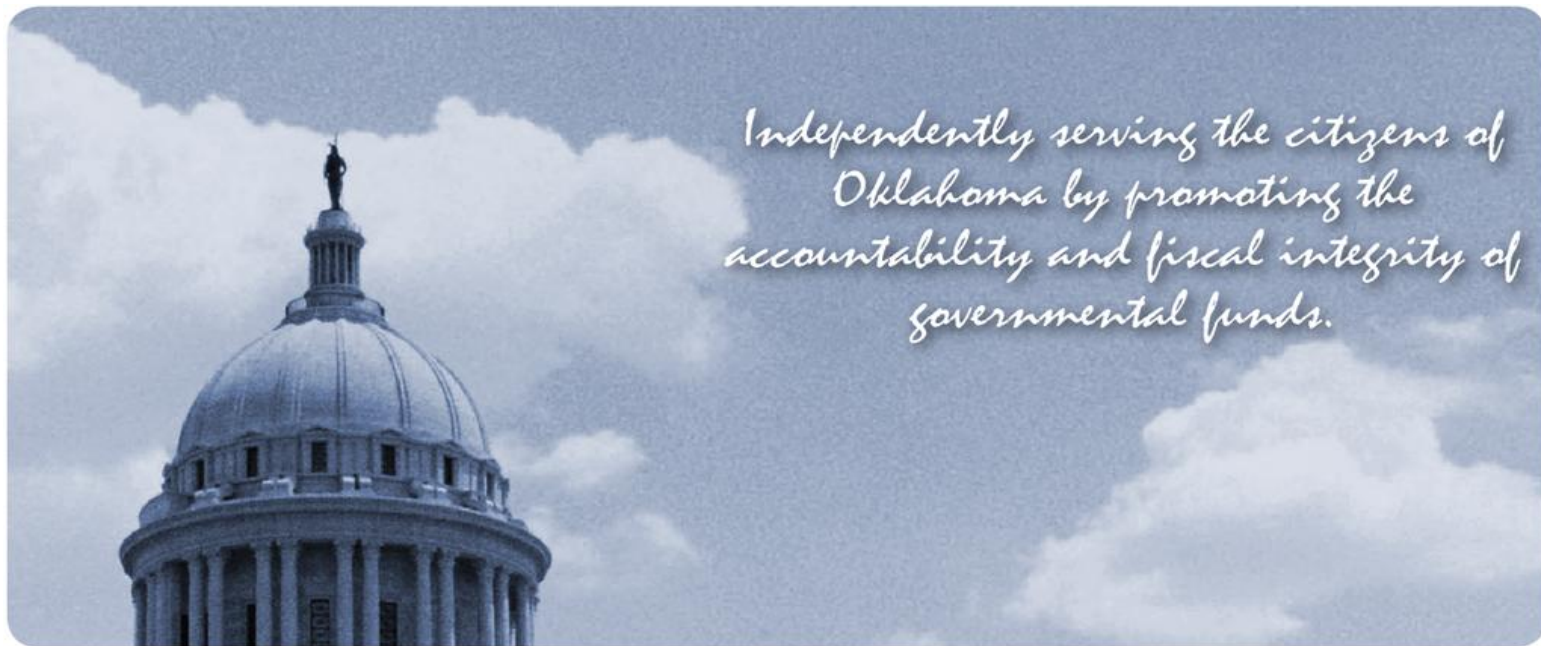


COUNTY AUDIT

# ADAIR COUNTY

For the fiscal year ended June 30, 2011



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



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

**ADAIR COUNTY, OKLAHOMA  
FINANCIAL STATEMENT  
AND INDEPENDENT AUDITOR'S REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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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](http://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

November 6, 2014

TO THE CITIZENS OF  
ADAIR COUNTY, OKLAHOMA

Transmitted herewith is the audit of Adair County, Oklahoma for the fiscal year ended June 30, 2011. 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".

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

**ADAIR COUNTY, OKLAHOMA  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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**ADAIR COUNTY, OKLAHOMA  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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INTERNAL CONTROL AND COMPLIANCE SECTION

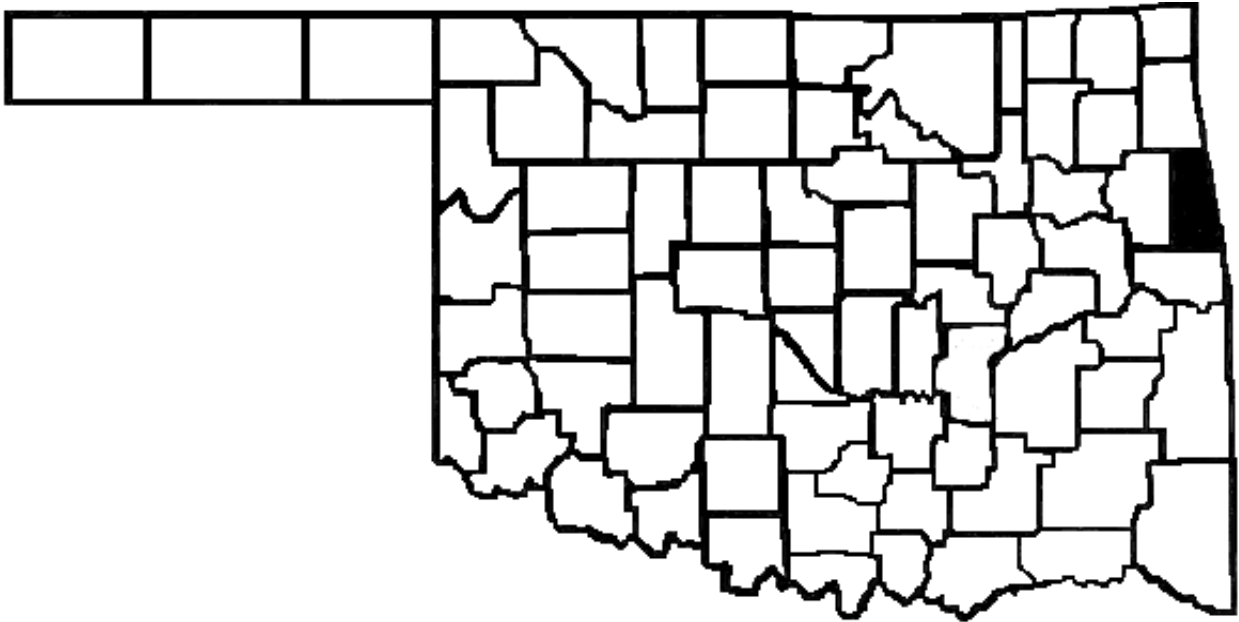
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**PRESENTED FOR INFORMATIONAL PURPOSES ONLY**

**ADAIR COUNTY OFFICIALS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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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 918-696-7198.

