OPERATIONAL AUDIT

Jefferson County

For the period July 1, 2007 through June 30, 2011

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

JEFFERSON COUNTY OPERATIONAL AUDIT
FOR THE PERIOD JULY 1, 2007 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

July 23, 2012

TO THE CITIZENS OF
JEFFERSON COUNTY, OKLAHOMA

Transmitted herewith is the audit report of Jefferson County for the period July 1, 2007 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,

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

BACKGROUND

Named for President Thomas Jefferson, this county was created from a portion of Comanche County in Oklahoma Territory and the southwestern corner of the Chickasaw Nation. A marker on S.H. 70 in Waurika, the county seat, designates the 98th Meridian, the dividing line between Indian Territory and Oklahoma Territory.

Waurika, meaning “camp of clear water,” was built at the junction of Beaver and Cow creeks, and is the site of Waurika Lake. Ringling was named for John Ringling, who built a railroad on this site to bring his circus to the area for its winter headquarters. Ryan is the site of the Jefferson County Courthouse, built in 1894 by the Chickasaw Nation. Landmarks include the Rock Island Railroad Depot built in 1912, and Monument Hill Marker, honoring the Chisholm Trail and its trail drivers.

Although an industrial base has been established, cattle, oil, and agriculture are still the leading sources of income. Annual events include the Waurika Volunteer Firemen Rattlesnake Hunt, the Waurika Art Show, and the Terral Melon Jubilee.

The Chisholm Trail Historical Association is located in Waurika, and two publications, *A History of Jefferson County* and *Post Offices in Jefferson County*, offer written historical accounts. For more information, call the county clerk’s office at 580/228–2029.

County Seat – Waurika	Area – 773.83 Square Miles
County Population – 6,319 (2009 est.)	
Farms – 514	Land in Farms – 460,207 Acres

Primary Source: Oklahoma Almanac 2010-2011

COUNTY OFFICIALS

Sandra Watkins .... County Assessor
Gloria England .... County Clerk
Billy Kidd .... County Commissioner District 1
Ty Phillips .... County Commissioner District 2
Ricky Martin .... County Commissioner District 3
Michael Bryant .... County Sheriff
Ann Medlinger .... County Treasurer
Carolyn Watkins .... Court Clerk

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	$ 179,693	$ 768,534	$ 803,068	$ 145,159
T-Highway	1,533,289	3,637,911	2,721,902	2,449,298
Sheriff Service Fee	59,864	193,876	200,051	53,689
Department of Corrections	51,854	137,462	88,914	100,402
County Health	90,441	76,426	64,988	101,879
REAP Grant	45,401	31,420	16,616	60,205
Resale Property	53,354	33,713	38,938	48,129
Community Dev. Block Grant	102	233,242	211,604	21,740
Remaining Aggregate Funds	54,973	92,399	41,622	105,750
Combined Total - All County Funds	$ 2,068,971	$ 5,204,983	$ 4,187,703	$ 3,086,251

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

PURPOSE, SCOPE, AND SAMPLE METHODOLOGY

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

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

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.

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

Condition: Upon inquiry and observation of the recordkeeping process, it was noted that the County Clerk reconciles the appropriation ledger to the County Treasurer's general ledger each month. However, no documentation is maintained that the reconciliations are reviewed and approved by someone other than the preparer. It was further noted that the County Treasurer's monthly reports are compiled from an information system in which the County Treasurer and the deputy perform daily transactions such as issuing receipts and posting disbursements, and there is no independent oversight of the accuracy of the County Treasurer's monthly reports.

Cause of Condition: Procedures have not been designed and implemented to independently review journal entries and source data that are used to compile the Treasurer's monthly reports.

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

Recommendation: OSAI recommends that the County Treasurer implement a system of internal controls to provide reasonable assurance that receipts apportioned, disbursements, and cash balances are accurately presented on the County Treasurer's monthly reports. OSAI also recommends that the County Treasurer and County Clerk implement procedures to maintain supporting documentation of monthly reconciliations of apportioned receipts, disbursements, and cash balances.

Management Response:

- **County Treasurer**: The County Treasurer's office reconciles all banks to the General Ledger each month. We will maintain documentation that monthly reports are reviewed and approved by someone other than the preparer.

- **County Clerk:** The County Clerk's office reconciles warrants issued and the appropriation ledger to the County Treasurer's warrants issued and general ledger balances each month. We will maintain documentation that the reconciliations are reviewed and approved by someone other than the preparer.

