

COUNTY AUDIT

ALFALFA COUNTY

For the fiscal year ended June 30, 2014



*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

**ALFALFA COUNTY, OKLAHOMA
FINANCIAL STATEMENT
AND INDEPENDENT AUDITOR'S REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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Oklahoma State Auditor & Inspector

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

June 30, 2015

TO THE CITIZENS OF
ALFALFA COUNTY, OKLAHOMA

Transmitted herewith is the audit of Alfalfa County, Oklahoma for the fiscal year ended June 30, 2014. 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, appearing to read "Gary A. Jones".

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

**ALFALFA COUNTY, OKLAHOMA
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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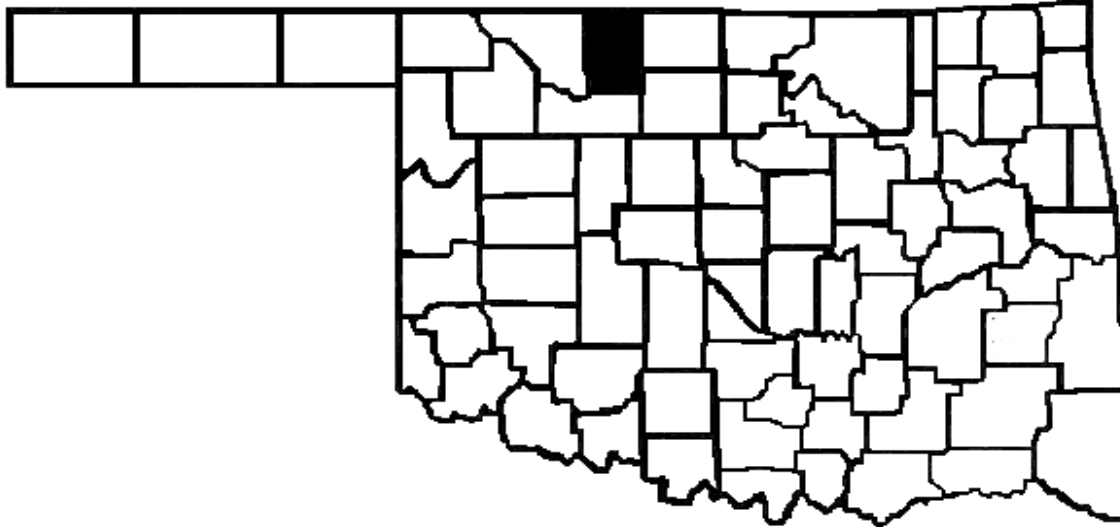
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**INTRODUCTORY SECTION
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PRESENTED FOR INFORMATIONAL PURPOSES ONLY**

**ALFALFA COUNTY, OKLAHOMA
STATISTICAL INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**



This county is named for William H. “Alfalfa Bill” Murray, president of the Oklahoma Constitutional Convention and ninth Governor of Oklahoma. Cherokee was chosen as the county seat by an election in 1909.

While the principal agricultural products are wheat and grain sorghums, cattle raising, alfalfa hay, manufacturing, and oil and gas production also contribute to the economy of the area. Churches, Lions Club, Future Farmers of America, Farm Bureau, and other groups represent an active segment of the community.

Places of interest include the Cherokee Salt Plains and the Great Salt Plains Lake and recreation area, located on the Salt Fork of the Arkansas River. Other points of interest include the Byron State Fish Hatchery, and the artesian water well. Places of historic interest include: the Union Valley Church, Locust Grove School, and an original sod house, all more than one hundred years old.

Cherokee hosts the Selenite Crystal and Birding Festival in May each year. It is also home to the Alfalfa County Historical Society Museum. Cherokee celebrated its centennial in 2001. The Cherokee Chamber of Commerce also serves as a tourist center. For more information, call the county clerk’s office at 580/596-3158.

County Seat – Cherokee

Area – 881.44 Square Miles

County Population – 5,666
(2012 est.)

Farms – 695

Land in Farms – 542,813 Acres

Primary Source: Oklahoma Almanac 2013-2014

Board of County Commissioners

District 1 – Doug Murrow
District 2 – Chad Roach
District 3 – Ray Walker

County Assessor

Donna Prince

County Clerk

Laneta Unruh

County Sheriff

Charles Tucker

County Treasurer

Valerie Vetter

Court Clerk

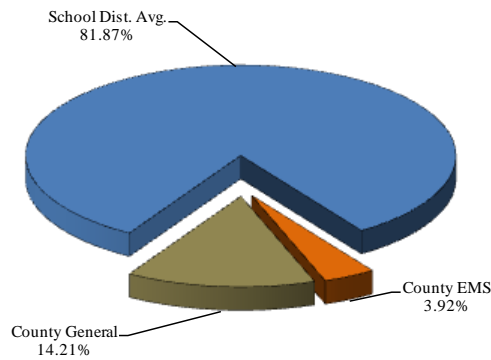
Lori Irwin

District Attorney

Hollis Thorp

**ALFALFA COUNTY, OKLAHOMA
AD VALOREM TAX DISTRIBUTION
SHARE OF THE AVERAGE MILLAGE
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

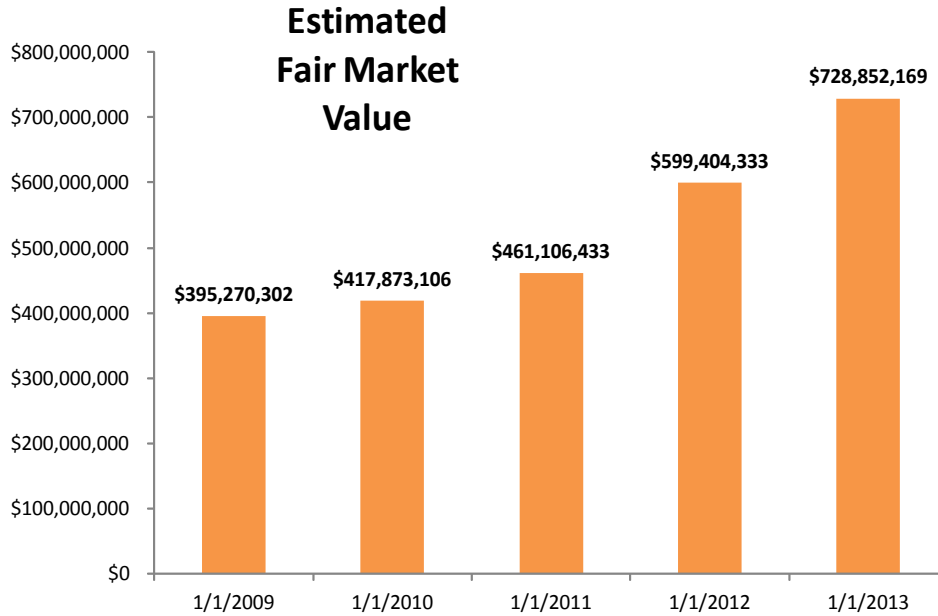
Property taxes are calculated by applying a millage rate to the assessed valuation of property. Millage rates are established by the Oklahoma Constitution. One mill equals one-thousandth of a dollar. For example, if the assessed value of a property is \$1,000.00 and the millage rate is 1.00, then the 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.	Career Bldg.	Tech Common	Total
County General	10.87								
County EMS	3.00	Burlington	I-1	38.06	5.44	16.33	-	4.35	64.18
		Cherokee	I-46	39.03	5.58	11.38	13.00	4.35	73.34
		Timberlake	I-93	38.15	5.45	4.19	-	4.35	52.14
		Major	Jt-1	35.28	5.04	18.05	13.65	4.35	76.37
		Woods	Jt-1	36.58	5.22	3.73	13.65	4.35	63.53
		Major	Jt-4	37.06	5.29	9.36	13.65	4.35	69.71
		Grant	Jt-54	35.13	5.02	1.49	-	4.35	45.99
		Garfield	Jt-42	35.00	5.00	11.32	-	4.35	55.67