County Seat – Stilwell

Area – 577.3 Square Miles

County Population – 21,857 (2009 est.)

Farms – 1,202

Land in Farms – 249,280 Acres

Primary Source: Oklahoma Almanac 2011-2012

**Board of County Commissioners**

District 1 – Danny Braden  
District 2 – Sam Chandler  
District 3 – Keith Davis

**County Assessor**

Rhonda Pritchett

**County Clerk**

Carrie Philpott

**County Sheriff**

James Austin Young

**County Treasurer**

Janice Brewer

**Court Clerk**

Paula “Sam” McCarter

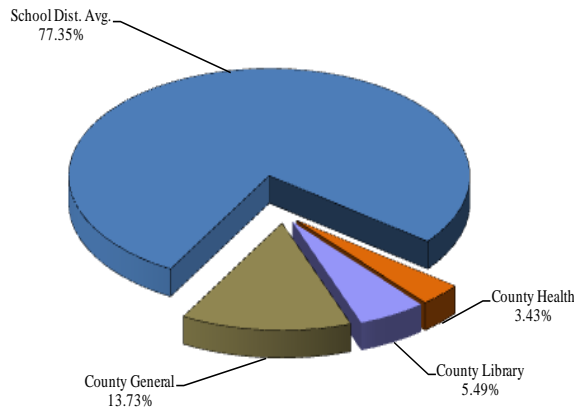
**District Attorney**

Brian Kuester



**ADAIR COUNTY, OKLAHOMA  
AD VALOREM TAX DISTRIBUTION  
SHARE OF THE AVERAGE MILLAGE  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

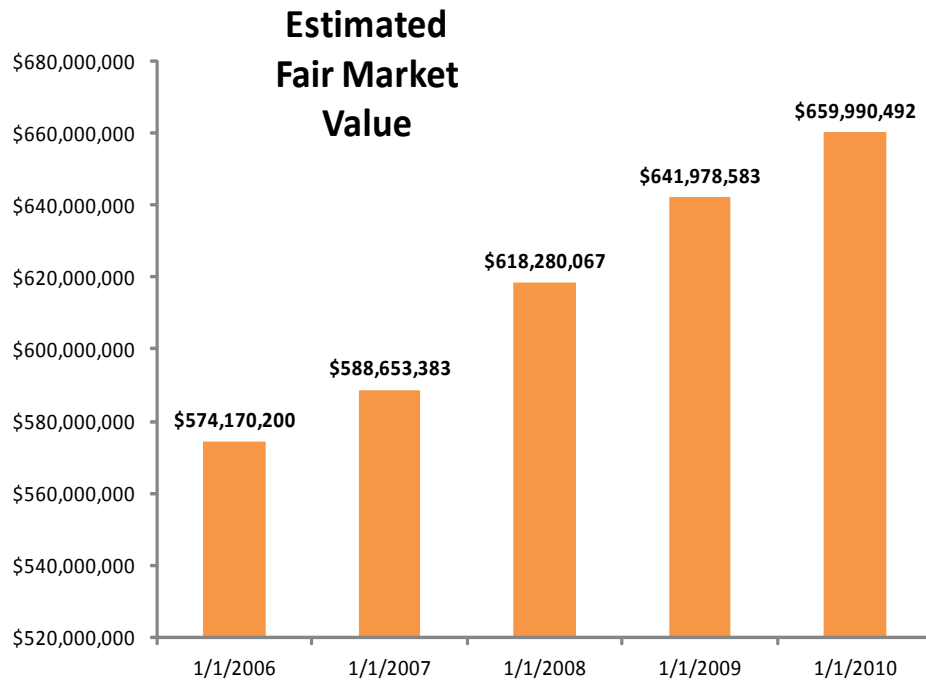
Property taxes are calculated by applying a millage rate to the assessed valuation of property. Millage rates are established by the Oklahoma Constitution. One mill equals one-thousandth of a dollar. For example, if the assessed value of a property is \$1,000.00 and the millage rate is 1.00, then the 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	6.91	10.00	4.00	60.91
		Zion	D-28	35.00	5.00	-	10.00	4.00	54.00
		Dahlongeah	D-29	35.00	5.00	-	10.00	4.00	54.00
		Cave Springs	I-30	35.00	5.00	-	10.00	4.00	54.00
		Greasy	D-32	35.00	5.00	-	10.00	4.00	54.00
		Belfonte	JT-50	35.00	5.00	-	10.00	4.00	54.00
		Kansas	JT-3	35.00	5.00	26.15	10.00	4.00	80.15
		Moseley	JT-34	35.00	5.00	-	10.00	4.00	54.00

**ADAIR COUNTY, OKLAHOMA  
 ASSESSED VALUE OF PROPERTY  
 TREND ANALYSIS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

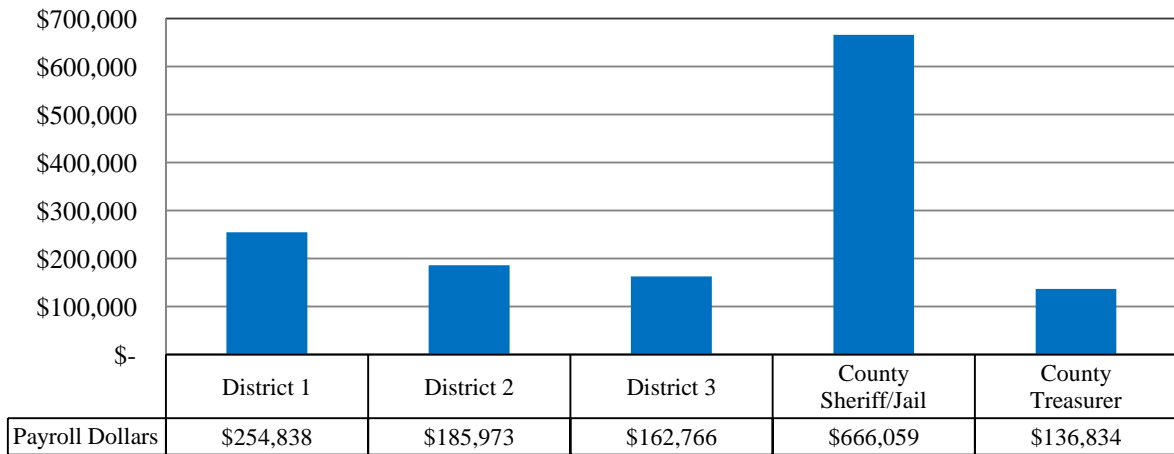
Valuation Date	Personal	Public Service	Real Estate	Homestead Exemption	Net Value	Estimated Fair Market Value
1/1/2010	\$19,096,426	\$6,051,163	\$59,175,030	\$5,123,760	\$79,198,859	\$659,990,492
1/1/2009	\$18,176,014	\$5,902,008	\$58,026,023	\$5,066,615	\$77,037,430	\$641,978,583
1/1/2008	\$17,951,589	\$5,190,748	\$56,102,363	\$5,051,092	\$74,193,608	\$618,280,067
1/1/2007	\$16,599,413	\$5,465,109	\$53,566,577	\$4,992,693	\$70,638,406	\$588,653,383
1/1/2006	\$16,264,419	\$5,718,258	\$51,234,201	\$4,316,454	\$68,900,424	\$574,170,200



