OPERATIONAL AUDIT

BECKHAM COUNTY

For the period July 1, 2008 through June 30, 2011

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

BECKHAM COUNTY OPERATIONAL AUDIT
FOR THE PERIOD JULY 1, 2008 THROUGH JUNE 30, 2011

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Oklahoma State Auditor & Inspector

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March 27, 2012

TO THE CITIZENS OF
BECKHAM COUNTY, OKLAHOMA

Transmitted herewith is the audit report of Beckham County for the period July 1, 2008 through June 30, 2011.

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,

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

Background

Named for Kentucky Governor John C. W. Beckham at the suggestion of a delegate to the Oklahoma Constitutional Convention, Beckham County was formed at statehood from portions of Greer and Roger Mills counties.

Agriculture, oil and gas are the major industries of the County. Merrick 14 Ranch, located east of Sayre, has produced world champion quarter horses and Elk City is the host of the Rodeo of Champions held each September.

County Seat – Sayre | Area – 904.14 Square Miles

County Population – 21,116 (2009 est.)

Farms – 1,053 | Land in Farms – 519,503 Acres

Primary Source: Oklahoma Almanac 2011-2012

County Officials:

Carl Don Campbell .... County Commissioner District 1
Carl Simon .... County Commissioner District 2
Johnny Davis .... County Commissioner District 3
Gayla Gillie.. County Assessor
Leasa Hartman ....County Clerk
Janette Cornelius... County Treasurer
Scott Jay... County Sheriff
Donna Howell..County Court Clerk

Presentation of Apportionments, Disbursements, and Cash Balances of County Funds for FY 2011

	Cash Balance July 1, 2010	Receipts Apportioned	Disbursements	Transfers In(Out)	Cash Balance June 30, 2011
Combining Information:					
County General Fund	$ 4,312,505	$ 3,441,041	$ 2,549,942	$ (21,900)	$ 5,181,704
County Highway Cash	3,883,471	3,864,439	4,732,427	236,882	3,252,365
Highway CBRI - 105		1,186,991	14,834	(236,882)	935,275
County Health Department	478,033	774,775	488,747		764,061
County Sales Tax		1,482,710	1,482,710		-
Sheriff Jail Funds	79,330	721,095	729,366		71,059
Remaining Aggregate Funds	899,191	1,021,428	929,234	1,900	993,285
Combined Total - All County Funds	$ 9,652,530	$ 12,492,479	$ 10,927,260	$ (20,000)	$ 11,197,749

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

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.

The audit period covered was July 1, 2008 through June 30, 2011.

Sample methodologies can vary and are selected based on the audit objective and whether the total population of data was available. Random sampling is the preferred method; however, we may also use haphazard sampling (a methodology that produces a representative selection for non-statistical sampling), or judgmental selection when data limitation prevents the use of the other two methods. We selected our samples in such a way that whenever possible, the samples are representative of the populations and provide sufficient evidential matter. We identified specific attributes for testing each of the samples. When appropriate, we projected our results to that population.

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. 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 2011.

Conclusion With respect to the items reconciled and reviewed; the receipts apportioned, disbursements, and cash balances were accurately presented on the County Treasurer's monthly reports.

Methodology To accomplish our objective, we performed the following:

- Gained an understanding of internal controls related to the process of accurately presenting the receipts apportioned, disbursements, and cash balances on the County Treasurer's monthly reports through discussions with the County Treasurer, observation and review of documents.

- Performed the following to ensure receipts apportioned, disbursements, and cash balances were accurately presented on the County Treasurer's monthly reports:
  - Reconciled County Treasurer's receipts to amounts apportioned on the General Ledger.
  - Reconciled the County Clerk's warrants issued to disbursements paid by the County Treasurer.
  - Re-performed the bank reconciliations at June 30, 2011, to determine that all reconciling items were valid, that the reconciled balances agree to the General Ledger ending balances, and the General Ledger's ending balance total agreed to the total ending balance reflected on the County Treasurer's monthly reports.