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

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

Conclusion: With respect to the days tested, the County 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 with 62 O.S. § 517.4, which included comparing the largest balance per month at all banks for the audit period to the amount of pledged collateral to determine that deposits were adequately secured.

Finding: Inadequate Internal Controls over Pledged Collateral

Condition: The County Treasurer does not maintain evidence to document that the County's deposits are secured on a daily basis.

However, the Treasurer does maintain a ledger to monitor pledged securities on a monthly basis and weekly during tax season. The Treasurer corresponds with the bank on a daily basis to compare the daily bank balances against pledged securities, but does not maintain evidence of this comparison.

Cause of Condition: The Treasurer was not aware that documentation regarding daily monitoring of pledged collateral needed to be retained.

Effect of Condition: Based on interviews with the Treasurer, it appears that controls have been designed to ensure the County's daily bank balances are adequately secured by pledged collateral. However, because documentation of this process was not retained, we could not determine that controls were operating effectively. This condition could result in County deposits with financial institutions being under-collateralized.

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: The County Treasurer's office will maintain a ledger to monitor pledged securities on a daily basis.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. To help ensure that County funds are properly secured, the County Treasurer should maintain a ledger to monitor pledged securities on a daily basis to ensure that the County is in compliance with 62 O.S. §517.4.

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 did not comply with 68 O.S. § 1370E, which requires the sales tax collections to be deposited in the general revenue or sales tax revolving fund of the County and be used only for the purpose for which such sales tax was designated.

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.
  - Determined that sales tax collections were appropriated and expended for general government purposes.

Finding: Inadequate Segregation of Duties over Sales Tax Apportionments and Appropriations

Condition: Upon inquiry and observation of the sales tax apportionments and appropriations, it was noted that there was no independent verification of the calculation and apportionment of sales tax.

Cause of Condition: Procedures have not been designed to perform an independent review of sales tax apportionments and appropriations.

Effect of Condition: This condition could result in undetected errors.

Recommendation: OSAI recommends that the Treasurer implement internal control procedures for the accurate reporting and apportioning of sales tax revenue, including an independent verification of the calculation of the sales tax apportionment.

Management Response: The County Treasurer's office performs an independent verification of the calculation and apportionment of sales tax, and will maintain documentation of this verification.

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

Finding: Sales Tax Expenditures not Clearly Documented

Condition: We were able to determine that sales tax collections were appropriated to the County General Fund and used for general government purposes. However, because these funds were co-mingled with general fund collections, we could not clearly identify the purpose of sales tax expenditures.

Cause of Condition: Procedures have not been designed to ensure compliance with 68 O.S. § 1370.E.

Effect of Condition: The County was unable to document how sales tax funds were expended.

Recommendation: OSAI recommends that the Board of County Commissioners establish sales tax accounts within the General Fund. Further, OSAI recommends that the Board of County Commissioners adopt a resolution each fiscal year to document the amounts to be apportioned and budgeted for the general operations of the County Government, Civil Defense, OSU Extension Services, County Law Enforcement, County–Wide Rural Fire Protection, and Fair Board Maintenance and Operations.

Management Response: The Board of County Commissioners will prepare a resolution each year to document how the sales tax proceeds will be appropriated to the various entities, and the sales tax expended within the General Fund will be categorized.

Criteria: Title 68 O.S. § 1370.E states in part, “Any sales tax which may be levied by a county shall be designated for a particular purpose….”

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 fixed by the Excise Board of the County, to the tax rolls.
  - Recalculated the apportionment of ad valorem tax collections to determine collections were accurately apportioned to the taxing entities.

Finding: Inadequate Documentation of Controls over Ad Valorem Tax Apportionments

Condition: The County did not maintain documentation that certified levies were reviewed for accuracy when entered into the ad valorem system by the Treasurer.

However, the Assessor and the Treasurer's first deputy review that the correct certified levies were entered into the ad valorem system by the Treasurer, but there is no documentation of the independent verification maintained.

Cause of Condition: Procedures have not been designed to document and retain evidence of procedures performed to ensure ad valorem levies are accurately entered into the ad valorem system.

Effect of Condition: Based on interviews with the Treasurer, it appears that controls over ad valorem tax apportionments have been designed. However, because there is no evidence of the controls to review, we could not determine that controls were operating effectively. This condition could result in undetected errors.

Recommendation: OSAI recommends that the Treasurer implement internal control procedures for the Assessor and Treasurer's first deputy to document that they were present and visually verified that the correct levies were entered into the ad valorem system.

