

OPERATIONAL AUDIT

ALFALFA COUNTY

For the fiscal year ended June 30, 2015



*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 OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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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

September 18, 2018

**TO THE CITIZENS OF
ALFALFA COUNTY, OKLAHOMA**

Transmitted herewith is the audit report of Alfalfa County for the fiscal year ended June 30, 2015.

The goal of the State Auditor and Inspector is to promote accountability and fiscal integrity in state and local government. Maintaining our independence as we provide this service to the taxpayers of Oklahoma is of utmost importance.

We wish to take this opportunity to express our appreciation for the assistance and cooperation extended to our office during our engagement.

Sincerely,

A handwritten signature in blue ink that reads "Gary A. Jones". The signature is written in a cursive style.

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

**ALFALFA COUNTY, OKLAHOMA
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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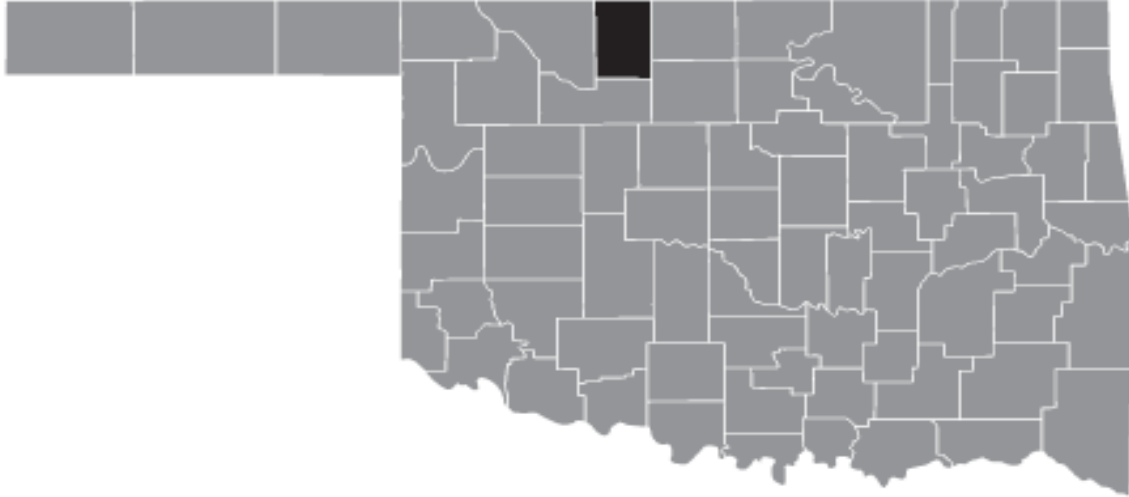
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**ALFALFA COUNTY, OKLAHOMA
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**



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 – 5,790
(2014 est.)

Farms – 645

Land in Farms – 545,223 Acres

Primary Source: Oklahoma Almanac 2015-2016

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

Rick Wallace

County Treasurer

Valerie Vetter

Court Clerk

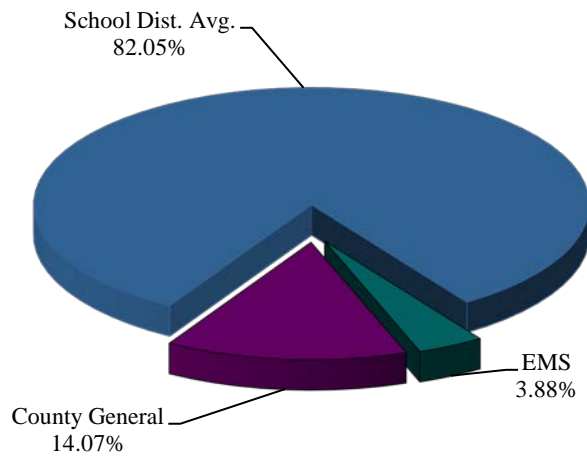
Lori Irwin

District Attorney

Christopher Boring

**ALFALFA COUNTY, OKLAHOMA
AD VALOREM TAX DISTRIBUTION
SHARE OF THE AVERAGE MILLAGE
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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							
						Career			
County General	10.87			Gen.	Bldg.	Skg.	Tech.	Common	Total
EMS	3.00	Timberlake	I-93	38.15	5.45	4.17	-	4.35	52.12
		Cherokee	I-46	39.03	5.58	15.76	13.00	4.35	77.72
		Burlington	I-1	38.06	5.44	12.99	-	4.35	60.84
		Woods	JT-1	36.58	5.22	2.59	13.65	4.35	62.39
		Aline/Cleo Springs (Major)	JT-4	37.06	5.29	9.82	13.65	4.35	70.17
		Ringwood (Major)	JT-1	35.28	5.04	16.15	13.65	4.35	74.47
		Garfield	JT-42	35.00	5.00	19.33	-	4.35	63.68
		Grant	JT-54	35.13	5.02	1.30	-	4.35	45.80