**ALFALFA COUNTY, OKLAHOMA
 ASSESSED VALUE OF PROPERTY
 TREND ANALYSIS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

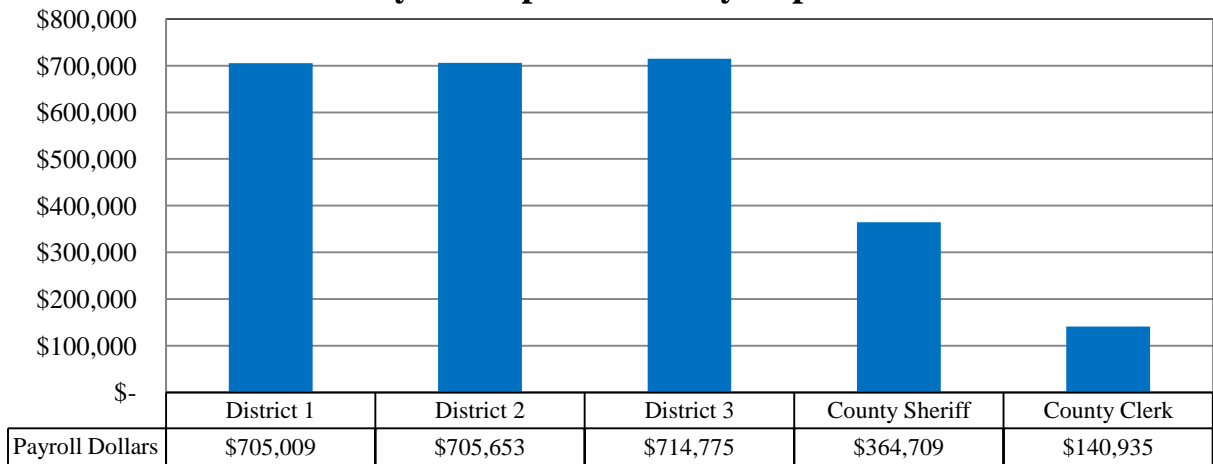
Valuation Date	Personal	Public Service	Real Estate	Homestead Exemption	Net Value	Estimated Fair Market Value
1/1/2013	\$47,978,095	\$9,919,340	\$35,703,004	\$1,280,344	\$92,320,095	\$728,852,169
1/1/2012	\$34,117,146	\$8,782,145	\$34,582,611	\$1,303,015	\$76,178,887	\$599,404,333
1/1/2011	\$18,305,234	\$9,188,230	\$33,543,968	\$1,324,981	\$59,712,451	\$461,106,433
1/1/2010	\$14,447,031	\$8,281,426	\$32,654,827	\$1,321,773	\$54,061,511	\$417,873,106
1/1/2009	\$13,187,795	\$7,166,883	\$31,750,887	\$1,382,361	\$50,723,204	\$395,270,302



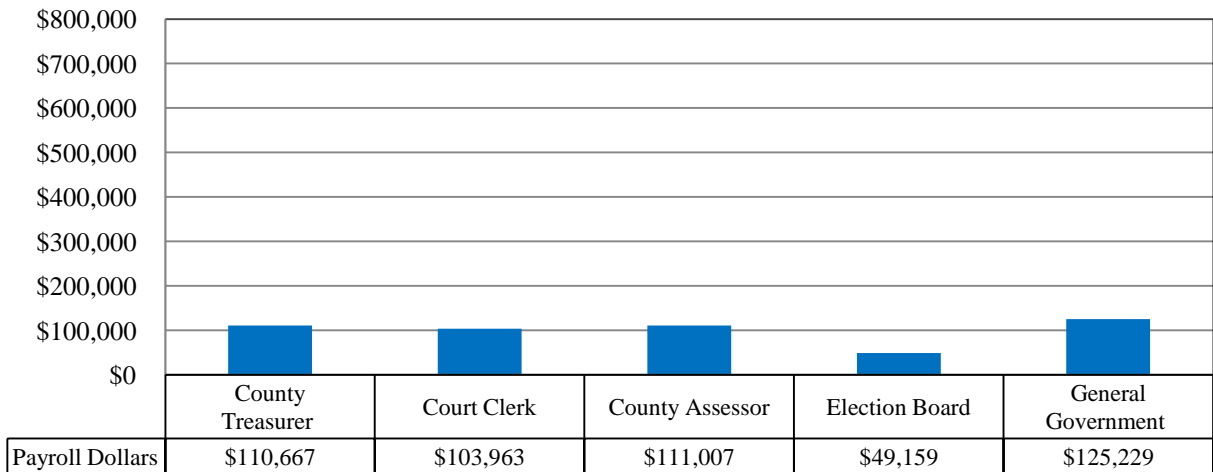
**ALFALFA COUNTY, OKLAHOMA
COUNTY PAYROLL EXPENDITURES ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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, 2014.

