



# ADAIR COUNTY

## Financial Audit

For the fiscal year ended June 30, 2019

**Cindy Byrd, CPA**  
State Auditor & Inspector

**ADAIR COUNTY, OKLAHOMA  
FINANCIAL STATEMENT  
AND INDEPENDENT AUDITOR'S REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

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Cindy Byrd, CPA | State Auditor & Inspector

2300 N. Lincoln Blvd., Room 123, Oklahoma City, OK 73105 | 405.521.3495 | [www.sai.ok.gov](http://www.sai.ok.gov)

October 23, 2020

TO THE CITIZENS OF  
ADAIR COUNTY, OKLAHOMA

Transmitted herewith is the audit of Adair County, Oklahoma for the fiscal year ended June 30, 2019. 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 "Cindy Byrd". The signature is fluid and cursive, with the first and last names clearly legible.

CINDY BYRD, CPA  
OKLAHOMA STATE AUDITOR & INSPECTOR



**ADAIR COUNTY OFFICIALS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

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**Board of County Commissioners**

District 1 – Mike Wininger  
District 2 – Sam Chandler  
District 3 – Larry Wood

**County Assessor**

Teresa “Tracy” Sims

**County Clerk**

Cathy Jones-Harrison

**County Sheriff**

Jason Ritchie

**County Treasurer**

Ann Bishop

**Court Clerk**

Nichole Cooper

**District Attorney**

Jack Thorp

**ADAIR COUNTY, OKLAHOMA  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

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## **FINANCIAL SECTION**

## Independent Auditor's Report

TO THE OFFICERS OF  
ADAIR COUNTY, OKLAHOMA

### *Report on the Financial Statement*

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, 2019, and the related notes to the financial statement, which collectively comprise the County's basic financial statement as listed in the table of contents.

### *Management's Responsibility for the Financial Statement*

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the regulatory basis of accounting described in Note 1, and for determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles***

As described in Note 1, the financial statement is prepared by Adair County using accounting practices prescribed or permitted by Oklahoma state law, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

***Adverse Opinion on U.S. Generally Accepted Accounting Principles***

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of Adair County as of June 30, 2019, or changes in financial position for the year then ended.

***Unmodified Opinion on Regulatory Basis of Accounting***

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, 2019, in accordance with the basis of accounting described in Note 1.

***Other Matters***

***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the combined total of all county funds on the financial statement. The supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and are not a required part of the financial statement.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated, in all material respects, in relation to the financial statement.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2020, 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 solely 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 effectiveness of the County's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Adair County's internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Cindy Byrd". The signature is written in a cursive, flowing style.

CINDY BYRD, CPA  
OKLAHOMA STATE AUDITOR & INSPECTOR

September 28, 2020

## **REGULATORY BASIS FINANCIAL STATEMENT**

**ADAIR COUNTY, OKLAHOMA**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND**  
**CHANGES IN CASH BALANCES—REGULATORY BASIS**  
**(WITH COMBINING INFORMATION)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

