

COUNTY AUDIT

ADAIR COUNTY

For the fiscal year ended June 30, 2010



*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

**ADAIR COUNTY, OKLAHOMA
FINANCIAL STATEMENT
AND INDEPENDENT AUDITOR'S REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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Oklahoma State Auditor & Inspector

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November 14, 2012

TO THE CITIZENS OF
ADAIR COUNTY, OKLAHOMA

Transmitted herewith is the audit of Adair County, Oklahoma for the fiscal year ended June 30, 2010. The audit was conducted in accordance with 19 O.S. § 171.

A report of this type can be critical in nature. Failure to report commendable features in the accounting and operating procedures of the entity should not be interpreted to mean that they do not exist.

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 written in a cursive style.

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

**ADAIR COUNTY, OKLAHOMA
FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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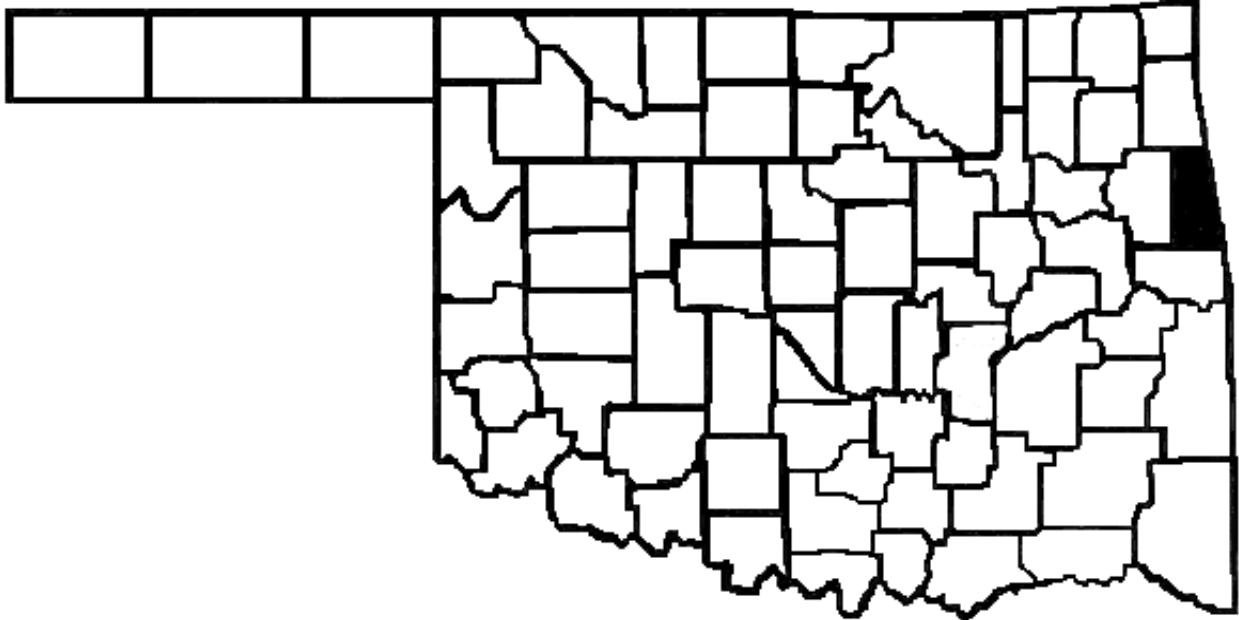
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**REPORT TO THE CITIZENS
ADAIR COUNTY, OKLAHOMA**



Bordering Arkansas, Adair County was created at statehood and named for a well-known Cherokee Indian family. The county seat has been located in Stilwell since 1910.

Primary industries of the county include food processing and canning, poultry raising, cattle ranching, and horse breeding. The Annual Strawberry Festival is held on the second Saturday in May in Stilwell.

Sites of interest within Adair County include the Old Baptist Missionary Church, built in 1836 by the Cherokee Indians, who traversed on the Trail of Tears to Oklahoma. The church is located north of Stilwell near Westville. A marker stands near the community of Watts recognizing Fort Wayne, a military post established in 1838. Abandoned in 1842, it was reactivated and became the site of a Civil War battle in 1862.

Professional football player Sam Claphan and Wilma Mankiller, former principal chief of the Cherokee Nation, hail from Adair County.

The *Adair County History Book* provides additional facts about the county. For more county information, call the County Clerk's office at 918-696-7633.

County Seat – Stilwell

Area – 577.3 Square Miles

County Population – 21,902 (2007 est.)

Farms – 1,202

Land in Farms – 249,280 Acres

Primary Source: Oklahoma Almanac 2009-2010

See independent auditor's report.

**ADAIR COUNTY OFFICIALS
AND RESPONSIBILITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

COUNTY ASSESSOR

Rhonda Pritchett

The County Assessor has the responsibility to appraise and assess the real and personal property within the county for the purpose of ad valorem taxation. Also, the County Assessor is required to compute the ad valorem taxes due on all taxable property. The County Assessor appraises all the taxable real and personal property according to its fair cash value for which the property is actually being used as of January 1 of the taxable year at the percentages provided for in Article 10, § 8 of the Oklahoma Constitution.

The County Assessor is required to build and maintain permanent records of the taxable real property and tax exempt real property within the county. Information entered on each record includes the property's legal description, owner's name and address, and the homestead exemption status of the owner.

COUNTY CLERK

Carrie Philpott

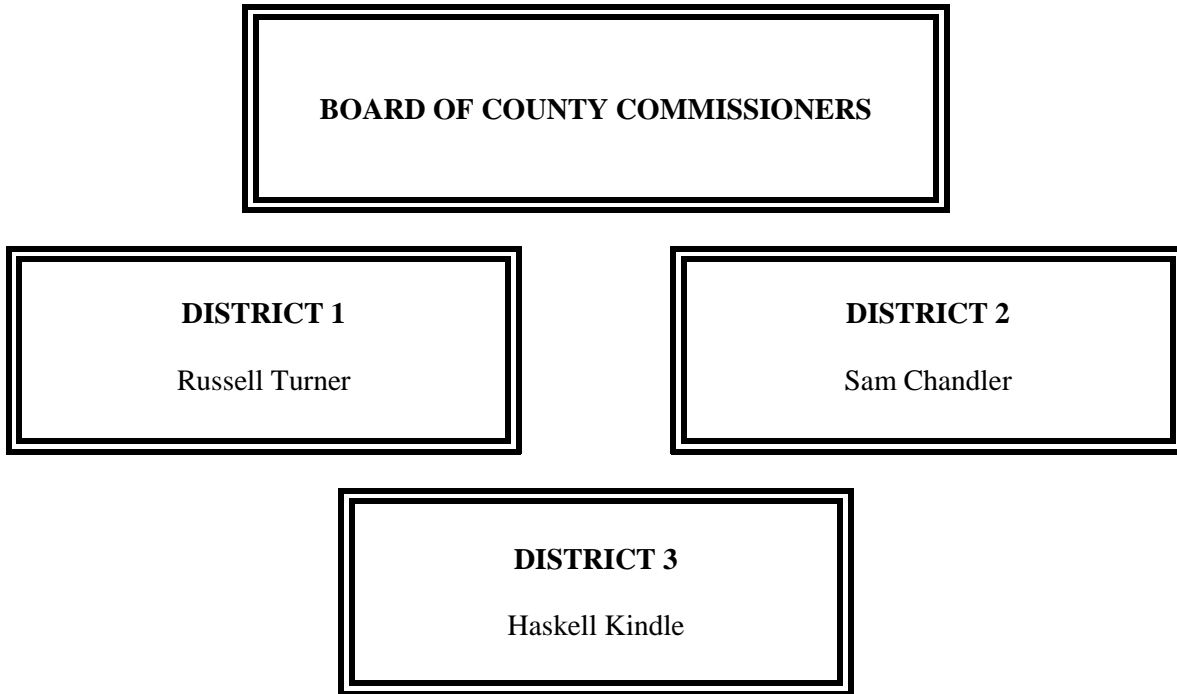
The County Clerk serves as the register of deeds and custodian of records for the county. The County Clerk also serves as the secretary to several boards, including the Board of County Commissioners, the County Excise Board, the County Board of Equalization, and the Board of Tax Roll Corrections.