Payroll Expenditures by Department



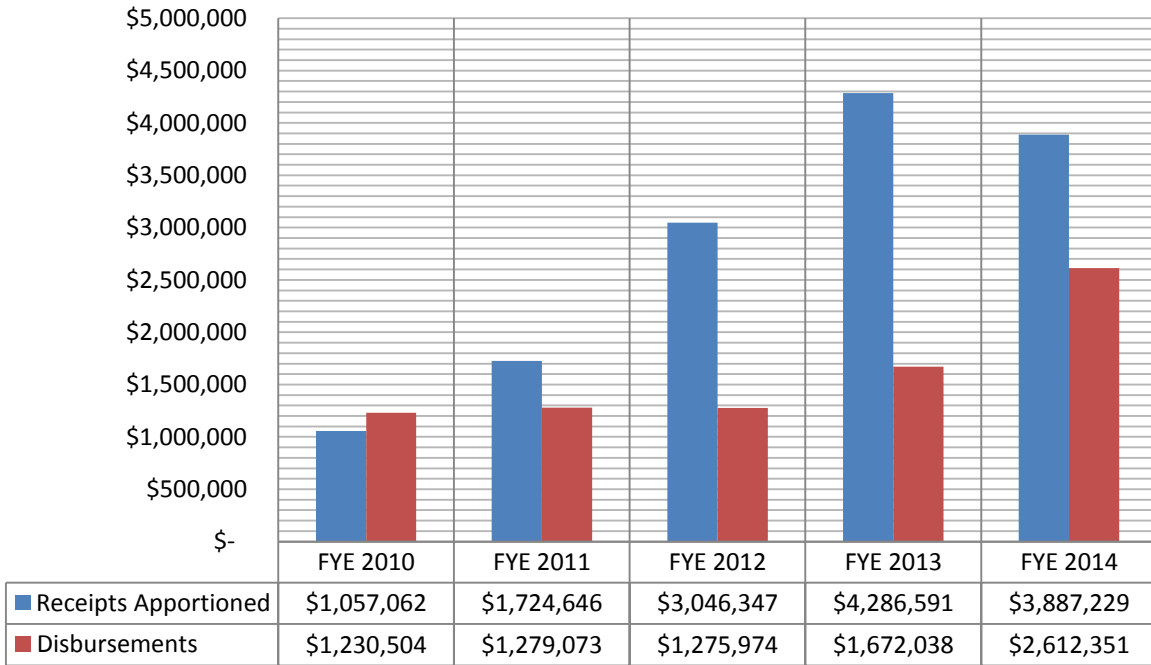
Payroll Expenditures by Department



**ALFALFA COUNTY, OKLAHOMA
COUNTY GENERAL FUND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

County General Fund

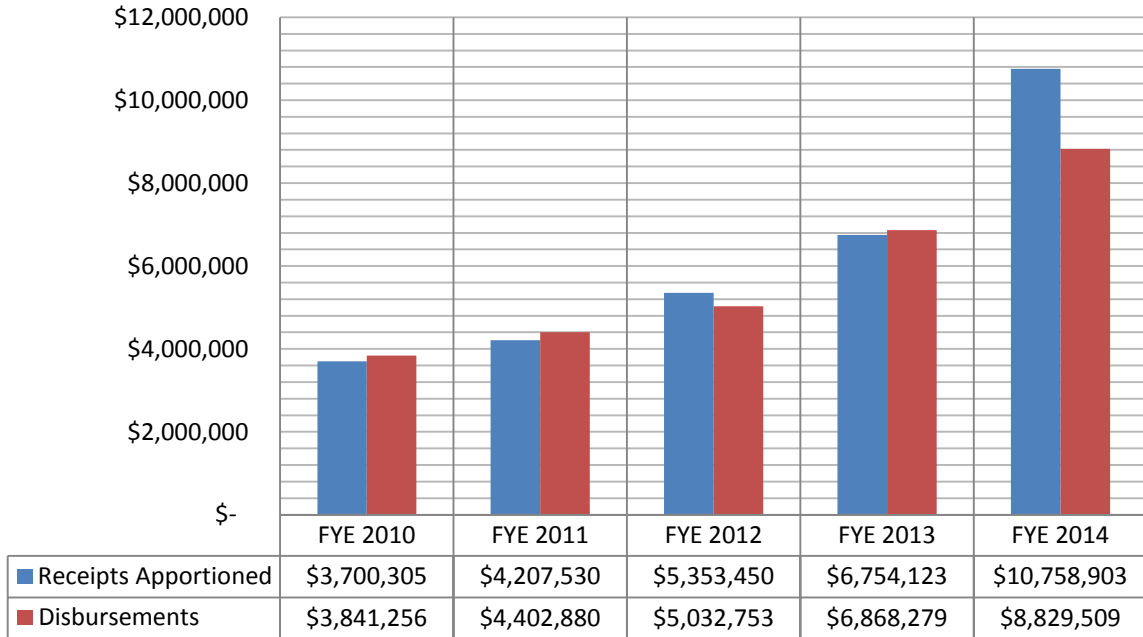
The Oklahoma Constitution and the Oklahoma Statutes authorize counties to create a County General Fund, which is the county’s primary source of operating revenue. The County General Fund is typically used for county employees’ salaries plus many expenses for county maintenance and operation. It also 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.



**ALFALFA COUNTY, OKLAHOMA
COUNTY HIGHWAY FUND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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
ALFALFA 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 Alfalfa County, Oklahoma, as of and for the year ended June 30, 2014, listed in the table of contents as the financial statement.

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 the 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 of the financial statement, the financial statement is prepared by Alfalfa 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 statements 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 Alfalfa County as of June 30, 2014, or changes in its financial position for the year then ended.

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 Alfalfa County, for the year ended June 30, 2014, on the basis of accounting described in Note 1.

Other Matters

Other 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 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.

The Other Supplementary Information, as listed in the table of contents, is the responsibility of management and was derived from and related 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, as listed in the table of contents, 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 subjected to the auditing procedures applied in the audit of the financial statement, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2015, on our consideration of Alfalfa 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 in considering Alfalfa County's internal control over financial reporting and compliance.

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

June 29, 2015

REGULATORY BASIS FINANCIAL STATEMENT

**ALFALFA 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, 2014**

	Beginning Cash Balances July 1, 2013	Receipts Appportioned	Disbursements	Ending Cash Balances June 30, 2014
Combining Information:				
Major Funds:				
County General Fund	\$ 5,382,338	\$ 3,887,229	\$ 2,612,351	\$ 6,657,216
T-Highway	3,067,456	10,758,903	8,829,509	4,996,850
Emergency Medical Service District Sales Tax	9,017,836	5,053,857	1,411,383	12,660,310
County Clerk Lien Fee	234,609	31,711	2,711	263,609
Fair Arena Sales Tax	3,252,034	921,755	2,051,518	2,122,271
Remaining Aggregate Funds	382,243	166,350	205,731	342,862
Combined Total - All County Funds	\$ 21,336,516	\$ 20,819,805	\$ 15,113,203	\$ 27,043,118

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

**ALFALFA COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

1. Summary of Significant Accounting Policies

A. Reporting Entity

Alfalfa 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 emergency medical districts, 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 – accounts for revenues derived from ad valorem tax, sales tax, officer's fees, interest earnings, and miscellaneous collections of the County. Disbursements are for the general operations of the County.

T-Highway – accounts for revenues derived from state imposed fuel taxes and disbursements are for the maintenance and construction of County roads and bridges.

Emergency Medical Service District Sales Tax – accounts for sales tax collected and disbursed for the purpose of maintaining the County emergency medical services.

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

Fair Arena Sales Tax – accounts for sales tax collected and disbursed for the purpose of construction, repairing, and maintaining County fairgrounds.

**ALFALFA COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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.

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.