Management Response: The County Treasurer will maintain documentation that the correct levies were entered into the ad valorem system and verified by the County Assessor and the Treasurer's first deputy.

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

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'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.

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 Segregation of Duties over the Expenditure Process

Condition: Upon inquiry and observation of the expenditure process, it was noted that the purchasing agent solely performs key duties with no independent verification of accuracy. The purchasing agent updates the KPO system, encumbers funds, verifies availability of encumbrance, prints the purchase order, verifies supporting documentation, initiates payments for claims, and prints the warrants.

Cause of Condition: Policies and procedures have not been designed to address segregation of duties over the expenditure process.

Effect of Condition: This condition could result in unrecorded transactions, misstated financial reports, or clerical errors that are not detected in a timely manner.

Recommendation: OSAI recommends the County implement a system of internal controls over the expenditure process. Such controls may include an independent verification of the accuracy of components necessary to initiate and authorize an expenditure.

Management Response: The County Clerk's office is aware of this condition. However, due to limited funding, the Clerk's office is unable to employ the number of employees required to adequately segregate all duties. The County Clerk will implement compensating controls to mitigate the risks involved with a concentration of duties.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. An important aspect of internal controls is the safeguarding of assets. Internal controls over safeguarding of assets constitute a process, affected by an entity's governing body, management, and other personnel, designed to provide reasonable assurance regarding prevention or timely detection of unauthorized transactions and safeguarding assets from misappropriation.

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

Conclusion: With respect to the items tested, the County complied 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.

- Tested controls which included:
    - Determining that all purchases for $10,000 or more are initiated in a Board of County Commissioners' open meeting with a majority approval to go out for bids.
    - Through interviews, determining that the purchasing agent is aware of statutory bid limits and reviews all requisitions to determine if the purchase should be bid.
    - Reviewing tabulations of submitted bids prepared by the purchasing agent and reviewing minutes of the Board of County Commissioners' open meeting for documentation of the discussion of submitted bids.
    - Determining that a majority of the Board of County Commissioners approved the bid in an open meeting and recorded reasons for not accepting the lowest bid.

- Tested compliance with significant law, which included the following:
  - Selected a random sample of five purchases per fiscal year (20 total) in excess of $10,000 and determined that the County followed statutes regarding public notice, handling of unopened bids, awarding bid to best bidder, recording appropriate information in BOCC minutes, and notification to successful bidders.

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

Conclusion: With respect to the items tested, the County complied with 19 O.S. § 180.74 and 180.75 regarding amounts allowed for 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.

- Tested compliance of the significant law, which included the following:
  - Reviewed the salaries paid to officers and determined that it is not in excess of the amount allowed by statute.

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: The Board of County Commissioners will maintain documentation that the officers' salaries were reviewed and are in compliance with state statutes.

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 is aware of this condition; however, due to limited funding, the Clerk's office is unable to employee the number of employees required to adequately segregate all duties. The County Clerk will implement compensating controls to mitigate the risk involved with a concentration of duties.

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

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

Conclusion: The County's financial operations 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.

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.

- Tested compliance with 19 O.S. § 1504A by selecting a random sample of four consumable items at each of the three Highway District barns and verifying that accurate records are maintained and that they agree to a physical count of records.

Finding: Inadequate Segregation of Duties over Consumable Inventories

Condition: Based on inquiry and observation of the consumable inventory recording process, it was noted one person at each District performs key duties with no independent verification of accuracy. The same person maintains, updates, and verifies the accuracy of the consumable inventory records.

Cause of Condition: Procedures have not been designed and implemented for the accurate reporting of consumable inventories and to effectively safeguard consumable inventories.

Effect of Condition: This condition could result in inaccurate or incomplete consumable inventory records.

Recommendation: OSAI recommends the County adopt policies and procedures to implement a system of internal controls over the consumable inventory records. Such controls may include an independent verification of the inventory counts and a separation of duties between maintaining, updating, and verifying the accuracy of records.

Management Response: The Board of County Commissioners will work to implement a system of internal controls over the consumable inventory records.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. An important aspect of internal controls is the safeguarding of assets. Internal controls over safeguarding of assets constitute a process, affected by an entity’s governing body, management, and other personnel, designed to provide reasonable assurance regarding prevention or timely detection of unauthorized transactions and safeguarding assets from misappropriation.

Objective 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 items tested, the County’s financial operations did not comply with 19 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.