	Beginning Cash Balances July 1, 2018	Receipts Apportioned	Transfers In	Transfers Out	Disbursements	Ending Cash Balances June 30, 2019
Combining Information:						
County General	\$ 254,828	\$ 1,341,601	\$ 100,000	\$ 100,000	\$ 1,340,725	\$ 255,704
County Highway Unrestricted	1,225,789	2,541,185	-	-	2,816,162	950,812
Health	260,522	236,797	-	-	234,194	263,125
Resale Property	151,289	130,198	-	-	139,725	141,762
County Clerk Records Management and Preservation	13,905	18,357	-	-	16,827	15,435
Sheriff Drug Fund	2,719	-	-	-	-	2,719
County Clerk Lien Fee	6,843	13,416	-	-	15,099	5,160
Sheriff Community Service Sentencing Program	72,060	55,682	-	-	62,518	65,224
Sheriff Service Fee	26,506	219,950	-	-	112,343	134,113
Treasurer Mortgage Certification	23,347	2,815	-	-	1,198	24,964
Assessor Visual Inspection	9,854	2,109	-	-	1,858	10,105
Rural Fire-ST	482,399	266,924	-	-	202,070	547,253
Jail	228,975	854,115	-	-	883,728	199,362
Sheriff Commissary	23,534	58,085	-	-	52,516	29,103
Jail-ST	83,518	1,072,691	-	-	1,066,687	89,522
County Bridge and Road Improvement	578,102	506,352	-	-	326,942	757,512
911 Phone Fees	186,086	213,687	-	-	170,065	229,708
Flood Plain	623	-	-	-	-	623
S.T.O.P VAWA (Services-Training-Officers-Prosecutors)						
Violence Against Woman Act	85	-	-	-	-	85
Sheriff Cherokee Nation	12,344	28,000	-	-	30,670	9,674
Donations	31,172	19,750	-	-	14,898	36,024
Courthouse Maintenance-ST	59,222	533,850	-	-	533,070	60,002
Use Tax-ST	214,941	358,102	100,000	100,000	297,919	275,124
Sheriff Forfeiture	528	409	-	-	-	937
Trash Cop	3,555	2,250	-	-	-	5,805
Local Emergency Planning Committee	1,000	-	-	-	-	1,000
Sheriff Carson Grant	2,255	5,000	-	-	4,732	2,523
Court Clerk Payroll	49,607	169,115	-	-	173,587	45,135
Adair County State Energy Program (SEP)	-	7,721	-	-	7,721	-
<b>Combined Total - All County Funds</b>	<b>\$ 4,005,608</b>	<b>\$ 8,658,161</b>	<b>\$ 200,000</b>	<b>\$ 200,000</b>	<b>\$ 8,505,254</b>	<b>\$ 4,158,515</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, 2019**

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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 – accounts for the general operations of the government.

County Highway Unrestricted – accounts for state, local, and miscellaneous receipts and disbursements for the purpose of constructing and maintaining county roads and bridges.

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 operations of the county health department.

Resale Property – accounts for the collection of interest and penalties on delinquent taxes and disposition of sale as restricted by state statute.

County Clerk Records Management and Preservation – accounts for fees collected by the County Clerk for recording instruments. Disbursements are for the maintenance and preservation of public records.

**ADAIR COUNTY, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

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

County Clerk Lien Fee – accounts for the collections and disbursements of lien fees as restricted by state statute.

Sheriff Community Service Sentencing Program – accounts for monies received from the State Department of Corrections to reimburse the County for the expense of administering the Community Service Sentencing Program.

Sheriff Service Fee – accounts for the collection and disbursement of sheriff process service fees, boarding of prisoners, courthouse security, juvenile transports, and mental health transports.

Treasurer Mortgage Certification – accounts for the collection of fees by the County Treasurer for mortgage tax certificates and the disbursement of the funds as restricted by state statute.

Assessor Visual Inspection – accounts for proceeds from copy fees and the sale of data and plat books. Disbursements are for the maintenance, replacement, and upgrade of computer hardware and to provide products and services associated with the county assessor databases and geographic information systems.

Rural Fire-ST – accounts for the sales tax collections received for operating and maintaining the fire departments in Adair County, as restricted by sales tax ballot.

Jail – accounts for contract payments received from the Jail Trust Authority for operating the jail.

Sheriff Commissary – accounts for collections from commissary sales in the county jail. Disbursements are for jail operations as defined by state statute.

Jail-ST – accounts for the collection of sales tax revenue. Disbursements are to the Adair County Jail Trust Authority for the construction and maintenance and operation of a jail facility, as restricted by the sales tax ballot.

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

911 Phone Fees – accounts for monies received from private telephone companies for the operations of emergency 911 services, as restricted by state statute.

