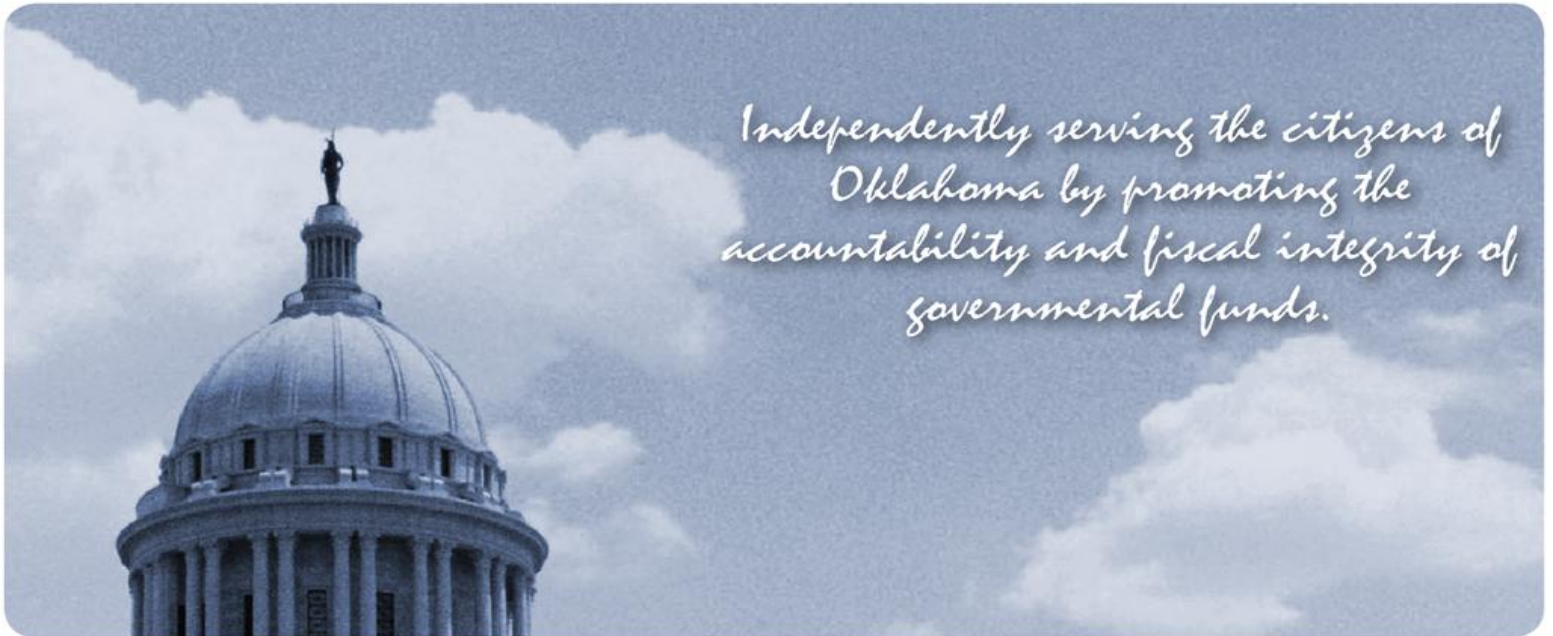


COUNTY AUDIT

CHEROKEE COUNTY

For the fiscal year ended June 30, 2012



*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

**CHEROKEE COUNTY, OKLAHOMA
FINANCIAL STATEMENT
AND INDEPENDENT AUDITOR'S REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

This publication, issued by the Oklahoma State Auditor and Inspector's Office as authorized by 19 O.S. § 171, has not been printed, but is available on the agency's website (www.sai.ok.gov) and in the Oklahoma Department of Libraries Publications Clearinghouse Digital Collection, pursuant to 74 O.S. § 3105.B.



Oklahoma State Auditor & Inspector

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

January 29, 2016

TO THE CITIZENS OF
CHEROKEE COUNTY, OKLAHOMA

Transmitted herewith is the audit of Cherokee County, Oklahoma for the fiscal year ended June 30, 2012. The audit was conducted in accordance with 19 O.S. § 171.

A report of this type can be critical in nature. Failure to report commendable features in the accounting and operating procedures of the entity should not be interpreted to mean that they do not exist.

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

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

Sincerely,

A handwritten signature in blue ink, reading "Gary A. Jones".

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

**CHEROKEE COUNTY, OKLAHOMA
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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**CHEROKEE COUNTY, OKLAHOMA
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

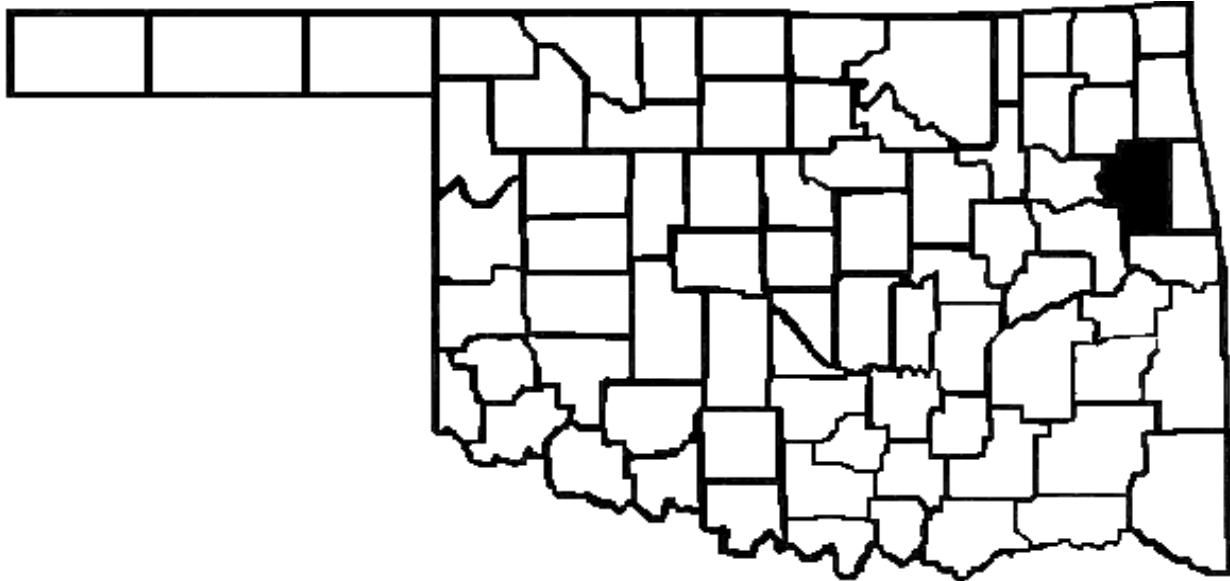
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**CHEROKEE COUNTY, OKLAHOMA
STATISTICAL INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**



Cherokee County, created at statehood and named for the Cherokee Nation, is part of the area settled by the Cherokee Indians after the Trail of Tears.

Tahlequah, the county seat, was established as the capital of the Cherokee Nation in 1839. It is the site of the Cherokee Heritage Center; Tsa-La-Gi Ancient Cherokee Village, an authentic replica of a Cherokee community during the 1600s; and the Cherokee National Museum. The Cookson Hills, surrounding Tahlequah, were noted as hiding places for outlaws and bandits, including the James Brothers and Belle Starr, around the turn of the century. Lake Tenkiller and the Tenkiller Wildlife Management Area, as well as the Illinois River, provide additional recreational opportunities in Cherokee County.

Northeastern State University in Tahlequah provides a source of higher education in the area. The university's beginning dates back to 1846 when the Cherokee National Council authorized the creation of a National Male Seminary and a National Female Seminary. In 1909 the Oklahoma Legislature authorized purchase of the building land, and equipment of the Cherokee Female Seminary to form the Northeastern State Normal School at Tahlequah.

For more county information, call the county clerk's office at 918/456-3171

County Seat – Tahlequah

Area – 776.40 Square Miles

County Population – 46,029 (2009 est.)