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 with 19 O.S. § 178.1 by judgmentally selecting a sample of eight fixed assets from each County office to determine that inventory records are correct. Included in the sample were items that are required to be marked “Property of.”

Finding: Equipment Not Visibly Marked “Property Of” The County

Condition: With respect to items tested, the County did not comply with 69 O.S. § 645. Of the 64 inventory items sampled, it was noted that the following three items were not visibly marked “Property of” the County:

County Number	Description	District
441.28	John Deere CX15 Rotary Cutter	District 2
438.3	Wylie Sprayer	District 2
30002.83	Dodge 1 ton Pickup	District 2

Cause of Condition: Policies and procedures have not been designed to ensure compliance with state statutes regarding the marking of fixed assets.

Effect of Condition: This condition resulted in noncompliance with 69 O.S. § 645.

Recommendation: OSAI recommends the County comply with 69 O.S. § 645 and visibly mark each county-owned automobile, truck, road machinery and equipment “PROPERTY OF (name of county) COUNTY.” Internal control procedures should be designed and implemented to ensure all new purchases of the county are clearly labeled.

Management Response: The District 2 County Commissioner will ensure that all equipment is visibly marked.

Criteria: Title 69 O.S. § 645 states, "…County-owned automobiles, trucks, road machinery and equipment shall be conspicuously and legibly marked PROPERTY OF (name of county) COUNTY, and leased automobiles, trucks, road machinery and equipment shall be conspicuously legibly marked LEASED BY (name of county) COUNTY, on each side in upper case letters, on a background of sharply contrasting color."

Finding: Fixed Asset Items Not Located

Condition: With respect to fixed asset items tested, the County did not comply with 19 O.S. § 178.1. Of the 64 inventory items reviewed for physical verification, two County Sheriff items could not be located:

County Number	Description
299.2	Tiger CPU
201.3	Monroe Copier N563393

Cause of Condition: Policies and procedures have not been designed for the safeguarding of fixed assets.

Effect of Condition: Two items listed on the County's inventory listing could not be located and are missing.

Recommendation: OSAI recommends that all items listed on inventory be accounted for by performing an annual physical verification of fixed assets. Inventory listings should be updated when items are disposed.

Management Response: The County Sheriff stated the "Tiger CPU" was owned by Tiger Commissary Company. It never should have been on inventory. The County has leased copiers for several years and the Sheriff has no knowledge of a "Monroe Copier."

Criteria: Title 19 O.S. § 178.1 states, "The board of county commissioners in each county of this state shall take, or cause to be taken an inventory of all working tools, apparatus, machinery and equipment belonging to the county or leased or otherwise let to it or to any department thereof, other than that which is affixed to and made a part of lands and buildings, the cost of which as to each complete working unit thereof is more than Five Hundred Dollars, and thereafter maintain or cause to be maintained a continuous inventory record thereof and of like tools, apparatus, machinery and equipment purchased…"

Finding: Inadequate Segregation of Duties over Fixed Asset Inventories

Condition: Based on inquiry and observation of the fixed asset inventory recording process, it was noted one person within each office performs key duties with no independent verification of accuracy. The same person maintains, updates, and verifies the accuracy of the fixed asset inventory records.

Cause of Condition: Policies and procedures have not been designed for the safeguarding of fixed assets.

Effect of Condition: This condition could result in inaccurate or incomplete fixed asset records.

Recommendation: OSAI recommends the County adopt policies and procedures to implement a system of internal controls over the fixed asset inventory records. Such controls may include an independent verification of the inventory counts and a separation of duties between maintaining, updating, and verifying the accuracy of records.

Management Response:

- The County Assessor's office performs a physical inventory and will maintain documentation of the physical inventory.

- The County Treasurer's office performs a physical inventory and will maintain documentation of the physical inventory.

- The County Clerk's office performs a physical inventory and will maintain documentation of the physical inventory.

- The County Court Clerk's office performs a physical inventory and will maintain documentation of the physical inventory.

- The County Sheriff will perform a physical inventory each year and maintain documentation of the physical inventory.

- District 1 will perform a physical inventory each year and maintain documentation of the physical inventory.

- District 2 will perform a physical inventory each year and maintain documentation of the physical inventory.

- District 3 will perform a physical inventory each year and maintain documentation of the physical inventory.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. An important aspect of internal controls is the safeguarding of assets. Internal controls over safeguarding of assets constitute a process, affected by an entity's governing body, management, and other personnel, designed to provide reasonable assurance regarding prevention or timely detection of unauthorized transactions and safeguarding assets from misappropriation.