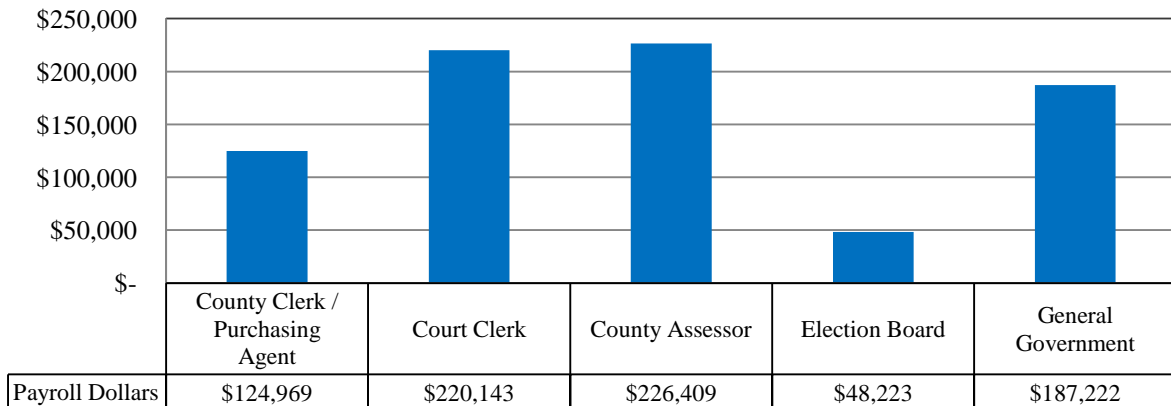
**ADAIR COUNTY, OKLAHOMA  
COUNTY PAYROLL EXPENDITURES ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

County officers' salaries are based upon the assessed valuation and population of the counties. State statutes provide guidelines for establishing elected officers' salaries. The Board of County Commissioners sets the salaries for all elected county officials within the limits set by the statutes. The designated deputy or assistant's salary cannot exceed the principal officer's salary. Salaries for other deputies or assistants cannot exceed the principal officer's salary. The information presented below is for the fiscal year ended June 30, 2011.

**Payroll Expenditures by Department**



**Payroll Expenditures by Department**

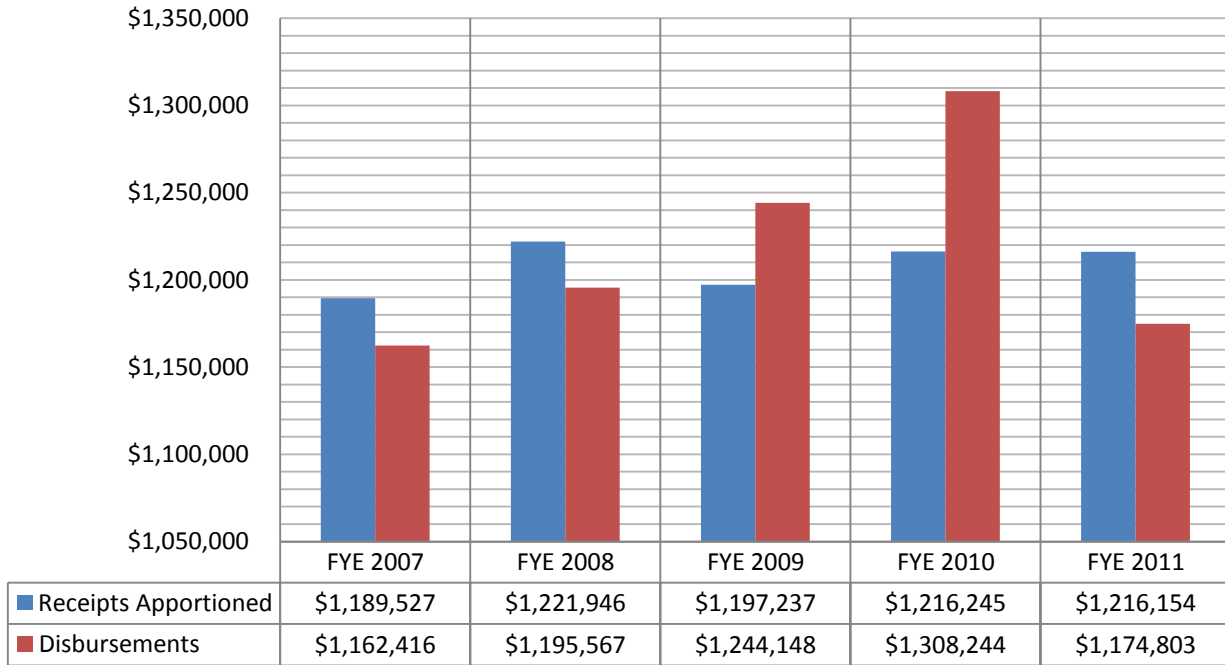


**ADAIR COUNTY, OKLAHOMA  
COUNTY GENERAL FUND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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## County General Fund

The Oklahoma Constitution and the Oklahoma Statutes authorize counties to create a County General Fund, which is the county's primary source of operating revenue. The County General Fund is typically used for county employees' salaries plus many expenses for county maintenance and operation. It also provides revenue for various budget accounts and accounts that support special services and programs. The Board of County Commissioners must review and approve all expenditures made from the County General Fund. The primary revenue source for the County General Fund is usually the county's ad valorem tax collected on real, personal (if applicable), and public service property. Smaller amounts of revenue can come from other sources such as fees, sales tax, use tax, state transfer payments, in-lieu taxes, and reimbursements. The chart below summarizes receipts and disbursements of the County's General Fund for the last five fiscal years.