Farms – 1,375

Land in Farms – 246,421 Acres

Primary Source: Oklahoma Almanac 2011-2012

**CHEROKEE COUNTY OFFICIALS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Board of County Commissioners

District 1 – Doug Hubbard
District 2 – Bobby Botts
District 3 – Mike Ballard

County Assessor

Marsha Trammel

County Clerk

Cheryl Trammel

County Sheriff

Norman Fisher

County Treasurer

Inez Peace

Court Clerk

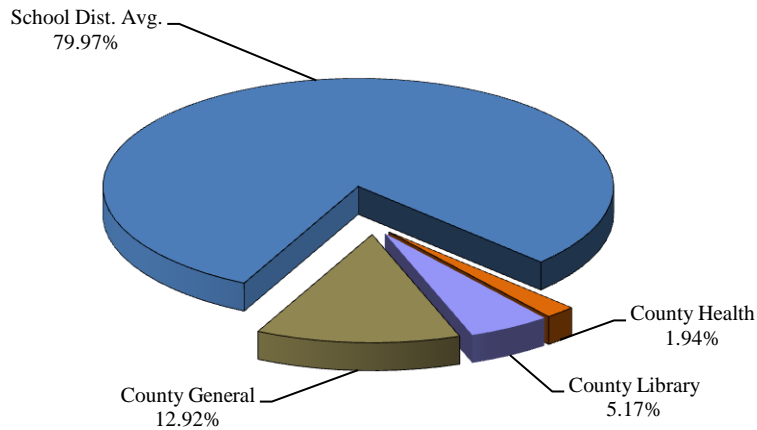
Shelly Kissinger

District Attorney

Brian Kuester

**CHEROKEE COUNTY, OKLAHOMA
AD VALOREM TAX DISTRIBUTION
SHARE OF THE AVERAGE MILLAGE
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

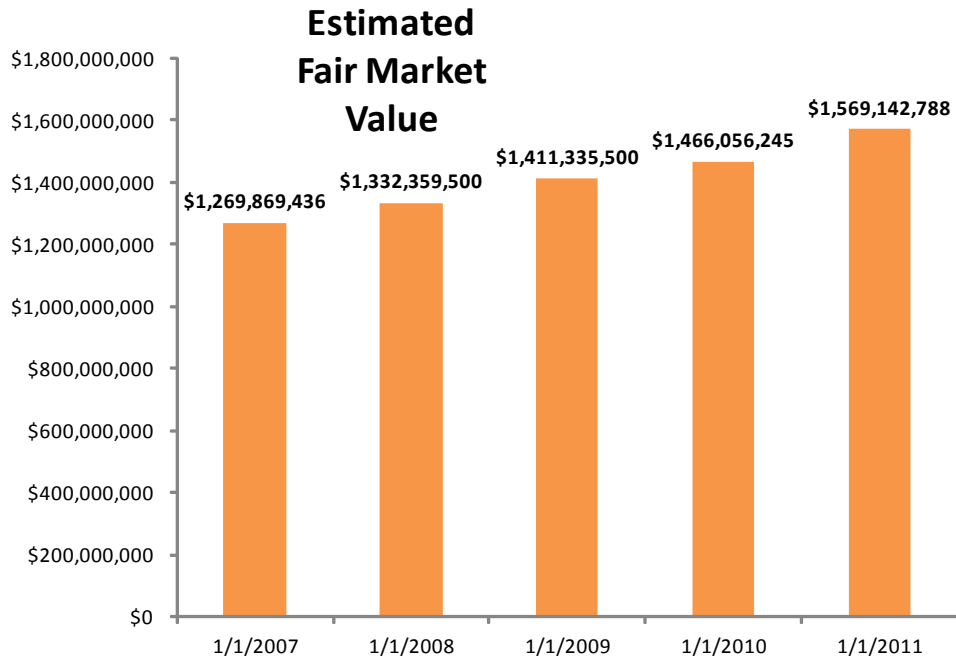
Property taxes are calculated by applying a millage rate to the assessed valuation of property. Millage rates are established by the Oklahoma Constitution. One mill equals one-thousandth of a dollar. For example, if the assessed value of a property is \$1,000.00 and the millage rate is 1.00, then the tax on that property is \$1.00. This chart shows the different entities of the County and their share of the various millages as authorized by the Constitution.



County-Wide Millages			School District Millages						
			Gen.	Bldg.	Skg.	Career Tech	Common	Total	
County General	10.00								
County Health	1.50	Keys D-6	35.00	5.00	9.25	10.00	4.00	63.25	
County Library	4.00	Lowrey D-10	35.00	5.00	-	10.00	4.00	54.00	
		Norwood D-14	35.00	5.00	-	10.00	4.00	54.00	
		Hulbert I-16	35.00	5.00	-	10.00	4.00	54.00	
		Woodall D-21	35.00	5.00	16.16	10.00	4.00	70.16	
		Shady Grove D-26	35.00	5.00	-	10.00	4.00	54.00	
		Peggs D-31	35.00	5.00	-	10.00	4.00	54.00	
		Grandview D-34	35.00	5.00	10.53	10.00	4.00	64.53	
		Briggs D-44	35.00	5.00	-	10.00	4.00	54.00	
		Tenkiller D-66	35.00	5.00	-	10.00	4.00	54.00	
		Tahlequah I-35	35.00	5.00	24.46	10.00	4.00	78.46	
		Little Kansas I-3	35.00	5.00	27.09	11.00	4.00	82.09	
		Oaks J-5	35.00	5.00	-	11.00	4.00	55.00	
		Ft. Gibson I-3M	35.00	5.00	12.55	10.00	4.00	66.55	
		Skelly 1	35.00	5.00	-	10.00	4.00	54.00	
Locust Grove I-17	35.00	5.00	26.18	11.00	4.00	81.18			
Norwood I-14	35.00	5.00	5.19	10.00	4.00	59.19			

**CHEROKEE COUNTY, OKLAHOMA
 ASSESSED VALUE OF PROPERTY
 TREND ANALYSIS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

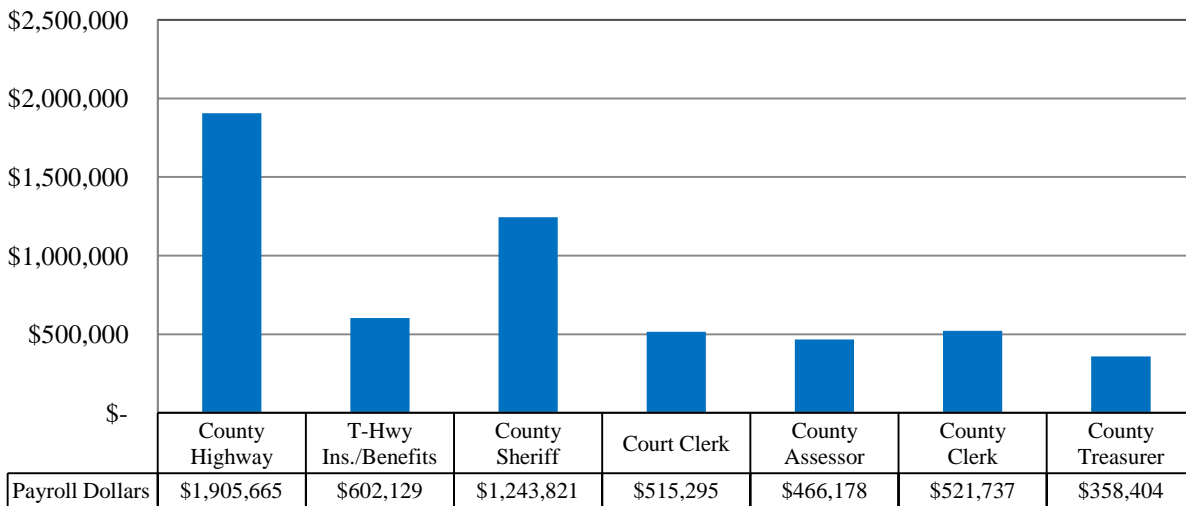
Valuation Date	Personal	Public Service	Real Estate	Homestead Exemption	Net Value	Estimated Fair Market Value
1/1/2011	\$18,313,435	\$10,432,331	\$149,302,896	\$9,279,220	\$168,769,442	\$1,569,142,788
1/1/2010	\$18,124,253	\$9,978,459	\$142,476,811	\$9,313,336	\$161,266,187	\$1,466,056,245
1/1/2009	\$18,401,768	\$9,437,045	\$136,686,422	\$9,278,330	\$155,246,905	\$1,411,335,500
1/1/2008	\$17,588,331	\$7,724,199	\$130,485,824	\$9,238,809	\$146,559,545	\$1,332,359,500
1/1/2007	\$17,201,847	\$9,198,153	\$122,509,496	\$9,223,858	\$139,685,638	\$1,269,869,436