Observation **Inadequate Internal Controls Over the County Treasurer's Monthly Reports**

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.

Upon inquiry and observation of the recordkeeping process, the following was noted:

- Upon inquiry of the reconciliation process between the County Treasurer and County Clerk, supporting documentation of the reconciliation is not maintained by either of the officials.

- The County Treasurer's monthly reports are compiled from an information system in which the County Treasurer and one deputy perform daily activity using the information system such as issuing receipts and posting disbursements. The Treasurer reviews this information for accuracy, however, evidence of the review was not noted on the reports.

These conditions could result in unrecorded transactions, misstated financial reports, 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.

OSAI recommends that the County Treasurer and County Clerk implement procedures to accurately maintain supporting documentation of monthly reconciliations.

Management Response

County Clerk: The County Clerk will reconcile all accounts with the County Treasurer at the end of every month. Documents will be signed upon reconciliation and filed in the Clerk's Office.

County Treasurer: The County Clerk and I balance reports every time we issue any warrants. I am now filing reports with the date and initials on these reports each time we issue warrants and also at the end of each month. This process requires a tremendous amount of storage.

Objective 2:	To determine if the County's internal controls provide reasonable assurance that revenues were accurately reported in the accounting records.

Conclusion

The County's internal controls do not provide reasonable assurance that revenues were accurately reported in the accounting records.

Methodology

To accomplish our objective, we performed the following:

- Gained an understanding of internal controls related to the receipting process through discussions with County personnel, observation and review of documents.

Observation

Inadequate Segregation of Duties Over the Receipting Process

Accountability and stewardship are overall goals of management in the 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. A single person having responsibility for more than one area of recording, authorization, custody of assets, and execution of transactions could result in unrecorded transactions, misstated financial reports, clerical errors, or misappropriation of funds not being detected in a timely manner.

Upon inquiry and observation of the receipting process for each office, the following was noted:

County Treasurer's Office: Internal controls and compensating controls put into place by the County Treasurer are not operating effectively due to the following:

- The County Treasurer issued some miscellaneous receipts and made the deposit with the financial institution.
- There is not sufficient evidence that each employee is balancing their own cash drawer.
- There is not sufficient evidence that the deputy responsible for balancing the computer generated recap report for collections by deputy to each deputy's cash drawer is performing that duty.

County Clerk's Office: Two employees issue receipts from the same cash drawer, balance the cash drawer, prepare the deposit, and deliver the deposit to the County Treasurer.

County Assessor's Office: The County Assessor does not maintain a cash drawer. One employee balances receipts to cash and checks, prepares the deposit, and delivers the deposit to the County Treasurer.

County Sheriff's Office: The County Sheriff does not maintain a cash drawer. One employee is responsible for issuing receipts, balancing receipts to cash and checks, preparing the deposit, and delivering the deposit to the County Treasurer.

County Sheriff Inmate Trust: One employee is responsible for entering the amount received into the inmate trust system, preparing the deposit, and delivering the deposit to the financial institution.

Court Clerk's Office: All employees work from one cash drawer. Two employees, who issue some receipts, balance the cash drawer, prepare the deposit, and deliver the deposit to the County Treasurer.

Deficiencies of internal controls or compensating controls could result in misstated financial reports, clerical errors, or misappropriation of funds not being detected in a timely manner.

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

Recommendation

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

Further, the following duties should be separated in the respective offices:

Controls designed and implemented within the individual County offices should be documented in a formal, written plan and reassessed on a regular basis to ensure controls operate effectively.

County Treasurer's Office: The County Treasurer should not issue some receipts and deposit with the financial institution. Sufficient evidence of internal controls or compensating controls should be adequately documented with signatures and/or initials and dates of the employees performing the controls designed and implemented within the County Treasurer's office.

County Clerk's Office: Employees should not work from the same cash drawer. The duties of issuing receipts, balancing the cash drawer, preparing the deposit, and delivering the deposit to the County Treasurer should be performed by different individuals.