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

**ADAIR COUNTY, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

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S.T.O.P VAWA (Services-Training-Officers-Prosecutors) Violence Against Women Act – accounts for a federal grant passed through the District Attorneys Council. Disbursements are for providing services to victims of domestic violence.

Sheriff Cherokee Nation – accounts for donations from the Cherokee Nation to fund a county sheriff deputy's salary.

Donations – accounts for donations made to the County (Park, Emergency Planning, and Fair Board). Disbursements are for the general operation of each account.

Courthouse Maintenance-ST – accounts for the collection of sales tax revenue. Disbursements are for the remodeling, new construction, and maintenance and operations of the Adair County Courthouse, as restricted by the sales tax ballot.

Use Tax-ST – accounts for use tax from the Oklahoma Tax Commission. Disbursements are for the general operation of the County.

Sheriff Forfeiture – accounts for proceeds from property forfeiture auctions. These funds are disbursed by the County Sheriff's office for the intervention and prevention of narcotics use.

Trash Cop – accounts for use tax collections disbursed to pay costs related to the environmental officer's salary.

Local Emergency Planning Committee – accounts for the receipt of funds from state and local governments and disbursed as restricted by the grant agreement.

Sheriff Carson Grant – accounts for local grant monies received from the Tom J. and Edna Mae Carson Foundation and disbursements are for the County Sheriff's office to purchase vehicles.

Court Clerk Payroll – accounts for funds deposited to be used for payroll for the Court Clerk's office.

Adair County State Energy Program (SEP) – accounts for grant monies received from the Oklahoma Department of Commerce. Disbursements are for an energy audit of the Adair County Jail.

**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.

**ADAIR COUNTY, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

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Title 19 O.S. § 171 specifies the format and presentation for Oklahoma counties to present their financial statement on a regulatory basis. 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.

**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

**ADAIR COUNTY, OKLAHOMA**  
**NOTES TO THE FINANCIAL STATEMENT**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

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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."

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. 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



**ADAIR COUNTY, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

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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.

**D. Sales Tax**

**Sales Tax of September 17, 1996**

The voters of Adair County 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 facility. These funds are accounted for in the Jail-ST fund.

**Sales Tax of March 6, 2001**

The voters of Adair County approved a permanent sales tax of one-quarter of one percent (0.25%). The purpose of this tax is to provide revenues to be appropriated by the Board of County Commissioners for the purpose of providing funding for the fire departments in the following communities: Bell, Chance, Christie-Proctor, Greasy, Highway 51 West, Highway 100 West, Mid-County, Stilwell, Tri-Community, Watts, and Westville, or others hereinafter established, for such fire protection as may be deemed necessary by the Board of County Commissioners. These funds are accounted for in the Rural Fire-ST fund.

**Sales Tax of April 1, 2014**

The voters of Adair County approved a permanent sales tax of five-tenths of one cent (0.50%). The sole and exclusive purpose of this tax is for the remodeling, new construction, maintenance and operations of the Adair County Courthouse. Duration will be until all costs, expenses and indebtedness are paid in full and at which time the sales tax will drop to two-tenths of one cent (.20%) which shall be for the courthouse maintenance and operation and will be an unlimited duration. These funds are accounted for in the Courthouse Maintenance-ST fund.

The voters of Adair County approved a permanent sales tax of five-tenths of one cent (0.50%). The purpose of this tax is for the use and benefit of the Adair County Jail Trust Authority Facility for the maintenance and operation of the Adair County Jail with an unlimited duration. These funds are accounted for in the Jail-ST fund.

**E. Tax Abatements**

The County is subject to ad valorem tax abatements granted by the State of Oklahoma in accordance with the Oklahoma Constitution, Article 10 Section 6B for qualifying manufacturing concern—ad valorem tax exemption.