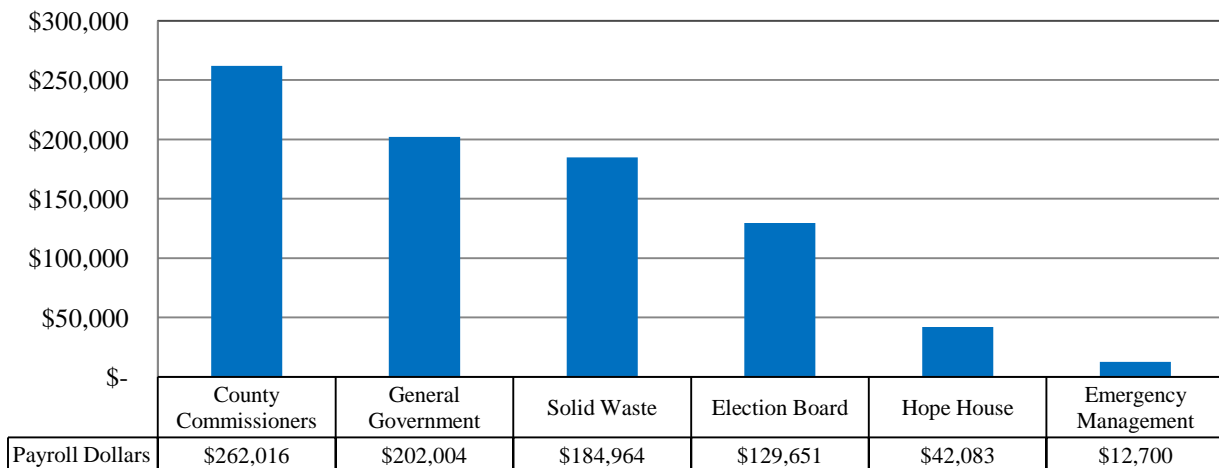
**CHEROKEE COUNTY, OKLAHOMA
COUNTY PAYROLL EXPENDITURES ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

County officers' salaries are based upon the assessed valuation and population of the counties. State statutes provide guidelines for establishing elected officers' salaries. The Board of County Commissioners sets the salaries for all elected county officials within the limits set by the statutes. The designated deputy or assistant's salary cannot exceed the principal officer's salary. Salaries for other deputies or assistants cannot exceed the principal officer's salary. The information presented below is for the fiscal year ended June 30, 2012.

Payroll Expenditures by Department



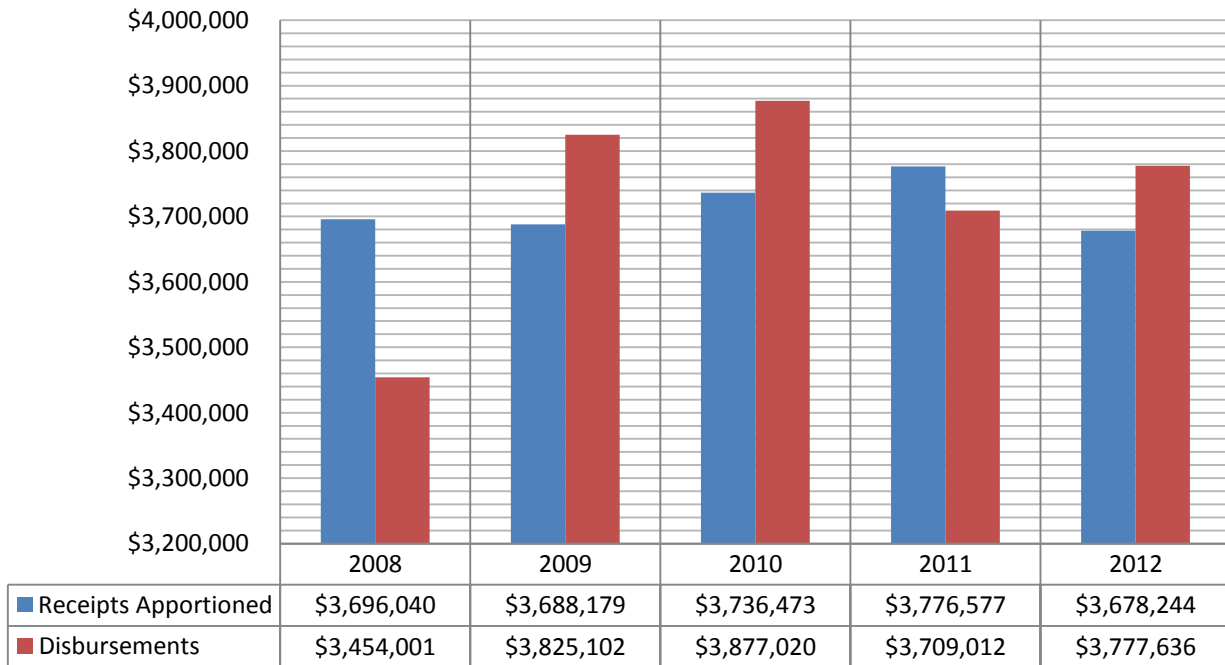
Payroll Expenditures by Department



**CHEROKEE COUNTY, OKLAHOMA
COUNTY GENERAL FUND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

County General Fund

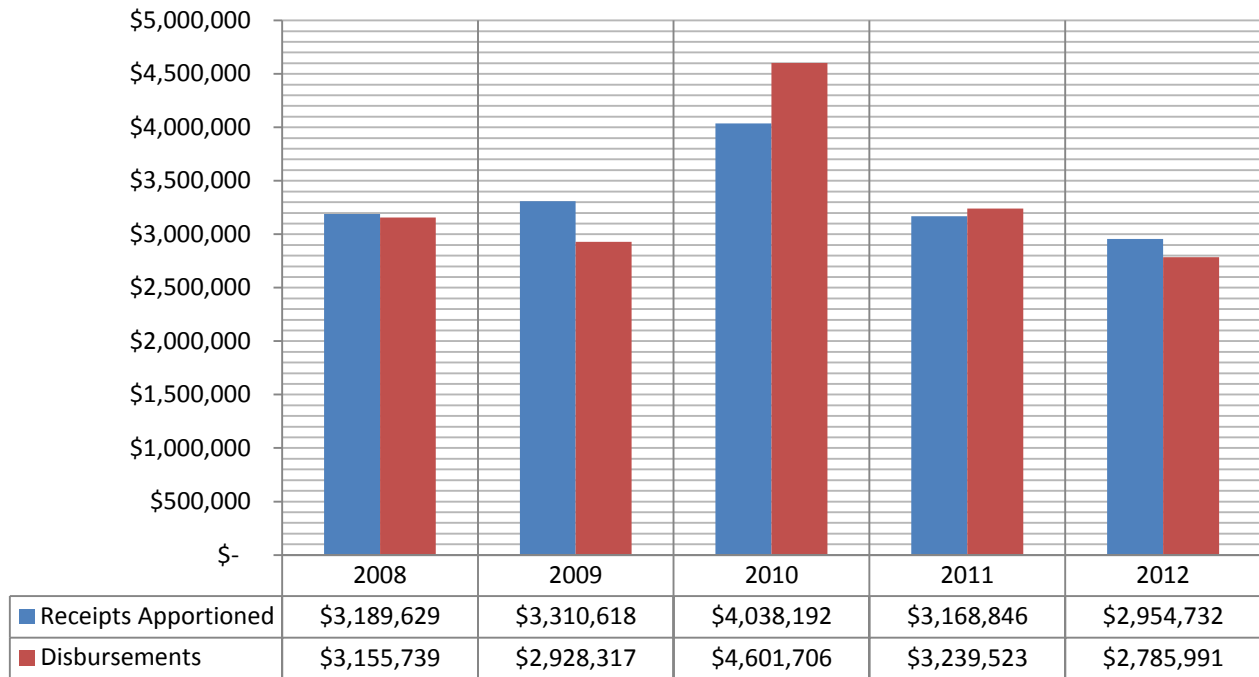
The Oklahoma Constitution and the Oklahoma Statutes authorize counties to create a County General Fund, which is the county's primary source of operating revenue. The County General Fund is typically used for county employees' salaries plus many expenses for county maintenance and operation. It also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



**CHEROKEE COUNTY, OKLAHOMA
COUNTY HIGHWAY FUND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

County Highway Fund

The County receives major funding for roads and highways from a state imposed fuel tax. Taxes are collected by the Oklahoma Tax Commission. Taxes are imposed on all gasoline, diesel, and special fuel sales statewide. The County's share is determined on formulas based on the County population, road miles, and land area and is remitted to the County monthly. These funds are earmarked for roads and highways only and are accounted for in the County Highway Fund. The chart below summarizes receipts and disbursements of the County's Highway Fund for the last five fiscal years.



