OPERATIONAL AUDIT

CARTER COUNTY

For the period July 1, 2006 through June 30, 2011

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

CARTER COUNTY OPERATIONAL AUDIT
FOR THE PERIOD JULY 1, 2006 THROUGH JUNE 30, 2011

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Oklahoma State Auditor & Inspector

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April 24, 2012

TO THE CITIZENS OF
CARTER COUNTY, OKLAHOMA

Transmitted herewith is the audit report of Carter County for the period July 1, 2006 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

Carter County was formerly a part of Pickens County, Chickasaw Nation, Indian Territory. Named for a prominent early-day family, the county ranges from hilly, rugged terrain in the north, exemplified by the Arbuckle Mountains, to rolling plains with productive oil fields in the south.

Ardmore, the county seat, located midway between Dallas and Oklahoma City on Interstate 35, is the site of the Michelin North America Tire Plant, Ardmore Higher Education Center, Ardmore Area Vocational-Technical School, and the Noble Foundation. The Joe Brown Co., Ultimar Diamond Shamrock, Bluebonnet Milling Co., Sunshine Industries, and major distribution centers for Best Buy and Dollar General are also located in Ardmore.

Healdton, located in western Carter County, was the site for the Healdton Field which, at its peak in 1916, produced an estimated 95,000 barrels of crude oil per day.

Lake Murray Resort, located seven miles south of Ardmore, offers recreational and conference facilities on a year-round basis. For additional county information, call the county clerk's office at 580-223-8162.

County Seat – Ardmore | Area – 833.72 Square Miles

County Population – 48,326
(2009 est.)

Farms – 1,426 | Land in Farms – 402,831 Acres

Primary Source: Oklahoma Almanac 2011-2012

County Officials:

Kim Cain.. County Assessor
Cynthia Harmon..County Clerk
Bill McLaughlin.. County Commissioner District 1
Kevin Robinson .... County Commissioner District 2
Dale Ott.. County Commissioner District 3
Ken Grace .... County Sheriff
LaDonna Wilkinson.. County Treasurer
Karen Volino .... Court Clerk

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

	Beginning Cash Balance July 1, 2010	Receipts Apportioned	Disbursements	Ending Cash Balance June 30, 2011
Combining Information:				
T-Highway	$ 5,510,867	$ 6,687,323	$ 7,479,787	$ 4,718,403
Sales Tax Revolving Fund	2,531,029	2,088,247	1,174,807	3,444,469
Fire Department Sales Tax	1,620,817	2,024,484	895,178	2,750,123
County General Fund	1,377,742	4,469,544	4,152,829	1,694,457
County Health	929,283	821,606	1,001,185	749,704
County Road and Improvement	555,235	7,789	64,465	498,559
Sheriff Board of Prisoners	501,591	1,102,999	989,629	614,961
Enhanced 911	284,727	210,723	320,388	175,062
Energy & Renewal Grant	207,100		204,600	2,500
FEMA	61,188	225,515	226,830	59,873
General Obligation Bond Sinking	19,940	41		19,981
County Sinking	3,472			3,472
CBRIF County Bridge/Road		1,775,483		1,775,483
Remaining Aggregate Funds	1,054,479	689,409	592,730	1,151,158
Combined Total - All County Funds	$ 14,657,470	$ 20,103,163	$ 17,102,428	$ 17,658,205

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, 2006 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 are 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 Treasurer's receipts to amounts apportioned on the County Treasurer's monthly reports.
  - 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, and ending balances on the General Ledger agreed to the ending balances reflected on the 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 of the reconciliation process of apportioned receipts, disbursements, and cash balances between the County Treasurer and County Clerk, we noted that procedures have not been designed for someone other than the preparer to review the Treasurer's monthly reports for accuracy. Further, procedures have not been designed to perform monthly reconciliations of fund balances between the Treasurer's General Ledger and the Clerk's Appropriation Ledger and to retain documentation of the reconciliation.