**ADAIR COUNTY, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

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Under this program, a five-year ad valorem tax exemption exempts all real and personal property that is necessary for the manufacturing of a product and facilities engaged in research and development which meet the requirements set by the Oklahoma Constitution and statutes. Under Title 68 O.S. § 2902, in exchange for the five-year exemption, qualifying manufacturing concerns must meet certain minimum investment requirements for construction, acquisition, or expansion of a manufacturing facility. In addition, there are general minimum payroll requirements that must be met and the qualifying manufacturing concern must offer basic health benefit plans to all full-time employees within 180 days of employment.

The County had \$35,965 of ad valorem taxes abated under this program for the fiscal year ended June 30, 2019.

The State has an Ad Valorem Reimbursement Fund in accordance with Title 62 O.S. § 193 that is used to reimburse the County for the loss of revenue. Monies apportioned to this fund by the State also may be transferred to other state funds or otherwise expended as directed by the Legislature. In the event monies apportioned to the Fund are insufficient to pay all claims for reimbursement, claims for reimbursement for loss of revenue due to manufacturing exemptions of ad valorem taxes shall be paid first, and any remaining funds shall be distributed proportionally among the counties making claims for reimbursement for loss of revenue for school district exemptions.

**F. Interfund Transfers**

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

- \$100,000 was transferred from the Use Tax-ST fund to the County General fund to meet requirements of appropriations in accordance with 68 O.S. § 3021.
- \$100,000 was transferred from the County General fund to the Use Tax-ST fund for repayment of the loan in accordance with 68 O.S. § 3021.

The following funds were consolidated as part of the County's conversion to a new framework for the systematic reporting and accounting of county government transactions (Chart of Accounts):

- Jail Trust Authority and Jail Trust Authority -2 funds with June 30, 2018 ending balances of \$44,937 and \$38,581 respectively, were combined into the Jail-ST fund with a July 1, 2018 beginning balance of \$83,518.

## **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, 2019**

	General Fund		
	Budget	Actual	Variance
Beginning Cash Balances	\$ 254,828	\$ 254,828	\$ -
Less: Prior Year Outstanding Warrants	(74,484)	(74,484)	-
Less: Prior Year Encumbrances	(19,797)	(19,330)	467
Beginning Cash Balances, Budgetary Basis	160,547	161,014	467
 Total Receipts, Budgetary Basis	 1,223,380	 1,341,601	 118,221
Total Expenditures, Budgetary Basis	1,383,927	1,331,403	52,524
 Excess of Receipts and Beginning Cash Balances Over Expenditures, Budgetary Basis	 \$ -	 171,212	 \$ 171,212
 Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances			
Add: Cancelled Warrants		18,389	
Add: Current Year Outstanding Warrants		42,154	
Add: Current Year Encumbrances		23,949	
Ending Cash Balance		\$ 255,704	

**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, 2019**

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	County Health Department Fund		
	Budget	Actual	Variance
Beginning Cash Balances	\$ 260,522	\$ 260,522	\$ -
Less: Prior Year Outstanding Warrants	(18,743)	(18,743)	-
Less: Prior Year Encumbrances	(17,284)	(14,284)	3,000
Beginning Cash Balances, Budgetary Basis	<u>224,495</u>	<u>227,495</u>	<u>3,000</u>
 Total Receipts, Budgetary Basis	 <u>218,345</u>	 <u>236,797</u>	 <u>18,452</u>
 Total Expenditures, Budgetary Basis	 <u>442,840</u>	 <u>266,659</u>	 <u>176,181</u>
 Excess of Receipts and Beginning Cash Balances Over Expenditures, Budgetary Basis	 <u>\$ -</u>	 197,633	 <u>\$ 197,633</u>
 Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances			
Add: Current Year Encumbrances		35,975	
Add: Current Year Outstanding Warrants		<u>29,517</u>	
Ending Cash Balance		<u>\$ 263,125</u>	

**ADAIR COUNTY, OKLAHOMA  
NOTE TO SUPPLEMENTARY INFORMATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

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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 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.