FINANCIAL SECTION



Oklahoma State Auditor & Inspector

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

Independent Auditor's Report

TO THE OFFICERS OF
CHEROKEE COUNTY, OKLAHOMA

We have audited the combined total—all county funds on the accompanying regulatory basis Statement of Receipts, Disbursements, and Changes in Cash Balances of Cherokee County, Oklahoma, as of and for the year ended June 30, 2012, listed in the table of contents as the financial statement. This financial statement is the responsibility of Cherokee County's management. Our responsibility is to express an opinion on the combined total—all county funds on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, this financial statement was prepared using accounting practices prescribed or permitted by Oklahoma state law, which practices differ from accounting principles generally accepted in the United States of America. The differences between this regulatory basis of accounting and accounting principles generally accepted in the United States of America are also described in Note 1.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of Cherokee County as of June 30, 2012, or changes in its financial position for the year then ended.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the combined total of receipts, disbursements, and changes in cash balances for all county funds of Cherokee County, for the year ended June 30, 2012, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2016, on our consideration of Cherokee County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the combined total of all county funds on the financial statement. The Other Supplementary Information, as listed in the table of contents, is presented for purposes of additional analysis, and is not a required part of the financial statement. Such supplementary information has been subjected to the auditing procedures applied in the audit of the combined total—all county funds on the regulatory basis Statement of Receipts, Disbursements and Changes in Cash Balances and, in our opinion, is fairly stated, in all material respects, in relation to the combined total—all county funds. The information listed in the table of contents under Introductory Section has not been audited by us, and accordingly, we express no opinion on it.

A handwritten signature in blue ink, appearing to read "Gary A. Jones". The signature is fluid and cursive, with a long horizontal stroke at the end.

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

January 28, 2016

REGULATORY BASIS FINANCIAL STATEMENT

CHEROKEE COUNTY, OKLAHOMA
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES—REGULATORY BASIS
(WITH COMBINING INFORMATION)—MAJOR FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Beginning Cash Balances July 1, 2011	Receipts Apportioned	Transfers In	Transfers Out	Disbursements	Ending Cash Balances June 30, 2012
Combining Information:						
Major Funds:						
County General Fund	\$ 1,122,676	\$ 3,678,244	\$ 200,000	\$ 200,000	\$ 3,777,636	\$ 1,023,284
Highway	1,246,327	2,954,732	-	200,000	2,785,991	1,215,068
County Health	218,477	259,047	-	-	175,115	302,409
Sales Tax	1,422,075	2,793,049	-	-	2,794,344	1,420,780
County Sinking	6	-	-	-	-	6
Governmental Building Authority	2,122,577	3,205,961	-	-	2,072,711	3,255,827
Fire Department Sales Tax	923,283	879,133	-	-	601,027	1,201,389
Use Tax	724,912	435,856	200,000	200,000	41,262	1,119,506
CBRI 105	849,591	357,047	-	-	269,798	936,840
911 Emergency	73,200	117,393	-	-	151,063	39,530
911 Wireless	70,780	203,963	-	-	212,320	62,423
Eastern Oklahoma Development	80,000	-	-	-	80,000	-
Remaining Aggregate Funds	753,950	1,255,726	653	-	1,213,934	796,395
Combined Total - All County Funds	\$ 9,607,854	\$ 16,140,151	\$ 400,653	\$ 600,000	\$ 14,175,201	\$ 11,373,457

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

**CHEROKEE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

1. Summary of Significant Accounting Policies

A. Reporting Entity

Cherokee County is a subdivision of the State of Oklahoma created by the Oklahoma Constitution and regulated by Oklahoma Statutes.

The accompanying financial statement presents the receipts, disbursements, and changes in cash balances of the total of all funds under the control of the primary government. The general fund is the county's general operating fund, accounting for all financial resources except those required to be accounted for in another fund, where its use is restricted for a specified purpose. Other funds established by statute and under the control of the primary government are also presented.

The County Treasurer collects and remits material amounts of intergovernmental revenues and ad valorem tax revenue for other budgetary entities, including county libraries, school districts, and cities and towns. The cash receipts and disbursements attributable to those other entities do not appear in funds on the County's financial statement; those funds play no part in the County's operations. Any trust or agency funds maintained by the County are not included in this presentation.

B. Fund Accounting

The County uses funds to report on receipts, disbursements, and changes in cash balances. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

Following are descriptions of the county funds included as combining information within the financial statement:

County General Fund - revenues are from ad valorem taxes, officers' fees, interest earnings and miscellaneous collections of the County. Disbursements are for the general operations of the County.

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

County Health - accounts for monies collected on behalf of the county health department from ad valorem taxes and state and local revenues. Disbursements are for the operation of the county health department.

Sales Tax - accounts for the collection of sales tax revenue and the disbursement of funds as restricted by the sales tax resolution.

**CHEROKEE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

County Sinking - accounts for debt service receipts derived generally from a special ad valorem tax levy and from interest earned on investments on cash not immediately required for debt service payments.

Governmental Building Authority - accounts for sales tax monies collected for acquiring, constructing, equipping, operating, and maintaining new county jail facilities, and parking facilities. Disbursements are for acquiring, constructing, equipping, operating, and maintaining these facilities.

Fire Department Sales Tax - accounts for sales tax monies collected for the funding of fourteen fire districts within Cherokee County. Disbursements are for the fire protection of Cherokee County.

Use Tax - accounts for use tax remitted to the County by the Oklahoma Tax Commission. Disbursements are for courthouse maintenance and operation.

CBRI 105 - revenues are from the state highway department. Disbursements are for construction, repair, and maintenance of bridges in Cherokee County.

911 Emergency - accounts for fees collected by local telephone land line providers in Cherokee County. Disbursements are for the operation of the enhanced emergency telephone system.

911 Wireless - accounts for fees collected by local wireless service providers in Cherokee County. Disbursements are for the operation of the enhanced emergency telephone system.

Eastern Oklahoma Development - accounts for Rural Economic Action Plan (REAP) Grants. Disbursements are for various projects within Cherokee County.

C. Basis of Accounting

The financial statement is prepared on a basis of accounting wherein amounts are recognized when received or disbursed. This basis of accounting differs from accounting principles generally accepted in the United States of America, which require revenues to be recognized when they become available and measurable or when they are earned, and expenditures or expenses to be recognized when the related liabilities are incurred. This regulatory basis financial presentation is not a comprehensive measure of economic condition or changes therein.

Title 19 O.S. § 171 specifies the format and presentation for Oklahoma counties to present their financial statement in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) or on a regulatory basis. The County has elected to present their financial statement on a regulatory basis in conformity with Title 19 O.S. § 171. County governments (primary only) are required to present their financial statements on a fund basis format with, at a minimum, the general fund and all other county funds, which represent ten

**CHEROKEE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

percent or greater of total county revenue. All other funds included in the audit shall be presented in the aggregate in a combining statement.

D. Budget

Under current Oklahoma Statutes, a general fund and a county health department fund are the only funds required to adopt a formal budget. On or before the first Monday in July of each year, each officer or department head submits an estimate of needs to the governing body. The budget is approved for the respective fund by office, or department and object. The County Board of Commissioners may approve changes of appropriations within the fund by office or department and object. To increase or decrease the budget by fund requires approval by the County Excise Board.

E. Cash and Investments

For the purposes of financial reporting, "Ending Cash Balances, June 30" includes cash and cash equivalents and investments as allowed by statutes. The County pools the cash of its various funds in maintaining its bank accounts. However, cash applicable to a particular fund is readily identifiable on the County's books. The balance in the pooled cash accounts is available to meet current operating requirements.

State statutes require financial institutions with which the County maintains funds to deposit collateral securities to secure the County's deposits. The amount of collateral securities to be pledged is established by the County Treasurer; this amount must be at least the amount of the deposit to be secured, less the amount insured (by, for example, the FDIC).