The County Clerk reviews all the claims for payment of goods and services purchased or contracted by the county, and prepares the proper warrants for payment of those goods and services and the county payroll. The County Clerk, or his or her designated deputy, serves as the purchasing agent for the county. This system is a means to ensure the public that tax dollars are being spent appropriately.

Various records within the different county offices are classified as "open records." As such, they can be reviewed and mechanically copied by the public.

See independent auditor's report.

**ADAIR COUNTY OFFICIALS
AND RESPONSIBILITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**



The Board of County Commissioners is the chief administrative body for the county. County Commissioners are also responsible for maintaining and constructing the county roads and bridges.

The Commissioners must act as a Board when entering into contracts or other agreements affecting the county's welfare. Thus, actions taken by the Board are voted on and approved by a majority of the Commissioners. The Board of County Commissioners' business meetings are open to the public.

As the county's chief administrative body, the three County Commissioners must make major financial decisions and transactions. The Board has the official duty to ensure the fiscal responsibility of the other county officers who handle county funds. The review and approval procedures empowered to the Board of County Commissioners are a means to provide the public with a fiscally efficient system of county government.

See independent auditor's report.

**ADAIR COUNTY OFFICIALS
AND RESPONSIBILITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

COUNTY SHERIFF

James Austin Young

The County Sheriff is responsible for preserving the peace and protecting life and property within the county's jurisdiction. As the county's chief law enforcement officer, the Sheriff has the power and authority to suppress all unlawful disturbances, to apprehend and secure persons charged with felony or breach of peace, and to operate the county jail.

The County Sheriff has the responsibility of serving warrants and processing papers ordered by the District Court.

COUNTY TREASURER

Janice Brewer

All collections by county government from ad valorem taxes and other sources are deposited with the County Treasurer. The County Treasurer collects ad valorem taxes for the county and its political subdivisions. The County Treasurer is authorized to issue delinquent personal property tax warrants and to impose tax liens on real property for delinquent taxes.

To account for county collections and disbursements, the County Treasurer is required to maintain an accurate record of all the monies received and disbursed.

See independent auditor's report.

**ADAIR COUNTY OFFICIALS
AND RESPONSIBILITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

COURT CLERK

Paula Sam McCarter

The Court Clerk has the primary responsibility to record, file, and maintain as permanent records the proceedings of the District Court.

Court proceedings are recorded in the appropriate journal or record docket. All the court proceedings are public information except those related to juvenile, guardianship, adoption, and mental health cases.

The Court Clerk issues marriage licenses, passports, notary certificates, beer and pool hall licenses, and private process server licenses.

Monies from the court fund are identified for distribution by the Court Clerk to the appropriate units of county and state government.

DISTRICT ATTORNEY

Jerry Moore

As the chief attorney for county government, the District Attorney acts as the legal advisor to the county officers on matters related to their duties. The District Attorney represents the county in civil litigation. County officials may call upon the District Attorney to clarify a law or request an official interpretation from the Attorney General.

See independent auditor's report.

**ADAIR COUNTY OFFICIALS
AND RESPONSIBILITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

ELECTION BOARD SECRETARY

Marilyn Hill-Russell

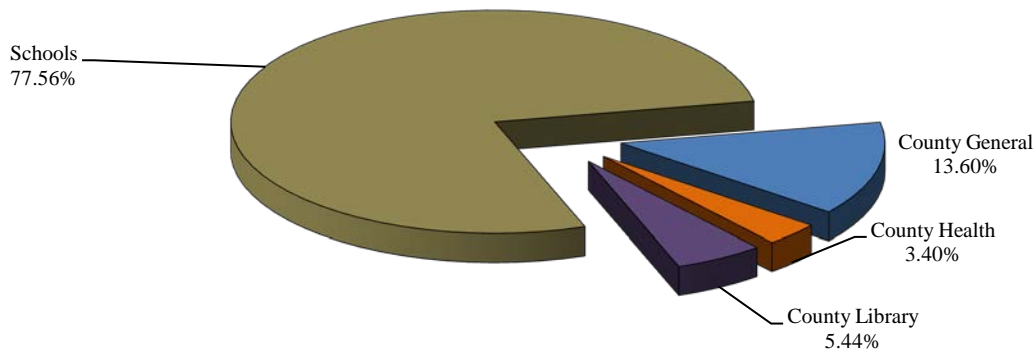
The Election Board Secretary is appointed by the State Election Board and is the chief administrative officer of the County Election Board. The County Election Board has direct responsibility for all the ballots used in all elections within the county. The Board also conducts all elections held within the county.

To finance the operation of the County Election Board, the County Excise Board must appropriate sufficient funds annually. The state and counties split the election costs, but counties must pay for any county elections not held concurrently with state elections.

See independent auditor's report.

**ADAIR COUNTY, OKLAHOMA
AD VALOREM TAX DISTRIBUTION
SHARE OF THE AVERAGE MILLAGE
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Property taxes are calculated by applying a millage rate to the assessed valuation of property. Millage rates are established by the Oklahoma Constitution. One mill equals one-thousandth of a dollar. For example, if the assessed value of a property is \$1,000.00 and the millage rate is 1.00, then the tax on that property is \$1.00. This chart shows the different entities of the County and their share of the various millages as authorized by the Constitution.