## **INTERNAL CONTROL AND COMPLIANCE SECTION**

**Independent Auditor's 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, in accordance with the 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, the combined total—all funds of the accompanying Statement of Receipts, Disbursements, and Changes in Cash Balances (with Combining Information) of Adair County, Oklahoma, as of and for the year ended June 30, 2019, and the related notes to the financial statement, which collectively 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 September 28, 2020.

Our report included an adverse opinion on the financial statement because the statement is prepared using accounting practices prescribed or permitted by Oklahoma state law, which is a basis of accounting other than 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, 2019, on the basis of accounting prescribed by Oklahoma state law, described in Note 1.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statement, we considered Adair County's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of Adair County's internal control. Accordingly, we do not express an opinion on the effectiveness of Adair County's internal control.

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. 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.





Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be material weaknesses: 2019-001, 2019-003, 2019-005 and 2019-006.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Adair County's financial statement is free from 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Adair County's Response to Findings**

Adair County's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. Adair County's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on the response.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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.



CINDY BYRD, CPA  
OKLAHOMA STATE AUDITOR & INSPECTOR

September 28, 2020

**ADAIR COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

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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 2019-001 – Lack of County – Wide Internal Controls (Repeat Finding 2008-003, 2009-003, 2010-003, 2011-001, 2012-001, 2018-001)**

**Condition:** Through the process of gaining an understanding of the County’s internal control structure, it was noted that county-wide controls regarding Risk Assessment and Monitoring have not been designed.

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

**Effect of Condition:** Without an adequate system of county-wide controls, there is greater risk of a breakdown in control activities which 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 and implement a system of county-wide procedures to identify and address risks related to financial reporting and to ensure that information is communicated effectively. OSAI also recommends that the County design and implement 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.

**Management Response:**

**Chairman of the Board of County Commissioners:** The Adair County Board of County Commissioners is going to work with the Adair County Clerk and the Adair County Treasurer to try to implement quarterly meetings between all Elected Officials. We will continue to work toward achieving statute compliance.

**County Clerk, and County Treasurer:** We are going to try to work together to begin implementing quarterly meeting with all elected officials to address the risks of the County.

**Criteria:** The United States Government Accountability Office’s *Standards for Internal Control in the Federal Government* (2014 version) aided in guiding our assessments and conclusion. Although this publication (GAO Standards) addresses controls in the federal government, this criterion can be treated as best practices and may be applied as a framework for an internal control system for state, local, and quasi-governmental entities.

The GAO Standards – Section 1 – Fundamental Concepts of Internal Controls – OV1.01 states in part:

*Definition of Internal Controls*

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Internal control is a process effected by an entity's oversight body, management, and other personnel that provides reasonable assurance that the objectives of an entity will be achieved.

Additionally, GAO Standards – Section 2 – Establishing an Effective Internal Control System – OV2.04 states in part:

*Components, Principles, and Attributes*

Risk Assessment - Assesses the risks facing the entity as it seeks to achieve its objectives. This assessment provides the basis for developing appropriate risk responses.

Monitoring - Activities management establishes and operates to assess the quality of performance over time and promptly resolve the findings of audits and other reviews

**Finding 2019-003 – Lack of Internal Controls Over the Collection, Apportionment, and Cash Balances Processes of the County Treasurer (Repeat Finding 2006-001, 2007-001, 2008-005, 2009-005, 2010-005, 2011-003, 2012-003, 2018-003)**

**Condition:** During our review of the County's collection, apportionment, and cash balances processes, the following weaknesses were noted:

- One employee can issue and void receipts, performs individual and overall balancing duties, and inputs manual adjustments onto the monthly reports.
- Front workstations remain logged in and multiple deputies work from them.
- All employees work from the same cash drawer.
- No one verifies the start up cash.
- Bank deposits are not verified for accuracy.
- The Treasurer's office does not prepare and maintain a mail log.
- No one views the audit log.

**Cause of Condition:** Policies and procedures have not been designed and implemented to separate key functions and processes among various employees in the office, to have levels of review over the processes performed, and to ensure accurate and proper accounting of funds.