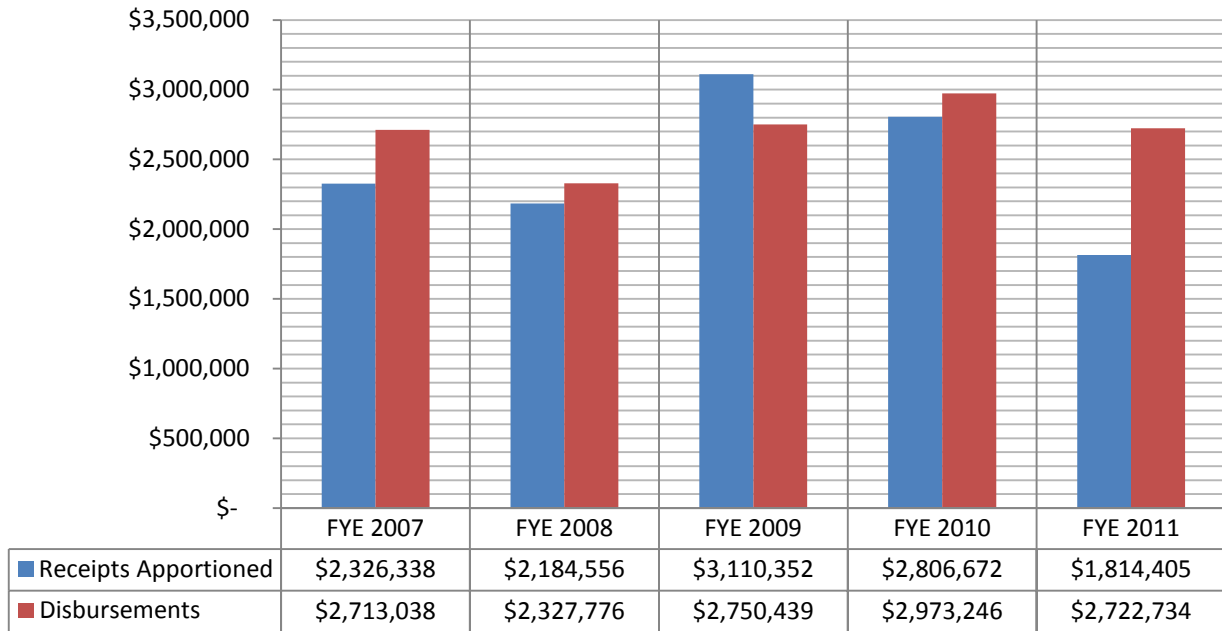


**ADAIR COUNTY, OKLAHOMA  
COUNTY HIGHWAY FUND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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## County Highway Fund

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 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. The chart below summarizes receipts and disbursements of the County's Highway Fund for the last five fiscal years.



**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 total—all county funds on the accompanying regulatory basis Statement of Receipts, Disbursements, and Changes in Cash Balances of Adair County, Oklahoma, as of and for the year ended June 30, 2011, listed in the table of contents as the financial statement. This financial statement is the responsibility of Adair County's management. Our responsibility is to express an opinion on the combined total—all county funds 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 differences between this regulatory basis of accounting and accounting principles generally accepted in the United States of America are also described in Note 1.

In our opinion, because of the effects 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, 2011, 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 balances for all county funds of Adair County, for the year ended June 30, 2011, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2014, 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 county funds on the financial statement. The remaining 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 financial statement. Such supplementary information has been subjected to the auditing procedures applied in the audit of the combined total—all county funds on the regulatory basis Statement of Receipts, Disbursements and Changes in Cash Balances and, in our opinion, is fairly stated, in all material respects, in relation to the combined total—all county funds. 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". The signature is fluid and cursive, with a long horizontal stroke at the end.

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

November 5, 2014



**REGULATORY BASIS FINANCIAL STATEMENT**

**ADAIR COUNTY, OKLAHOMA**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND**  
**CHANGES IN CASH BALANCES—REGULATORY BASIS**  
**(WITH COMBINING INFORMATION)—MAJOR FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	Beginning Cash Balances July 1, 2010	Receipts Apportioned	Transfers In	Transfers Out	Disbursements	Ending Cash Balances June 30, 2011
Combining Information:						
Major Funds:						
County General Fund	\$ 519,414	\$ 1,216,154	\$ 4,273	\$ -	\$ 1,174,803	\$ 565,038
Highway Cash	1,452,351	1,814,405	392,555	-	2,722,734	936,577
County Health	191,318	201,629	-	-	179,096	213,851
Sheriff Service Fee	104,755	109,706	-	-	141,400	73,061
County Bridge and Road Fund 105	-	605,334	-	171,978	-	433,356
Advanced Environmental Recycling Tech Road	-	189,000	-	-	124,000	65,000
Fire Districts	413,210	235,017	-	-	177,145	471,082
Jail Operations	338,721	33,468	396,000	-	475,998	292,191
Jail Trust Authority	36,143	466,031	-	396,000	60,187	45,987
County Bridge and Road Fund 103	-	207	12,423	-	-	12,630
Sinking Fund	4,173	100	-	4,273	-	-
Remaining Aggregate Funds	661,671	392,242	-	-	414,743	639,170
<b>Combined Total - All County Funds, as Restated</b>	<b>\$ 3,721,756</b>	<b>\$ 5,263,293</b>	<b>\$ 805,251</b>	<b>\$ 572,251</b>	<b>\$ 5,470,106</b>	<b>\$ 3,747,943</b>

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, 2011**

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**1. Summary of Significant Accounting Policies**

**A. Reporting Entity**

Adair County is a subdivision of the State of Oklahoma created by the Oklahoma Constitution and regulated by Oklahoma Statutes.

The accompanying financial statement presents the receipts, disbursements, and changes in cash balances of the total of all funds under the control of the primary government. 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, where its use is restricted for a specified purpose. Other funds established by statute and under the control of the primary government are also presented.

The County Treasurer collects and remits material amounts of intergovernmental revenues and ad valorem tax revenue for other budgetary entities, including libraries, 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.

**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 county funds included as combining 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. Disbursements are for the operation of the county health department.

Sheriff Service Fee – revenues are from fees charged by the Sheriff for services. Disbursements are for any lawful expense of the Sheriff's office.

**ADAIR COUNTY, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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County Bridge and Road Fund 105 – accounts for monies received from Oklahoma Department of Transportation. Monies are earmarked for bridges, roads, and certain improvements for roads.

Advanced Environmental Recycling Tech Road – revenues are from federal grants, state, and County monies. Disbursements are for road and bridge repair.

Fire Districts – accounts for the sales tax collections received for operating and maintaining the various fire districts.