County-Wide Millages		School District Millages							
				Gen.	Bldg.	Skg.	Tech	Common	Total
County General	10.00								
County Health	2.50	Skelly	D-1	35.00	5.00	-	10.00	4.00	54.00
County Library	4.00	Watts	I-4	35.00	5.00	-	10.00	4.00	54.00
		Westville	I-11	35.00	5.00	-	10.00	4.00	54.00
		Peavine	D-19	35.00	5.00	-	10.00	4.00	54.00
		Maryetta	D-22	35.00	5.00	-	10.00	4.00	54.00
		Rocky Mountain	D-24	35.00	5.00	-	10.00	4.00	54.00
		Stilwell	I-25	35.00	5.00	8.06	10.00	4.00	62.06
		Zion	D-28	35.00	5.00	-	10.00	4.00	54.00
		Dahlongegah	D-29	35.00	5.00	-	10.00	4.00	54.00
		Cave Springs	I-30	35.00	5.00	4.45	10.00	4.00	58.45
		Greasy	D-32	35.00	5.00	-	10.00	4.00	54.00
		Bell	D-33	35.00	5.00	-	10.00	4.00	54.00
		Kansas	JT-3	35.00	5.00	24.74	11.45	4.18	80.37
		Moseley	JT-34	36.77	5.25	-	11.45	4.18	57.65

See independent auditor's report.

**ADAIR COUNTY, OKLAHOMA
COMPUTATION OF LEGAL DEBT MARGIN
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)**

Total net assessed value as of January 1, 2009		<u>\$ 77,037,430</u>
Debt limit - 5% of total assessed value		3,851,872
Total bonds outstanding	-	
Total judgments outstanding	-	
Less cash in sinking fund	<u>4,173</u>	<u>-</u>
Legal debt margin		<u>\$ 3,851,872</u>

See independent auditor's report.

**ADAIR COUNTY, OKLAHOMA
RATIO OF NET GENERAL BONDED DEBT TO ASSESSED
VALUE AND NET BONDED DEBT PER CAPITA
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)**

	2010
Estimated population	21,902
Net assessed value as of January 1, 2009	\$ 77,037,430
Gross bonded debt	-
Less available sinking fund cash balance	4,173
Net bonded debt	\$ -
Ratio of net bonded debt to assessed value	0.00%
Net bonded debt per capita	\$ -

See independent auditor's report.

**ADAIR COUNTY, OKLAHOMA
ASSESSED VALUE OF PROPERTY
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)**

<u>Valuation Date</u>	<u>Personal</u>	<u>Public Service</u>	<u>Real Estate</u>	<u>Homestead Exemption</u>	<u>Net Value</u>	<u>Estimated Fair Market Value</u>
1/1/2009	\$18,176,014	\$5,902,008	\$58,026,023	\$5,066,615	\$77,037,430	\$641,978,583

See independent auditor's report.

FINANCIAL SECTION



Oklahoma State Auditor & Inspector

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

Independent Auditor's Report

TO THE OFFICERS OF
ADAIR COUNTY, OKLAHOMA

We have audited the combined totals—all funds of the accompanying Combined Statement of Receipts, Disbursements, and Changes in Cash Balances of Adair County, Oklahoma, as of and for the year ended June 30, 2010, listed in the table of contents as the basic financial statement. This financial statement is the responsibility of Adair County's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, this financial statement was prepared using accounting practices prescribed or permitted by Oklahoma state law, which practices differ from accounting principles generally accepted in the United States of America. The effects on the financial statement of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the matter discussed in the preceding paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of Adair County as of June 30, 2010, or changes in its financial position for the year then ended.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the combined total of receipts, disbursements, and changes in cash of Adair County, for the year ended June 30, 2010, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2012, on our consideration of Adair County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal

control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the combined total of all funds within the basic financial statement taken as a whole. The combining information is presented for purposes of additional analysis rather than to present the receipts, disbursements, and cash balances of the individual funds. Also, the other supplementary information, as listed in the table of contents, is presented for purposes of additional analysis, and is not a required part of the basic financial statement. Such supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statement and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statement taken as a whole. Adair County has not presented the budgetary comparison information for the Comparative Schedule of Receipts, Expenditures, and Changes in Cash Balances – Budget and Actual – Budgetary Basis – County Health Department Fund. Although not a part of the basic financial statement, such information is an integral part of the regulatory presentation for county government. The information listed in the table of contents under Introductory Section has not been audited by us, and accordingly, we express no opinion on it.

A handwritten signature in blue ink, appearing to read "Gary A. Jones".

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

November 13, 2012

Basic Financial Statement

**ADAIR COUNTY, OKLAHOMA
 COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
 CHANGES IN CASH BALANCES
 (WITH COMBINING INFORMATION)
 FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	Beginning Cash Balances July 1, 2009	Receipts Apportioned	Disbursements	Ending Cash Balances June 30, 2010
Combining Information:				
County General Fund	\$ 611,413	\$ 1,216,245	\$ 1,308,244	\$ 519,414
Highway Cash	1,618,925	2,806,672	2,973,246	1,452,351
County Health	157,041	194,188	159,911	191,318
Sheriff Grant		21,000	7,600	13,400
Resale Property	148,971	380,326	129,840	399,457
County Clerk Records Preservation	6,192	17,443	8,988	14,647
Sheriff Drug Fund	2,664	1,383	130	3,917
County Clerk Lien Fees	8,228	6,828	6,671	8,385
Adair County Community Sentencing Program	74,363	41,058	47,285	68,136
Department of Corrections Board of Prisoners	98,729	10,856	109,325	260
Sheriff Service Fees	114,484	120,045	129,774	104,755
Fair Board Cash	13,804	16,407	21,065	9,146
Treasurer Mortgage Fees	39,401	2,851	1,926	40,326
Assessor Cash - Visual Inspection	7,343	4,160	1,000	10,503
Community Development Block Grant	32,632	38,359	70,991	
Sinking Fund	2,081	2,092		4,173
Fire Districts	394,069	218,505	199,364	413,210
Jail Operations	284,354	453,584	399,217	338,721
Sheriff Commissary	640	7,127	3,052	4,715
Great Grant	133			133
Jail Trust Authority	36,186	437,008	437,051	36,143
Sheriff Detention		85,000	83,095	1,905
Combined Total-All County Funds	\$ 3,651,653	\$ 6,081,137	\$ 6,097,775	\$ 3,635,015

The notes to the financial statement are an integral part of this statement.

**ADAIR COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

1. Summary of Significant Accounting Policies

A. Reporting Entity

Counties were created by the Constitution of Oklahoma. One county officer is appointed; however, most county officers are locally elected by their constituents. All county powers are delegated by the state.

The accompanying basic financial statement presents the receipts, disbursements, and changes in cash balances of the total of all funds of Adair County, Oklahoma. The financial statement referred to includes only the primary government of Adair County, Oklahoma, and does not include financial information for any of the primary government's legally separate component units, which accounting principles generally accepted in the United States of America require to be reported with the financial information of the primary government. The funds presented as line items are not a part of the basic financial statement, but have been included as supplementary information within the basic financial statement. These separate funds are established by statute, and their operations are under the control of the County officials. The general fund is the County's general operating fund, accounting for all financial resources except those required to be accounted for in another fund. The other funds presented account for financial resources whose use is restricted for specified purposes.