**ALFALFA COUNTY, OKLAHOMA
SALES TAX DISTRIBUTION
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Sales Tax

Sales Tax of November 6, 2012

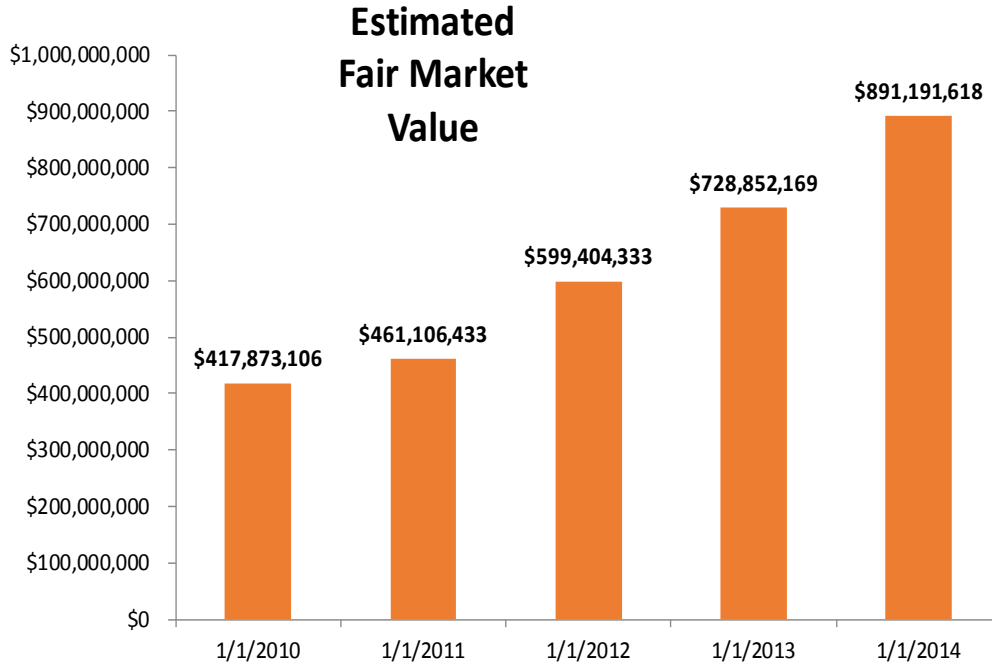
On November 6, 2012, the citizens of Alfalfa County voted on and approved a 2% sales tax with 55% of the proceeds for the purpose pertaining to the health and well-being of the people and general operation of the Alfalfa County Emergency Medical Services; 12.5% of proceeds for the general operations, 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 sales tax collections and disbursements for the health and well-being of the residents of Alfalfa County are accounted for in the Emergency Medical Service District Sales Tax fund. The sales tax collections and disbursements for the county fairgrounds are accounted for in the Fair Arena Sales Tax fund. The sales tax collections and disbursements for the general operations of the County were accounted for in the County General Fund. In April of 2014, the County opened the County General Sales Tax fund to account for the sales tax used for the general operations of the County. The collections and disbursements of sales tax for construction and maintenance of County blacktop roads were accounted for in the T-Highway fund. In December of 2014, the County established the Highway Sales Tax District 1, Highway Sales Tax District 2, and Highway Sales Tax District 3 to account for the sales tax by district.

During the fiscal year, the County collected \$9,550,733 in total sales tax.

**ALFALFA COUNTY, OKLAHOMA
 ASSESSED VALUE OF PROPERTY
 TREND ANALYSIS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

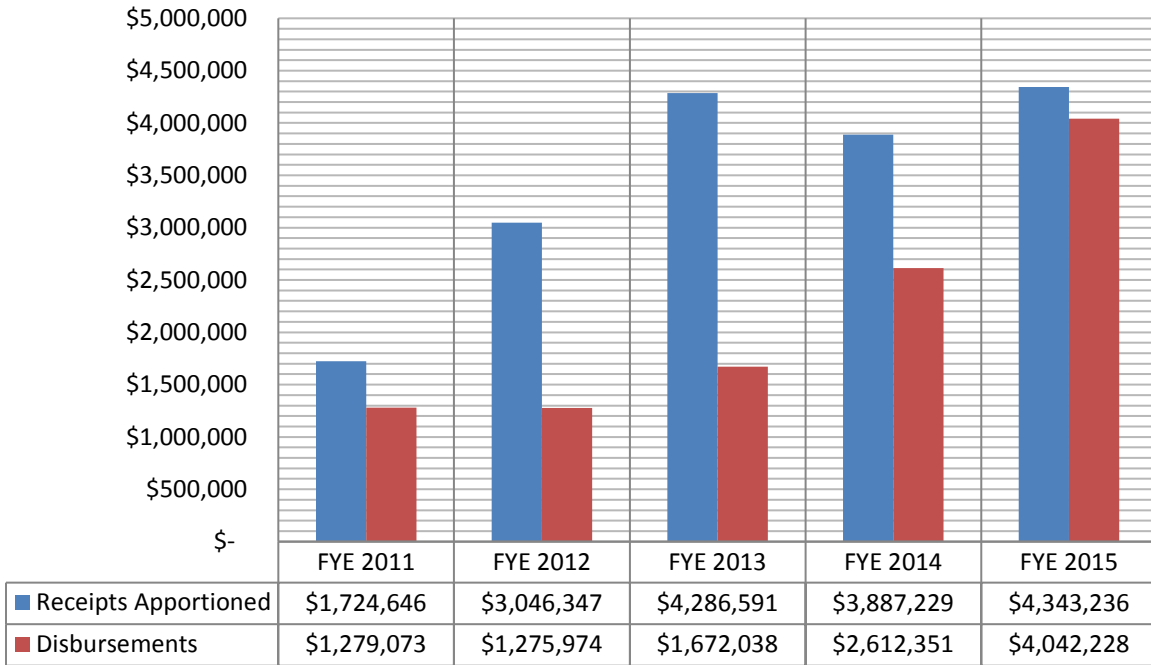
Valuation Date	Personal	Public Service	Real Estate	Homestead Exemption	Net Value	Estimated Fair Market Value
1/1/2014	\$63,155,788	\$15,243,546	\$37,272,753	\$1,253,249	\$114,418,838	\$891,191,618
1/1/2013	\$47,978,095	\$9,919,340	\$35,703,004	\$1,280,344	\$92,320,095	\$728,852,169
1/1/2012	\$34,117,146	\$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