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

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

County Bridge and Road Fund 103 – accounts for monies received from Oklahoma Department of Transportation. Monies are earmarked for the construction and repair of bridges.

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.

**C. Basis of Accounting**

The 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 regulatory basis financial presentation is not a comprehensive measure of economic condition or changes therein.

Title 19 O.S. § 171 specifies the format and presentation for Oklahoma counties to present their financial statement in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) or on a regulatory basis. The County has elected to present their financial statement on a regulatory basis in conformity with Title 19 O.S. § 171. County governments (primary only) are required to present their financial statements on a fund basis format with, at a minimum, the general fund and all other county funds, which represent ten percent or greater of total county revenue. All other funds included in the audit shall be presented in the aggregate in a combining statement.

**ADAIR COUNTY, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

---

**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.

**E. Cash and Investments**

For the purposes of financial reporting, "Ending Cash Balances, June 30" includes cash and cash equivalents and investments as allowed by statutes. 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).

The County Treasurer has been authorized by the County's governing board to make investments. Allowable investments are outlined in statutes 62 O.S. § 348.1 and § 348.3.

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. All investments as classified by state statute are nonnegotiable certificates of deposit. Nonnegotiable certificates of deposit are not subject to interest rate risk or credit risk.

**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."

**ADAIR COUNTY, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

---

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.

**3. Other Information**

**A. Other 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.

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.

**B. 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.

**C. 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.

**ADAIR COUNTY, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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**D. 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. These funds are accounted for in the Jail Trust Authority fund.

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. These funds are accounted for in the Fire Districts fund.

**E. Interfund Transfers**

During the fiscal year, the County made the following transfers between funds:

- \$159,555 from the County Bridge and Road Fund 105 to reimburse Highway Cash for expenditures on bridge and road projects.
- \$4,273 from Sinking Fund to County General Fund to close out the fund since obligation has been met.
- \$12,423 from the County Bridge and Road Fund 105 to County Bridge Road Fund 103 for expenditures.
- \$233,000 into Highway Cash from the ETR Fund, a trust and agency fund, to reimburse for expenditures on bridge and road projects.
- \$396,000 from Jail Trust Authority to Jail Operations per contract for the operation of the County Jail.

**F. Reclassification**

Due to the reclassification of funds for fiscal year ending June 30, 2011, the ending balance as reported on June 30, 2010 is different than the beginning balance of the June 30, 2011 report. The difference is due to four funds being reported as trust and agency funds in fiscal year 2010 that should have been classified as county funds, resulting in an increase.

Prior year ending balance, as reported	\$3,635,015
Funds moved to county funds	<u>86,741</u>
Prior year ending balance, as restated	<u>\$3,721,756</u>

**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, 2011**

	General Fund		
	Budget	Actual	Variance
Beginning Cash Balances	\$ 519,414	\$ 519,414	\$ -
Less: Prior Year Outstanding Warrants	(61,141)	(61,141)	-
Less: Prior Year Encumbrances	(16,714)	(13,714)	3,000
Beginning Cash Balances, Budgetary Basis	<u>441,559</u>	<u>444,559</u>	<u>3,000</u>
Receipts:			
Ad Valorem Taxes	720,053	794,834	74,781
Charges for Services	43,154	44,386	1,232
Intergovernmental Revenues	248,562	248,017	(545)
Miscellaneous Revenues	68,000	128,917	60,917
Total Receipts, Budgetary Basis	<u>1,079,769</u>	<u>1,216,154</u>	<u>136,385</u>
Expenditures:			
County Sheriff	268,900	268,278	622
County Treasurer	43,936	43,937	(1)
County Commissioners	323,940	26,528	297,412
OSU Extension	16,500	16,498	2
County Clerk	97,761	97,761	-
Court Clerk	72,200	72,200	-
County Assessor	45,138	45,138	-
Revaluation of Real Property	231,812	220,188	11,624
General Government	57,907	43,511	14,396
Excise-Equalization Board	2,861	2,494	367
County Election Board	55,042	54,018	1,024
Insurance	251,319	246,364	4,955
County Purchasing Agent	26,712	26,576	136
County Audit Budget Account	21,000	-	21,000
Free Fair	3,000	3,000	-
Budget Maker	3,000	3,000	-
Provision for interest on warrants	300	-	300
Total Expenditures, Budgetary Basis	<u>1,521,328</u>	<u>1,169,491</u>	<u>351,837</u>
Excess of Receipts and Beginning Cash Balances Over Expenditures, Budgetary Basis	<u>\$ -</u>	491,222	<u>\$ 491,222</u>
Operating Transfers		4,273	
Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances			
Add: Current Year Outstanding Warrants		54,505	
Add: Current Year Encumbrances		15,038	
Ending Cash Balance		<u>\$ 565,038</u>	

**ADAIR COUNTY, OKLAHOMA  
COMPARATIVE SCHEDULE OF RECEIPTS, EXPENDITURES, AND  
CHANGES IN CASH BALANCES—BUDGET AND ACTUAL—BUDGETARY BASIS—  
COUNTY HEALTH DEPARTMENT FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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County Health Department Fund			
	Budget	Actual	Variance
Beginning Cash Balances	\$ 191,318	\$ 191,318	\$ -
Less: Prior Year Outstanding Warrants	(33,153)	(33,153)	-
Less: Prior Year Encumbrances	(19,282)	(12,875)	6,407
Beginning Cash Balances, Budgetary Basis	138,883	145,290	6,407
Receipts:			
Ad Valorem Taxes	179,999	199,525	19,526
Charges for services	1,848	2,104	256
Total Receipts, Budgetary Basis	181,847	201,629	19,782
Expenditures:			
Health and Welfare	320,730	153,918	166,812
Total Expenditures, Budgetary Basis	320,730	153,918	166,812
Excess of Receipts and Beginning Cash Balances Over Expenditures, Budgetary Basis	\$ -	193,001	\$ 193,001
Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances			
Add: Cancelled Warrants		-	
Add: Current Year Encumbrances		14,750	
Add: Current Year Outstanding Warrants		6,100	
Ending Cash Balance		\$ 213,851	