B. Fund Accounting

The County uses funds to report on receipts, disbursements, and changes in cash balances. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

Following are descriptions of the funds included as supplementary information within the financial statement:

County General Fund – revenues are from ad valorem taxes, officers' fees, interest earnings, and miscellaneous collections of the County. Disbursements are for the general operations of the County.

Highway Cash – revenues are from state imposed fuel taxes and disbursements are for the maintenance and construction of county roads and bridges.

County Health – accounts for monies collected on behalf of the county health department from ad valorem taxes and state and local revenues.

Sheriff Grant – revenues are from a federal grant and disbursements are for local law enforcement.

**ADAIR COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Resale Property – revenues are from interest and penalties on delinquent ad valorem taxes. Disbursements are to offset the expense of collection delinquent ad valorem taxes.

County Clerk Records Preservation – revenues are from a fee charged by the County Clerk for recording instruments. Disbursements are for the maintenance and preservation of public records.

Sheriff Drug Fund – revenues are from the proceeds of forfeited property. Disbursements are for the enforcement of controlled dangerous substance laws.

County Clerk Lien Fees – revenues are from a fee charged by the County Clerk for filing liens. Disbursements are for any lawful expense of the County Clerk's office.

Adair County Community Sentencing Program – revenues are from the State Department of Corrections to reimburse the County for the expense of administering the Community Service Sentencing Program.

Department of Corrections Board of Prisoners – revenues are from the Department of Corrections for the expense of boarding state prisoners in the county jail. Disbursements are for jail upkeep.

Sheriff Service Fees – revenues are from fees charged for serving summons and notices. Disbursements are for any lawful expense of the Sheriff's office.

Fair Board Cash – revenues are from the rental of fairground properties. Disbursements are for the expense of the County free fair.

Treasurer Mortgage Fees – revenues are from a fee for certifying mortgages. Disbursements are for any lawful expense of the Treasurer's office.

Assessor Cash – Visual Inspection – revenues are from fees charged to all entities receiving ad valorem taxes. Disbursements are for the re-valuation of all county property for ad valorem purposes.

Community Development Block Grant – revenues are from a grant for a water treatment process. Disbursements are for the building of the water treatment construction.

Sinking Fund – accounts for the collection of ad valorem taxes and interest earned for the payment of principal and interest of long term bonded debt and civil judgments against Adair County.

Fire Districts – revenues are from a county sales tax. Disbursements are for fire protection.

**ADAIR COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Jail Operations – revenues are from the Jail Trust Authority contract for operating the jail. Disbursements are for jail operations.

Sheriff Commissary – revenues are the profits earned on sale of commissary items. Disbursements are for the operation of the jail.

Great Grant – revenues are from a federal grant. Disbursements are for officer to work in conjunction with Adair County boys and girls club in assistance in the drug resistance and training program.

Jail Trust Authority – revenues are from a county sales tax. Disbursements are for the construction and operation of a modern jail facility.

Sheriff Detention – revenues are from a federal grant. Disbursements are for payroll for detention officer.

The County Treasurer collects and remits material amounts of intergovernmental revenues and ad valorem tax revenue for other budgetary entities, including county library, school districts, and cities and towns. The cash receipts and disbursements attributable to those other entities do not appear in funds on the County's financial statement; those funds play no part in the County's operations. Any trust or agency funds maintained by the County are not included in this presentation.

C. Basis of Accounting

The basic financial statement is prepared on a basis of accounting wherein amounts are recognized when received or disbursed. This basis of accounting differs from accounting principles generally accepted in the United States of America, which require revenues to be recognized when they become available and measurable or when they are earned, and expenditures or expenses to be recognized when the related liabilities are incurred. This cash basis financial presentation is not a comprehensive measure of economic condition or changes therein.

D. Budget

Under current Oklahoma Statutes, a general fund and a county health department fund are the only funds required to adopt a formal budget. On or before the first Monday in July of each year, each officer or department head submits an estimate of needs to the governing body. The budget is approved for the respective fund by office, or department and object. The County Board of Commissioners may approve changes of appropriations within the fund by office or department and object. To increase or decrease the budget by fund requires approval by the County Excise Board.

**ADAIR COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

For the highway funds and other funds, which are not required to adopt a formal budget, appropriations are made on a monthly basis, according to the funds then available.

E. Cash

The County pools the cash of its various funds in maintaining its bank accounts. However, cash applicable to a particular fund is readily identifiable on the County's books. The balance in the pooled cash accounts is available to meet current operating requirements.

State statutes require financial institutions with which the County maintains funds to deposit collateral securities to secure the County's deposits. The amount of collateral securities to be pledged is established by the County Treasurer; this amount must be at least the amount of the deposit to be secured, less the amount insured (by, for example, the FDIC).

F. Investments

The County Treasurer has been authorized by the County's governing board to make investments. By statute (62 O.S. § 348.1 and § 348.3), the following types of investments are allowed:

- U.S. Government obligations
- Certificates of deposit
- Savings accounts
- G.O. bonds issued by counties, municipalities or school districts
- Money judgments against counties, municipalities or school districts
- Bonds and revenue notes issued by a public trust when the beneficiary of the trust is a county, municipality or school district
- Negotiable certificates of deposit
- Prime bankers acceptance which are eligible for purchase by the Federal Reserve System
- Prime commercial paper with a maturity of 180 days or less
- Repurchase agreements
- Money market funds regulated by the Securities and Exchange Commission and which investments consist of the above-mentioned types of investments

All investments must be backed by the full faith and credit of the United States Government, the Oklahoma State Government, fully collateralized, or fully insured.

G. Compensated Absences

Sick leave benefits are accrued at the rate of 10 hours per month and employees may accumulate up to 130 days. Sick leave is not paid upon termination.

All full-time Adair County employees shall be entitled to annual leave that is accrued on a monthly basis in accordance with the schedule outlined below:

**ADAIR COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Years of Service	Annual Leave
0-5 years	15 days (10 hours per month)
6-20 years	18 days (12 hours per month)
Over 20 years	20 days (13.33 hours per month)

Vacation must be earned before it is taken. No vacation will be longer than ten consecutive working days without permission of the appropriate elected official. Vacation schedules are subject to the elected official's approval. Employees must use any accumulated vacation by January 1. Accrued vacation time is paid upon separation.

2. Ad Valorem Tax

The County's property tax is levied each October 1 on the assessed value listed as of January 1 of the same year for all real and personal property located in the County, except certain exempt property. Assessed values are established by the County Assessor within the prescribed guidelines established by the Oklahoma Tax Commission and the State Equalization Board. Title 68 O.S. § 2820.A. states, ". . . Each assessor shall thereafter maintain an active and systematic program of visual inspection on a continuous basis and shall establish an inspection schedule which will result in the individual visual inspection of all taxable property within the county at least once each four (4) years."

The assessed property value as of January 1, 2009, was approximately \$77,037,430.

The County levied 10.00 mills (the legal maximum) for general fund operations, 2.5 mills for county health department, and 4.0 mills for county library. In addition, the County collects the ad valorem taxes assessed by school districts and remits the ad valorem taxes collected to the appropriate taxing units.