County Assessor's Office: Employees should maintain separate cash drawers. One employee should not be performing the duties of balancing receipts to cash and checks, preparing deposits, and delivering the deposit to the County Treasurer.

County Sheriff's Office: One employee should not be performing all of the duties of issuing receipts, preparing the deposit, and delivering the deposit to the County Treasurer's Office. Employees should not all work from the same cash drawer. With regards to the inmate trust account, one employee should not post to the inmate trust system, prepare deposits, and deposit at the financial institution.

Court Clerk's Office: Employees should not work from the same cash drawer. The duties of issuing receipts, balancing the cash drawer, preparing the deposit, and delivering the deposit to the County Treasurer should be performed by different individuals.

Management Response

County Treasurer's Office: I do not receipt money unless it is necessary, but I will continue to wait on my public and that might require me to receipt money.

I have designated three deputies to receipt and maintain cash drawers. They each balance their receipts and cash in drawer daily. Each deputy balances their cash drawer and keeps that tape with date and initials. This has always been our practice. My first deputy and I verify the cash in each drawer daily. My remaining deputy prepares deposits and I verify each deposit with the receipt report and deposit slip daily. I take the deposits to the bank. This process works great as long as everyone is at work. It can become burdensome when two out of five are gone for the day. This process of receipting is impossible during heavy collections. We try to keep cash payments with two deputies at the counter, but we all have to help receipt mail.

County Sheriff's Office: One employee is responsible for issuing the receipts, the Captain and one is responsible for preparing the deposit and delivering the deposit to the County Treasurer's Office, which is the Executive Assistant. The Sheriff's Office does not have a cash drawer.

In regard to the Inmate Trust Account, when an inmate is booked in, if he or she has any cash, the inmate puts it in the Kiosk Machine in the booking area and it goes straight to their Tiger account. If the Kiosk is not functioning then one of the Detention officers counts the money, enters it into the inmate's account in the Tiger program, and drops the money in a locked box in the booking area. The same actions occur when money orders or checks are received through the mail. The Captain picks up the money from the Kiosk machine and the locked box. He brings it to the Executive Assistant, counts it, runs the account reports and makes sure she balances with the Tiger account, and gives it to the Executive Assistant to make a deposit at the bank. OSAI recommended these procedures that have been implemented.

Court Clerk's Office: I have found that we have fewer mistakes when the same two people do the deposit every day. In the past, we alternated each week, having two different people each week and we had a lot of mistakes and confusion. This works much better for us and I feel like we have fewer mistakes. I have chosen these two people, because they do less receipts (most days they don't receipt any money), their desks are away from public view, and they neither one help with reports or open mail. Since the exit conference, I have begun taking the deposit to the County Treasurer myself as you suggested. In the near future, I will be checking into separate cash drawers for each of my employees and that will eliminate the problem of all employees working from the same cash drawer.

County Clerk's Office: The Land Records Supervisor opens mail and receipts filing fees. Deputy #2 receipts over the counter filings and copy payments. The end of the day Supervisor prints Reception, Daily Cash Book, and Deputy Receipt Reports. Deputy #2 reconciles reports and money, prepares and signs the deposit. The Clerk or First Deputy makes the deposit with the County Treasurer.

County Assessor's Office: I have named three people for this process. Two will issue receipts throughout the day, while the third person will make the deposit to the County Treasurer's Office. They will rotate duties daily, as they are available.

Auditor Response While the Sheriff has implemented some procedures recommended by OSAI, one person should not be performing the duties of maintaining ledgers, preparing deposits, and delivering deposits.

Objective 3:	To determine if the County's internal controls provide reasonable assurance that expenditures were accurately reported in the accounting records.

Conclusion The County's internal controls provide reasonable assurance that expenditures were accurately reported in the accounting records.

Our review of the internal controls over Court Clerk Revolving Fund expenditures provides reasonable assurance that Court Clerk Revolving Fund expenditures were accurately reported in the accounting records.

Our review of the internal controls over Court Fund expenditures did not provide reasonable assurance that expenditures were accurately reported in the accounting records.