**ADAIR COUNTY, OKLAHOMA**  
**COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS, AND**  
**CHANGES IN CASH BALANCES—REGULATORY BASIS—**  
**REMAINING AGGREGATE FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	Beginning Cash Balances July 1, 2010	Receipts Apportioned	Disbursements	Ending Cash Balances June 30, 2011
Remaining Aggregate Funds:				
Sheriff Grant	\$ 13,400	\$ 366	\$ -	\$ 13,766
Resale Property	399,457	101,168	150,776	349,849
County Clerk Records Preservation	14,647	15,618	9,564	20,701
Sheriff Drug Fund	3,917	-	550	3,367
County Clerk Lien Fee	8,385	3,581	9,588	2,378
Adair County Community Sentencing Program	68,136	39,185	41,429	65,892
Department of Corrections Board of Prisoners	260	-	15	245
Sheriff Cherokee Nation	-	24,010	5,627	18,383
Fair Board Cash	9,146	37,176	9,683	36,639
Treasurer Mortgage Fee	40,326	2,242	2,266	40,302
Assessor Cash - Visual Inspection	10,503	1,749	4,689	7,563
Sheriff Commissary Fund	4,715	12,492	6,356	10,851
Great Grant	133	-	-	133
Sheriff Detention	1,905	35,946	28,516	9,335
Emergency 911	75,763	110,629	143,630	42,762
Flood Plain Permit	85	50	32	103
Courthouse Security	8,891	7,990	-	16,881
Public Service Permit	2,002	40	2,022	20
<b>Combined Total - Remaining Aggregate Funds</b>	<b>\$ 661,671</b>	<b>\$ 392,242</b>	<b>\$ 414,743</b>	<b>\$ 639,170</b>

**ADAIR COUNTY, OKLAHOMA  
NOTES TO OTHER SUPPLEMENTARY INFORMATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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**1. Budgetary Schedules**

The Comparative Schedules of Receipts, Expenditures, and Changes in Cash Balances—Budget and Actual—Budgetary Basis for the General Fund and the County Health Department Fund present 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. Remaining County Funds**

Remaining aggregate funds as presented on the financial statement are as follows:

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

Resale Property – revenues are from interest and penalties on delinquent ad valorem tax collections. Disbursements are to offset the expense of collecting 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 substance laws.

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

**ADAIR COUNTY, OKLAHOMA  
NOTES TO OTHER SUPPLEMENTARY INFORMATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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Department of Corrections Board of Prisoners – accounts for the collection of funding through the State Department of Corrections for administrative expenses and supervision of offenders.

Sheriff Cherokee Nation – revenues are donations from the Cherokee Nation to fund a deputy's salary.

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

Treasurer Mortgage Fee – 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 revaluation of county property for ad valorem purposes.

Sheriff Commissary Fund – revenues are from profits on commissary sales in the county jail. Disbursements are for jail improvements.

Great Grant – revenues are from a federal grant. Disbursements are for an officer to work in conjunction with the Adair County Boys and Girls Club in assistance with the drug resistance and training program.

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

Emergency 911 – revenues are for the collection of fees charged on telephone bills for the County's emergency 911 system. Disbursements are for expenditures related to providing 911 services.

Flood Plain Permit – revenues are for the collection of flood plain evaluations. Disbursements are used to pay any costs involved with the evaluations.

Courthouse Security – revenues are from fees collected from Court Clerk's office. Disbursements are for security guard in court.

Public Service Permit – revenues are from fees collected for permits issued by the County Commissioners when utilities cross county roadways. Disbursements are for County supplies and upkeep of records.

**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, 2011, 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 5, 2014. 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. However, our report also included our opinion that the financial statement does present fairly, in all material respects, the receipts, disbursements, and changes in cash balances – regulatory basis of the County for the year ended June 30, 2011, on the basis of accounting prescribed by Oklahoma state law, described in Note 1. 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. 2011-1, 2011-3, 2011-4, 2011-5, and 2011-7.

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 deficiency in internal control described in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting. 2011-2.

#### 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2011-7.

We noted certain matters regarding statutory compliance 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 5, 2014



**ADAIR COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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**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 2011-1 – Inadequate County-Wide Controls**

**Condition:** County-wide controls regarding Risk Assessment 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:** The Oklahoma State Auditor & Inspector’s Office (OSAI) recommends that the County design procedures to identify and address risks. 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 Assessment:

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

<b>Monitoring</b>	<b>Procedures</b>
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.

**ADAIR COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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<b>Monitoring</b>	<b>Procedures</b>
Estimate of needs	Work together to ensure this financial document is accurate and complete.

**Management Response:**

**Chairman, Board of County Commissioners:** It was noted that county-wide controls regarding Risk Assessment and Monitoring have not been designed. We are currently working on implementing a written risk assessment and monitoring into our county policies and procedures handbook and will be complete in sixty days.

**County Clerk:** The Adair County Clerk's Office is currently working with the Adair County Commissioners to rectify the county-wide controls regarding Risk Assessment and Monitoring. Upon the completion of written resolutions and County policies, the Adair County Clerk's Office will perform our role in ensuring that the new controls are utilized and serve as a warehouse to store data. Changes are taking place with the implementation of a new Adair County Handbook with revisions in the form of resolutions being implemented as needed.

**County Treasurer:** Adair County will make every effort to design procedures for Risk Assessment and Monitoring and these will be included in our County policies and procedures handbook.

**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.

**ADAIR COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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**Finding 2011-2 – Inadequate Internal Controls Over Information Systems Security – County Treasurer and County Clerk (Repeat Finding)**

**Condition:** During our review of the County Treasurer and the County Clerk’s information systems, the following exceptions were noted:

- The County Treasurer and County Clerk do not have a written Disaster Recovery Plan.
- Policies and procedures for the County Treasurer and County Clerk’s computer usage are not documented and approved.
- Passwords in the County Treasurer and the County Clerk’s office are not required to be changed every ninety days.

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

**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. Failing to have policies for the appropriate use of County computers and not changing passwords every ninety days increases the risk of unauthorized access to data.

**Recommendation:** OSAI recommends the County officials develop a Disaster Recovery Plan that addresses how critical information and systems within their offices would be restored in the event of a disaster. OSAI further recommends the County work with IT personnel or in conjunction with software vendors to setup password requirements for length, character, and an expiration of a minimum of at least every ninety days. Additionally, OSAI recommends that the County establish a written policy for the employees’ use of computers.

**Management Response:**

**Chairman, Board of County Commissioners:** The County Treasurer and County Clerk’s office will comply with the above procedures in the future, so that in the event of a disaster there will be a formal Disaster Recovery Plan.

**County Clerk:** I would like to note that my term of office began January 2, 2013, well after these discrepancies occurred. The previous administration had a limited and somewhat outdated disaster recovery plan. The Adair County Clerk has identified all key personnel to be listed within the office in the case of an emergency and implemented safeguards such as scanning and daily backups to ensure that all of the records maintained within our office are safe and secure in the event of a disaster. The Adair County Commissioners, the Adair County Sheriff, and the Emergency Management Coordinator have been provided with copies of our plan with contact numbers for all key team members including Kellpro our software provider. In the case of an emergency, the Adair County Sheriff’s Office will provide office space for the Adair County Clerk’s Office. The most recent backup tape is kept offsite at a secure location. It is the belief of this administration that the ninety day password change is a solid practice that

**ADAIR COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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could improve the function of office security. We will continue to strive to become a more secure office with improved processes.