Taxes are due on November 1 following the levy date, although they may be paid in two equal installments. If the first half is paid prior to January 1, the second half is not delinquent until April 1. Unpaid real property taxes become a lien upon said property on October 1 of each year.

Unpaid delinquent personal property taxes are published usually in May. If the taxes are not paid within 30 days from publication, they shall be placed on the personal tax lien docket.

Current year tax collections for the year ended June 30, 2010, were approximately 94.11 percent of the tax levy.

3. Fuel Tax

The County receives major funding for roads and highways from a state imposed fuel tax. Taxes are collected by the Oklahoma Tax Commission. Taxes are imposed on all gasoline, diesel, and special fuel sales statewide. The County's share is determined on formulas based on the County

**ADAIR COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

population, road miles, and land area and is remitted to the County monthly. These funds are earmarked for roads and highways only and are accounted for in the county highway fund.

4. Risk Management

ACCO-SIG – The County is exposed to the various risks of loss related to torts; theft, damage, or destruction of assets; errors or omissions; injuries to employees; or acts of God. The County participates in a public entity risk pool: Association of County Commissioners of Oklahoma-Self-Insurance-Group (ACCO-SIG). If claims exceed the authorized deductibles, the County could have to pay its share of the pool deficit. A judgment could be assessed for claims in excess of the pool's limits.

OPEH&WP – The County has entered into an interlocal agreement with other governmental entities to participate in a pooled self-insurance fund to provide insurance coverage. The pool provides for surcharges to be assessed for claims in excess of pool assets to offset pool deficits. Settled claims have not exceeded insurance coverage for each of the past three fiscal years. There have been no significant reductions in coverage from the prior fiscal year.

5. Long-term Obligations

Capital Leases

The County acquires road machinery and equipment through lease-purchase agreements financed by the Oklahoma Department of Transportation and/or the equipment vendors or their assignees pursuant to the provisions of 69 O.S. § 636.1 through § 636.7. Lease agreements entered into with the Oklahoma Department of Transportation (ODOT) are interest free, but have a one-time fee of 3% on all pieces of machinery acquired.

6. Pension Plan

Plan Description. The County contributes to the Oklahoma Public Employees Retirement Plan (the Plan), a cost-sharing, multiple-employer defined benefit pension plan administered by the Oklahoma Public Employees Retirement System (OPERS). Benefit provisions are established and amended by the Oklahoma Legislature. The Plan provides retirement, disability, and death benefits to Plan members and beneficiaries. Title 74, Sections 901 through 943, as amended, establishes the provisions of the Plan. OPERS issues a publicly available financial report that includes financial statements and supplementary information. That report may be obtained by writing OPERS, P.O. Box 53007, Oklahoma City, Oklahoma 73105 or by calling 1-800-733-9008.

**ADAIR COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Funding Policy. The contribution rates for each member category are established by the Oklahoma Legislature and are based on an actuarial calculation which is performed to determine the adequacy of contribution rates.

2.5% Step-Up. Members have the option to increase the benefit computation factor for all future service from 2.0% to 2.5%. The election is irrevocable, binding for all future employment under OPERS, and applies only to full years of service.

7. Other Post Employment Benefits (OPEB)

In addition to the pension benefits described in the Pension Plan note, OPERS provides post-retirement health care benefits of up to \$105 each for retirees who are members of an eligible group plan. These benefits are funded on a pay-as-you-go basis as part of the overall retirement benefit. OPEB expenditure and participant information is available for the state as a whole; however, information specific to the County is not available nor can it be reasonably estimated.

8. Contingent Liabilities

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, primarily the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable fund. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time; although, the County expects such amounts, if any, to be immaterial.

As of the end of the fiscal year, there were no claims or judgments that would have a material adverse effect on the financial condition of the County; however, the outcome of any lawsuit would not be determinable.

9. Sales Tax

On September 17, 1996, Adair County voters approved a permanent sales tax of one-half of one percent (0.5%). The sole purpose of this sales tax is for the construction, maintenance, and operation of the Adair County Jail Trust Authority and its facilities.

On March 6, 2001, Adair County voters approved a permanent sales tax of one-quarter of one percent (0.25%). The purpose of this tax is to provide funds for fire departments in Adair County.

**ADAIR COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

10. Investigative Audit

The State Auditor and Inspector's Office conducted a special investigative audit concerning the financial records of the County Clerk's office from December 1, 2010 through October 13, 2011. County funds in the amount of \$1,166.75 were not deposited by the County Clerk's office. This finding will not have a material effect on the basic financial statement for the year ending June 30, 2010.

OTHER SUPPLEMENTARY INFORMATION

ADAIR COUNTY, OKLAHOMA
COMPARATIVE SCHEDULE OF RECEIPTS, EXPENDITURES, AND
CHANGES IN CASH BALANCES—BUDGET AND ACTUAL—BUDGETARY BASIS—
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	General Fund		
	Final Budget	Actual	Variance
Beginning Cash Balances	\$ 611,398	\$ 611,413	\$ 15
Less: Prior Year Outstanding Warrants	(77,886)	(77,886)	
Less: Prior Year Encumbrances	(31,031)	(27,533)	3,498
Beginning Cash Balances, Budgetary Basis	<u>502,481</u>	<u>505,994</u>	<u>3,513</u>
Receipts:			
Ad Valorem Taxes	700,340	752,741	52,401
Charges for Services	49,016	47,949	(1,067)
Intergovernmental Revenues	263,071	288,768	25,697
Miscellaneous Revenues	114,129	126,787	12,658
Total Receipts, Budgetary Basis	<u>1,126,556</u>	<u>1,216,245</u>	<u>89,689</u>
Expenditures:			
County Sheriff	268,900	268,579	321
County Treasurer	48,937	48,867	70
County Commissioners	422,019	116,456	305,563
OSU Extension	19,910	19,909	1
County Clerk	103,181	103,180	1
Court Clerk	72,200	72,200	
County Assessor	45,138	45,138	
Revaluation of Real Property	240,777	212,300	28,477
General Government	56,190	48,857	7,333
Excise-Equalization Board	2,700	2,408	292
County Election Board	54,548	52,788	1,760
Insurance	240,986	236,856	4,130
County Purchasing Agent	26,251	26,151	100
County Audit Budget Account	21,000	20,997	3
Free Fair Budget	3,000	2,994	6
Budget Maker	3,000	3,000	
Provision for Interest on Warrants	300		300
Total Expenditures, Budgetary Basis	<u>1,629,037</u>	<u>1,280,680</u>	<u>348,357</u>
Excess of Receipts and Beginning Cash Balances Over Expenditures, Budgetary Basis	<u>\$ -</u>	441,559	<u>\$ 441,559</u>
Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances			
Add: Current Year Outstanding Warrants		61,141	
Add: Current Year Encumbrances		16,714	
Ending Cash Balance		<u>\$ 519,414</u>	

The accompanying notes to the other supplementary information are an integral part of this schedule.
See independent auditor's report.