The County Treasurer has been authorized by the County's governing board to make investments. Allowable investments are outlined in statutes 62 O.S. § 348.1 and § 348.3.

All investments must be backed by the full faith and credit of the United States Government, the Oklahoma State Government, fully collateralized, or fully insured. All investments as classified by state statute are nonnegotiable certificates of deposit. Nonnegotiable certificates of deposit are not subject to interest rate risk or credit risk.

At June 30, 2013, the County's investments were under-collateralized in the amount of \$127,991.52.

2. Ad Valorem Tax

The County's property tax is levied each October 1 on the assessed value listed as of January 1 of the same year for all real and personal property located in the County, except certain exempt property. Assessed values are established by the County Assessor within the prescribed guidelines established by the Oklahoma Tax Commission and the State Equalization Board. Title 68 O.S. § 2820.A. states, ". . . Each assessor shall thereafter maintain an active and systematic

**CHEROKEE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

program of visual inspection on a continuous basis and shall establish an inspection schedule which will result in the individual visual inspection of all taxable property within the county at least once each four (4) years."

Taxes are due on November 1 following the levy date, although they may be paid in two equal installments. If the first half is paid prior to January 1, the second half is not delinquent until April 1. Unpaid real property taxes become a lien upon said property on October 1 of each year.

Unpaid delinquent personal property taxes are published usually in May. If the taxes are not paid within 30 days from publication, they shall be placed on the personal tax lien docket.

3. Other Information

A. Pension Plan

Plan Description. The County contributes to the Oklahoma Public Employees Retirement Plan (the Plan), a cost-sharing, multiple-employer defined benefit pension plan administered by the Oklahoma Public Employees Retirement System (OPERS). Benefit provisions are established and amended by the Oklahoma Legislature. The Plan provides retirement, disability, and death benefits to Plan members and beneficiaries. Title 74, Sections 901 through 943, as amended, establishes the provisions of the Plan. OPERS issues a publicly available financial report that includes financial statements and supplementary information. That report may be obtained by writing OPERS, P.O. Box 53007, Oklahoma City, Oklahoma 73105 or by calling 1-800-733-9008.

Funding Policy. The contribution rates for each member category are established by the Oklahoma Legislature and are based on an actuarial calculation which is performed to determine the adequacy of contribution rates.

B. Other Post Employment Benefits (OPEB)

In addition to the pension benefits described in the Pension Plan note, OPERS provides post-retirement health care benefits of up to \$105 each for retirees who are members of an eligible group plan. These benefits are funded on a pay-as-you-go basis as part of the overall retirement benefit. OPEB expenditure and participant information is available for the state as a whole; however, information specific to the County is not available nor can it be reasonably estimated.

C. Contingent Liabilities

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, primarily the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable fund. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time; although, the County expects such amounts, if any, to be immaterial.

**CHEROKEE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

As of the end of the fiscal year, there were no claims or judgments that would have a material adverse effect on the financial condition of the County; however, the outcome of any lawsuit would not be determinable.

D. Sales Tax

In 1984, Cherokee County voters approved a one percent (1%) sales tax to become effective for a period of five years. The proceeds of the tax are used as follows: 50% for County Roads, 15% for law enforcement, and 25% for general county operations, including extension and 4-H clubs, and 10% for grant matching funds. The original duration of the tax was five years. In 2008, voters subsequently voted to make this sales tax permanent or until repealed by a majority of the electors of Cherokee County. These funds are accounted for in the Sales Tax fund.

On September 15, 1998, Cherokee County voters approved a one-quarter percent (1/4 %) sales tax designated for the purpose of providing funding for fire protection to the fourteen different fire departments in and throughout the County. There is no expiration date on this sales tax. These funds are accounted for in the Fire Department Sales Tax fund.

On February 24, 2004, Cherokee County voters approved a sales tax of three-fourth of one percent (3/4%) to be used solely to pay for acquiring, constructing, equipping, operating, and maintaining new county jail facilities and parking facilities on behalf of the County by the Cherokee County Governmental Building Authority, providing one-half of one percent (1/2%) shall be levied until repealed by a majority of the voters of Cherokee County and providing that the remaining one-fourth percent (1/4%) for the indebtedness of the Cherokee County Governmental Building Authority. This one-fourth of one percent (1/4%) shall expire when the indebtedness is paid or by June 30, 2014, whichever comes first. These funds are accounted for in the Governmental Building Authority fund.

E. Interfund Transfers

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

- \$200,000 from the Use Tax fund to the County General Fund to meet requirements of appropriations in accordance with 68 O.S. § 3021.
- \$200,000 from the County General into the Use Tax fund for repayment of the loan in accordance with 68 O.S. § 3021.
- \$200,000 from the Highway fund into the ETR fund (a trust and agency fund) for expenditures on bridge and road projects
- \$653 into Resale Property fund from the following trust and agency funds:
 - \$226 from current ad valorem tax.
 - \$427 from prior and back tax refund.

OTHER SUPPLEMENTARY INFORMATION

CHEROKEE COUNTY, OKLAHOMA
COMPARATIVE SCHEDULE OF RECEIPTS, EXPENDITURES, AND
CHANGES IN CASH BALANCES—BUDGET AND ACTUAL—BUDGETARY BASIS—
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	General Fund		
	Budget	Actual	Variance
Beginning Cash Balances	\$ 1,122,676	\$ 1,122,676	\$ -
Less: Prior Year Outstanding Warrants	(133,925)	(133,925)	-
Less: Prior Year Encumbrances	(76,583)	(74,896)	1,687
Beginning Cash Balances, Budgetary Basis	<u>912,168</u>	<u>913,855</u>	<u>1,687</u>
Receipts:			
Ad Valorem Taxes	1,534,268	1,662,830	128,562
Charges for Services	223,343	148,319	(75,024)
Intergovernmental Revenues	1,232,410	1,387,559	155,149
Miscellaneous Revenues	616,391	479,536	(136,855)
Total Receipts, Budgetary Basis	<u>3,606,412</u>	<u>3,678,244</u>	<u>71,832</u>
Expenditures:			
County Sheriff	645,998	644,330	1,668
County Treasurer	235,101	231,471	3,630
County Commisioners	270,108	262,097	8,011
OSU Extension	131,252	130,820	432
County Clerk	449,034	445,244	3,790
Court Clerk	529,057	513,699	15,358
County Assessor	140,190	132,604	7,586
Revaluation of Real Property	409,585	378,941	30,644
General Government	1,253,951	675,429	578,522
Excise-Equalization Board	14,000	12,785	1,215
County Election Board	169,220	162,007	7,213
Hope House	44,266	42,145	2,121
County Audit Budget Account	50,438	38,437	12,001
Free Fair	37,210	15,589	21,621
Solid Waste	122,487	122,347	140
Emergency Management	16,683	13,582	3,101
Total Expenditures, Budgetary Basis	<u>4,518,580</u>	<u>3,821,527</u>	<u>697,053</u>
Excess of Receipts and Beginning Cash Balances Over Expenditures, Budgetary Basis	<u>\$ -</u>	<u>770,572</u>	<u>\$ 770,572</u>
Operating Transfers:			
Operating Transfers In		200,000	
Operating Transfer Out		<u>(200,000)</u>	
Net Operating Transfers		-	
Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances			
Add: Current Year Outstanding Warrants		136,520	
Add: Current Year Encumbrances		<u>116,192</u>	
Ending Cash Balance		<u>\$ 1,023,284</u>	

**CHEROKEE COUNTY, OKLAHOMA
COMPARATIVE SCHEDULE OF RECEIPTS, EXPENDITURES, AND
CHANGES IN CASH BALANCES—BUDGET AND ACTUAL—BUDGETARY BASIS—
COUNTY HEALTH DEPARTMENT FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	County Health Department Fund		
	Budget	Actual	Variance
Beginning Cash Balances	\$ 218,477	\$ 218,477	\$ -
Less: Prior Year Outstanding Warrants	(2,932)	(2,932)	-
Less: Prior Year Encumbrances	(11,825)	(10,700)	1,125
Beginning Cash Balances, Budgetary Basis	203,720	204,845	1,125
Receipts:			
Ad Valorem Taxes	230,140	248,907	18,767
Charges for services	-	8,501	8,501
Miscellaneous Revenues	10,139	1,639	(8,500)
Total Receipts, Budgetary Basis	240,279	259,047	18,768
Expenditures:			
Health and Welfare	443,999	169,476	274,523
Total Expenditures, Budgetary Basis	443,999	169,476	274,523
Excess of Receipts and Beginning Cash Balances Over Expenditures, Budgetary Basis	\$ -	294,416	\$ 294,416
Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances			
Add: Current Year Encumbrances		6,676	
Add: Current Year Outstanding Warrants		1,317	
Ending Cash Balance		\$ 302,409	