These conditions could result in unrecorded transactions, misstated financial reports, undetected errors, or misappropriation of funds.

Recommendation OSAI recommends that procedures be designed to perform a review of the Treasurer's monthly reports for accuracy. Further, OSAI recommends that the County Treasurer and the County Clerk implement procedures to perform a monthly reconciliation of all fund balances between the Treasurer's General Ledger and the Clerk's Appropriation Ledger.

Management Response

County Clerk: This has been corrected.

County Treasurer: The County Treasurer's office is now recording balances and transactions of monthly apportionments along with expenditures of all accounts to the appropriation ledger. This will assist in documentation and balancing ledgers with the County Clerk.

Objective 2:	To determine 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 revenue receipting process through discussions with County personnel, observation and review of documents.

Observation

Inadequate Segregation of Duties Over the Revenue 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 receipting, recording, depositing cash and checks, reconciliations, and transaction authorization should be segregated.

Based upon inquiry and observation of the County's revenue receipting process, the following was noted:

The duties of receipting, depositing, and maintaining ledgers have not been properly segregated in the following offices:

- County Treasurer
- County Clerk
- County Assessor
- County Sheriff
- Sheriff's Inmate Trust Fund

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 that the duties of receipting, depositing, and maintaining ledgers be segregated. In the event that segregation of duties is not possible due to the 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:

County Treasurer: Employees should not all work from the same cash drawer. One employee should not be performing all the duties regarding issuing receipts, recording revenue, preparing the deposit, delivering the deposit to the financial institution, issuing official depository vouchers, and reconciling bank statements.

County Clerk: Employees should not all work from the same cash drawer. One employee should not be performing all the duties regarding issuing receipts, balancing the cash drawer, preparing the deposit, issuing official depository vouchers, preparing the monthly report to the Board of County Commissioners, and reconciling the monthly report with the County Treasurer.

County Assessor: Employees should not all work from the same cash drawer. One employee should not be performing all the duties regarding issuing receipts, balancing the cash drawer, preparing the deposit, issuing official depository vouchers, preparing the monthly report to the Board of County Commissioners, and reconciling the monthly report with the Treasurer.

County Sheriff: One employee should not be performing all the duties regarding issuing receipts, recording revenue, preparing the deposit, issuing vouchers or checks, preparing the monthly report to the Board of County Commissioners, and reconciling the monthly report with the Treasurer.

With regards to the inmate trust account, receipts should be issued at the time money is received, daily deposits should be made at the financial institution, and bank statements should be reconciled to the system on a monthly basis. The duties of receipting, depositing, and maintaining ledgers should be segregated.

Management Response

County Clerk: We do not have enough employees to segregate these duties.

County Treasurer: County Treasurer periodically reviews and monitors duties and work performance of employees. Segregation of duties within the office will be reassessed.

County Assessor: I now have the correct procedure and will follow proper guidelines.

County Sheriff:
Cash Bonds

a. The Sheriff's Office does not take cash bonds during normal business hours. All bonds are directed to the Court Clerk's Office to be paid.
b. After normal business hours, cash bonds are taken by the reception window personnel or the book-in officer at the Detention Facility. Those personnel place the bond in an envelope that is then sealed, stamped with the name and information for the bond and signed by the person that took the bond. That envelope is then logged onto a log sheet located in the book-in and placed into a lockbox in book-in. Book-in personnel do not have access to the lockbox key and are not involved in writing deposits or vouchers.
c. The next business day, the Records Clerk from the Sheriff's Office collects the bonds from the lockbox and signs the log sheet in book-in for each of the bonds. The Records Clerk takes the bonds to the Administrative Assistant to the Sheriff or the Finance Manager in the absence of the Administrative Assistant. The Records Clerk does not do deposits or write vouchers for the cash bonds.
d. The Administrative Assistant takes the bonds and makes the deposit ticket reflecting the bond for each person that bonded and ensures that the amount on the deposit ticket and the amount of funds in the envelopes match and is accurate with the deposit amount. The Administrative Assistant then makes out a voucher to the Court Clerk's office that matches the amount of the deposit ticket and hands them off along with the individual envelopes to the Finance Manager.
e. The Finance Manager takes the deposit to the County Treasurer's Office where the deposit is checked both by the Finance Manager and the Treasurer's Clerk for accuracy. The Treasurer's Office takes the deposit and registers the voucher to the Court Clerk's Office. The Finance Manager then takes the voucher along with the individual envelopes to the Court Clerk's Office.