**ADAIR COUNTY, OKLAHOMA
DETAILED SCHEDULE OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES—SINKING FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Beginning Cash Balance	<u>\$ 2,081</u>
Receipts:	
Ad Valorem	<u>2,092</u>
Total Receipts	<u>2,092</u>
Disbursements:	
Total Disbursements	<u>-</u>
Ending Cash Balance	<u>\$ 4,173</u>

The accompanying notes to the other supplementary information are an integral part of this schedule.
See independent auditor's report.

**ADAIR COUNTY, OKLAHOMA
NOTES TO OTHER SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

1. Budgetary Schedules

The Comparative Schedule of Receipts, Expenditures, and Changes in Cash Balances—Budget and Actual—Budgetary Basis for the County Health Department Fund has not been presented. Therefore, the legally adopted budget cannot be compared with actual data for the County Health Department Fund. The Comparative Schedule of Receipts, Expenditures, and Changes in Cash Balances—Budget and Actual—Budgetary Basis for the General Fund presents comparisons of the legally adopted budget with actual data. The "actual" data, as presented in the comparison of budget and actual, will differ from the data as presented in the Combined Statement of Receipts, Disbursements, and Changes in Cash Balances with Combining Information because of adopting certain aspects of the budgetary basis of accounting and the adjusting of encumbrances and outstanding warrants to their related budget year.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in these funds. At the end of the year, unencumbered appropriations lapse.

2. Sinking Fund Schedule

Debt service receipts are derived generally from a special ad valorem tax levy and from interest earned on investments of cash not immediately required for debt service payments.

See independent auditor's report.

INTERNAL CONTROL AND COMPLIANCE SECTION



Oklahoma State Auditor & Inspector

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

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

TO THE OFFICERS OF
ADAIR COUNTY, OKLAHOMA

We have audited the combined totals—all funds of the accompanying Combined Statement of Receipts, Disbursements, and Changes in Cash Balances of Adair County, Oklahoma, as of and for the year ended June 30, 2010, which comprises Adair County's basic financial statement, prepared using accounting practices prescribed or permitted by Oklahoma state law, and have issued our report thereon dated November 13, 2012. Our report on the basic financial statement was adverse because the statement is not a presentation in conformity with accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Adair County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Adair County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in internal control described in the accompanying schedule of findings and responses to be material weaknesses in internal control over financial reporting. 2010-5, 2010-7, and 2010-10.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting. 2010-1, 2010-2, 2010-3, 2010-4, 2010-6, and 2010-8.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Adair County's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2010-6, 2010-10 and 2010-18.

We noted certain matters that we reported to the management of Adair County, which are included in Section 2 of the schedule of findings and responses contained in this report.

Adair County's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit Adair County's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, those charged with governance, others within the entity, and is not intended to be and should not be used by anyone other than the specified parties. This report is also 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.



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

November 13, 2012

**ADAIR COUNTY, OKLAHOMA
SCHEDULE OF FINDING AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

SECTION 1—Findings related to the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Finding 2010-1—Disaster Recovery Plans and Inactivity of Computers (Repeat Finding)

Condition: The County Treasurer does not have a written Disaster Recovery Plan and the County Clerk's Disaster Recovery Plan has not been updated since 2002. It was also noted that the computers in the County Treasurer and County Clerk's office do not log-off after periods of inactivity, nor do the employees log-off when away from their desks.

Cause of Condition: Procedures have not been designed to develop and implement a Disaster Recovery Plan and policies and security for the appropriate use of county computer equipment.

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. Without an IT security policy in place, the County Treasurer's office is at risk of a loss of financial and taxpayer data as well as a risk for misappropriation of county funds.

Recommendation: OSAI recommends the County Treasurer and County Clerk develops a current Disaster Recovery Plan and maintain a copy offsite. OSAI further recommends that computers are set to require a password to sign into after a period of inactivity, set to expire and change after a given period of time.

Management Response:

County Clerk: A Disaster Plan has been implemented. Staff has been instructed on proper protocol in the event of a disaster. Our office now has back-up data stored off premises.

County Treasurer: A Disaster Recovery Plan will be implemented and staff instructed as to proper protocol in the event of a disaster. Back-up data is stored off-site.

Criteria: According to the standards of the Information Systems Audit and Control Association's (COBIT Delivery & Support 4.3), management should ensure that a written Disaster Recovery Plan is documented and contains the following:

- Guidelines on how to use the Recovery Plan,
- Emergency procedures to ensure the safety of all affected staff members,
- Roles and responsibilities of information services function, vendors providing recovery services, users of services and support administrative personnel,
- Listing of systems requiring alternatives (hardware, peripherals, software),
- Listing of highest to lowest priority applications, required recovery times and expected performance norms,

**ADAIR COUNTY, OKLAHOMA
SCHEDULE OF FINDING AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

- Various recovery scenarios from minor to loss of total capability and response to each in sufficient detail for step-by-step execution,
- Specific equipment and supply needs are identified such as high speed printers, signatures, forms, communications equipment, telephones, etc. and a source and alternative source defined,
- Training and/or awareness of individual and group roles in continuity plan,
- Listing of contracted service providers,
- Logistical information on location of key resources, including back-up site for recovery operating system, applications, data files, operating manuals and program/system/user documentation,
- Current names, addresses, telephone/pager numbers of key personnel,
- Business resumption alternatives for all users for establishing alternative work locations once IT resources are available.

According to the standards of the Information Systems Audit and Control Association (CobiT 4.1, Delivery and Support, 5.3 Identity Management), information services function management should ensure that all users (internal, external, and temporary) and their activity on IT systems (business application, IT environment, system operations, development, and maintenance) are uniquely identifiable. Enable user identities via authentication mechanisms. Confirm that user access rights to systems and data are in line with defined and documented business needs and that job requirements are attached to user identities. Ensure that user access rights are requested by user management, approved by system owners and implemented by the security-responsible person. Maintain user identities and access rights in a central repository. Deploy cost-effective technical and procedural measures, and keep them current to establish user identification, implement authentication and enforce access rights.

Finding 2010-2—Footnote Disclosures (Repeat Finding)

Condition: Internal controls have not been developed to ensure all required disclosures are presented with the financial statement.

Cause of Condition: Procedures have not been designed to prepare the accompanying notes to the financial statements.

Effect of Condition: The potential exists for misstatements to go undetected, specifically for the completeness of financial statement disclosures.

Recommendation: OSAI recommends the County consider one or more of the following controls:

- Having at least one staff member with sufficient skills necessary to understand the application of accounting principles in regards to the preparation of footnote disclosures.
- Contract an outside firm or individual to review or prepare the accompanying notes to the financial statements to ensure appropriate disclosures are presented.

Management Response: Procedures will be implemented to prepare and approve the accompanying notes to the financial statements.