**ALFALFA COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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."

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.

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

**ALFALFA COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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.

D. Sales Tax

On July 29, 2008, the citizens of Alfalfa County voted on and approved a 2% sales tax, with 55 % of the proceeds for the purpose pertaining to the health and well-being of the people and general operation of the Alfalfa County Emergency Medical Services; 22.5% of proceeds for the general operations and improvements of the government and library; and 22.5% of proceeds for the continued construction and general operations of the Alfalfa County Fairgrounds. The sales tax shall begin January 1, 2009, and continue for 48 months until December 2012.

On November 6, 2012, the citizens of Alfalfa County voted on and approved a 2% sales tax with 55% of the proceeds for the purpose pertaining to the health and well-being of the people and general operation of the Alfalfa County Emergency Medical Services; 12.5% of proceeds for the general operations, personal services, and improvements of the government of Alfalfa County; 10% of proceeds for the continued construction, personal services, maintenance, operation, and repair of the Alfalfa County Fairgrounds, and 22.5% for purposes of the construction and maintenance of county blacktop roads. The sales tax shall begin January 1, 2013, and continue for 48 months until December 31, 2016.

The funds are accounted for within the County General Fund, the Emergency Medical Service District Sales Tax fund, and the Fair Arena Sales Tax fund.

OTHER SUPPLEMENTARY INFORMATION

ALFALFA 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, 2014

	General Fund		
	Budget	Actual	Variance
Beginning Cash Balances	\$ 5,382,338	\$ 5,382,338	\$ -
Less: Prior Year Outstanding Warrants	(97,919)	(97,919)	-
Less: Prior Year Encumbrances	<u>(276,816)</u>	<u>(260,061)</u>	<u>16,755</u>
Beginning Cash Balances, Budgetary Basis	<u>5,007,603</u>	<u>5,024,358</u>	<u>16,755</u>
Receipts:			
Ad Valorem Taxes	912,290	989,241	76,951
Charges for Services	-	114,891	114,891
Intergovernmental Revenues	-	2,654,356	2,654,356
Miscellaneous Revenues	<u>71,666</u>	<u>128,741</u>	<u>57,075</u>
Total Receipts, Budgetary Basis	<u>983,956</u>	<u>3,887,229</u>	<u>2,903,273</u>
Expenditures:			
District Attorney	2,000	2,000	-
County Sheriff	474,142	461,162	12,980
County Treasurer	128,326	124,983	3,343
County Commissioners	119,600	95,348	24,252
County Commissioners OSU Ext.	39,732	33,301	6,431
County Clerk	189,500	169,436	20,064
Court Clerk	123,000	109,246	13,754
County Assessor	113,196	96,083	17,113
Revaluation of Real Property	90,000	74,243	15,757
General Government	578,715	259,843	318,872
Excise-Equalization Board	3,500	2,537	963
County Election Board	81,385	53,891	27,494
Insurance	3,977,497	1,096,247	2,881,250
Charity	1,201	470	731
Fire Fighting Services	50	-	50
Civil Defense	1	-	1
Emergency Management	50,480	35,595	14,885
County Audit Budget Account	9,232	796	8,436
County Cemetary Account	1	-	1
Library Budget Account	10,000	10,000	-
Public Health Budget Account	<u>1</u>	<u>-</u>	<u>1</u>
Total Expenditures, Budgetary Basis	<u>5,991,559</u>	<u>2,625,181</u>	<u>3,366,378</u>
Excess of Receipts and Beginning Cash			
Balances Over Expenditures, Budgetary Basis	<u>\$ -</u>	6,286,406	<u>\$ 6,286,406</u>
Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances			
Add: Cancelled Warrants		499	
Add: Current Year Outstanding Warrants		58,860	
Add: Current Year Encumbrances		<u>311,451</u>	
Ending Cash Balance		<u>\$ 6,657,216</u>	

ALFALFA COUNTY, OKLAHOMA
COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES—REGULATORY BASIS—
REMAINING AGGREGATE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Beginning Cash Balances <u>July 1, 2013</u>	Receipts <u>Apportioned</u>	Disbursements	Ending Cash Balances <u>June 30, 2014</u>
Remaining Aggregate Funds:				
Resale Property	\$ 81,231	\$ 24,987	\$ 26,791	\$ 79,427
Sheriff Service Fee	124,290	73,423	33,383	164,330
Sheriff Revolving Fee	27,329	7,313	19,812	14,830
Treasurer Mortgage Tax Certification Fee	1,757	775	653	1,879
Community Service Program	2,713	-	-	2,713
County Clerk Preservation	63,038	32,271	46,242	49,067
Assessor Visual Inspection	6,168	21	-	6,189
Assessor Revolving	8,070	8,817	4,843	12,044
Enhanced 911 Cash	67,647	18,743	74,007	12,383
Combined Total - Remaining Aggregate Funds	<u>\$ 382,243</u>	<u>\$ 166,350</u>	<u>\$ 205,731</u>	<u>\$ 342,862</u>

**ALFALFA COUNTY, OKLAHOMA
NOTES TO OTHER SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

1. Budgetary Schedules

The Comparative Schedules of Receipts, Expenditures, and Changes in Cash Balances—Budget and Actual—Budgetary Basis for the General 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:

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

Sheriff Service Fee – accounts for the collection and disbursement of County Sheriff process service fees as restricted by statute.

Sheriff Revolving Fee – accounts for the collection of monies from the Oklahoma Department of Corrections and disbursements are for the purpose of operating and maintaining the jail.

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

Community Service Program – accounts for the collection and disbursements of funds used to improve public works through the County.

County Clerk Preservation – accounts for fees collected for instruments filed in the County Clerk's office as restricted by statute for preservation of records.

Assessor Visual Inspection – accounts for the collection of expenditure of monies by the County Assessor as restricted by state statute for the visual inspection program.

**ALFALFA COUNTY, OKLAHOMA
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FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Assessor Revolving – accounts for the collection of fees for copies and disbursements as restricted by state statute.

Enhanced 911 Cash – accounts for the receipts and disbursements of funds for the operation of Enhanced 911.

INTERNAL CONTROL AND COMPLIANCE SECTION



Oklahoma State Auditor & Inspector

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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
ALFALFA 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 Combined Statement of Receipts, Disbursements, and Changes in Cash Balances of Alfalfa County, Oklahoma, as of and for the year ended June 30, 2014, which comprises Alfalfa County's financial statement, prepared using accounting practices prescribed or permitted by Oklahoma state law, and have issued our report thereon dated June 29, 2015.

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, 2014, 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 Alfalfa 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 Alfalfa County's internal control. Accordingly, we do not express an opinion on the effectiveness of Alfalfa County's internal control.

Our consideration of internal control was for the limited purpose described in the preceding 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. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and 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 described in the accompanying schedule of findings and responses to be material weaknesses: 2014-1, 2014-2, 2014-4, 2014-7, and 2014-11.