Inmate Trust Account

We do have a Commissary Manager whose full time position is the Commissary. The Commissary Manager's work is monitored and checked by the Finance Manager. It should be noted that receipts for funds that go into the Inmate Trust account are written by the Detention Center Information window personnel along with book-in personnel when inmates are received. Receipts are also written for all funds for the commissary that are received through mail. Part of the Commissary duties does include issuing checks back to the inmates when they are released, and it should be noted that those vouchers require two signatures. In the absence of the Commissary Manager, the Finance Manager or the Administrative Assistant to the Sheriff have separate log-in to the Commissary system, with separate cash drawers to take care of commissary requirements. The Commissary Manager is monitored and work reviewed by the Finance Manager along with the Sheriff.

Auditor Response The duties of receipting, depositing, and maintaining ledgers are not adequately segregated in the Sheriff's Office for cash bonds or inmate trust funds.

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

Conclusion The County's internal controls do 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.

Observation **Inadequate Segregation of Duties Over the Expenditure Process**

Statutory control procedures have been established for the requisition, purchase, lease-purchase, rental, and receipt of supplies, material, and equipment for maintenance, operation, and capital expenditures of county government.

Upon inquiry and observation of the County's purchasing process, the following was noted:

- The Purchasing Agent did not consistently stamp purchase orders noting they were not timely encumbered.
- The Purchasing Agent encumbers funds, posts to ledgers, and prints warrants and distributes warrants for payments. Digital signatures of the County Clerk and the Board of County Commissioners Chairman are printed on the warrants.

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

Further, the Purchasing Agent should stamp purchase orders noting if they were not timely encumbered. The duties of encumbering funds and posting to the ledgers should be separate from the printing and distribution of payments.

Digital signatures should not be utilized. A County that utilizes digital signatures increases the risk of the unauthorized use of another person's signature.

Management Response

The County Clerk's office is aware of this condition and will implement compensating controls to mitigate the risks involved with a concentration of duties. Furthermore, purchase orders that are not timely encumbered will be properly identified and labeled.

Observation

Inadequate Segregation of Duties Over the Court Fund Expenditure Process

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 transactions. To help ensure a proper accounting of funds, the duties of preparing a claim, writing a voucher, signing a voucher, and preparing the monthly report which reconciles to the General Ledger should be separated.

Upon inquiry and observation of the Court Fund expenditure process, it was noted that one individual prepares the claim, issues the voucher, and prepares the monthly report which reconciles to the 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 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 have management review and approval of accounting functions.

Further, the duties of preparing Court Fund claims, issuing vouchers, signing vouchers, and preparing monthly reports which reconcile to the Treasurer should not be performed by one individual.

Management Response

Court Clerk: Large items are authorized by the District Judge prior to being purchased or are authorized to be paid through the Court Fund Budget. I prepare some court fund claims, but not all. Myself and the District Judge approve all claims and my First or Second Deputy mail the vouchers. My First Deputy balances with the Treasurer each month when she prepares the monthly reports, I however, sign off on the report.

Objective 4:	To determine 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 the 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. Internal controls should be designed to analyze and check accuracy, completeness, and authorization of payroll calculations and/or transactions. To help ensure a proper accounting of funds, the duties of processing, authorizing, and payroll distribution should be segregated.

Upon inquiry and observation of the County's payroll process, the following was noted:

- The Payroll Clerk enrolls new employees, maintains personnel files, makes payroll changes, and prepares all payroll reports including the Oklahoma Public Employees Retirement report and the state and federal tax reports.