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

**Recommendation:** OSAI recommends designing and implementing internal controls that are critical functions of the office and having management review and approval of accounting functions.

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**Management Response:**

**County Treasurer:** I have addressed the issue with front workstations not being logged off and each deputy is now logging off when they leave the workstation. Each deputy should be using their own username and password.

I will take into consideration and try to implement more than one cash drawer in the office.

I was unaware that someone needs to verify start up cash each morning. I will try and implement this in the office.

Regarding bank deposits not being verified for accuracy, I was unaware that we needed to verify the deposit once it came back from the bank. I have implemented signing off on the deposit slip by both the preparer of the deposit and the person taking the deposit to the bank daily.

Due to a limited staff most duties overlap, however, we have started using a new software vendor. The system requires voided receipts to be approve by two people. I will try and implement a second person reviewing and signing off on all balancing and adjustments made to the monthly reports.

Due to a limited staff, a mail log is not feasible at this time.

We have recently started using a new software program and I was unaware that there was an audit log that needed to be viewed.

**Criteria:** The GAO Standards – Principle 10 – Design and Control Activities – 10.03 states part:

*Segregation of Duties*

Management divides or segregates key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud. This includes separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets so that no one individual controls all key aspects of a transaction or event.

Additionally, Principle 10 - Segregation of Duties states:

10.12 – Management considers segregation of duties in designing control activity responsibilities so that incompatible duties are segregated and, where such segregation is not practical, designs alternative control activities to address the risk.

10.13 – Segregation of duties helps prevent fraud, waste, and abuse in the internal control system. Management considers the need to separate control activities related to authority, custody, and accounting of operations to achieve adequate segregation of duties. In particular, segregation of duties can address the risk of management override. Management override circumvents existing control activities and increases fraud risk. Management addresses this risk through segregation of duties, but cannot absolutely

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prevent it because of the risk of collusion, where two or more employees act together to commit fraud.

10.14 – If segregation of duties is not practical within an operational process because of limited personnel or other factors, management designs alternative control activities to address the risk of fraud, waste, or abuse in the operational process.

**Finding 2019-005 – Lack of Internal Controls and Segregation of Duties and Noncompliance over Disbursements (Repeat Finding 2008-005, 2009-005, 2010-005, 2011-004, 2012-004, 2018-005)**

**Condition:** Upon inquiry and observation of the County's disbursement process, we noted the following:

- One employee encumbers the funds, issues purchase order, assigns warrant on purchase order, verifies the purchase order upon receiving all supporting documentation, prepares warrants, prints warrants, takes warrants to be registered, receives registered warrants from Treasurer, signs warrants with use of County Clerk's signature stamp, and receives approved purchase orders from Board of County Commissioners.
- The encumbrance portion of the purchase order contains the pre-printed name of the County Clerk and the Purchasing Agent with no evidence of signature or initials to document the approving of the issuance/encumbrance of purchase and the certification of the purchase order by the County Clerk and the Purchasing Agent.
- A non-County Clerk employee has been granted full permissions within the purchasing software, by the County Clerk. Full permission access gave this employee the same access as the County Clerk, purchasing agent, and payroll clerk. The employee encumbers funds, issues purchase orders, enters purchase order details and print purchase orders. Additionally, it was noted the employee is a receiving officer for eight (8) of the funds that she encumbers and issues purchase orders for.

**Cause of Condition:** Policies and procedures have not been designed and implemented with regard to the segregation of duties and/or compensating controls of the disbursement process. Policies and procedures have not been designed and implemented to ensure compliance with state statutes. Policies and procedures have not been designed and implemented to safeguard the County from unauthorized use of the Clerk's stamp.

**Effect of Condition:** These conditions resulted in noncompliance with state statutes and could result in unrecorded transactions, misstated financial records, 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

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and having management review and approve accounting functions. The duties of the purchasing agent shall only be performed by the County Clerk or an employee of the clerk's office designated as purchasing agent. Additionally, the County Clerk should contact the software vendor to remove the non-county Clerk employee from the purchasing software.