Methodology To accomplish our objective, we performed the following:

- Gained an understanding of internal controls related to the expenditure process through discussions with County personnel, observation and review of documents.

- Tested controls which included reviewing a random sample of seventy-five expenditures for the following:
  - Ensuring that claims reflected the authorized signature of the requisitioning officer.
  - Ensuring that receiving reports were attached to the claims and reflected the authorized signature of the receiving officer verifying goods and/or services were received.
  - Ensuring expenditures were recorded and encumbered by the County Clerk/Purchasing Agent or deputy.
  - Ensuring that claims were signed by the County Clerk or deputy attesting all supporting documentation was attached to the claim prior to submission for payment.
  - Ensuring that claims reflected authorized signatures of the Board of County Commissioners for the approval of payment.

- Tested controls through reviewing a random sample of seventy-five Court Clerk Revolving Fund cash voucher expenditures for the following:
  - Ensuring that claims were prepared by the Court Clerk's office.

- o Ensuring that claims reflected authorized signatures of the Governing Board of the Court Clerk Revolving Fund for the approval of payment.
- o Ensuring the County Clerk issued the cash vouchers and the County Treasurer registered the cash vouchers.

Observation **Inadequate Segregation of Duties Over the Court Fund Expenditures Process**

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

- Upon inquiry and observation of Court Fund expenditures, the Court Clerk prepares Court Fund claims, prints, issues, and signs Court Fund vouchers, and registers the vouchers with the County Treasurer.

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

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

Further, the duties of preparing claims, printing, issuing, signing vouchers, and registering vouchers with the County Treasurer should not be performed by one individual.

Management Response **Court Clerk's Office:** As the Court Clerk, I feel that the Court Fund is my responsibility. Each claim that is submitted to me is signed by the District Judge, the Associate District Judge and I; therefore, there are three of us to approve all claims (not one individual). I now enter them into the computer. My deputies will start to perform this duty; however, at the end of the month and periodically throughout the month, one of my deputies will balance the Court Fund Account with the County Treasurer. OSAI recommended having management review and approve all accounting functions, and I am management in this office. If one of my deputies did all of these things, I could certainly see the need to review and approve these functions.

Objective 4:	To determine if the County's internal controls provide reasonable assurance that payroll expenditures were accurately reported in the accounting records.

Conclusion

The County's internal controls do not provide reasonable assurance that payroll expenditures were accurately reported in the accounting records.

Methodology

To accomplish our objective, we performed the following:

- Gained an understanding of internal controls related to the payroll expenditure process through discussions with County personnel, observation and review of documents.

Observation

Inadequate Segregation of Duties Over the Payroll Expenditures

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

- The payroll clerk enrolls new hires, posts withholdings, maintains personnel files, initiates the payment of payroll, prints payroll, posts to accounting records, distributes payroll checks, prepares OPERS reports and state and federal tax reports.

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

Recommendation

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

Further, the duties of enrolling new hires, posting withholdings, maintaining personnel files, initiating the payment of payroll, printing payroll, posting to accounting records, distributing payroll checks, preparing OPERS reports and state and federal tax reports should be adequately segregated.

Management Response

County Clerk's Office: The Human Resources Clerk (HRC) enrolls new hires. Each officer prepares payroll claims and time sheets, and brings them to HRC. Entries are made and reports printed. The First Deputy or Clerk then reconciles the payroll claims to computer reports and signs documents. HRC prepares checks, employee direct deposit and payroll deposit. The First Deputy or Clerk verifies payroll, and makes the deposit with the County Treasurer.

Objective 5:	To determine if the County's internal controls provide reasonable assurance that inventories were accurately reported in the accounting records.

Conclusion

The County's internal controls do not provide reasonable assurance that inventories were accurately reported in the accounting records.

Methodology

To accomplish our objective, we performed the following:

- Gained an understanding of internal controls related to the inventory process through discussions with County personnel, observation and review of documents.