A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies: 2014-6, 2014-8, and 2014-9.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Alfalfa 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2014-7 and 2014-9.

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

Alfalfa County's Responses to Findings

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

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.



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

June 29, 2015

**ALFALFA COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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 2014-1 – Inadequate County-Wide Controls (Repeat Finding)

Condition: The County has not addressed all of the components of an internal control framework which are the control environment, risk assessment, information and communication, and monitoring.

Cause of Condition: This condition is a result of the County not being aware of how the process of identifying risk, communicating pertinent information and monitoring could positively impact the operations and reporting of the County.

Effect of Condition: This condition does not allow the County to function in the most effective manner possible.

Recommendation: The Oklahoma State Auditor & Inspector (OSAI) recommends that the County design procedures to document their internal control framework. This documentation should outline the importance of internal controls, the risk that the County has identified, the control activities established to address the risk, the steps to take to properly communicate pertinent information in a timely manner and the methodology to monitor the quality of performance over time.

Management Response:

County Commissioner District 1, 2, 3, County Clerk, County Treasurer, Court Clerk, Sheriff, and County Assessor: In our officer meetings, we will begin discussing the green book and take steps to document the five components of an internal control structure.

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 Control Environment, Risk Assessment, Information and Communication, and Monitoring for the achievement of these goals.

Finding 2014-2 – Inadequate Internal Controls Over the County Treasurer's and County Clerk's Accounting Processes (Repeat Finding)

Condition: Upon inquiry of the County Officials and their staff, and observation of county records, we determined that there are inadequate internal controls with the offices of the County as follows:

**ALFALFA COUNTY, OKLAHOMA
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- A receipt for Emergency Transportation Revolving fund loans of \$1,000,000 was incorrectly coded as interest by the County Treasurer.
- A review of the daily jackets indicated that the daily reports were not routinely placed in the daily jacket by the County Treasurer and the daily reports and daily jackets were not routinely reviewed and signed by the County Clerk.
- Incomplete and inaccurate monthly reports were produced by the County Treasurer.
- Daily general ledger reports were not reprinted after corrections were made.
- Warrants were not marked paid on the County Clerk's computer system nor on the printed ledger.
- The Electronic Transfer Holding Account was not accounted for on the general ledger nor was it reconciled to the account activity each month.
- There was no evidence of a monthly reconciliation between the County Treasurer's general ledger and County Clerk's appropriation ledger.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure accounting records are accurate, complete, and organized.

Effect of Condition: As a result of this condition, there were numerous errors. These errors could potentially lead to unrecorded transactions, misstated financial reports, clerical errors, or misappropriations of funds not being detected in a timely manner.

Recommendation: OSAI recommends management be aware of these conditions and realize the most effective controls lie in managements overseeing of office operations and a periodic review of operations. OSAI further recommends the officers provide adequate training to all employees with an emphasis to attention of details and organization of county records.

Management Response:

County Clerk: I am going to work with the County Treasurer to ensure a signed copy of the daily reports is in the daily jacket. I am also going to have an office meeting to review what should be in the daily jacket. Then we will update our procedure manual accordingly. I am now receiving a flash drive weekly from the Treasurer with a list of paid warrants that I am importing into my system.

County Treasurer: I am going to work with the County Clerk to ensure a signed copy of the daily reports is in the daily jacket. Previous problems were in part due to the change in the new system. We will make a more concentrated effort to make sure the monthly reports and general ledgers are completed and accurate. I am now taking a flash drive over to the County Clerk weekly with a list of paid warrants. I will contact the programmer to get this account listed on the general ledger.

Criteria: Accountability and stewardship are overall goals of management in accounting of funds. Internal controls should be designed to analyze accuracy, completeness, and reliability of accounting records.

**ALFALFA COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
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Finding 2014-4 – Inadequate Segregation of Duties and Internal Controls Over the Collection Process (Repeat Finding)

Condition: The following weaknesses were noted regarding the collection process in the County Treasurer's office:

- The duties of issuing receipts, voiding receipts, accepting cash, reconciling the cash drawer, and preparing the deposit were not adequately segregated within the County Treasurer's office which is the office primarily responsible for safeguarding collections.
- The employees in the County Treasurer's office operate from the same change drawer.
- Receipts could be voided by any cashier and there was no policy for the review and approval of voided receipts within the County Treasurer's office.

Cause of Condition: Policies and procedures have not been designed and implemented with regard to segregating the duties over all aspects of the receipting process and cash balances process due to officials being unaware of the need for such procedures.

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

Recommendation: OSAI recommends management be aware of these conditions and realize that a concentration of duties and responsibility in a limited number of individuals is not desired from a control point of view. The most effective procedures lie in managements overseeing of office operations and a periodic review of operations. OSAI recommends management provide segregation of duties so that one employee is unable to perform all accounting functions. In the event that segregation of duties is not possible due to limited personnel, OSAI recommends implementing compensating procedures to mitigate the risks involved with a concentration of duties. Compensating procedures would include separating key processes and/or critical functions of the office, and having management review and approval of accounting functions.

Management Response:

County Treasurer: I will continue to work on segregating the duties of receipting and depositing. I am considering my options on how to better manage the cash on hand. The issue of voiding receipts has been resolved with the new system. Voided receipts now must be approved by another person.

Criteria: Accountability and stewardship are overall goals of management in accounting of funds. To help ensure a proper accounting of funds, the duties of receiving, receipting, recording, depositing cash and checks, reconciliations, and transaction authorization should be segregated.

**ALFALFA COUNTY, OKLAHOMA
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Finding 2014-6 – Inadequate Internal Controls and Noncompliance Over Sales Tax Calculations (Repeat Finding)

Condition: Upon inquiry and observation of the recordkeeping process of apportioning sales tax collections, it was noted that there is no independent oversight of the calculation of sales tax collections that are presented from the County Treasurer to the County Clerk for appropriation.

Additionally, the following errors in apportionment of sales tax were noted:

- In August of 2013, sales tax money was not apportioned correctly within the Emergency Medical Service District Sales Tax fund. The amount of \$27,732.45 should have been apportioned to the Reserve account, but was apportioned to the Ambulance account erroneously.
- Additionally, in December of 2013, \$95,555.44 was receipted as “Co Gen Mo Int” instead of “County General Sales CHIPS Tax” resulting in those monies not being apportioned to the correct account within the General Fund as detailed in the sales tax ballot.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure compliance with 68 O.S. § 1370E which provides guidelines for the accounting of sales tax.

Effect of Condition: This condition resulted in noncompliance with state statute and a miscalculation of sales tax revenue apportioned.

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

OSAI further recommends that procedures be developed and implemented to ensure compliance with 68 O.S. § 1370E.

Management Response:

County Treasurer: I am going to look into this and make the necessary transfers of appropriations.