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

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

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 Segregation of Duties over Officers' Official Depository Accounts

Condition: Based upon inquiry and observation of the Officers' Official Depository receipting process, the following was noted:

- **County Court Clerk**: All employees issue receipts and work from one cash drawer. The employees who work from the cash drawer also reconcile the cash drawer and make the deposit.

- **County Clerk**: Both employees issue receipts and work from one cash drawer. Both employees issue receipts and take turns reconciling the cash drawer, preparing the deposits, and reconciling the official depository account with the County Treasurer.

- **County Assessor**: All employees issue receipts and work from one cash drawer. One employee customarily reconciles the cash drawer, prepares deposits, and reconciles official depository account with the County Treasurer.

- **County Treasurer**: All employees work from one cash drawer. Both employees issue receipts and take turns reconciling the cash drawer, preparing the deposits, and reconciling the official depository account with the official depository ledger.

- **County Sheriff**: The jail administrator issues receipts, prepares deposits, and reconciles official depository to the County Treasurer.

Cause of Condition: Policies and procedures have not been designed to adequately segregate the duties over the collections process for the Official Depository accounts.

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:

- **County Clerk, County Court Clerk, County Assessor, and County Treasurer:** The County does not have enough funding to properly segregate all functions within each office. In order to efficiently utilize office space and employee time, we only have one cash drawer. We will maintain documentation of an independent verification of all reconciliations.

- **County Sheriff**: All monies received into this office, from here forward, will be receipted, verified and deposited within the Treasurer's office by two or more employees.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. To help ensure a proper accounting of funds, the duties of receipting, reconciling the cash drawer, preparing and making deposits, and reconciling account balances should be segregated. 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, or clerical errors that are not detected in a timely manner.

Finding: Receipts not Issued

Condition: With respect to items tested, receipts were not located for the following deposits made by the County Sheriff's office:

Deposit Date	Deposit Number	Amount of Deposit
12/08/2008	360	$50.00
12/08/2008	360	$20.00
12/08/2008	360	$50.00
12/11/2008	362	$50.00
12/14/2008	520	$50.00
12/17/2008	531	$50.00
12/17/2008	531	$50.00

Cause of Condition: Policies and procedures have not been designed to ensure receipts are issued for all collections received.

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

Recommendation: This was corrected and no errors noted after December 2008.

Management Response: This has been corrected; receipts are issued for all funds collected.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. To help ensure a proper accounting of funds, receipts should be issued for all monies collected. Title 28 O.S. § 9 states, "Every officer charging fees shall give a receipt therefor."

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 items tested, 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.

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

- Gained an understanding of the internal controls related to expending court fund monies and court clerk revolving fund monies, which included discussions with County personnel, observation, and review of documents.

- Tested compliance with 19 O.S. § 220 for the Court Fund, which included the following:
  - Randomly selected 25 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 25 claims from the Court Clerk Revolving Fund Claims 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 the Court Clerk Revolving Fund and Court Fund Expenditure Process

Condition: Upon inquiry and observation of the Court Clerk Revolving Fund and the Court Fund expenditure process, it was noted that the Court Clerk solely performs key duties with no independent verification of accuracy. The Court Clerk initiates and prepares the claim, attaches and verifies supporting documentation to claim, certifies that goods/services were received, signs the claim along with the District Judge, and prepares and signs the checks.

Cause of Condition: Policies and procedures have not been designed to adequately segregate the duties regarding expenditures of the Court Clerk Revolving Fund and Court Fund expenditure process.

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

Recommendation: OSAI recommends a system of internal controls be designed regarding the expenditure process. Such controls should include a segregation of the duties involved in the Court Clerk Revolving Fund and Court Fund expenditure process, or an independent verification of the accuracy of components necessary to initiate and authorize expenditures.

Management Response: The County Court Clerk's office is aware of this condition. However, due to limited funding, the Court Clerk's office is unable to employ the number of employees required to adequately segregate all duties. The Court Clerk will implement compensating controls to mitigate the risks involved with a concentration of duties.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. To help ensure a proper accounting of funds, the duties of preparing the claim, attaching and agreeing supporting documentation, certifying receipt of goods/services, signing the claim, and preparing and signing the checks should be segregated.

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 items tested, the County Sheriff's Inmate Trust Fund financial operations 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 with the significant law by selecting a random sample of 55 Inmate Trust Fund checks to determine the purpose of the expenditure was made only for the purposes of transferring funds to the Sheriff's Commissary Fund or refunding money to inmates.