**ADAIR COUNTY, OKLAHOMA
SCHEDULE OF FINDING AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Criteria: The County’s management is responsible for establishing internal control procedures to prevent or detect misstatements in a timely manner. Statement on Auditing Standards (SAS) No. 115 indicates that a control deficiency exists when management does not have adequate expertise to apply accounting principles to the financial statements or to review financial statements prepared on their behalf by others, to ensure they are prepared in accordance with these principles. Professional audit standards preclude the external financial statement auditor from performing any part of management’s control activities or be a component of the internal controls over financial reporting as this would impair their independence.

Finding 2010-3—Inadequate County-Wide Controls (Repeat Finding)

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 the County design procedures to identify and address risks. OSAI also recommends 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.

**ADAIR COUNTY, OKLAHOMA
SCHEDULE OF FINDING AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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. The Board of County Commissioners will strive to make risk assessment and monitoring a priority in Adair County.

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

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

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

Finding 2010-4—Bank Reconciliations (Repeat Finding)

Condition The Employee Taxes (EPTPS) bank account in the County’s name and tax identification number were not accounted for on the Treasurer’s General Ledger. We also noted that bank reconciliations were not performed for this account.

Cause of Condition: Procedures have not been designed to ensure all accounts are reconciled, approved, and on the General Ledger.

**ADAIR COUNTY, OKLAHOMA
SCHEDULE OF FINDING AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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

Recommendation: OSAI recommends all accounts be reconciled on a monthly basis and in a timely manner and that the Treasurer ensures that all bank reconciliations reflect an indication of review that they are approved by someone other than the preparer. Also, the Federal Tax Account should be included on the General Ledger.

Management Response:

County Treasurer: The EFTPS account is now recorded on the General Ledger and reconciled with the bank each month.

Criteria: To help ensure a proper accounting of funds, all bank accounts identified with the County's tax identification number should be included on the general ledger. Bank reconciliations should be performed on a monthly basis and approved by someone other than the preparer and include an indication of review.

Finding 2010-5—Segregation of Duties (Repeat Finding)

Condition: A lack of segregation of duties exists in the following offices:

- The County Treasurer's office has one deputy who issues receipts, balances the cash drawer, prepares the deposit, posts daily receipts to the daily reports and General Ledger, prepares the monthly reports, and reconciles the bank accounts.
- The County Clerk's office has one deputy who issues receipts, balances the cash drawer, prepares the deposit, posts daily receipts to the daily reports, and prepares the monthly reports.

Cause of Condition: Procedures have not been designed to adequately segregate the duties within the offices.

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

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

Management Response:

County Clerk: I have segregated the duties of receipting and depositing. The personnel that are receiving funds are not also depositing the funds.

**ADAIR COUNTY, OKLAHOMA
SCHEDULE OF FINDING AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

County Treasurer: Due to limited staff some duties overlap, but more diligence will be used to ensure that duties of receipting and depositing are segregated.

Criteria: To help ensure a proper accounting of funds, key duties and responsibilities should be segregated among different individuals to reduce the risk of error or fraud. No one individual should have the ability to authorize transactions, have physical custody of assets, and record transactions.

Finding 2010-6—Unsecured Deposits (Repeat Finding)

Condition: During the month of April 2010, the County had unsecured deposits of \$3,767.36.

Cause of Condition: The County relied upon the banks to ensure deposits were secured with pledged collateral. Procedures have not been designed to ensure county funds are safeguarded against loss.

Effect of Condition: This condition could result in the possible loss of county funds.

Recommendation: OSAI recommends management establish policies and procedures to periodically compare the amount of pledged collateral to amounts deposited, to ensure pledges are adequate and all deposits are secured.

Management Response:

County Treasurer: Depository banks are now updating the current market values of their pledged collateral on the 25th of each month and are aware of the heavy collections at the end of each month.

Criteria: Title 62 O.S. § 517.4.A states:

A treasurer of a public entity shall require that financial institutions deposit collateral securities or instruments to secure the deposits of the public entity in each such institution. The amount of collateral securities or instruments to be pledged for the security of public deposits shall be established by the treasurer of the public entity consistent with the provisions of the Security for Local Public Deposits Act; provided, such amount shall not be less than the amount of the deposit to be secured, less the amount insured.

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.

**ADAIR COUNTY, OKLAHOMA
SCHEDULE OF FINDING AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Finding 2010-7—Segregation of Duties – Payroll (Repeat Finding)

Condition: A lack of segregation of duties exists in the County Clerk’s office because one person enrolls new employees, maintains personnel files, reviews the payroll claims, calculates amounts to be paid to the employees and payroll related agencies, updates the master payroll file, issues and prints payroll warrants, prepares OPERS reports, as well as, state and federal tax reports, and removes terminated employees from the system.

Cause of Condition: Procedures have not been designed to adequately segregate the duties within the payroll department.

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

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

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

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

Management Response:

County Clerk: The lack of segregation of duties will be looked into as soon as more employees are employed.

Criteria: Procedures 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.

Finding 2010-8—Cash Receipts (Repeat Finding)

Condition: A review of the receipting process in the Sheriff’s office revealed the following:

- Receipts are not issued for all collections.
- Collections are not deposited daily.
- Cash bonds received for inmates are not timely remitted to the Court Clerk.
- Some cash receipts are not deposited, but held in the Sheriff’s office for disbursement from a “petty cash fund.”

**ADAIR COUNTY, OKLAHOMA
SCHEDULE OF FINDING AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Cause of Condition: Procedures have not been designed to ensure all collections are receipted and deposited daily.

Effect of Condition: By not issuing a pre-numbered receipt and depositing collections daily, the possibility of loss or misappropriation of funds increases.

Recommendation: OSAI recommends pre-numbered receipts be issued for all collections at the time monies are received. All collections should be deposited daily with the County Treasurer.

Management Response:

County Sheriff: Pre-numbered receipt books are kept separate for our office, jail, and commissary. Collections are not deposited daily but new procedures are being created to ensure daily deposits. Vouchers are now being issued to the court clerk in a timely manner. The petty cash box has been dissolved.

Criteria: Statutory control procedures have been established for the receipting and depositing of collections.

Title 28 O.S. § 9 states:

Every officer charging fees shall give a receipt therefor.

Title 19 O. S. § 682 states in part:

It shall be the duty of each and every county officer, county board, county commission and all members and employees of either thereof, to deposit daily in the official depository designated in Section 681 of this title, all monies, checks, drafts, orders, vouchers, funds, rentals, penalties, costs, proceeds of sale property, fees, fines, forfeitures, and public charges of every kind received or collected by virtue or under color of office.

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.

Finding 2010-10—Jail Trust Authority Sales Tax (Repeat Finding)

Condition: On a monthly basis, sales tax was apportioned according to the sales tax ballots, with 1/2 of the one cent sales tax going to the Adair County Jail Trust Authority. All sales tax collections apportioned to the Jail Trust Authority were transferred via Treasurer's check into the Jail Trust Authority bank account. No purchase orders were used for these expenditures. As a result, disbursements were understated \$437,051 on the preliminary draft of the County's financial statement.