Criteria: Internal controls should be designed to analyze and check accuracy and completeness. To help ensure proper accounting of funds, the duties of allocating, and apportioning sales tax should be reviewed and documented by an independent party and would include expenditure procedures that ensure compliance with 68 O.S. § 1370E.

Finding 2014-7 – Inadequate Controls and Noncompliance Over the Disbursement Process (Repeat Finding)

Condition: We noted the following weaknesses with regard to the disbursement process:

**ALFALFA COUNTY, OKLAHOMA
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- The duties of processing disbursements are not adequately segregated. One employee of the County Clerk can encumber funds, issue warrants, and has physical custody to deliver warrants.
- The duties of processing payroll are not adequately segregated. The Payroll Clerk enrolls new hires, makes payroll changes, maintains personnel files, and prepares end of month payroll reports. The Payroll Clerk is also responsible for logging on to the financial institution website and initiating the direct deposit.
- The Board of County Commissioners did not approve requisitioning and receiving officers for the fiscal year 2013-2014 in the Board minutes.
- An employee of Highway District 3 was not an authorized receiving officer, but performed the duties of the receiving officer.
- The test of forty-two disbursements indicated the following exceptions:
 - Four instances noted where the purchase orders were not properly encumbered.

Fund	Office/District	Purchase Order Number	Amount
Enhanced 911 Cash	Enhanced 911	1846	\$74,007.42
Sales Tax Health	Helena Rescue	652	\$84,995.00
Highway	District 2	1799	\$10,692.93
Highway	District 1	1951	\$20,060.00

- Two of disbursements tested indicated that the requisitioning officer signed as the receiving agent on the receiving report for fuel and supplies purchased from the T-Highway fund.

Cause of Condition: Procedures with regard to segregating the duties over the purchasing and payroll processes and timely encumbering purchases have not been designed due to the officials being unaware of the necessity of such procedures.

Effect of Condition: These conditions resulted in noncompliance with state statutes and could result in unrecorded transactions, misstated financials reports, undetected errors, and misappropriation of funds.

Recommendation: OSAI recommends that the processes regarding disbursements be adequately segregated.

OSAI recommends the following key accounting functions of the payroll process be adequately segregated:

- Posting new hires and/or making payroll changes to the payroll system.
- Maintaining personnel files.
- Performing the direct deposit.
- Preparing end of month payroll reports.

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FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Further, OSAI recommends the following in accordance with 19 O.S. § 1505C and § 1505E.

- County funds should be encumbered prior to the receipt of goods and/or services.
- Disbursements of County funds should be supported by receiving reports signed by authorized receiving agents.

Management Response:

District 1 Commissioner: We will be more diligent about making sure all purchase orders are timely encumbered and have the necessary supporting documentation.

District 2 Commissioner: I am going to encourage other officers to make sure purchase orders are encumbered in a timely manner and ensure all supporting documentation is attached. I will discuss in an officer meeting the best way to ensure the list of requisitioning and receiving officers is up to date.

District 3: I am going to encourage other officers to make sure purchase orders are encumbered in a timely manner and ensure all supporting documentation is attached. I will discuss in an officer meeting the best way to ensure the list of requisitioning and receiving officers is up to date.

County Clerk: I will look into ways of segregating the duties of purchasing and payroll. We will be more diligent about making sure all purchase orders are timely encumbered and have the necessary supporting documentation. I will be more diligent of making sure the list of receiving and requisitioning officers is completed each year.

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, authorization, and distribution should be segregated.

Finding 2014-8 – Inadequate Internal Controls Over Sheriff’s Fuel Card Usage (Repeat Finding)

Condition: Upon inquiry of the Sheriff’s office and as a result of risk assessment procedures, we audited ten disbursements for the Sheriff’s fuel card purchases and noted the following exceptions:

- Nine of the ten purchase orders did not have a detailed invoice attached.
- One of the ten purchase orders did not have the pump receipts attached.
- Receipts attached to six of the ten purchase orders did not match the summary invoice.
- One of the ten purchase orders had a receipt attached to the claim that was for a different vendor than the fuel card vendor.
- Two instances were noted in which the same summary invoice was attached to two different purchase orders.

Invoice Dates	Purchase Order
10/01/2013 - 10/31/2013	1297 and 1942

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Invoice Dates	Purchase Order
04/01/2014 - 04/30/2014	1497 and 1652

Cause of Condition: Policies and procedures have not been designed and implemented to ensure all disbursements for fuel card purchases are accurate and valid.

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

Recommendation: OSAI recommends that the County design and implement procedures to ensure fuel card disbursements are accurate and valid. This includes reconciling pump receipts to detailed invoices.

Management Response:

District 1 Commissioner: We will ensure all purchase orders have necessary supporting documentation attached.

District 2 Commissioner: I am going to encourage other officers to make sure all supporting documentation is attached. I will also review supporting documentation for purchases more thoroughly prior to signing the purchase orders.

District 3 Commissioner: I am going to encourage other officers to make sure all supporting documentation is attached. I will also review supporting documentation for purchases more thoroughly prior to signing the purchase orders.

County Clerk: We will ensure all purchase orders have necessary supporting documentation attached.

County Sheriff: Since I have taken office, I implemented a policy that all fuel receipts are to be attached to the fuel card detailed report. We will also ensure this documentation is attached to the purchase order.

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.

Finding 2014-9 – Inadequate Internal Controls and Noncompliance Over Discrete Presentation of Sales Tax Activity (Repeat Finding)

Condition: The sales tax appropriations and expenditures were not discretely presented within the County General Fund. Additionally, sales tax appropriations and expenditures designated for paved roads were placed into the T - Highway fund and comingled with other highway appropriations and expenditures.

Cause of Condition: The County was not aware that the state statute regarding County sales tax had been clarified by two subsequent Attorney General Opinions.

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Effect of Condition: These conditions have resulted in nonconformity with the AG Opinions and the intent of the County sales tax statute.

Recommendation: We recommend that the County establish procedures that would allow for the sales tax balances and activity to be distinguished from other revenue sources activity within the County General Fund or account for sales tax activity in a separate sales tax revolving fund.

Management Response:

District 1 Commissioner: I will work with the Board, the officers, and the budget maker on this issue to see that it is resolved.

District 2 Commissioner: We will take the necessary steps to see that we are in compliance with the state statutes and the Attorney General opinion.

District 3 Commissioner: We will take the necessary steps to see that we are in compliance with the state statutes and the Attorney General opinion.

County Clerk: I will work toward getting all sales tax collections deposited into cash funds.

County Treasurer: I will work with the Board on this issue to see that it is resolved.

Criteria: Title 68 O.S. § 1370E, requires the sales tax collections be deposited in the general revenue or sales tax revolving fund of the County and be used only for the purpose for which such sales tax was designated.