**ALFALFA COUNTY, OKLAHOMA
COUNTY GENERAL FUND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

County General Fund

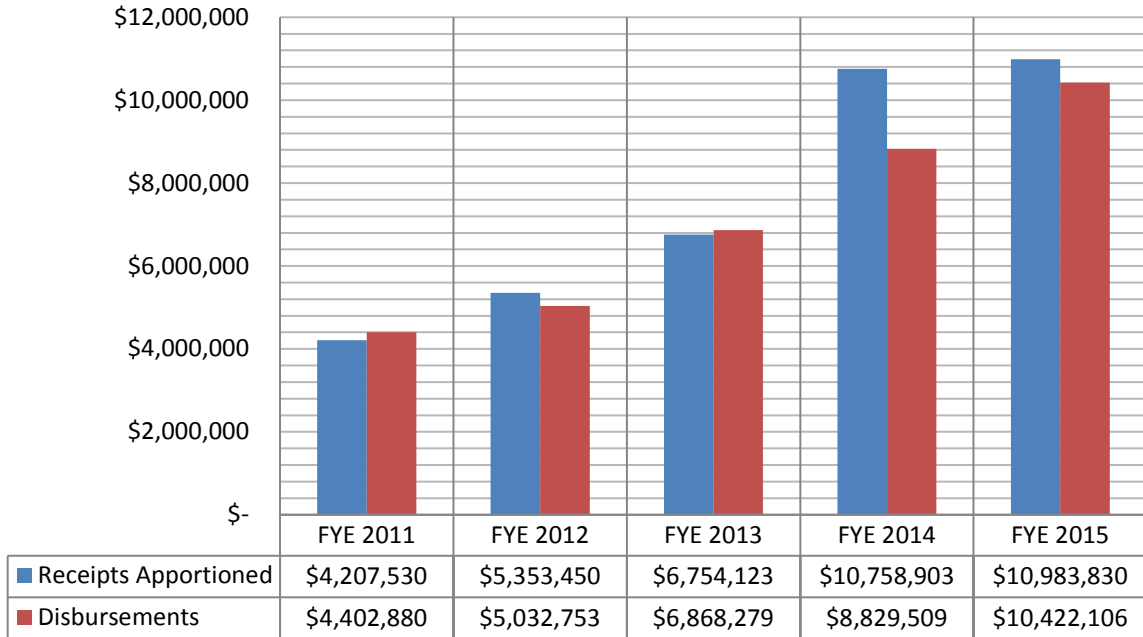
The Oklahoma Constitution and the Oklahoma Statutes authorize counties to create a County General Fund, which is the county’s primary source of operating revenue. The County General Fund is typically used for county employees’ salaries plus many expenses for county maintenance and operation. It also 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, 2015**

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.



**ALFALFA COUNTY
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Presentation of Apportionments, Disbursements, and Cash Balances of County Funds for the Fiscal Year Ended June 30, 2015

	Beginning Cash Balances July 1, 2014	Receipts Apportioned	Transfers In	Transfers Out	Disbursements	Ending Cash Balances June 30, 2015
Combining Information:						
County Funds:						
County General Fund	\$ 6,657,216	\$ 4,343,236	\$ -	\$ 318,273	\$ 4,042,228	\$ 6,639,951
T-Highway	4,996,850	10,983,830	1,235,000	1,235,000	10,422,106	5,558,574
Emergency Medical Service District Sales Tax	12,660,310	5,289,180	-	-	2,017,977	15,931,513
Resale Property	79,427	38,272	-	-	9,608	108,091
Sheriff Service Fee	164,330	50,700	-	7,500	13,740	193,790
Sheriff Revolving Fee	14,830	8,054	7,500	-	29,868	516
County Clerk Lien Fee	263,609	31,456	-	-	105	294,960
Treasurer Mortgage Tax Certification Fee	1,879	855	-	-	330	2,404
Community Service Program	2,713	-	-	-	-	2,713
County Clerk Preservation	49,067	28,245	-	-	11,530	65,782
Assessor Visual Inspection	6,189	18	-	-	-	6,207
Assessor Revolving	12,044	6,246	-	-	4,009	14,281
Fair Arena Sales Tax	2,122,271	959,839	-	-	1,272,996	1,809,114
Enhanced 911 Cash	12,383	28,041	-	-	18,077	22,347
Emergency Grant	-	2,520	-	-	-	2,520
Highway Sales Tax District 1	-	393,160	-	-	-	393,160
Highway Sales Tax District 2	-	393,160	-	-	-	393,160
Highway Sales Tax District 3	-	393,160	-	-	-	393,160
County General Sales Tax	-	203,686	318,273	-	-	521,959
Combined Total - All County Funds	\$ 27,043,118	\$ 23,153,658	\$ 1,560,773	\$ 1,560,773	\$ 17,842,574	\$ 32,354,202

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

**ALFALFA COUNTY
DESCRIPTION OF COUNTY FUNDS AND TRANSFERS
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Description of County Funds

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 within the Presentation of Apportionments, Disbursements, and Cash Balances of County Funds:

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 health and well-being of the people and general operations of the emergency medical services.

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.

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

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 of funding through the State Department of Corrections for administrative expenses and supervision of offenders.

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

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

**ALFALFA COUNTY
DESCRIPTION OF COUNTY FUNDS AND TRANSFERS
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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

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

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

Emergency Grant – accounts for federal grant receipts for Emergency Management and disbursed for the purpose designated in the grant contract.

Highway Sales Tax District 1 – accounts for sales tax collected and disbursed for the purpose of construction, repairing, and maintaining County blacktop roads in District 1.

Highway Sales Tax District 2 – accounts for sales tax collected and disbursed for the purpose of construction, repairing, and maintaining County blacktop roads in District 2.

Highway Sales Tax District 3 – accounts for sales tax collected and disbursed for the purpose of construction, repairing, and maintaining County blacktop roads in District 3.

County General Sales Tax – accounts for sales tax collected and disbursed for the purpose of general operations of the County.

Interfund Transfers

During the fiscal year, the County made the following interfund transfers:

- \$318,273 was transferred from County General Fund to County General Sales Tax to discretely show the County sales tax that was appropriated for the general operations of the County.
- \$7,500 was transferred from Sheriff Service Fee to Sheriff Revolving Fee to cover the expenses of the jail.
- \$1,235,000 was transferred from the Emergency and Transportation Revolving (ETR) fund, a trust and agency fund, to the T-Highway fund as a loan for road and bridge projects.
- \$1,235,000 was transferred from T-Highway fund to the ETR fund, a trust and agency fund, for repayment of a loan used for bridge and road projects.