- The Payroll Clerk posts payroll information into the system, prints payroll claims for approval, prints and distributes payroll warrants.

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 compensation 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.

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

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

Management Response

County Clerk: We do not have enough employees to segregate these duties.

Objective 5:	To determine 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 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

An important aspect of internal controls is the safeguarding of assets. Internal controls over safeguarding of assets constitute a process, effected by the 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, it was noted that the following officers did not conduct and document an annual physical inventory of fixed assets:

- County Clerk
- County Assessor
- District 1
- District 2
- District 3

Failure to maintain accurate records of fixed asset inventories and failure to perform a periodic physical inventory of fixed assets could result in unauthorized use of fixed assets, misappropriation of fixed assets, or inaccurate records that are not detected in a timely manner.

Recommendation

OSAI recommends that each County office implement procedures to accurately maintain fixed asset records and an annual verification of fixed assets be performed and documented to properly account for fixed assets.

Management Response

County Clerk: This will be corrected.

County Assessor: I now have the correct procedure and will follow proper guidelines.

County Commissioner District 1: It is our goal at District 1 to provide an accurate inventory.

County Commissioner District 2: It is our overall goal at District 2 to provide accurate inventory.

County Commissioner District 3: I take great pride of the records my staff keeps on file at District 3, being very conscience to follow all rules and regulations.

Observation

Inadequate Internal Controls Over Consumable Inventories

An important aspect of internal controls is the safeguarding of assets. Internal controls over safeguarding of assets constitute a process, affected by the 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 the entity's consumable inventory from loss, damage, or misappropriation.

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

- County Commissioners for all three Districts do not maintain truck tires on consumable inventory cards.

This condition could result in misappropriation of consumable inventories or clerical errors that are not detected in a timely manner.

Recommendation

OSAI recommends that the District barns maintain and implement a system of internal controls to provide reasonable assurance that consumable inventories are accurately reported. Further, consumable items purchased in lots of $500.00 or more should be posted on consumable cards and a periodic inventory of consumable items should be performed and reconciled to consumable cards.

Management Response

County Commissioner District 1: It is our goal at District 1 to provide an accurate inventory. Our tires will be put on consumable inventory.

County Commissioner District 2: It is our overall goal at District 2 to provide accurate inventory. Our tires will be put on consumable inventory along with other consumables.

County Commissioner District 3: I take great pride of the records my staff keeps on file at District 3, being very conscience to follow all rules and regulations. This year the SA&I staff requested we put truck tires on consumable inventory and as of this date, truck tires will be included on consumable inventory.

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 financial operations did not 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 the process of recordkeeping regarding pledged securities through discussions with County personnel, observation and review of documents.
- Judgmentally selected the day with the highest balance for each month at all banks containing County funds from July 1, 2010 through June 30, 2011, to determine if the County's funds were adequately secured as required by 62 O.S. § 517.4.

Observation **Inadequate Internal Controls Over Pledged Securities**

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 County Treasurer has not properly designed and implemented internal controls related to pledged collateral. The Treasurer does not monitor pledged collateral amounts to daily bank balances to ensure that county funds are adequately secured.

It was further noted that the County's bank account balances and investments for the days noted were inadequately secured for the following amounts.

Official Depository Bank Account		General Bank Account	
Date	Amount Underpledged	Date	Amount Underpledged
7/6/2006	$ 167,617.09	1/12/2007	$ 385,098.07
12/20/2006	$ 704,128.69	1/14/2008	$ 2,881,270.98
7/3/2007	$ 242,917.83	12/31/2008	$ 3,392,673.02
10/19/2007	$ 785.89	11/24/2009	$ 4,615,873.44
7/31/2008	$65,222.47		
9/3/2008	$39214.25		

Failure to maintain a ledger to monitor pledged securities could result in unsecured assets and possible loss of County funds.