CHEROKEE COUNTY, OKLAHOMA
COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES—REGULATORY BASIS—
REMAINING AGGREGATE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Beginning Cash Balances July 1, 2011	Receipts Apportioned	Transfers In	Transfers Out	Disbursements	Ending Cash Balances June 30, 2012
Remaining Aggregate Funds:						
Resale Property	\$ 181,760	\$ 246,892	\$ 653	\$ -	\$ 199,673	\$ 229,632
Sheriff Service Fee	206,449	297,328	-	-	302,605	201,172
Preservation Fund	64,874	41,360	-	-	32,570	73,664
County Clerk Lien Fee (CCLF)	21,441	16,687	-	-	17,807	20,321
Assessor Visual Inspection	22	-	-	-	-	22
Treasurer Mortgage Certification Fee	18,022	7,800	-	-	-	25,822
County Treasurer Cash	500	-	-	-	-	500
Corps of Engineers	17,028	28,136	-	-	20,853	24,311
County Assessor Revolving Fund	3,374	3,093	-	-	989	5,478
Governmental Building Authority Interest	55	3	-	-	-	58
Boot Camp Fund	29,650	69,142	-	-	58,348	40,444
Sheriff Drug Forfeiture	1,553	-	-	-	536	1,017
Community Building Fund	1,863	12,091	-	-	10,415	3,539
Community Service	53,650	12,755	-	-	16,991	49,414
Hope House Shelter	(1)	35,157	-	-	35,156	-
Department of Corrections	31,369	58,653	-	-	80,582	9,440
Fairgrounds	3,103	8,374	-	-	9,144	2,333
Juvenile Detention	641	-	-	-	-	641
Sheriff Training Fund	27	-	-	-	-	27
Truancy Fund	695	-	-	-	-	695
Sheriff Drug Buy Fund	15,896	1,876	-	-	4,434	13,338
Solid Waste Fund	67,665	297,851	-	-	297,035	68,481
Cherokee County Flood Plain	4,674	2,855	-	-	1,150	6,379
Keys Community Building	4,497	2,230	-	-	843	5,884
County Bridge Road 103	1,972	-	-	-	-	1,972
Sheriff Grant Fund	19,487	-	-	-	19,487	-
Juvenile Drug Court	3,684	47,208	-	-	42,855	8,037
Community Development Block Grant	-	14,400	-	-	14,400	-
Sheriff Auction Fund	-	51,785	-	-	48,061	3,724
Trash Cop Revolving Fund	-	50	-	-	-	50
Combined Total - Remaining Aggregate Funds	\$ 753,950	\$ 1,255,726	\$ 653	\$ -	\$ 1,213,934	\$ 796,395

**CHEROKEE COUNTY, OKLAHOMA
NOTES TO OTHER SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Budgetary Schedules

The Comparative Schedule of Receipts, Expenditures, and Changes in Cash Balances—Budget and Actual—Budgetary Basis for the General Fund and the County Health Department Fund present comparisons of the legally adopted budget with actual data. The “actual” data, as presented in the comparison of budget and actual, will differ from the data as presented in the Combined Statement of Receipts, Disbursements, and Changes in Cash Balances with Combing Information because of adopting certain aspects of the budgetary basis of accounting and the adjusting of encumbrances and outstanding warrants to their related budget year.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in these funds. At the end of the year unencumbered appropriations lapse.

2. Remaining County Funds

Remaining aggregate funds as presented on the financial statement are as follows:

Resale Property – revenues are from the collection of interest and penalties on delinquent ad valorem taxes. Disbursements are to offset the expense of collecting delinquent ad valorem taxes as restricted by statute.

Sheriff Service Fee – revenues are from fees charged for serving summons and notices. Disbursements are for any lawful expense of the Sheriff’s office.

Preservation Fund – revenues are from a fee charged by the County Clerk for recording instruments. Disbursements are for the maintenance and preservation of public records.

County Clerk Lien Fee (CCLF) – revenues are from a fee charged by the County Clerk for filing liens. Disbursements are for any lawful expense of the County Clerk’s office.

Assessor Visual Inspection – revenues are from fees charged to all entities receiving ad valorem taxes. Disbursements are for the revaluation of all county property for ad valorem purposes.

Treasurer Mortgage Certification Fee – revenues are from a fee for certifying mortgages. Disbursements are for any lawful expense of the Treasurer’s office.

County Treasurer Cash – accounts for monies maintained in the cash drawer by the County Treasurer.

Corps of Engineers – revenues are from the Corps of Engineers. Disbursements are for the expense of a Sheriff’s patrol on corp land and area lakes.

**CHEROKEE COUNTY, OKLAHOMA
NOTES TO OTHER SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

County Assessor Revolving Fund – revenues are from fees collected by the County Assessor for copies. Disbursements are to maintain electronic databases and geographic information systems in the Assessor’s office.

Governmental Building Authority Interest – revenues are from interest earned on governmental building funds monies. Disbursements are for acquiring, constructing, equipping, operating and maintaining county jail facilities and parking facilities.

Boot Camp Fund – revenues are monies received from the public schools and a federal grant passed through the County. Disbursements are used to pay for court-sentenced juveniles to go to Boot Camp.

Sheriff Drug Forfeiture – accounts for proceeds from forfeited drug cases. Disbursements are for the maintenance and operation of the Sheriff’s Drug Task Force for the enforcement of controlled dangerous substance laws.

Community Building Fund – revenues are from rentals of the Community Building. Disbursements are for the maintenance and operation of the building.

Community Service – revenues are from the State Department of Corrections to reimburse the County for the expense of administering the Community Service Program.

Hope House Shelter – revenues are from state grants. Disbursements are for the maintenance and operation of Hope House Shelter.

Department of Corrections – revenues are from the State Department of Corrections for housing state inmates. Disbursements are for the feeding and housing of prisoners.

Fairgrounds – revenues are from rentals of the fairgrounds. Disbursements are for maintenance and operation of the fairgrounds.

Juvenile Detention – revenues are from the State of Oklahoma for transporting juvenile prisoners. Disbursements are for expenses relating to transporting juveniles.

Sheriff Training Fund – revenues are from the sale of property forfeited in drug cases. Disbursements are for officer training, equipment, and crime prevention.

Truancy Fund – revenues are from local schools. Disbursements are for one Sheriff’s Deputy to assist in reducing school truancy.

Sheriff Drug Buy Fund – revenue is from monies seized and forfeited to the Sheriff’s office. Disbursements are for drug buys.

**CHEROKEE COUNTY, OKLAHOMA
NOTES TO OTHER SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Solid Waste Fund – revenues are from solid waste fees from three transfer stations. Disbursements are used to pay fees and employee payroll.

Cherokee County Flood Plain – revenues are from monies paid to the County Clerk when a piece of property sells and a five dollar fee must be paid for maps to determine if the property is in a flood plain. Disbursements are for payroll of employee issuing permits.

Keys Community Building – revenues are from renting the community building. Disbursements are for maintenance and supplies for community building.

County Bridge Road 103 – revenues are from the State of Oklahoma. Disbursements are for replacement, repair, and maintenance of bridges within the County.

Sheriff Grant Fund – revenues are from federal JAG grant. Disbursements are for law enforcement purposes.

Juvenile Drug Court – revenues are from the State of Oklahoma to reimburse the salary of the juvenile drug court administrator and monthly fees collected by the administrator. Disbursements are for the salary of the juvenile drug court administrator and for supplies.

Community Development Block Grant – revenues are from a federal grant. Disbursements are for rural water district improvements.

Sheriff Auction Fund – revenues are from proceeds from property forfeiture auctions. Disbursements are used to make improvements to the gun range.

Trash Cop Revolving Fund – revenues are from grant collections. Disbursements are used to enforce trash dumping laws.