Observation

Inadequate Internal Controls Over Fixed Assets and Consumable Inventories

An important aspect of internal controls is the safeguarding of assets which includes adequate segregation of duties. 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 acquisition, use, or disposition of fixed assets and safeguard fixed assets from loss, damage, or misappropriation.

Upon inquiry and observation of the recordkeeping process regarding fixed assets and consumable inventories, the following was noted:

Fixed Assets:

- There is no independent oversight of the inventory clerk, in the County Clerk's office, recording fixed asset items received or disposed by other offices/departments.

- Annual physical counts were not performed by the following County officials:

- County Clerk
- County Treasurer
- County Sheriff
- Courthouse office of the County Commissioners
- County Commissioners for Districts 2 and 3

Failure to maintain accurate records of fixed asset inventories and failure to perform a periodic physical inventory of fixed assets could result in inaccurate records, unauthorized use of fixed assets, or misappropriation of fixed assets.

Consumable Inventories:

- Monthly physical counts of consumable inventories for Districts 1, 2, and 3 could not be verified due to supporting documentation of the physical count not being maintained.

Failure to maintain accurate records of consumable inventories and failure to perform a periodic physical inventory of consumable inventories could result in inaccurate records, unauthorized use of consumable inventories, or misappropriation of consumable inventories.

Recommendation

Fixed Asset Inventories:
OSAI recommends that each County office/department implement a system of internal controls to provide reasonable assurance that fixed assets are adequately accounted for and safeguarded. Records should be maintained in such a manner that assets can be identified by serial number, date of acquisition, and purchase price.

Further, there should be independent oversight of the inventory clerk, in the County Clerk's office, recording fixed asset items received or disposed by other offices/departments. Annual verifications of fixed asset items should be performed to properly account for fixed assets and supporting documentation of the verification should be maintained.

Consumable Inventories:
OSAI recommends that each District implement a system of internal controls to provide reasonable assurance that consumable inventories are accurately reported, including adequately segregating duties. Records should be maintained for all consumable inventory items in an accurate manner that reflects consumable inventory by category and reflects current balances.

Further, a periodic physical verification of consumable inventories should be performed, reconciled to inventory records, and supporting documentation of the physical count should be maintained.

Management Response

County Sheriff's Office: The Sheriff's Office will reconcile quarterly with the County Clerk's Office.

County Clerk's Office: Each officer provides documentation to the Inventory Clerk of fixed asset purchases over $500.00. The Clerk adds them to the central filing report and prints an updated report for the officer. The Clerk and Officer sign and date the updated inventory report and this is filed in the Clerk's Office. To remove items from inventory, a resolution to dispose of an item is adopted by the Commissioners. The Inventory Clerk is given a signed resolution and the item is removed from the report. An updated report is printed. The Clerk and Officer sign and date the report, and a copy is filed in the Clerk's Office.

County Treasurer's Office: I have a complete list of my inventory in my office and one filed with the County Clerk. One deputy is responsible for updating the computer program when my office purchases or disposes of any inventory. Another deputy verifies this process and then gives me the computer printout. I verify my inventory at that time, and I also check the office inventory two or three times a year. I have now added check marks and initials to the report filed in my office.

County Commissioners: The District shops and the Commissioner's Office will do quarterly fixed asset checks with the inventory clerk in the County Clerk's Office and will reconcile consumable inventory reports with the physical count on a monthly basis.

Objective 6:	To determine the County's financial operations complied with 62 O.S. §517.4, which requires county deposits with financial institutions be secured with collateral securities or instruments.

Conclusion

With respect to the days tested, the County comply with 62 O.S. § 517.4, which requires county deposits with financial institutions be secured with collateral securities or instruments.

Methodology

To accomplish our objective, we performed the following:

- Gained an understanding of internal controls related to pledged collateral through discussions with the County Treasurer, observation and review of ledgers and documents.
- Tested compliance of the significant law which included the following:
  - Compared the largest balances per month for the four banks to the amount of pledged collateral to determine that deposits were adequately secured.

Observation **Internal Controls Over Pledged Collateral Not Operating Effectively**

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.