ALFALFA COUNTY, OKLAHOMA
COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES—BUDGET AND ACTUAL—BUDGETARY BASIS—
COUNTY GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	General Fund		
	Budget	Actual	Variance
Beginning Cash Balances	\$ 6,657,216	\$ 6,657,216	\$ -
Less: Prior Year Outstanding Warrants	(58,860)	(58,860)	-
Less: Prior Year Encumbrances	(311,451)	(205,733)	105,718
Beginning Cash Balances, Budgetary Basis	<u>6,286,905</u>	<u>6,392,623</u>	<u>105,718</u>
Receipts:			
Ad Valorem Taxes	1,130,666	1,251,600	120,934
Charges for Services	-	134,578	134,578
Intergovernmental Revenues	-	2,781,622	2,781,622
Miscellaneous Revenues	99,604	175,436	75,832
Total Receipts, Budgetary Basis	<u>1,230,270</u>	<u>4,343,236</u>	<u>3,112,966</u>
Expenditures:			
District Attorney	2,500	2,500	-
County Sheriff	915,851	787,489	128,362
County Treasurer	152,825	146,578	6,247
County Commissioners	145,000	136,789	8,211
OSU Extension	49,078	32,436	16,642
County Clerk	207,745	195,810	11,935
Court Clerk	122,800	115,063	7,737
County Assessor	133,900	100,300	33,600
Revaluation of Real Property	109,400	91,951	17,449
General Government	502,704	362,537	140,167
Excise-Equalization Board	3,500	2,405	1,095
County Election Board	82,812	63,705	19,107
Insurance - Benefits	4,981,443	3,417,877	1,563,566
Charity	1	-	1
Fire Fighting Services	401	-	401
Civil Defense	1	-	1
Emergency Management	45,834	36,953	8,881
E911 Dispatcher Supervisor	31,500	-	31,500
County Audit Budget Account	19,877	19,877	-
County Cemetary Account	1	-	1
Library Budget Account	10,000	10,000	-
Public Health Budget Account	2	-	2
Total Expenditures, Budgetary Basis	<u>7,517,175</u>	<u>5,522,270</u>	<u>1,994,905</u>

Continued on next page

Source: County Estimate of Needs (presented for informational purposes)

ALFALFA COUNTY, OKLAHOMA
COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES—BUDGET AND ACTUAL—BUDGETARY BASIS—
COUNTY GENERAL FUND - CONTINUED
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	General Fund		
	Budget	Actual	Variance
Continued from previous page			
Excess of Receipts and Beginning Cash			
Balances Over Expenditures, Budgetary Basis	\$ -	5,213,589	\$ 5,213,589
Interfund Transfers:			
Interfund Transfer Out		(318,273)	
Net Interfund Transfers		(318,273)	
Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances			
Add: Current Year Outstanding Warrants		96,518	
Add: Current Year Encumbrances		1,648,117	
Ending Cash Balance		\$ 6,639,951	

Source: County Estimate of Needs (presented for informational purposes)

**ALFALFA COUNTY
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

PURPOSE, SCOPE, AND SAMPLE METHODOLOGY

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

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In planning and conducting our audit, we focused on the major financial related areas of operations based on assessment of materiality and risk for the fiscal year ended June 30, 2015. Our audit procedures included:

- Inquiries of appropriate personnel,
- Inspections of documents and records,
- Observations of the County's operations,
- Reconciling total apportionments, disbursements, and balances presented on the County's Presentation of Apportionments, Disbursements, and Cash Balances of County Funds for the fiscal year to the County Treasurer's and County Clerk's financial ledgers,
- Confirming third party confirmations to the financial ledgers,
- Selecting representative samples to determine disbursements were made in accordance with state statutes, approved ballots, and county purchasing procedures, and
- Gaining an understanding of the County's internal controls as it relates to each audit objective.

To ensure the samples were representative of the population and provided sufficient, appropriate evidence, both random sample and judgmental sample methodologies were used. We identified specific attributes for testing each of the samples and when appropriate, we projected our results to the population.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, errors or fraud may occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

This report is a public document pursuant to the Oklahoma Open Records Act (51 O.S. § 24A.1 et seq.), and shall be open to any person for inspection and copying.

Objective 1: To determine the receipts apportioned, disbursements, and cash balances are accurately presented on the County Treasurer's monthly reports for FY 2015.

Conclusion: With respect to the items reconciled and reviewed; the receipts apportioned, disbursements, and cash balances are not accurately presented on the County Treasurer's monthly reports. However, we noted some deficiencies in internal controls regarding the financial reporting process.

FINDINGS AND RECOMMENDATIONS

Finding 2015-003 – Inadequate Internal Controls and Monitoring Over the Bank Reconciliations (Repeat Finding)

Condition: The County Treasurer was not able to correctly identify all reconciling items for the June 30, 2015 bank reconciliations. As a result, the following amounts were unsubstantiated:

- Reconciling items of \$312.34 could not be supported on the bank statement reconciliation for the Official Depository Account.
- Reconciling items of \$95.66 could not be supported on the bank statement reconciliation for the MMDA account.
- Reconciling items of \$704.50 could not be supported on the bank statement reconciliation for the Miscellaneous Receipts Account.

During review of the bank reconciliations, the following was also noted:

- An outstanding warrant that was marked as paid in error in the County Treasurer's system in fiscal year 2014 for \$56.61 remains as an unresolved item in the Agency Warrants Account.
- The Payroll Tax Account is not reconciled monthly.
- Bank reconciliations were not reviewed or approved by anyone other than the preparer.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure all accounts are reconciled, approved, and the amounts recorded on the bank reconciliations are complete and accurate. Further, procedures have not been designed to ensure reconciling items are resolved in a timely manner.