Recommendation OSAI recommends the County Treasurer maintain a ledger to monitor County pledges daily to ensure that deposits are adequately secured at all times. OSAI further recommends the County Treasurer comply with 62 O.S. § 517.4, which requires county deposits with financial institutions be secured with collateral securities or instruments.

Management Response County Treasurer will work more closely with the banks on a daily basis to ensure county funds are adequately secured.

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 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 sales tax was designated.

Methodology To accomplish our objective, we performed the following:

- Gained an understanding of the internal control process of receipting, apportioning, and disbursing sales tax collections through discussions with County personnel, observation and review of documents.
- Reviewed the sales tax ballot to determine designation and purpose of sales tax collections.
- Tested controls which included reviewing the sales tax revenue received for the following:
    - Reconciliations were performed to ensure the proper amount was received, recorded, and apportioned to the proper funds.
- Tested compliance of the significant law which included the following:
    - Obtained confirmations from the Oklahoma Tax Commission for sales tax payments made to the County and confirmed the amounts were apportioned by the County Treasurer into the appropriate fund
    - Obtained miscellaneous receipts and verified appropriations of sales tax approved by the Excise Board to ensure that funds were used for designated purposes on sales tax ballot as required by 68 O.S. § 1370E.

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's financial operations complied with 68 O.S. § 2923, which requires 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 period to the computer system to determine the Treasurer applied the certified levies, as fixed by the Excise Board of Carter County, to the tax rolls.
  - Recalculated the apportionment of ad valorem tax collections for the audit period to determine collections were accurately apportioned to the taxing entities.

Observation

Inadequate Internal Controls over Ad Valorem Tax Apportioned and Distributed

Accountability and stewardship are overall goals of management in the accounting of funds. Internal controls should be designed to analyze and check accuracy and completeness. To help ensure proper accounting of funds, the duties of allocating and apportioning ad valorem tax should be segregated or reviewed by an independent party.

The County Assessor and County Treasurer's first deputy reviews that the correct certified levies were entered into the ad valorem system by the County Treasurer, but there is no documentation maintained.

This condition resulted in a lack of documentation that controls were designed and operating effectively over the ad valorem distribution process.

Recommendation

OSAI recommends that the County Treasurer have another person review for accuracy the levies entered into the system with the Certified Levy Sheet and retain documentation of that review that would include initials and date reviewed.

Management Response

The certified levies are reviewed as they are entered to the tax rolls, and documentation will be maintained. The documentation will reflect a signature and a date of when the independent oversight was performed.

Other Item(s) Noted:

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

Risk Assessment is a component of internal control which should provide for an assessment of the risk the County faces from both internal and external sources. Once risk has been identified, they should be analyzed for their possible affect. 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.

County-wide controls regarding Risk Management and Monitoring have not been designed. This condition could result in unrecorded transactions, misappropriation of funds, or clerical errors that are not detected in a timely manner.

Recommendation OSAI recommends that the County design procedures to identify and address risks. OSAI also recommends that the County design monitoring procedures to assess the quality of performance over time. These procedures should be written policies and procedures and could be included in the County's policies and procedures handbook.

Examples of risks and procedures to address risk management:

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

Examples of activities and procedures to address monitoring:

Monitoring	**Procedures**
Communication between officers	Periodic meetings to address items that should be included in the handbook and to determine if the County is meeting its goals and objectives
Annual Financial Statement	Review the financial statement of the County for accuracy and completeness
Schedule of Expenditures of Federal Awards (SEFA)	Review the SEFA of the County for accuracy and to determine all federal awards are presented
Audit findings	Determine audit findings are corrected
Financial status	Periodically review budgeted amounts to actual amounts and resolve unexplained variances
Policies and procedures	Ensure employees understand expectations in meeting the goals of the County
Following up on complaints	Determine source of complaint and course of action for resolution
Estimate of needs	Work together to ensure this financial document is accurate and complete

Management Response

The Board of County Commissioners will work together with all County officials to develop a plan to monitor the County's internal controls to ensure that audit findings and other reviews are properly resolved.

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