AG opinion 2005 OK AG 23 dated 07/13/2005 states:

3. Proceeds of a county sales tax voted for a specific purpose but placed in the county's general fund must be accounted for as a discrete fund, and any surplus not needed for the stated purpose during one fiscal year must be transferred to the county budget for the next fiscal year, for the same specified purpose."

AG opinion 2014 OK AG 15 dated 10/31/2014 states:

4. C. As the fiscal agent responsible for superintending the funds of Canadian County, the board of county commissioners is responsible to ensure that the sales tax proceeds are not intermingled and are used exclusively for the purpose expressed in the ballot measure and resolution. The board can direct that the funds be deposited in a dedicated revolving fund and not intermingled with other revenues. Okla. Const. art. X, § 19; 68 O.S.2011, § 1370; 19 O.S.Supp.2013, § 339; 19 O.S.2011, § 345; Cavin v. Bd. of County Comm'rs, 1934 OK 245 ¶ 11, 33 P.2d 477, 479.

**ALFALFA COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
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Finding 2014-11 – Inadequate Internal Controls and Monitoring Over the Bank Reconciliations

Condition: The County Treasurer was not able to correctly identify all reconciling items for the June 30, 2014 bank reconciliations. As a result, the following items were not resolved:

Official Depository Account:

Reconciling Items	Amount	Months Outstanding
Two electronic bank deposits were not recorded on the general ledger	\$546.00	11 and 10 months
A deposit on the general ledger was less than the deposit in the bank	\$33.00	10 months
Two canceled vouchers on the outstanding voucher list	\$643.87	10 months
Two months of interest	\$125.62	10 and 9 months
A deposit on the general ledger was more than the deposit in the bank	\$10.00	8 months
An unreconciled item between the Court Clerk and the County Treasurer	\$100.00	8 months
Three paid vouchers on the outstanding voucher list	\$1,237.50	7 months
Bank error	\$13.00	5 months
A negative amount on the outstanding voucher list	\$438.00	4 months
Transfer in/deposit into the incorrect account	\$302.29	3 months
Deposit in the bank that was not recorded on the general ledger	\$62.00	2 months

Outstanding Warrant Account:

Reconciling Items	Amount	Months Outstanding
Three warrants paid by the bank, but not marked as paid in the County Treasurer's system	\$1,144.49	13 months
Warrant paid by the bank, but marked canceled in the County Treasurer's system	\$46.17	11 months

Agency Warrant Account:

Reconciling Items	Amount	Months Outstanding
Outstanding warrant marked as paid in the Treasurer's system	\$56.61	10 months

Cause of Condition: Procedures have not been designed to ensure all accounts are reconciled, approved, and the amounts recorded on the bank accounts are complete and accurate. The incorporation of a new software system and turnover of employees in the office exacerbated the condition.

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

**ALFALFA COUNTY, OKLAHOMA
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Recommendation: OSAI recommends that the County design procedures ensure that all activity on all bank statements is complete and accurate. We recommend that all accounts be reconciled on a monthly basis and in a timely manner. Furthermore, the review and approval of the reconciliation should be documented.

Management Response:

County Treasurer: I think these issues have been found and resolved.

Criteria: To help ensure a proper accounting of funds, all bank accounts should have a bank reconciliation performed on a monthly basis and approved by someone other than the preparer and include an indication of review.

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 2014-10 – Inadequate Internal Controls and Noncompliance Over Bidding Including Six Month Bids (Repeat Finding)

Condition: As an item of unpredictability, we reviewed seven disbursements required to be bid that indicated the following exceptions:

- The Board of County Commissioners awards six month bids to all bidders.
- Proof of mailing was not made by affidavit.
- A copy of the notification of the successful bidder was not retained.
- Publication for one bid was not located.

Cause of Condition: The County did not comply with bidding requirements, which requires the proof of mailing to be made by affidavit, published in the newspaper 10 days prior to opening, the Board awarding a bid to the lowest and best bidder, and retention of the notification of successful bidder.

Additionally, according to the minutes of the Board of County Commissioners (BOCC), “the amount of a bid was not considered a factor in determining how to award six month bids for goods and/or services.”

Effect of Condition: These conditions resulted in noncompliance with state statutes regarding the awarding of bids.

Recommendation: OSAI recommends the County maintain proof of mailing to be made by affidavit, publish the bid in the newspaper 10 days prior to opening; the board awards a bid to the lowest and best bidder, and the County retains a copy of the notification of successful bidder.

**ALFALFA COUNTY, OKLAHOMA
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Management Response:

District 1 Commissioner, District 2 Commissioner, and District 3 Commissioner: We will be more detailed in our selection of six month bids and select the lowest or best bidder per item per district.

County Clerk: I will attach an affidavit for proof of mailing and compile a notification letter/email to give to the successful bidder.

Criteria: When soliciting bids and/ or lease purchases, Title 19 O.S. § 1505(B) requires public notice of bids were certified to vendors 10 days prior to the opening of sealed bids, proof of mailing was made by affidavit, sealed bids were date and time stamped prior to the opening deadline, bids were opened and awarded by the BOCC in an open meeting, lowest bid was accepted or state contract bid was selected (if lowest bid was not accepted, minutes state why), purchasing agent notified successful bidder and kept copy of the notification.

Finding 2014-13 – Inadequate Safeguarding of Inmate Funds by the County Sheriff (Repeat Finding)

Condition: The County Sheriff did not maintain an Inmate Trust Fund Checking Account. Upon inquiry of the County Sheriff and his employee, the following was noted in regard to the handling of inmate funds:

- Inmate cash was placed in individual plastic bags labeled with the inmate's name and kept in a safe or occasionally in a file cabinet.
- The County Sheriff's office occasionally received cashier's checks or cash on behalf of the inmates from other individuals. These funds were either mailed or hand delivered to the County Sheriff's office.
- In the event that a cashier's check was received in the Sheriff's office, the funds were converted to cash by an employee of the County Sheriff's office depositing the cashier's check in the employee's personal bank account and withdrawing cash in order to make purchases for the inmate.
- The cash maintained for inmates by the County Sheriff was used to purchase phone cards, over the counter medicine, and other personal items for the inmates not provided the County.
- Records of this activity were not maintained.

Cause of Condition: Procedures have not been designed and implemented to adequately safeguard inmate funds.

Effect of Condition: The absence of appropriate accounting records reduces the effective custodial control over inmate funds and may increase the risk of errors being undetected and possible misappropriation of funds.

Recommendation: OSAI recommends that the County Sheriff establish an Inmate Trust Fund Checking Account. Pre-numbered duplicate receipts should be issued for all inmate funds received, and those funds

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should be deposited in a timely manner into the bank account. Additionally, expenditure of these funds should be documented and evidence of the expenditure should be approved by the inmate.

Management Response:

County Sheriff: Since I have taken office and after talking to the auditor's office, I have established an Inmate Trust Checking bank account. When money is taken in from the inmates, it is deposited daily into this bank account.

