the items, prepares and approves the claim, and prepares and issues the vouchers.

Cause of Condition: Because the Court Clerk is ultimately responsible for the Court Fund, she feels most comfortable in performing the Court Fund related duties herself.

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

Recommendation: OSAI recommends that procedures be developed to separate key functions with regard to the court fund disbursement process. Management should realize the importance of internal controls and compliance with 20 O.S. § 1304.

Management Response: As Court Clerk I have always taken care of every aspect of the court fund and have felt it was my responsibility to do so. I have always reviewed all claims submitted for payment to the District Judge for his approval, which I must have before I can consider any claim for payment. The Associate District Judge also signs off on most claims. I sign each claim to show that I have reviewed them. I prepare each voucher for payment of claims and sign the vouchers before I take them to the Treasurer's office so that they can register each voucher. This procedure has been followed since before I became the Court Clerk. The previous Court Clerk also handled the claims and vouchers the same way. I will have a deputy review and initial the claims and sign the vouchers before they are taken to the Treasurer to be registered. That deputy will also mail the vouchers to the various claimants.

Criteria: Effective internal controls include management design procedures to ensure that court fund monies are spent in accordance 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 not 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 and internal controls for the County Sheriff's Inmate Trust Fund, which included the following:
 - Using the check register for the audit period, all inmate trust disbursements were reviewed to ensure that checks were issued for statutorily authorized purposes.

Finding: Inadequate Internal Controls over Compliance with Inmate Trust Fund

Condition: Upon observance of checks issued on the Inmate Trust Fund, it was noted that there were 13 instances totaling \$2,940.12 in which checks were issued to payees that were unauthorized by state statute. We noted the following noncompliance with the state statute:

- Two checks were issued to a vendor for phone cards.
- Two checks were issued to two vendors for rental of equipment.
- Seven checks were issued to the Court Clerk for court fees.
- Two checks were issued to the U.S. District Court for court fees.

Cause of Condition: In order to expedite the payment of bills and court costs, the Sheriff paid amounts from the Inmate Trust Account instead of transferring the proceeds from the inmate sales to the Sheriff Commissary Account.

Effect of Condition: As a result of this condition, purchasing controls have been not been adhered to and could lead to misappropriation of assets and errors.

Recommendation: OSAI recommends the County implement procedures to ensure that checks are made payable to either the Sheriff's Commissary Account or paid directly to the inmate.

Management Response: Checks from the Inmate Trust system will be written to the inmate the account belongs to or the Inmate Commissary Fund.

Criteria: Effective internal controls include management properly implement procedures to ensure that purchases comply with 19 O.S. § 531A.

Finding: Inadequate Internal Controls over Compliance with Inmate Trust Fund Financial Operations

Condition: Upon inquiry and observation of the recordkeeping process over the Inmate Trust process, we noted the following weaknesses:

- One employee opens the mail, issues receipts, prepares the deposit, reconciles the account to the bank statement, and issues the checks from this account.
- The same employee also counts the cash received in the office without another employee verifying the amount to be deposited.
- The Inmate Trust money is held in a safe controlled by the same employee.
- The Inmate Trust deposits are not made on a daily/timely basis. Money remains in the safe for a week or two before being deposited.
- Inmates are granted an option of having the money deposited to the Inmate Trust Account, or having their money placed in a safe and held until they are released.

Cause of Condition: Procedures have not been designed and implemented to ensure that controls are in place with regard to Inmate Trust Fund financial operations.

Effect of Condition: These conditions could result in unrecorded transaction, undetected errors, or misappropriation of funds.

Recommendation: OSAI recommends the County implement procedures to ensure controls are in place. These procedures should include:

- Separating key functions of opening mail, receipting, depositing, and reconciling the bank account.
- Daily depositing of all funds received.

Management Response: To comply with 19 O.S. § 531A, the following measures will be taken:

- One employee will no longer receipt and deposit the funds. Receipt of funds and deposit will be managed by two employees.
- Inmate Trust deposits will be made on a daily/timely manner.

- All Woodward County inmates will have their money placed immediately in the Inmate Trust System. Money will no longer be held in the safe.
- Inmate mail will be opened by staff other than the employee depositing the funds.

Criteria: Effective internal controls require that management properly implement procedures to ensure that compliance with 19 O.S. § 531A. with regard to inmate trust funds.

All 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

**WOODWARD COUNTY
OPERATIONAL AUDIT**

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:

Court Clerk’s Office: The Court Clerk has communicated to the employees certain internal controls according to the security rights that they have. A monthly calendar is sent to each employee with different issues and changes in laws and office procedures if needed. If there is a need, we meet on the last day of the month to go over any issues or changes. The Court Clerk will work with the County to implement a County-Wide Plan to address all the recommendations of the audit. We will work on an office Policy and Procedure document as well.

County Clerk’s Office: Elected officials will meet once a month, or as deemed necessary, during a regularly scheduled meeting of the Board of County Commissioners to promote better communications between officers and to develop a plan to monitor the County’s internal controls to ensure that audit findings and other reviews are properly resolved.

County District 2 Commissioner: We will support all officers in the County as they respond to the findings of the 2012 audit.

District 3 Commissioner: Get County Officers together monthly to deliver the Personnel Hand Book, to gain understanding between all Offices, and to communicate with other Officials.

County Sheriff’s Office: Elected official and staff will meet once a month, or as deemed necessary, to promote better communication between officers and develop a plan to formally address the concern of the auditors in relation to the procedures controlling the internal controls of the Sheriff’s Department.

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.

Finding: Disaster Recovery Plan

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

- County Sheriff
- County Commissioners
- County Assessor

The following offices have Disaster Recovery Plans; however, they are not currently up to date or lack important elements:

- Court Clerk
- County Clerk
- County Treasurer

Cause of Condition: Procedures have not been designed and implemented to prepare a formal 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:

All Offices: Elected officials will meet once a month, or as deemed necessary, during a regularly scheduled meeting of the Board of County Commissioners to promote better communications between officers and to develop a Disaster Recovery Plan.

County Sheriff: The Sheriff's Department will write a Disaster Recovery Plan to provide for the security of the Department's financial and business records in case of emergency.

Criteria: An important aspect of internal controls is the safeguarding of assets which includes adequate Disaster Recovery Plans. Internal controls over safeguarding of assets constitute a process, affected by an entity's governing body, management, and other personnel, designed to provide reasonable assurance regarding prevention in a County being unable to function in the event of a disaster.



OFFICE OF THE STATE AUDITOR AND INSPECTOR

2300 N. LINCOLN BOULEVARD, ROOM 100

OKLAHOMA CITY, OK 73105-4896

WWW.SAI.OK.GOV