INTERNAL CONTROL AND COMPLIANCE SECTION



Oklahoma State Auditor & Inspector

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

TO THE OFFICERS OF
CHEROKEE COUNTY, OKLAHOMA

We have audited the combined totals—all funds of the accompanying Combined Statement of Receipts, Disbursements, and Changes in Cash Balances of Cherokee County, Oklahoma, as of and for the year ended June 30, 2012, which comprises Cherokee County's basic financial statement, prepared using accounting practices prescribed or permitted by Oklahoma state law, and have issued our report thereon dated January 28, 2016. Our report on the basic financial statement was adverse because the statement is not a presentation in conformity with accounting principles generally accepted in the United States of America. However, our report also included our opinion that the financial statement does present fairly, in all material respects, the receipts, disbursements, and changes in cash balances – regulatory basis of the County for the year ended June 30, 2012, on the basis of accounting prescribed by Oklahoma state law, described in Note 1. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Cherokee County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Cherokee County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in internal control described in the accompanying schedule of findings and responses to be material weaknesses in internal control over financial reporting. 2012-1, 2012-4, 2012-5, 2012-6, 2012-7, 2012-8, and 2012-9.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control described in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting. 2012-2.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cherokee County's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2012-4 and 2012-7.

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

Cherokee County's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit Cherokee County's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, those charged with governance, others within the entity, and is not intended to be and should not be used by anyone other than the specified parties. This report is also a public document pursuant to the Oklahoma Open Records Act (51 O.S. § 24A.1 et seq.), and shall be open to any person for inspection and copying.



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

January 28, 2016

**CHEROKEE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

SECTION 1—Findings related to the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Finding 2012-1 – Inadequate County-Wide Controls (Repeat Finding)

Condition: County-wide controls regarding Risk Management and Monitoring have not been designed.

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

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

Recommendation: The Oklahoma State Auditor and Inspector's Office (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.

Management Response:

Chairman Board of County Commissioners, County Clerk, and County Treasurer: The County will try to meet quarterly to address risk management and increase communication with elected officials.

Criteria: Internal control is an integral component of an organization's management that provides reasonable assurance that the objectives of effectiveness and efficiency of operations, reliability of financial reporting and compliance with laws and regulations are being 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 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 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 of efficient and effective operations, reliable financial reporting, and compliance with laws and regulations.

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.

**CHEROKEE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Finding 2012-2 – Disaster Recovery Plan - County Clerk, County Commissioners District 1, 2, and 3, and County Assessor (Repeat Finding)

Condition: The County Clerk and County Commissioners District 1, 2 and 3 do not have a written Disaster Recovery Plan and the County Assessor has not updated their plan since 2002.

Cause of Condition: Policies and procedures have not been designed to develop and implement a formal Disaster Recovery Plan.

Effect of Condition: The failure to have a formal Disaster Recovery Plan could result in the County being unable to function in the event of a disaster.

Recommendation: OSAI recommends the County officials develop a Disaster Recovery Plan that addresses how critical information and systems within their offices would be restored in the event of a disaster.

Management Response:

County Clerk: I have recently completed a Disaster Recovery Plan.

County Commissioner District 1: I have recently completed a Disaster Recovery Plan and filed with the County Clerk and have provided a copy to OSAI.

County Commissioner District 2: I have recently completed a Disaster Recovery Plan and filed with the County Clerk and have provided a copy to OSAI.

County Commissioner District 3: I have recently completed a Disaster Recovery Plan and filed with the County Clerk and have provided a copy to OSAI.

County Assessor: My written Disaster Recovery Plan has been updated and will be updated annually.

Criteria: According to the standards of the Information Systems Audit and Control Association's (COBIT Delivery and Support 4.3), management should ensure that a written Disaster Recovery Plan is documented and contains the following:

- Guidelines on how to use the Recovery Plan,
- Emergency procedures to ensure the safety of all affected staff members,
- Roles and responsibilities of information services function, vendors providing recovery services, users of services and support administrative personnel,
- Listing of systems requiring alternatives (hardware, peripherals, software),
- Listing of highest to lowest priority applications, required recovery times and expected performance norms,
- Various recovery scenarios from minor to loss of total capability and response to each in sufficient detail for step-by-step execution,

**CHEROKEE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

- Specific equipment and supply needs are identified such as high speed printers, signatures, forms, communications equipment, telephones, etc. and a source and alternative source defined, Training and/or awareness of individual and group roles in continuity plan,
- Listing of contracted service providers,
- Logistical information on location of key resources, including back-up site for recovery operating system, applications, data files, operating manuals and program/system/user documentation, Current names, addresses, telephone/pager numbers of key personnel,
- Business resumption alternatives for all users for establishing alternative work locations once IT resources are available.

According to the standards of the Information Systems Audit and Control Association (CobiT 4.1, Delivery and Support, 5.3 Identity Management), information services function management should ensure that all users (internal, external, and temporary) and their activity on IT systems (business application, IT environment, system operations, development, and maintenance) are uniquely identifiable. Enable user identities via authentication mechanisms. Confirm that user access rights to systems and data are in line with defined and documented business needs and that job requirements are attached to user identities. Ensure that user access rights are requested by user management, approved by system owners and implemented by the security-responsible person. Maintain user identities and access rights in a central repository. Deploy cost-effective technical and procedural measures, and keep them current to establish user identification, implement authentication and enforce access rights.

Finding 2012-4 - Inadequate Segregation of Duties and Noncompliance Over Purchasing Process (Repeat Finding)

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

- The Purchasing Agent prepares purchase orders, encumbers purchase orders, approves/authorizes the encumbrance, reviews the purchase order for accuracy, has custody of/prepares the warrants, maintains ledgers, and distributes warrants.
- Each department requisitioning officer will call the Purchasing Agent to get a purchase order number, the Purchasing Agent will pull up that officer's fund on the computer to see if they have funds available for the purchase if they do she will issue them a purchase order number. The next day by noon the department will bring in the purchase order and at this time the purchasing agent will enter the purchase order into the system and encumber the funds. It was noted that the system allows the Purchasing Agent to input the previous days date as the encumbrance date. Therefore, goods/services are allowed to be purchased prior to the encumbering of funds.

Cause of Condition: Policies and procedures have not been designed and implemented with regard to segregation of duties and/or compensating controls of the purchasing process including the encumbrance of funds.

**CHEROKEE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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

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 risk 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 approve accounting functions. Furthermore, the duties of encumbering funds and posting to the ledgers should be separated from the printing and distribution of payments and that prior to the issuance of purchase order number; the purchasing agent ensures adequate funds are available for the purchase, encumbers the funds, and then issues the purchase order number.

Management Response:

County Clerk: I am aware of the lack of segregation of duties over purchasing and we will work on separating key processes and functions to segregate purchasing duties. We will also work on ensuring that we are encumbering funds prior to issuing purchase orders.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. Internal controls should be designed to analyze and check accuracy, completeness, and authorization of disbursements and/or transactions. To help ensure a proper accounting of funds, the duties of processing, authorizing, and distribution should be segregated.

Title 19 O.S. § 1505.C.2 states, “The county clerk shall then encumber the amount stated on the purchase order and assign a sequential number to the purchase order.”

Finding 2012-5 – Inadequate Segregation of Duties Over the Payroll Process (Repeat Finding)

Condition: A lack of segregation of duties exists in the County Clerk’s office because one deputy enrolls new employees, reviews the payroll claims, calculates amounts to be paid to the employees and payroll related agencies, updates the master payroll file, issues payroll, prints payroll warrants, and removes terminated employees from payroll.

Cause of Condition: Policies and procedures have not been designed to adequately segregate the duties within the payroll department.

Effect of Condition: This condition could result in unrecorded transactions, misappropriation of funds, or clerical errors that are not 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 risk involved with concentration of duties. Compensating controls would include separating key processes and/or critical functions of the office, and having management review and approve accounting functions.

**CHEROKEE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Management Response:

County Clerk: I am aware of the lack of segregation of duties over payroll and we will work on cross-training and implementing controls to segregate payroll duties.

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 payroll calculations and/or transactions. To help ensure a proper accounting of funds, the duties of processing, authorizing, and payroll distribution should be segregated.

Finding 2012-6 - Inadequate Internal Controls Over Signature Stamps – County Commissioners

Condition: During interviews, we noted that the County Clerk's employees have control of the signature stamps for the County Commissioners. The employees stated that they are only used for letters drafted from the County Commissioner's office.