**ADAIR COUNTY, OKLAHOMA
SCHEDULE OF FINDING AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Cause of Condition: Procedures have not been established or implemented to ensure the County's sales tax collections and expenditures are in compliance with state statutes.

Effect of Condition: By failing to accurately account for sales tax disbursements on the County's financial statements and ensuring that County sales tax is expended using the proper procedures and in the appropriate amounts, the County increased the risk for misappropriation of assets and understated the disbursements on the financial statement.

Recommendation: OSAI recommends management establish procedures to oversee and ensure sales tax disbursements are recorded accurately on the County's financial statements and all sales tax expenditures are issued by purchase order, are supported by adequate documentation and reviewed for accuracy, and warrants are for the proper amounts.

Management Response: Purchase orders are now required for monthly transfers of sales tax monies for the Jail Trust Authority.

Criteria: Title 68 O.S. § 1370.E states in part:

... the proceeds of any sales tax levied by a county shall be deposited in the general revenue or sales tax revolving fund of the county and shall be used only for the purpose for which such sales tax was designated.

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.

Finding 2010-18—Oklahoma Public Employees Retirement System (OPERS) (Repeat Finding)

Condition: There were 42 employees who were either never enrolled into OPERS or were not enrolled the following month after their hire date. The positions in the Sheriff's department are all considered permanent, but employees must be employed for six months before the County enrolls them in OPERS.

Cause of Condition: Procedures have not been designed to ensure all eligible employees are enrolled in OPERS benefits.

Effect of Condition: All eligible employees may not have been participating in the pension plan. This could result in a possible liability to the County.

Recommendation: OSAI recommends the County contact OPERS to determine the date these employees should have been enrolled in OPERS and to determine the amount of retirement benefits that should be remitted to OPERS.

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Management Response: County officials will implement procedures to ensure all eligible employees are enrolled in OPERS benefits in accordance with OPERS guidelines.

Criteria: Title 74 O.S. § 925 states:

All employees of participating employers who are eligible or may hereafter become eligible to be members of the system as provided by this act shall, as a condition of continuing employment or as a condition of obtaining employment with a participating employer, become members of the system.

SECTION 2—This section contains certain matters not required to be reported in accordance with *Government Auditing Standards*. However, we believe these matters are significant enough to bring to management’s attention. We recommend that management consider these matters and take appropriate corrective action.

Finding 2010-14—Inmate Trust and Commissary Funds (Repeat Finding)

Condition: An examination of the inmate trust account revealed the following exceptions:

- Inmate trust receipts were issued from the same book as the receipts for concealed weapons, fingerprinting, background checks, rent, shotguns, and bonds.
- Deposits were not made daily.
- There were no ledgers with balances, deposits or withdrawals for the inmate trust funds.
- Bank statements were not reconciled.
- Voided checks were not defaced and retained.
- No commissary fund was established until February 2009.
- Contract with the commissary vendor expired in September 2008 and had not been renewed.
- No annual report was filed with the Board of County Commissioners.
- A lack of segregation of duties exists because one deputy issues receipts, enters information into the system, prepares and takes deposits to the bank, and prepares bank reconciliations which are not approved.

Cause of Condition: Procedures have not been designed to adequately account for inmate trust funds.

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

Recommendation: OSAI recommends the following:

- Receipts should be issued for all collections.
- Deposits should be made daily.
- Ledgers should be maintained with balances, deposits or withdrawals for the inmate trust funds.

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- All voided checks should be marked voided and retained.
- Reconciliations should be performed monthly on the inmate trust account and should be reviewed and approved by someone other than the preparer.
- Duties should be adequately segregated.
- Contract with the commissary vendor should be renewed.
- An annual report should be filed with the Board of County Commissioners.

Management Response:

County Sheriff: Inmate funds are collected and receipted in separate pre-numbered books. Procedures are being created to insure deposits are done daily and all records are being kept in the Tiger Commissary program. Bank statements are being reconciled through this program. Voided checks are being kept in a separate file and only one account is maintained. All profit is being deposited into the Sheriff's account on a monthly basis. Procedures are also being created to insure internal audits are being done. Annual reports are being done and will be filed with the Board of County Commissioners.

Furthermore, we are getting a new Sheriff for 2013 and I am working diligently with him to make sure he is aware of these issues and that he addresses them with new procedures.

Criteria: To help ensure a proper accounting of funds, receipts should be pre-numbered, issued in sequential order and deposited daily. Bank reconciliations should be performed monthly and reviewed by someone other than the preparer. All voided checks should be defaced and retained. Duties should be adequately segregated. Contract with the commissary vendor should be renewed annually and approved by the Board of County Commissioners. Also, an annual commissary report must be filed with the Board of County Commissioners by January 15th of every year.

Finding 2010-17—Consumables (Repeat Finding)

Condition: Upon inquiry and observation, OSAI noted in District 3, consumable stock cards and transfer documents are not being used.

Cause of Condition: Procedures have not been designed to ensure the County's consumable inventories are accounted for properly.

Effect of Condition: Failure to maintain accurate records of consumable inventories could result in inaccurate records, unauthorized use of consumable inventories, or misappropriation of consumable inventories.

Recommendation: OSAI recommends consumable records be accurately maintained, physical counts of consumable items be performed every six months, and a record of such be maintained.

Management Response:

County Commissioner District 3: This was prior to my appointment to office as County Commissioner.

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Criteria: To ensure proper accounting of consumable assets, consumable item records should be accurately maintained, updated in a timely manner, and reconciled to physical count.

Finding 2010-19—Estimate of Needs

Condition: The examination of the 2009-2010 Estimate of Needs for the Health Department Fund revealed the Prior Year Warrants Outstanding were overstated by \$12,302 and Prior Year Encumbrances were understated by \$9,162, respectively.

Cause of Condition: Procedures have not been designed to ensure the County's Estimate of Needs is accurate.

Effect of Condition: These conditions could result in an inaccurate budget, misappropriation of assets, and noncompliance with state statutes.

Recommendation: OSAI recommends management take steps to ensure that all accounts are accurately reported in the County's Estimate of Needs, as required by state statutes.

Management Response: Management will discuss this issue with the County Budget Maker and ensure that the prior year outstanding warrants and prior year encumbrances are properly recorded on the Estimate of Needs.

Criteria: The adopted budget is an expression of public policy and financial intent and is a method of providing controls over that intent. Effective internal controls as they relate to government entities financial reporting should assist in fulfilling government's duty to be publicly accountable and should enable users access to that accountability by demonstrating whether resources were obtained and used in accordance with the entity's adopted budget.

Title 68 O.S. § 3002 states in part:

...each board of county commissioners...shall prior to October 1 of each year, make, in writing, a financial statement, showing the true financial condition of their respective political subdivisions as of the close of the previous fiscal year ended June 30th, and shall make a written itemized statement of estimated needs and probable income from all sources including ad valorem tax for the current fiscal year. Such financial statements shall be supported by schedules or exhibits showing, by classes, the amount of all receipts and disbursements, and shall be sworn to as being true and correct...



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