- The observation of pledged collateral daily monitoring sheets, which reflects pledged collateral amounts by bank and bank balances, revealed the County Treasurer does not sign and date the daily monitoring sheets.

This condition results in the internal controls over pledged collateral not operating effectively.

Recommendation OSAI recommends that the County Treasurer sign and date pledged collateral daily monitory sheets to ensure the control over pledged collateral operates effectively.

Management Response **County Treasurer's Office:** The daily collateral sheets, that I use to monitor pledged collateral, do have a date. I attach a printout from the online banking to this sheet to verify monies in bank and this also has a date. I now sign the bank printout and my first deputy prepares the collateral sheet and initials it also.

Objective 7: 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 items tested, the County did not comply 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.

Methodology To accomplish our objective, we performed the following:

- Gained an understanding of internal controls related to the process of apportioning sales tax collections through discussions with County personnel, observation and review of documents.
- Tested compliance of the significant law which included the following:

- Reviewed sales tax ballots to determine designation and purpose of sales tax collections.
- Obtained confirmations from the Oklahoma Tax Commission for sales tax payments made to the County to determine funds were deposited into the sales tax revolving fund.

Observation **Non-compliance with 68 O.S. § 1370E**

Title 68 O.S. §1370E, 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.

- Upon inquiry and observation of the recordkeeping process of collecting and expending sales tax, the following was noted:
  - Sales tax collections are not deposited into a sales tax revolving fund.
  - Sales tax collections, through a special apportionment, are remitted to the Beckham County Facilities Authority by Treasurer's check.
  - Expenditures of the sales tax are not made in accordance with the County Purchasing Act.

These conditions result in Beckham County being in violation of 68 O.S. §1370E.

Recommendation OSAI recommends that the County establish a cash fund specifically for the collection and apportionment of sales tax. Additionally, all expenditures should be paid in accordance with the County Purchasing Act.

Management Response

County Treasurer's Office: Beckham County began sales tax collections (.3%) in 2002. The tax purpose was to build and operate the County jail. Beckham County Facilities Authority was to control this operation. The Facility's Board is comprised of the three County Commissioners and two local independent business men. The County Clerk serves as secretary and the County Treasurer serves as Treasurer for this Board. Sales tax collections are special apportioned and a Treasurer's check is issued and deposited in the Facility's bank account. Money from the Facility is deposited by a miscellaneous receipt, apportioning the money to the Beckham County Jail Cash Account monthly to pay salaries. This money follows the normal County process of appropriations and disbursements. This process was set in place at the beginning of sales tax collections as advised by the State Auditor and Inspector. The Facility is audited annually by an independent auditor.

Auditor Response In accordance with 19 O.S. § 1370E, collections of sales tax are to be deposited and expended within the general revenue fund or sales tax revolving fund of the County. Rather than remitting sales collections to a third party where expenditures have little oversight, state statutes require that funds be expended on purchase orders approved by the Board of County Commissioners.

Objective 8:	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 items tested, the County 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.

Methodology

To accomplish our objective, we performed the following:

- Gained an understanding of internal controls related to the process of apportioning and distributing ad valorem tax collections through discussions with County personnel, observation and review of documents.

- Tested compliance of the significant law which included the following:
    - Compared the certified levies for the audit periods to the computer system to determine the Treasurer applied the certified levies, as fixed by the Excise Board of Beckham County, to the tax rolls.
    - Recalculated the apportionment of ad valorem tax collections to determine collections were accurately apportioned to the taxing entities.

Observation

Internal Controls Over Ad Valorem Tax Apportioned and Distributed Not Operating Effectively

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.

- Upon inquiry and observation of the recordkeeping process of apportioning and distributing ad valorem tax, there is not sufficient evidence of the independent oversight of the County Treasurer applying the certified levies, as fixed by the Excise Board, to the tax rolls.

This condition results in the internal controls over the apportioning and distributing of ad valorem tax not operating effectively.