Criteria: Title 19 O.S. § 531(A) states in part, "...the county sheriff may establish a checking account, to be designated the 'Inmate Trust Fund Checking Account,' to be managed by the county sheriff." It also states in part, "The county sheriff shall deposit all monies collected from inmates incarcerated in the county jail into this checking account."

Finding 2014-14 – Inadequate Internal Controls and Noncompliance Over Fixed Assets Inventory and Consumable Items Inventory (Repeat Finding)

Condition: Upon inquiry of County officials and employees, and observation of records with regard to the fixed assets, the following was noted:

County Treasurer:

- The receiving officer is also responsible for maintaining the inventory records and performing an annual physical inventory.
- An annual physical inventory was not performed.
- A test of seven inventory items for the County Treasurer's office indicated that one item was not listed on the inventory records.

County Assessor:

- Physical inventory verifications are performed by the individual responsible for maintaining the inventory records.
- A test of seven inventory items for the County Assessor's office indicated that one item did not have an inventory number affixed and was not listed on the inventory records.

County Clerk:

- The receiving officer is responsible for maintaining the inventory records and performing an annual physical inventory.
- Documentation of the annual physical inventory was not maintained.
- A test of seven inventory items for the County Clerk's office indicated two items could not be located and one item that was not listed on the inventory records.

County Sheriff:

- The receiving officer is responsible for maintaining the inventory records.
- An annual physical inventory verification was not performed.

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- A test of 126 inventory items for the County Sheriff’s office indicated:
 - Twenty items that did not have an inventory number affixed.
 - Three items that were marked with the incorrect inventory number.
 - Five items were not listed on the fixed asset inventory.
 - Thirty-three items that could not be visually verified.
 - Two items that were disposed of by resolution, but were not removed from the inventory list.
 - Seven items that had the serial number listed incorrectly on the inventory list.

Court Clerk:

- The fixed assets inventory is not adequately maintained.
- An annual physical inventory verification was not performed.

District 1 Commissioner:

- The receiving officer is responsible for maintaining the inventory records.
- An annual physical inventory verification was not performed.
- A test of fifteen inventory items for District 1 indicated:
 - One item did not have an inventory number affixed.
 - One item was not properly identified as “Property of Alfalfa County.”

District 2 Commissioner:

- A test of fifteen inventory items for District 2 indicated that one item was not properly identified as “Property of Alfalfa County.”

District 3 Commissioner:

- The receiving officer is responsible for maintaining the inventory records.
- An annual physical inventory verification was not performed.
- A test of fifteen inventory items for District 3 indicated:
 - Two items were not properly identified as “Property of Alfalfa County.”
 - One item was not listed on the inventory records.
 - Two items could not be visually verified.

Commissioners’ Office Courthouse:

- A test of four items for the Commissioners’ Courthouse office indicated:
 - One item that did not have an inventory number affixed.
 - One item that was marked with the incorrect inventory number.

County General Courthouse:

- A test of seven inventory items for the County Courthouse (General Government) indicated:
 - Five items did not have an inventory number affixed.
 - One item was not conspicuously marked “Property of Alfalfa County.”
 - Two items were not listed on the fixed asset inventory.
 - One item could not be visually verified.

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The observation and test of consumable inventory items indicated the following:

District 1 Commissioner:

- The employee responsible for receiving consumable items, also orders goods, maintains stock cards, and prepares transfer documents.
- A periodic review of consumable inventory is not performed.
- Three out of the four consumable items selected from the records could not be physically verified to the number of items on hand.

District 2 Commissioner:

- A fuel log is maintained; however, the fuel log does not contain a balance that can be reconciled to the actual fuel on hand.
- Three of the four consumable items selected from the records could not be physically verified to the number of items on hand.
- One consumable item from the yard was not recorded as having a balance on hand.

District 3 Commissioner:

- The employee responsible for receiving consumable items, also orders goods, maintains stock cards, and prepares transfer documents.
- A periodic review of consumable inventory is performed, but documentation of the review is not maintained.
- A fuel log is maintained; however, the fuel log does not contain a balance that can be reconciled to the actual fuel on hand.
- Three of the four consumable items selected from the records could not be physically verified to the number of items on hand.
- One consumable item selected from the yard was not recorded as having a balance on hand.

Cause of Condition: Policies and procedures have not been designed and implemented by County officers to perform and document annual fixed assets inventory verifications and monthly consumable inventory items verifications to ensure compliance with state statutes.

Effect of Condition: These conditions resulted in noncompliance with state statutes. When fixed assets are not monitored and equipment is not properly marked with County identification numbers and “Property of Alfalfa County” opportunities for misuse or loss of equipment can occur. Additionally, when consumable inventory items are not adequately monitored and inadequate segregation of duties exist, the opportunity for the misappropriation and undetected errors could result.

Recommendation: OSAI recommends management implement internal controls to ensure compliance with 19 O.S. § 178.1, 19 O.S. § 1502(A)(1), 19 O.S. § 1502(B)(1), and 69 O.S. § 645.1 by maintaining inventory records and marking assets with county identification numbers and “Property of.” OSAI recommends the performing and documenting a periodic inventory of fixed assets. Additionally, the key functions of receiving duties and inventory control duties should be performed by separate employees in order to efficiently segregate those duties.

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With regard to consumable inventories, 19 O.S. § 1504A provides guidance with regard to maintaining an inventory of consumable items.

Management Response:

District 1 Commissioner: I will begin performing an annual inventory to ensure all items are included in inventory. We will discuss who is in charge of the Courthouse and County General inventory items.

District 2 Commissioner: I have taken action to correct the conditions in my district. We will discuss who is in charge of the Courthouse and County General inventory items in an officer meeting.

District 3 Commissioner: I have taken action to correct the conditions in my district. I will begin performing an annual inventory to ensure all items are included in inventory. We will discuss who is in charge of the Courthouse and County General inventory items in an officer meeting.

County Clerk: I will begin performing a formal inventory more than once a year to ensure all items are included in inventory. I will also work with the other officers to develop procedures to update and maintain inventory records. I will look into ways of segregating the duties of updating and reviewing inventory records within my office.

Court Clerk: I will work towards updating and completing fixed assets inventory records and will have an annual physical inventory performed.

County Sheriff: Since I have taken office, I have made a concentrated effort to bring inventory records up to date.

County Treasurer: I will take steps to segregate the duties of inventory and to perform an annual inventory verification to ensure all items are included in inventory.

County Assessor: Now that inventory is up to date, I will have an employee perform an annual check of fixed assets. The employee checking the fixed assets will sign and date the inventory form. I will also ensure the County Assessor's inventory filed in the County Clerk's office is up to date.

Criteria: Internal controls over safeguarding of assets constitute a process, affected by an entity's governing body, management, and other personnel, designed to provide reasonable assurance regarding prevention or timely detection of unauthorized transactions and safeguarding assets from misappropriation.



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