**County Treasurer:** The passwords on each workstation will be changed every ninety days and a master list will be maintained only by the Treasurer. I will implement a Disaster Recovery Plan for my office.

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

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,
- 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, Delivery and Support DS5), the need to maintain the integrity of information and protect IT assets requires a security management process. This process includes establishing and maintaining IT security roles and responsibilities, policies, standards, and procedures. Security management also includes performing security monitoring and periodic testing and implementing corrective actions for identified security weaknesses or incidents. Effective security management protects all IT assets to minimize the business impact of security vulnerabilities and incidents.

**ADAIR COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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**Finding 2011-3 – Inadequate Segregation of Duties – County Treasurer**

**Condition:** The County Treasurer has not segregated the duties of preparing, reviewing deposits, and performing bank reconciliations. The employee that performs these duties also issues receipts. In addition, all employees work from the same cash drawer. Further, a mail log is not maintained for payments received by mail.

**Cause of Condition:** Procedures have not been designed to adequately segregate the duties within the Treasurer's office.

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

**Recommendation:** OSAI recommends the following key accounting functions of the Treasurer's office be adequately segregated:

- Issuing receipts.
- Preparing/reviewing deposits and taking them to the bank.
- Maintaining accounting ledgers and reconciling bank statements.

In addition, OSAI recommends establishing a system of controls to adequately protect the collections of the Treasurer's office, which include but are not limited to the following:

- Establish separate cash drawers for all employees receiving cash.
- A daily log of mailed receipts should be compiled.

**Management Response:**

**County Treasurer:** Due to limited staff, some duties overlap, but more diligence will be used to assure that personnel receiving funds and issuing receipts are not also depositing the funds. A daily mail log is now implemented by writing on each check the receipt number and the date paid. The checks are then microfilmed daily.

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

**Finding 2011-4 – Inadequate Segregation of Duties – Purchasing**

**Condition:** Upon inquiry and observation of the County's purchasing process, it was noted that the Purchasing Agent prepares purchase orders, encumbers purchase orders, approves/authorizes the encumbrance, reviews the purchase order for accuracy, prepares the warrants, maintains ledgers, and distributes warrants.

**ADAIR COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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**Cause of Condition:** Policies and procedures have not been designed with regard to segregation of duties and/or compensating controls of the purchasing process.

**Effect of Condition:** This condition could result in unrecorded transactions, misstated financial reports, undetected errors, and misappropriation of funds.

**Recommendation:** OSAI recommends management be aware of this condition 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 risk 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 approve accounting functions.

Furthermore, the duties of encumbering funds and posting to the ledgers should be separated from the printing and distribution of payments.

**Management Response:**

**County Clerk:** I would like to note that my term of office did not begin until January 2, 2013 after these issues had occurred. I am currently working on implementing new procedures in regards to the purchasing process within my office.

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

**Finding 2011-5 – Inadequate Segregation of Duties – Payroll**

**Condition:** Upon inquiry and observation of the County’s payroll process, it was noted that the Payroll Clerk enrolls new hires, makes payroll changes, runs verification reports, prints payroll checks, distributes payroll checks, and maintains personnel files.

**Cause of Condition:** Policies and procedures have not been designed with regards to segregation of duties and/or compensating controls of the payroll process.

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

**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.

**ADAIR COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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OSAI recommends management take steps to adequately segregate the following key accounting functions:

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

**Management Response:**

**County Clerk:** I would like to note that my term of office began January 2, 2013, well after these discrepancies occurred. I have implemented the following changes in regards to running payroll. Since I came into office, every daily task has at least two set of eyes reviewing the final reports within the payroll and purchasing department. The County Clerk performs a final verification prior to running the batch. In the absence of the County Clerk, the Purchasing Agent and/or First Deputy would verify one another's verification report and supporting documentation. All verification reports will be dated and initialed by someone other than the person preparing the report.

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

**Finding 2011-7 – Inadequate Internal Controls and Noncompliance Over Pledged Collateral – County Treasurer**

**Condition:** During our test of bank balances, to determine all County monies were adequately secured by pledged collateral, we noted on January 12, 2011, one bank was under-collateralized in the amount of \$2,193,228.94.

**Cause of Condition:** Procedures have not been designed to ensure daily bank deposits are adequately secured.

**Effect of Condition:** These conditions resulted in noncompliance with state statute. Failure to monitor pledged collateral amounts resulted in unsecured County funds and possible loss of County funds.

**Recommendation:** OSAI recommends that the County design procedures to daily compare bank balances to the pledged collateral ledgers to ensure that County funds are adequately secured against loss by a financial institution. Documentation for this daily procedure should be maintained.

**Management Response:**

**Country Treasurer:** Closer attention will be given to the collateral pledged by the banks when large tax collections are expected. The banks now give an updated list of pledged collateral at the end of every month. I will create a spreadsheet so that I can monitor bank balances to the pledged collateral daily.

**ADAIR COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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**Criteria:** 62 O.S. § 517.4A 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.”

**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 2011-12 – Inadequate Internal Controls and Noncompliance Over the Inmate Trust Fund Checking Account and Sheriff Commissary Fund (Repeat Finding)**

**Condition:** Regarding the Inmate Trust Fund Checking Account, the following weaknesses were noted:

- One employee issues receipts, prepares and makes deposits and performs the bank reconciliation.
- The Sheriff’s office was unable to provide the inmate’s trust fund ledgers and receipts.
- The Sheriff’s office did not file an annual report for the Commissary Fund with the Board of County Commissioners by January 15th, of each year.

After performing testwork regarding Inmate Trust Fund Checking Account expenditures, the following noncompliance was noted regarding the disbursements/checks tested:

- Fourteen checks were issued to a vendor for commissary items.
- Four checks were issued to the court clerk.
- One check was issued to a vendor for supplies.

**Cause of Condition:** Policies and procedures have not been designed regarding the Inmate Trust Fund Checking Account.

**Effect of Condition:** These conditions resulted in noncompliance with state statutes, laws, regulations or legislative intent. Also, without proper accounting and safeguarding of the Inmate Trust Fund, there is an increased risk of misappropriation of funds.