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

Recommendation: The Oklahoma State Auditor & Inspector's Office (OSAI) recommends that the County design policies and procedures to ensure that all activity on all bank statements is complete and accurate.

**ALFALFA COUNTY
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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 am investigating any current issues and I will add additional procedures to prevent future errors and to be in compliance.

Criteria: Accountability and stewardship are overall goals in evaluating management's accounting of funds. Internal controls should be designed and implemented to analyze and check accuracy and completeness. 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.

Finding 2015-004 – Inadequate Internal Controls Over the County Treasurer's Monthly Reports (Repeat Finding)

Condition: Upon inquiry, observation, review of documentation, and testwork, the following was noted:

- The employees in the County Treasurer's office operate from the same change drawer.
- The monthly reports are not being reviewed for accuracy by someone other than the preparer.
- A reconciliation is not performed between the County Clerk's appropriation ledger and the County Treasurer's general ledger.

Additionally, it was determined that the disbursements were overstated by \$1,235,000. The overstatement was due to the payment of loan funds provided by Emergency and Transportation Revolving (ETR) fund program being disbursed from the T-Highway fund instead of from the ETR (trust and agency) fund.

Cause of Condition: Policies and procedures have not been designed and implemented to review apportionments, disbursements, and cash balances to verify that these amounts are accurately presented on the monthly reports, and to ensure a reconciliation of the County Clerk's appropriation ledger to the County Treasurer's general ledger is performed monthly.

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

Recommendation: OSAI recommends that the County Treasurer implement a system of internal controls to provide reasonable assurance that receipts apportioned, disbursements, and cash balances are accurately presented on the County Treasurer's monthly reports. To improve internal controls over the County Treasurer's monthly reports, we recommend the following:

- Monthly reports should be reviewed and approved by someone other than the preparer.

**ALFALFA COUNTY
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

- The funds presented on the County Clerk's appropriation ledger and the County Treasurer's general ledger should be reconciled monthly. Documentation of this reconciliation should be reviewed and approved by someone other than the preparer.
- Separate cash drawers and change funds be established for all employees receiving cash.

Management Response:

County Treasurer: I will make any changes necessary to comply with the needs of the County.

County Clerk: We have reconciled the County Clerk's appropriation ledger to the County Treasurer's appropriation ledger, but we will start reconciling to the general ledger. We have corrected the procedures for the accounting of ETR funds.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. An important aspect of internal controls is the safeguarding of assets. Internal controls over safeguarding of assets constitute a process, affected by an entity's governing body, management, and other personnel, designed to provide reasonable assurance regarding prevention or timely detection of unauthorized transactions, and safeguarding assets from misappropriation. To help ensure a proper accounting of funds, all reconciliations and reviews should be documented and have indication of being approved by someone other than the preparer.

Objective 2: To determine the County's financial operations complied with 68 O.S. § 1370E, which requires the sales tax collections to be deposited in the general revenue or Sales Tax Revolving Fund of the County and be used only for the purpose for which such sales tax was designated.

Conclusion: With respect to the items tested, the County's financial operations complied with 68 O.S. § 1370E, which requires the sales tax collections to be deposited in the general revenue or sales tax revolving fund of the County and be used only for the purpose for which such sales tax was designated. However, we noted some deficiencies in internal controls regarding the sales tax process.

FINDINGS AND RECOMMENDATIONS

Finding 2015-013 - Inadequate Internal Controls Over Sales Tax (Repeat Finding)

Condition: During our review of sales tax documentation, the following was noted:

- For three (3) of the twelve (12) months tested, documentation of the review and recalculation for the split of the sales tax monies was not retained.

**ALFALFA COUNTY
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Cause of Condition: Policies and procedures have not been designed and implemented to maintain the documentation of recalculating the split of the sales tax monies.

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

Recommendation: OSAI recommends that the County design and implement policies and procedures to maintain the documentation of recalculating the split of the sales tax monies.

Management Response:

County Treasurer: We have started maintaining the documentation of the sales tax calculation and review.

Criteria: Accountability and stewardship are overall goals in evaluating management's accounting of funds. Internal controls should be designed and implemented to analyze and check accuracy and completeness. To help ensure a proper accounting of funds, proof of the recalculation and review process over the split of the sales tax monies should be retained.

Objective 3: To determine the County's financial operations complied with 68 O.S. § 2923, which requires the ad valorem tax collections to be apportioned and distributed monthly among the different funds to which they belong.

Conclusion: With respect to the testwork performed, the County's financial operations complied with 68 O.S. § 2923, which requires the ad valorem tax collections to be apportioned and distributed monthly among the different funds to which they belong.

Objective 4: To determine whether the County's internal controls provide reasonable assurance that expenditures (including payroll) were accurately reported in the accounting records and financial operations complied with significant laws and regulations.

Conclusion: With respect to the items tested, the County's internal controls do not provide reasonable assurance that expenditures (including payroll) were accurately reported in the accounting records.

The County's financial operations did not comply with 19 O.S. § 1505, which requires that disbursements be encumbered prior to ordering the goods or services, properly supported, and requisitioned by an authorized requisitioning officer.

FINDINGS AND RECOMMENDATIONS

Finding 2015-006 – Inadequate Internal Controls and Noncompliance Over the Disbursement Process (Repeat Finding)

Condition: Through inquiry and observation of the disbursement process and audit of disbursements, the following was noted:

- The Purchasing Agent issues purchase orders prior to receiving written authorization from an approved requisitioning official.
- An audit of forty (40) disbursements, reflected the following weaknesses:
 - Four (4) were not timely encumbered.
 - Six (6) were not supported by adequate documentation.
 - One (1) was requisitioned by an unauthorized officer.

Cause of Condition: Policies and procedures have not been designed and implemented with regard to the disbursement process to strengthen internal controls and ensure compliance with state statutes.