Cause of Condition: Policies and procedures have not been designed to safeguard the signature stamp from unauthorized use.

Effect of Condition: This condition could result in the unauthorized transactions, misappropriation of funds, or clerical errors that are not detected in a timely manner.

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

Management Response:

Chairman Board of County Commissioners: The County Commissioners' signature stamps will be in a locked drawer only accessible by the County Commissioners and the stamps will only be used by the Commissioners.

Criteria: An important aspect of internal control 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 untimely detection of unauthorized acquisition, use, or disposition of the entity's assets and safeguarding assets from loss, damage, or misappropriation.

Finding 2012-7 – Inadequate Internal Controls and Noncompliance Over Purchasing (Repeat Finding)

Condition: Of the sixty (60) disbursements tested, the following exceptions were noted:

- Three (3) disbursements were not timely encumbered.

**CHEROKEE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

In addition, we noted that the requisitioning and receiving officers for the Fire Departments were not employees of the County.

Cause of Condition: The County did not follow the policies and procedures designed by state statutes regarding the purchasing process.

Effect of Condition: This condition resulted in noncompliance with state statutes, laws, regulations or legislative intent and could result in inaccurate records, incomplete information, or misappropriation of assets.

Recommendation: OSAI recommends that the County adhere to state purchasing guidelines. Purchase orders should be encumbered before goods or services are ordered. Purchase orders should have invoices attached and additional supporting attached.

Management Response:

County Clerk: In the future we will strive to adhere to the state purchasing guidelines and we will do our due diligence to comply with regards to the requisitioning and receiving officers of the volunteer fire departments being County employees.

Chairman Board of County Commissioners: We will communicate with all offices to make sure they all know to adhere to the state purchasing guidelines. Additionally, we were not aware of the requirement that the Fire Department requisitioning and receiving officers must be County employees we will work to establish a process that puts Cherokee County in compliance.

County Sheriff: We were unaware of some of the purchasing procedures and will make sure and follow the proper purchasing procedures in the future.

Criteria: Title 19 O.S. § 1505 prescribes established for the requisition, purchase, lease-purchase, rental, and receipt or supplies, materials, and equipment for maintenance, operation, and capital expenditures of county government.

Title 19 O.S. §§ 1501 (4) and 1503 requires the County to appoint requisition and receiving officers that are employees of the County.

Finding 2012-8 – Reconciliation of the Appropriation Ledger to General Ledger (Repeat Finding)

Condition: Based on our documentation of controls and testwork, reconciliations are not being performed between the County Clerk's appropriation ledger and the County Treasurer's general ledger.

Cause of Condition: Policies and procedures have not been designed to ensure the reconciliation of the County Clerk's appropriation ledger to the County Treasurer's general ledger.

Effect of Condition: This condition could result in unrecorded transactions and undetected errors.

**CHEROKEE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Recommendation: OSAI recommends management take steps to ensure reconciliations are performed between the funds presented on the County Clerk's appropriation ledger and the County Treasurer's general ledger monthly. Documentation of this reconciliation should be reviewed and approved by someone other than the preparer.

Management Response:

County Clerk: We will work with the County Treasurer's office and take the appropriate steps to reconcile our appropriation ledger to the County Treasurer's general ledger on a monthly basis.

Criteria: Effective internal controls are essential to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting and compliance with applicable laws and regulations. An effective internal control system has in place policies and procedures that reduce the risk of errors and fraud within an organization. A key factor in this system is the reconciliation of the County Clerk's appropriation ledger to the County Treasurer's general ledger.

Finding 2012-9 – Inadequate Internal Controls Over Pledged Collateral and Noncompliance with State Statute (Repeat Finding)

Condition: At June 30, 2012, the County's deposits were not secured by pledged collateral at the local bank in the amount of \$127,991.52.

Cause of Condition: Policies and procedures have not been designed to monitor bank balances on a daily basis to ensure all deposits are adequately secured.

Effect of Condition: This condition resulted in noncompliance with state statute and unsecured county funds. Further, this condition could result in possible loss of county funds.

Recommendation: OSAI recommends that the County design procedures to compare bank deposits to the pledged collateral ledgers on a daily basis to ensure that county funds are adequately secured. Documentation for this daily procedure should be maintained.

Management Response:

County Treasurer: I was not the County Treasurer in 2012; however, I have taken the following steps to prevent this from happening in the future. We have set up a spreadsheet to record each account's balance daily, according to the bank balance record online and then we will compare that balance to the pledged collateral amount that we have pledged for that month.

Criteria: Title 62 O.S. § 517.4.A. states, "A treasurer of a public entity shall require that financial institutions deposit collateral securities or instruments to secure the deposits of the public entity in each such institution. The amount of collateral securities or instruments to be pledged for the security of public deposits shall be established by the treasurer of the public entity consistent with the provisions of the Security for Local

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Public Deposits Act; provided, such amount shall not be less than the amount of the deposit to be secured, less the amount insured.”

SECTION 2—This section contains a certain matter not required to be reported in accordance with *Government Auditing Standards*. However, we believe this matter is significant enough to bring to management’s attention. We recommend that management consider this matter and take appropriate corrective action.

Finding 2012-11 - Inadequate Internal Controls and Noncompliance Over Fixed Assets (Repeat Finding)

Condition: While gaining an understanding of internal controls over fixed assets and testing compliance with state statutes, we noted the following weaknesses:

- The County has not designed procedures to perform and document an annual physical inventory of all fixed assets.
- The following offices did not file any inventory list with the County Clerk: County Commissioners District 1, 2, and 3, County Sheriff, 911 and Fire Departments of Chicken Creek, Cookson, Hulbert, Gideon, Keys, Norwood, Peggs, Sparrow Hawk, Lowery, Welling, Woodall, Illinois River, Spring Valley, and Tahlequah.

Cause of Condition: Policies and procedures have not been designed and implemented with regard to effective internal controls over safeguarding of fixed assets by performing an annual physical inventory count and maintaining the fixed asset inventory record with the County Clerk.

Effect of Condition: This condition resulted in noncompliance with state statutes and could result in inaccurate, incorrect information, or loss of assets.

Recommendation: OSAI recommends the County adopt policies and procedures to implement a system of internal controls over the fixed assets inventory records. These controls would include that all offices:

- Perform an annual inventory count.
- Retain documentation to verify the physical inventory counts were performed.
- Inventory count should be performed by someone other than the receiving officer or inventory officer.

Further, OSAI recommends the County comply with 19 O.S. § 178.1 by maintaining inventory records and properly marking assets with County identification numbers, and performing and documenting a periodic inventory of fixed assets. The verification should be performed by an individual independent of the fixed asset recordkeeping process.

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Management Response:

County Commissioner District 1: District 1 will perform and document a periodic inventory of fixed assets and provide a current paper copy of such to County Clerk, we will also provide an updated copy of our fixed assets anytime there is a change.

County Commissioner District 2: District 2 will document our review of fixed assets and that list will be updated and filed with the County Clerk.

County Commissioner District 3: I was not the commissioner during this audit period, but I have filed an updated current inventory list with the County Clerk.

County Sheriff: We have assigned an employee to monitor our fixed assets and make sure that a list of all inventory is filed with the County Clerk's office yearly.

911 Coordinator: We will file an updated inventory list with the County Clerk and we currently already do an annual audit of our inventory, but did not have that documented with the County Clerk but we will file this annually in the future.

Chairman Board of County Commissioners: The County Clerk's office has contacted the Fire Departments and made them aware of the requirement to perform an annual physical inventory count and to file a current updated inventory list with the County Clerk annually.

Criteria: 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 acquisition, use, or disposition of fixed assets, and safeguard fixed assets from loss, damage, or misappropriation

Title 19 O.S. § 178.1 requires the maintenance of inventory records and periodic inventory verifications.

Title 19 O.S. § 178.2 states, "It shall be and is hereby made the duty of every county officer, board, commission, or department, and by record directive of the board of county commissioners may be made the duty of any employee of the board of county commissioners subject to summary discharge and removal by the board, to conform in all respects and be amenable to all uniform resolutions adopted by their respective boards of county commissioners directing the taking, recording, maintaining and reporting inventories of properties in their respective custody in accordance with the provisions of this act. It shall be the duty and responsibility of each elected county official to create and maintain inventory records of said office. Such inventory shall be filed with the county clerk."



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