**Recommendation:** OSAI recommends that the Sheriff maintain inmate trust fund monies in a manner that reflects each inmate’s trust deposits, disbursements, and account balances. The inmate’s trust fund balances should be reconciled to the bank statements each month, collection of inmate monies should be deposited daily, and no operating expenditures should be made from this fund. The County Sheriff should comply with state statutes regarding the Commissary Fund with the County Treasurer. In addition,



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the Sheriff should file a report of the commissary with the County Commissioners by January 15th, of each year. Additionally, all records should be maintained and made available for auditing.

**Management Response:**

**County Sheriff:** As recommended policies and procedures will be put in place to ensure:

- Individual inmate trust accounts will be reconciled to the bank statement each month.
- All original copies of receipts are maintained.
- The inmate trust fund ledgers will be maintained in order to reconcile.
- Implementation of controls and segregation of duties regarding the Inmate Trust Fund Checking Account.
- Checks issued from the Inmate Trust Fund Checking Account are only written as transfers to the Commissary Fund and as refunds to the individual inmates.
- An annual report of the Commissary Fund is filed with the County Commissioners by January 15th of each year.

**Criteria:** Effective accounting procedures and internal controls are necessary to ensure stewardship and accountability of public funds. Safeguarding controls are an aspect of internal controls. Safeguarding controls relate to the prevention or timely detection of unauthorized transaction and unauthorized access to assets. Failure to perform tasks that are part of internal controls, such as reconciliations not performed or not timely prepared, are deficiencies in internal control. Further, reconciliations should be performed on a monthly basis.

Effective internal controls should provide for procedures wherein receipts for the monies collected are maintained and available for inspection and deposits are made in a timely manner.

19 O.S. § 180.43 E. and D. states in part, “Any funds received pursuant to said operations shall be the funds of the county where the persons are incarcerated and shall be deposited in the Sheriff’s Commissary Account. The sheriff shall be permitted to expend the funds to improve or provide jail services. The sheriff shall be permitted to expend any surplus in the Sheriff’s Commissary Account for administering expenses for training equipment, travel or for capital expenditures. The claims for expenses shall be filed with and allowed by the board of county commissioners in the same manner as other claims. The Sheriff shall receive no compensation for the operation of said commissary. The sheriff shall file an annual report on any said commissary under his or her operation no later than January 15 of each year.”

19 O.S. § 531 A. states in part, “The county sheriff may establish a checking account, to be designated the “Inmate Trust Checking Account”. The county sheriff shall deposit all monies collected from inmates incarcerated in the county jail into this checking account and may write checks to the Sheriff’s Commissary Account for purchases made by the inmate during his or her incarceration and to the inmate from unencumbered balances due the inmate upon his or her discharge.”

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**Finding 2011-13 – Inadequate Internal Controls and Noncompliance Over Fixed Assets**

**Condition:** Upon inquiry and observation, we noted the following offices do not have a current, updated inventory listing on file with the County Clerk. Also, there was no documentation that an annual physical inventory of all fixed assets was performed.

- District 1
- District 2
- District 3
- County Clerk
- County Treasurer
- County Sheriff

**Cause of Condition:** Policies and procedures have not been designed to ensure inventory is properly accounted for and updated with the office of the County Clerk.

**Effect of Condition:** These conditions resulted in noncompliance with state statute. Failure to maintain accurate records of fixed asset inventories and perform a periodic physical inventory of fixed asset inventories could result in inaccurate records, unauthorized use, or misappropriation of fixed asset inventories.

**Recommendation:** OSAI recommends the County comply with 19 O.S. § 178.1 by performing and documenting a periodic inventory of fixed assets. The verification should be performed by an individual independent of the fixed asset recordkeeping process. Additionally, all officers shall file an updated inventory list with the County Clerk in accordance with 19 O.S. § 178.2.

**Management Response:**

**Commissioner District 1:** We are currently in the process of updating our inventory list; once it is complete we will file it with the Adair County Clerk's office. I have assigned individuals to perform a periodic inventory of my fixed assets and will have documentation that the review was completed.

**Commissioner District 2:** We are currently in the process of updating our inventory list; once it is complete we will file it with the Adair County Clerk's office. I have assigned individuals to perform a periodic inventory of my fixed assets and will have documentation that the review was completed.

**Commissioner District 3:** We are currently in the process of updating our inventory list; once it is complete we will file it with the Adair County Clerk's office. I have assigned individuals to perform a periodic inventory of my fixed assets and will have documentation that the review was completed.

**County Clerk:** My inventory count will be done every calendar year by the County Clerk and her designated employee to ensure that deadlines are met and inventory records are maintained.

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**County Treasurer:** A complete and updated inventory list will be compiled and filed with the County Clerk and a copy will be maintained in the Treasurer's office.

**County Sheriff:** As recommended policies and procedures will be put in place to ensure inventory is being properly accounted for, maintained, and updated with the County Clerk's office. Additionally, policies and procedures will be put in place to ensure inventory is reconciled on an ongoing basis as equipment is bought. A designated receiving officer shall receive all supplies, materials and equipment purchased/leased and maintain a record of all supplies, materials, and equipment received, disbursed, stored, and consumed by his department.

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

**Finding 2011-14 – Inadequate Internal Controls and Noncompliance Over Consumable Inventories**

**Condition:** Upon inquiry of County personnel, observation, and review of documents, regarding consumable inventories, the following was noted:

- The consumable inventory process is not adequately segregated at District 1, 2, and 3. One person is in charge of consumable inventories and that person performs all key processes.
- District 1 and 2 are not performing physical counts of their consumable inventories.
- District 3 is not performing a physical count of the consumable inventories, and transfer documents were not used to document items being used.

**Cause of Condition:** Procedures have not been implemented for the accurate reporting of consumable inventories.

**Effect of Condition:** These conditions could result in inaccurate records, unauthorized use of consumable inventories, or loss of consumable inventories.

**Recommendation:** OSAI recommends management implement internal controls to ensure compliance with 19 O.S. § 1504A. These controls would include:

- Performing and documenting a periodic physical count of inventory.
- Separating the key functions of receiving, maintaining, and verifying consumable inventories.

**Management Response:**

**County Commissioners District 1, 2, and 3:** In the future, we will have new procedures implemented on the consumable item stock record cards. On the right hand side of the card, in the quantity column, notes will be made after there has been a physical count of the items. The quantity will be verified by a

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check mark and dated with month, year, and time. At this point, the card will be initialed by the receiving officer.

**Criteria:** Effective internal controls include designing and implementing procedures to ensure that all supplies, materials, and equipment received, disbursed, stored and consumed by their department comply with 19 O.S. § 1504A.



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