Additionally, OSAI recommends signature stamps be used only by the elected official. Officials who utilize signature stamps should ensure that signature stamps are adequately safeguarded from unauthorized use.

Additionally, OSAI recommends that pre-printed signatures on the purchase orders are initialed to document the approving of the issuance/encumbrance of purchase and the certification of the purchase order by the County Clerk and the Purchasing Agent.

**Management Response:**

**County Clerk:** Due to limited personnel, the Purchasing Agent is responsible for encumbering funds, issuing purchase orders, assigning warrants on purchase orders, verifying documentation, etc. I have implemented procedures so that I now review purchase orders. A deputy may review them if I'm unavailable. Also, the County Clerk and Purchasing Agent are initialing beside the pre-printed name of the County Clerk and the Purchasing Agent on the purchase order approving the issuance/encumbrance of purchase and the certification of the purchase order. Someone other than the purchasing agent will compare the printed warrants to the purchase orders.

The software vendor has already been contacted and has removed the non-County Clerk's rights to have any access to payroll and she now has "View only" rights to purchasing software.

My signature stamp is kept in a locked drawer in my office and my employees have to get the key from me to have access to it. I will now require the stamp to be used only in my presence. If I am not here, only my First Deputy will have access to the key and he will let it be used only in his presence for the purpose it is needed and both he and the one using it must see that it is put back in the locked drawer immediately. Since my signature is the one on file with the bank, this is what we can feasibly do at this time.

My office tries to do our due diligence to make sure we are following state statutes.

**Auditor Response:** The signature stamps should only be used by the official to whom it belongs.

**Criteria:** The GAO Standards – Principle 10 – Design and Control Activities – 10.03 states in part:

*Segregation of Duties*

Management divides or segregates key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud. This includes separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets so that no one individual controls all key aspects of a transaction or event.

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Additionally, Principal 10 - Segregation of Duties states:

10.12 – Management considers segregation of duties in designing control activity responsibilities so that incompatible duties are segregated and, where such segregation is not practical, designs alternative control activities to address the risk.

10.13 – Segregation of duties helps prevent fraud, waste, and abuse in the internal control system. Management considers the need to separate control activities related to authority, custody, and accounting of operations to achieve adequate segregation of duties. In particular, segregation of duties can address the risk of management override. Management override circumvents existing control activities and increases fraud risk. Management addresses this risk through segregation of duties but cannot absolutely prevent it because of the risk of collusion, where two or more employees act together to commit fraud.

10.14 – If segregation of duties is not practical within an operational process because of limited personnel or other factors, management designs alternative control activities to address the risk of fraud, waste, or abuse in the operational process.

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

Title 19 O.S. § 1500, states in part:

A. The county clerk of each county or an employee of that office so designated by the county clerk shall be the county purchasing agent. Provided, in counties having a county budget board created pursuant to the County Budget Act, the board may, upon an affirmative vote of a majority of all the board members then in office, appoint a county purchasing agent. In the event the board does not appoint a county purchasing agent, the county clerk or an employee of that office so designated by the county clerk shall be the county purchasing agent. The county purchasing agent shall be under the general supervision and direction of the appointing authority.

**Finding 2019-006 – Segregation of Duties Over the Payroll Process (Repeat Finding 2008-007, 2009-007, 2010-007, 2011-005, 2012-005, 2018-006)**

**Condition:** Upon inquiry and observation of the County's payroll process and review of the County's personnel handbook, it was noted that the payroll clerk enrolls new employees and inputs them into the computer system, enrolls new employees into Oklahoma public employees retirement system (OPERS) and other benefits, maintains personnel files, makes payroll changes and/or updates in the system, removes terminated employees from the system, collects timesheets from all offices and recalculates hours, enters time into the computer system, prints the payroll verification reports and payroll affidavits, prints warrants, takes warrants to be registered at the Treasurer, receives registered warrants, signs warrants using County

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Clerk's signature stamp, takes warrants to the Board of County Commissioner's meeting, distributes warrants, and mails warrants for OPERS, taxes, insurance, etc.