Recommendation

OSAI recommends that sufficient evidence of independent oversight of the County Treasurer applying the certified levies to the tax rolls to ensure internal controls designed operate effectively.

Further, OSAI recommends the employee providing the independent oversight sign and date the review.

Management Response

County Treasurer's Office: I enter the certified levies into the computer and print a report. That report is checked by me and my first deputy. When we receive the tax roll, we print a statement from each school district and verify the tax amount against this report. All those printouts are filed with the certified levy sheet. I have always checked this and now I am adding my signature and my first deputy's initials to verify we have checked the levies entered in the computer.

All Objectives:

Observation

Inadequate County-Wide Controls

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.

Control Environment is the foundation for all other components of internal control. When managements believes that internal controls are important to meeting its goals and objectives and communicates this belief to its employees at all levels, internal controls are more likely to be functioning well. However, if management views internal controls as unrelated to achieving its goals and objectives, or even as an obstacle, it is almost a certainty that this attitude will be held by all employees, despite official statements or policies to the contrary. This understanding of internal controls and the communication of this importance to its employees are key elements of the control environment.

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 assessment and decide upon the internal control activities required to mitigate those risks and achieve the internal control objectives.

Information and Communication is a component of internal control which should provide for a county to run and control its operations. A county must have relevant, reliable information, both financial and nonfinancial. That information should be recorded and communicated to management and others with in the County who need it and in a form and within a time frame that enables them to carry out their internal control and operational responsibilities. In addition, the County needs to make sure that the forms of communications are broad-based and that information technology management assures useful, reliable, and continuous communications.

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 for control monitoring as part of their regular operating process.

County-wide controls regarding Control Environment, Risk Assessment, Information and Communication, and Monitoring have not been designed.

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

Recommendation OSAI recommends that the County implement a system of internal controls to provide reasonable assurance regarding the achievement of goals and objectives.

Management Response **County Commissioners:** The Board of Beckham County Commissioners will conduct officer meetings beginning April 2012. These dates will be the second Monday of every other month, April 9th, June 11th, August 13th, October 9th (Monday is a holiday) and December 10th.

Observation **Inadequate Control Environment County Sheriff**

Control environment is the foundation for all other components of internal control. A key element of control environment is management's attitude toward the importance of internal controls to meet goals, objectives, and compliance with laws and regulations.

- The County Sheriff did not complete the risk questionnaire pertaining to his office, as part of the risk assessment process for performing an audit of his office.
- The Board of County Commissioners' proceedings do not reflect the approval of all contracts and/or agreements entered into for the Sheriff's Department. In addition, the original contracts and/or agreements are not on file with the County Clerk.
- The County Sheriff, along with the Board of County Commissioners, entered into several contracts and/or agreements that obligated funds beyond the fiscal year end. The contracts in question were as follows:
  - The Flix 6 Movie Theatre for advertising.
  - Commissary Service Agreement for commissary items and administration.
  - Web Design Services for public information
- The Sheriff maintains two credit cards for travel expenses. These credit cards have an aggregate credit limit of $10,000. The state statute provides that the credit limit for counties with a population of under 50,000 be no more than $5,000.

Recommendation

OSAI recommends the County Sheriff comply with requests for information.

OSAI recommends the County Sheriff comply with 19 O.S. § 1507 requirements and the aggregate amount of two credit cards not exceed $5,000.

OSAI recommends the Board of County Commissioners sign and approve all contracts and/or agreements for all departments, in open meeting, on a fiscal year basis, and not obligate funds beyond the fiscal year end.

Further, OSAI recommends the minutes of the Board of County Commissioners reflect the approval of all contracts and the original contract be on file with the County Clerk.

Management Response

County Clerk: The Sheriff has made the following changes He now has two credit cards with Bankers Credit, with a credit limit of $2,500.00 each. These are used for travel expenses. Receipts and signed reports are attached to purchase orders, before payment each month.

All contracts and agreements signed by the County Commissioners will not exceed the current fiscal year. They will be documented in the Commissioners' proceedings minutes when approved and the original filed in the County Clerk's Office.

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