Finding: Inadequate Internal Controls and Non-Compliance over the County Sheriff Inmate Trust Fund Expenditure Process

Condition: Regarding the County Sheriff Inmate Trust Fund expenditure process, the following was noted:

- The County Sheriff solely performs key duties such as initiating, preparing, and signing checks with no independent verification, resulting in inadequate internal controls over the County Sheriff Inmate Trust Fund.
- During our test of 55 Inmate Trust Fund checks, one instance was noted where a check was issued to the Jefferson County Court Clerk on behalf of an inmate to cover fines owed.

Cause of Condition: Procedures have not been designed to ensure that expenditures from the Inmate Trust Fund are made only for the specific purposes outlined in 19 O.S. § 531A.

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 that checks are made payable to either the Sheriff's Commissary Account or paid directly to the inmate. Further, internal control procedures should be designed and implemented to ensure compliance with state statutes.

Management Response: The County Sheriff stated that this was a onetime incident and it has been corrected.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. To help ensure a proper accounting of funds, the duties of preparing the claim, attaching and agreeing supporting documentation, certifying receipt of goods/services, signing the claim, and preparing and signing the checks should be segregated.

Title 19 O.S. § 531A states the Sheriff "…may write checks to the Sheriff's Commissary Account . . . and to the inmate from unencumbered balances due the inmate upon his or her discharge."

All Objectives:

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

Finding: Inadequate County-Wide Controls

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

Cause of Condition: Policies and procedures have not been designed to address the risks of the County.

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

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

Examples of risks and procedures to address risk management:

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

Examples of activities and procedures to address monitoring:

Monitoring	Procedures
Communication between officers	Periodic meetings to address items that should be included in the handbook and to determine if the County is meeting its goals and objectives
Annual financial statement	Review the financial statement of the County for accuracy and completeness
Schedule of Expenditures of Federal Awards (SEFA)	Review the SEFA of the County for accuracy and to determine all federal awards are presented
Audit findings	Determine audit findings are corrected
Financial status	Periodically review budgeted amounts to actual amounts and resolve unexplained variances

Policies and procedures	Ensure employees understand expectations in meeting the goals of the County
Following up on complaints	Determine source of complaint and course of action for resolution
Estimate of needs	Work together to ensure this financial document is accurate and complete

Management Response: The Board of County Commissioners will work together with all County officials to develop a plan to monitor the County's internal controls to ensure that audit findings and other reviews are properly resolved.

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

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

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

Other Items Noted:

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

Finding: Driving County Vehicle While Receiving the Monthly Travel Allowance

Condition: During the audit period, District 1, District 2 and District 3 County Commissioners received the monthly travel allowance and drove a county-owned vehicle.

Cause of Condition: Policies and procedures have not been designed to ensure compliance with state statutes regarding travel.

Effect of Condition: This condition resulted in violation of state statutes that prohibit an official from receiving both the travel allowance and driving a vehicle for in-county travel purposes.

Recommendation: OSAI recommends that the Board of County Commissioners establish and approve policy pertaining to County Officials' monthly travel allowance. Further, OSAI recommends after establishing a travel policy for the elected official that each officer choose and document one of the following travel elections:

- Receive the monthly travel allowance as outlined by statute.
- File monthly claims with appropriate documentation for actual out of pocket travel expenses.
- Drive a county-owned vehicle in lieu of a monthly allowance.

Management Response:

- County Commissioner District 1 stated that he only drives a county vehicle to pick up and deliver parts and inmates. This issue will be discussed with our legal counsel.

- County Commissioner District 2 stated that he only drives a county vehicle to pick up and deliver parts and employees. This issue will be discussed with our legal counsel.

- County Commissioner District 3 stated that he only drives a county vehicle when transporting employees, delivering fuel to equipment, as well as driving a dump truck. This issue will be discussed with our legal counsel.

Criteria: Title 19 O.S. § 165A outlines the monthly travel allowance in lieu of reimbursements. Further, 1999 OK AG 68 states in part, “Both the monthly travel allowances of Section 165 and the use of a county-owned vehicle under Section 19 O.S. 180.43(C) are "in lieu of" receiving a mileage reimbursement under Section 164. The use of a county-owned vehicle is also "in lieu of" the Section 165 monthly travel allowance.”

OFFICE OF THE STATE AUDITOR AND INSPECTOR
2300 N. LINCOLN BOULEVARD, ROOM 100
OKLAHOMA CITY, OK 73105-4896

WWW.SAI.OK.GOV