Furthermore, the Court Clerk does not submit leave balances to the County Clerk.

**Cause of Condition:** Policies and procedures have not been designed and implemented to ensure adequate segregation of duties in the County Clerk's office with regard to the payroll process and to ensure adherence to the policies and procedures in the County Employee personnel policy handbook.

**Effect of Condition:** This condition could result in unrecorded transactions, misstated financial reports, undetected errors, and misappropriation of funds. Additionally, it resulted in non-adherence to the policies and procedures outlined in the Employee personnel policy handbook.

**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 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.

Also, OSAI recommends that all offices within the County adhere to the policies and procedures in the County Employee personnel policy handbook.

**Management Response:**

**County Clerk:** Due to limited personnel, the Payroll Clerk does the entire Payroll Process and is also responsible for all processes regarding benefits, retirement and insurance. I always check verification reports because I want to check pay codes and information on new employees and check any changes made since last payroll. Someone other than the payroll clerk will compare time sheets turned in to the verification report and compare the verification report to the payroll affidavit. Either I or one of my deputies will now verify new employee information, retirement and insurance benefits. I or another deputy other than the Payroll Clerk will pick up, separate and hand out checks to be mailed or picked up by employees.

My signature stamp is kept in a locked drawer in my office and my employees have to get the key from me to have access to it. I will now require the stamp to be used only in my presence. If I am not here, only my First Deputy will have access to the key and he will let it be used only in his presence for the purpose it is needed and both he and the one using it must see that it is put back in the locked drawer immediately. Since my signature is the one on file with the bank, this is what we can feasibly do at this time.

In reference to the Court Clerk not submitting leave balances, I have repeatedly asked the Court Clerk to submit leave monthly to our office as well as notifying her that is required per the employee handbook.

**Auditor Response:** The signature stamps should only be used by the official to whom it belongs.

**Court Clerk:** I have provided the County Clerk with timesheet of all my employees every two (2) weeks, which reflects their vacation and sick days used during each pay period. I am working on a comprehensive



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monthly report of all vacation/sick time accrued and used and will be providing this to the County Clerk as required.

**Criteria:** The GAO Standards – Principle 10 – Design and Control Activities – 10.03 states in part:

*Segregation of Duties*

Management divides or segregates key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud. This includes separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets so that no one individual controls all key aspects of a transaction or event.

Additionally, Principle 10 - Segregation of Duties states:

10.12 – Management considers segregation of duties in designing control activity responsibilities so that incompatible duties are segregated and, where such segregation is not practical, designs alternative control activities to address the risk.

10.13 – Segregation of duties helps prevent fraud, waste, and abuse in the internal control system. Management considers the need to separate control activities related to authority, custody, and accounting of operations to achieve adequate segregation of duties. In particular, segregation of duties can address the risk of management override. Management override circumvents existing control activities and increases fraud risk. Management addresses this risk through segregation of duties, but cannot absolutely prevent it because of the risk of collusion, where two or more employees act together to commit fraud.

10.14 – If segregation of duties is not practical within an operational process because of limited personnel or other factors, management designs alternative control activities to address the risk of fraud, waste, or abuse in the operational process.

The Adair County Employee Personnel Policy Handbook states in part: “Each elected official shall be responsible for keeping records of the leaves taken by his/her employees and shall make monthly reports to the County Clerk.”

**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.**

No matters were reported.



Cindy Byrd, CPA | State Auditor & Inspector

2300 N. Lincoln Blvd., Room 123, Oklahoma City, OK 73105 | 405.521.3495 | [www.sai.ok.gov](http://www.sai.ok.gov)