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 the County implement internal control procedures to ensure compliance with purchasing guidelines. All purchases should be properly requisitioned, timely encumbered, and supported by adequate documentation. Additionally, funds should only be encumbered upon the requisition of an authorized requisitioning official.

Management Response:

County Clerk: We have already implemented procedures to correct weaknesses in the purchase order processes.

District 1 Commissioner: I was not an officer during the entire audit period. However, I have implemented a process to ensure compliance with state statutes.

District 2 Commissioner: We have initiated a new requisitioning form to ensure compliance with state statutes.

District 3 Commissioner: We have implemented procedures to ensure compliance with state statutes.

County Assessor: I will adjust my procedures to ensure compliance with state statutes.

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County Sheriff: We have already corrected our purchasing procedures to ensure we are in compliance with state statutes.

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.

Title 19 O.S. § 1505 prescribes the procedures established for the requisition, having proper supporting documentation attached, and to encumber funds requisitioned by an authorized requisitioning official.

Finding 2015-007 – Inadequate Internal Controls Over the Payroll Process (Repeat Finding)

Condition: Upon inquiry, observation, and testwork of the payroll process, the following was noted:

- A test of five (5) payroll claims, which included fifty-three (53) timesheets, reflected the following weaknesses:
 - Two (2) timesheets were not signed by the employee.
 - Fourteen (14) timesheets were not signed by the officer or supervisor.
 - One (1) payroll warrant was paid without proper supporting documentation.

Cause of Condition: Policies and procedures have not been designed and implemented with regard to the payroll process to strengthen internal controls.

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

Recommendation: OSAI recommends that policies and procedures be designed and implemented to ensure all timesheets are signed by the employee and reviewed and approved by the elected official and/or immediate supervisor. Additionally, supporting documentation should be maintained in the County Clerk's office including payroll claims and timesheets signed and approved by the appropriate personnel before issuing warrants.

Management Response:

District 1: I will implement procedures to ensure all employees sign their timesheets. Additionally, we have installed a new time clock system to help in this process.

County Clerk: We have implemented procedures to not allow payment without a signed or approved timesheet.

County Sheriff: We will implement a procedure to make sure each timesheet is signed by the employee and approved by the County Sheriff or immediate supervisor.

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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. In addition, supporting documentation should be maintained in the County Clerk's office including payroll claims and timesheets signed and approved by the appropriate personnel.

All Objectives:

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

Finding 2015-001 - Inadequate County-Wide Controls (Repeat Finding)

Condition: Although the County has been working on policies and procedures to reduce the risks associated with Risk Assessment and Monitoring, these County-Wide Control have not been adequately designed and implemented.

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

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

Recommendation: OSAI recommends that the County continue to design procedures to document their internal control framework. This documentation should outline the risk that the County has identified, the control activities established to address the risk and the methodology to monitor 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: We will follow the recommendation as outlined by OSAI.

County Treasurer: We will discuss ideas during our next meeting and devise procedures to address our lack of policies and procedures over risk assessment and monitoring.

County Clerk: We will discuss options at our next meeting. We will collaborate and devise a system to attain compliance.

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

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reporting and compliance with laws and regulations are being met. Internal control comprises the plans, methods, and procedures used to meet missions, goals, and objectives. Internal control also serves as the first line of defense in safeguarding assets and preventing and detecting errors and fraud. County management is responsible for designing a county-wide internal control system comprised of Risk Assessment and Monitoring for the achievement of these goals.

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

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

REPORT ON STATUTORY COMPLIANCE – OTHER MATTERS



Oklahoma State Auditor & Inspector

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Alfalfa County
Board of County Commissioners
Alfalfa County Courthouse
Cherokee, OK 73728

Dear Chairman:

For the purpose of complying with 19 O.S. § 171 and 20 O.S. § 1312, we have performed statutory procedures regarding the following offices and departments for the fiscal year ended June 30, 2015:

- All County Offices - Fixed Assets procedures (19 O.S. § 178.1, 19 O.S. § 178.2, and 69 O.S. § 645).
- All County Offices - Consumable Inventories procedures (19 O.S. § 1502 and 19 O.S. § 1504).
- Court Clerk procedures (20 O.S. § 1304 and 19 O.S. § 220).
- Inmate Trust Fund procedures (19 O.S. § 531 and 19 O.S. § 180.43).

Our statutory compliance engagement was limited to the procedures related to the statutes above and was less in scope than an audit performed in accordance with generally accepted auditing standards. Accordingly, we do not express an opinion on any basic financial statement of Alfalfa County.

Based on our procedures performed, we have presented our findings in the accompanying schedule.

This report is intended for the information and use of the management of the County. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

A handwritten signature in blue ink that reads "Gary A. Jones".

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

August 20, 2018

SCHEDULE OF FINDINGS AND RESPONSES

Finding 2015-008 – Inadequate Segregation of Duties Over the Collection and Disbursement Processes – Court Clerk

Condition: Upon inquiry and observation of the records with regards to the collection and disbursement processes of the Court Fund and the Court Clerk Revolving Fund, we noted the following:

Receipting Process:

- All employees operate from the same cash drawer.
- Additionally, one employee issues the receipts, reconciles receipts issued to the cash and checks, prepares the deposit slip, and delivers the deposit to the County Treasurer's office.

Expenditure Process over Court Clerk Revolving Fund and Court Fund:

- The Court Clerk orders the items, prepares and approves the claim, prepares and issues the vouchers, and reconciles the account at the end of the month.
- The Court Clerk may obtain a verbal approval from the District Judge and process payments prior to the District Judge signing the claims.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure adequate segregation of duties over the Court Fund and Court Clerk Revolving Fund receipting and expenditure processes.

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

Recommendation: OSAI recommends management be aware of these conditions and realize that concentration of duties and responsibilities in a limited number of individuals is not desired from a control point of view. The most effective controls lie in management's overseeing of office operations and a periodic review of operations. OSAI recommends management provide segregation of duties so that no one employee is able to perform all accounting functions. 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's review and approval of accounting functions.

The following key function of the receipting process should be adequately segregated:

- Receipting
- Reconciling
- Deposit preparation.

Additionally, a separate cash drawer should be utilized for each employee.

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

- Preparation of claims.
- Initiation of payment.
- Printing and signing of vouchers.
- Monthly reconciliation with the County Treasurer.

Furthermore, all claims should be signed and approved prior to payment in accordance with state statutes.

Management Response:

Court Clerk: I was not in office at the time of the audit, therefore, I was not the one making decisions. I will look into making the proper corrections.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. Effective internal controls require that key functions within a process be adequately segregated to allow for prevention and detection of errors and possible misappropriation of funds. To help ensure a proper accounting of funds, the duties of issuing receipts, preparing deposits, preparing claims, approving claims, preparing vouchers, signing vouchers, and reconciliation of the accounts should be segregated.

Finding 2015-009 – Inadequate Internal Controls and Noncompliance Over Inmate Trust Fund Checking Account

Condition: An audit of the Inmate Trust Fund Checking Account reflected the following conditions:

- One individual prepares deposits, issues checks, maintains ledgers, purchases phone cards, issues phone cards, and maintains custody of the phone cards.
- Receipts are not reconciled to the deposit.
- Receipts are not issued for funds received when prisoners are booked in.
- Bank reconciliations are not performed.
- The inmate balances are not reconciled to the bank statement.
- The County Sheriff's Inmate Trust Fund Checking Account is held under the County Treasurer's employer identification number (EIN) at the bank.
- Profits for phone cards are deposited into the Sheriff Revolving Fee fund instead of the Sheriff Service Fee Fund.
- Checks are issued for unauthorized purposes. The statutes do not allow for checks to be issued from the Inmate Trust Fund Checking Account except to prisoner being released and to the Sheriff's Commissary Fund. Checks are issued to transfer funds to the Sheriff Revolving Fee fund.
- There is no formal policy for the disposition of unclaimed inmate property.

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

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Effect of Condition: These conditions resulted in noncompliance with state statutes. Also, without proper accounting and safeguarding of the Inmate Trust Fund Checking Account, there is an increased risk of misappropriation of funds.

Recommendation: OSAI recommends that the County Sheriff design policies and procedures to ensure:

- Adequate segregation of duties over the Inmate Trust Fund Checking Account and the handling of phone cards.
- Deposits are reconciled to the amounts received.
- Formal bank reconciliations are performed monthly and reviewed and approved by someone other than the preparer.
- Balances on the check register reconciles to the inmate balances in the system.
- The Inmate Trust Fund Checking Account is established under its own employee identification number (EIN) and not that of the County's.

Additionally, we recommend the County Sheriff design policies and procedures to ensure compliance with the following state statutes:

- Title 19 O.S. § 180.43(E) which requires profit from the phone cards be deposited into the Sheriff Service Fee Fund.
- Title 19 O.S. § 531(A), which limits Inmate Trust Fund Checking Account checks be limited to refunds to the inmate and transfers to the Sheriff Commissary Fund.
- Title 22 O.S. § 1325 which outlines the procedures for handling unclaimed property.

Management Response:

County Sheriff: We will work to segregate the procedures as needed. We have already started to reconcile receipts to the deposit and have started issuing receipts when prisoners are booked in; this is documented when they sign their booking sheet. Additionally, we have started performing monthly bank reconciliations of the Inmate Trust Fund Checking Account to the inmates' balances. Reconciliations will be reviewed by someone other than the preparer and proof of this review will be documented and maintained. We have obtained an EIN for the Inmate Trust Fund Checking Account and are in the process of getting it set up under it. From this point on, we will deposit profits from phone cards into the Sheriff Service Fee Fund, only issue Inmate Trust checks to the prisoner upon release or to the Sheriff's Commissary Account, and will work on a policy for the disposition of unclaimed inmate property.

Criteria: The overall goal of effective internal controls is to demonstrate accountability and stewardship. To help ensure a proper accounting of funds, no one individual should have the ability to authorize transactions, have physical custody of assets, and record transactions. All collections should be receipted in sequential order and deposited daily, amounts deposited should be reconciled to the receipts issued, and bank reconciliations should be performed monthly, and proof of the reconciliation and review by someone other than the preparer be retained. Additionally, the check register balance should be reconciled to the total of the inmates' balances on a monthly basis. The County Sheriff should also establish the Inmate Trust Fund Checking Account under its own EIN.

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Title 19 O.S. § 180.43(E) states in part, “Each county sheriff may operate, or contract the operation of, a telephone system for the benefit of persons lawfully confined in the county jail under the custody of the county sheriff. Any funds received pursuant to said operations shall be the funds of the county where the persons are incarcerated and shall be deposited in the Sheriff’s Service Fee Account...”

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’,” and, “The county sheriff shall deposit all monies collected from inmates incarcerated in the county jail into this checking account and may write checks to the Sheriff’s Commissary Account for purchases made by the inmate during his or her incarceration and to the inmate from unencumbered balances due the inmate upon his or her discharge.”

Title 22 O.S. § 1325(F, H) states,

F. A sheriff’s office having in its possession money or legal tender under the circumstances provided in subsection A of this section, prior to appropriating the same for deposit into a special fund, shall file an application in the district court of its county requesting the court to enter an order authorizing it to so appropriate the money for deposit in the special fund. The application shall describe the money or legal tender, together with serial numbers, if any, the date the same came into the possession of the sheriff’s office or campus police agency, and the name and address of the owner, if known. Upon filing, the application, which may be joined with an application as described in subsection C of this section, shall be set for hearing not less than ten (10) days nor more than twenty (20) days from the filing thereof, and notice of the hearing shall be given as provided in subsection D of this section. The notice shall state that, upon no one appearing to prove ownership to the money or legal tender, the same will be ordered by the court to be deposited in the special fund by the sheriff’s office or campus police agency. The notice may be combined with a notice to sell personal property as set forth in subsection D of this section. At the hearing, if no one appears to claim and prove ownership to the money or legal tender, the court shall order the same to be deposited by the sheriff’s office or campus police agency in the special fund, as provided in subsection H of this section.

H. The money received from the sale of personal property as above provided, after payment of the court costs and other expenses, if any, together with all money in possession of the sheriff’s office or campus police agency, which has been ordered by the court to be deposited in the special fund, shall be deposited in such fund which shall be separately maintained by the sheriff’s office in a special fund with the county treasurer or campus police agency to be expended upon the approval of the sheriff or head of the campus police agency for the purchase of equipment, materials or supplies that may be used in crime prevention, education, training or programming. The fund or any portion of it may be expended in paying the expenses of the sheriff or any duly authorized deputy or employee of the campus police agency to attend law enforcement or public safety training courses which are conducted by the Oklahoma Council on Law Enforcement Education and Training (CLEET) or other certified trainers, providers, or agencies.

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**Finding 2015-010 – Inadequate Internal Controls and Noncompliance Over Fixed Assets Inventory
(Repeat Finding)**

Condition: Upon inquiry of County Officials and employees and observation of records with regards to the fixed assets inventory processes, the following was noted:

- Physical inventory verifications are performed by the same individual that is responsible for maintaining the inventory records for the following offices:
 - County Clerk
 - County Treasurer
 - County Sheriff
 - District 2
 - District 3

- An annual physical inventory is not performed by the following offices:
 - County Sheriff
 - Court Clerk

- Documentation of an annual physical inventory was not maintained for the following offices:
 - County Clerk
 - County Treasurer
 - District 1
 - District 3

Cause of Condition: Policies and procedures have not been designed and implemented with regard to effective internal controls over safeguarding of fixed assets by ensuring adequate segregation of duties over fixed assets, performing an annual physical inventory count, and maintaining records of annual physical inventory counts.

Effect of Condition: These conditions resulted in noncompliance with state statute. Opportunities for loss and misappropriation of county assets may be more likely to occur when the County does not have procedures in place to account for fixed assets.

Recommendation: OSAI recommends management implement internal controls to ensure compliance with 19 O.S. § 178.1 and 19 O.S. § 178.2 by maintaining inventory records, and filing inventory with the County Clerk. 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.

Management Response:

District 1 Commissioner: We have taken steps in assuring that our inventory is correct. I will discuss procedures with other officers and develop a system to keep inventory records updated and compliant.

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District 2 Commissioner: We have made progress with fixed assets by implementing procedures to ensure compliance. During inventory count we will have a second person verifying and will have them sign the documentation.

District 3 Commissioner: We have hired an employee to monitor fixed assets. We have started procedures to correct any issue of noncompliance.

County Clerk: We will discuss processes to ensure compliance and will update records accordingly.

County Treasurer: I will communicate with my office and the County Clerk and will make sure we have compliant procedures and keep documentation correct.

County Sheriff: We have already implemented procedures to correct the issues found.

Court Clerk: I was not in office at the time of the audit, therefore, I was not the one making decisions. We have now implemented better controls over fixed assets inventory.

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

Title 19 O.S. § 178.1 requires the board of county commissioners in each county of this state to take or cause to be taken, an inventory of all working tools, apparatus, machinery and equipment.

Title 19 O.S. § 178.2 requires the elected officials to create and maintain inventory records of their office and to file that with the County Clerk.

Finding 2015-011 – Inadequate Internal Controls and Noncompliance Over Consumable Inventory (Repeat Finding)

Condition: Upon inquiry of County Officials and employees and observation of records with regards to the consumable inventory processes, the following was noted:

- District 1
 - Documentation of inventory verification of consumables inventory is not maintained.
 - The District does not reconcile fuel, maintain a running balance of fuel on hand, or always record fuel.

- District 2
 - One employee is responsible for receiving consumable items, maintaining stock cards, inventory count, and transferring documents.

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- Documentation of inventory of consumables inventory is not initialed and dated as evidence.
- District 3
 - Documentation of inventory verification of consumables inventory is not maintained.
 - Transfer documents are not verified by more than one person and are only signed by the employee that prepared documents.
 - The District does not maintain a running balance of fuel on hand.

Cause of Condition: Policies and procedures have not been designed and implemented by County Officers to perform and document monthly consumable inventory counts to ensure compliance with state statutes.

Effect of Condition: These conditions resulted in noncompliance with state statute. When consumable inventory items are not adequately monitored, and inadequate segregation of duties exist, the opportunity for the misappropriation of consumable items and undetected errors in accounting for consumable items could result.

Recommendation: OSAI recommends that management implement internal controls to ensure compliance with 19 O.S. § 1504(A) with regard to accounting for consumable inventories. Additionally, the key functions of receiving duties and inventory control duties should be performed by separate employees in order to efficiently segregate those duties.

Management Response:

District 1 Commissioner: We will implement procedures to maintain documentation of the inventory verification of consumable inventory. We will also implement procedures to reconcile fuel, to maintain a running balance of fuel on hand, and to record fuel.

District 2 Commissioner: We will segregate duties over consumable inventory and will ensure the consumable inventory verifications are initialed, dated and maintained.

District 3 Commissioner: We have implemented procedures to maintain documentation of inventory verification to ensure transfer documents are verified and signed by more than one person and to maintain a running balance of fuel on hand.

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.

Title 19 O.S. § 1504(A) states "A receiving officer shall receive all purchased, lease-purchased or rented items procured for the department and shall identify such items received in a manner prescribed by the county road and bridge inventory officer or board of county commissioners or designee. The receiving officer shall also maintain a record of all such items received, disbursed, stored and consumed by the department."



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