

OPERATIONAL AUDIT

CHEROKEE COUNTY

For the fiscal year ended June 30, 2016



*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 OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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Oklahoma State Auditor & Inspector

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

April 19, 2018

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

Transmitted herewith is the audit report of Cherokee County for the fiscal year ended June 30, 2016.

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

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

Sincerely,

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

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

**CHEROKEE COUNTY, OKLAHOMA
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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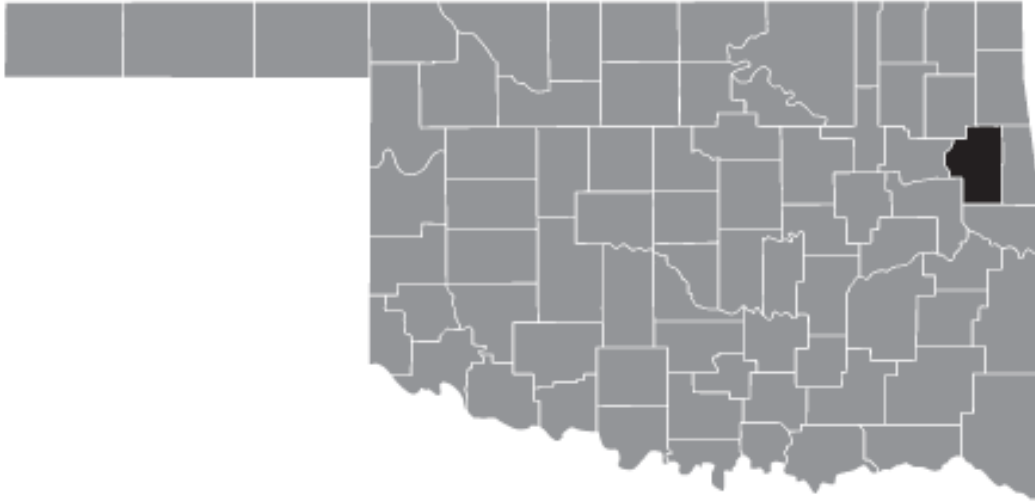
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**CHEROKEE COUNTY, OKLAHOMA
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**



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 the 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 918/456-4121.

County Seat – Tahlequah

Area – 776.40 Square Miles

County Population – 48,341
(2014 est.)

Farms – 1,233

Land in Farms – 236,042 Acres

Primary Source: Oklahoma Almanac 2015-2016

**CHEROKEE COUNTY OFFICIALS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Board of County Commissioners

District 1 – Doug Hubbard
District 2 – Bobby Botts
District 3 – Clif Hall

County Assessor

Marsha Trammel

County Clerk

Cheryl Trammel

County Sheriff

Norman Fisher

County Treasurer

Patsy Stafford

Court Clerk

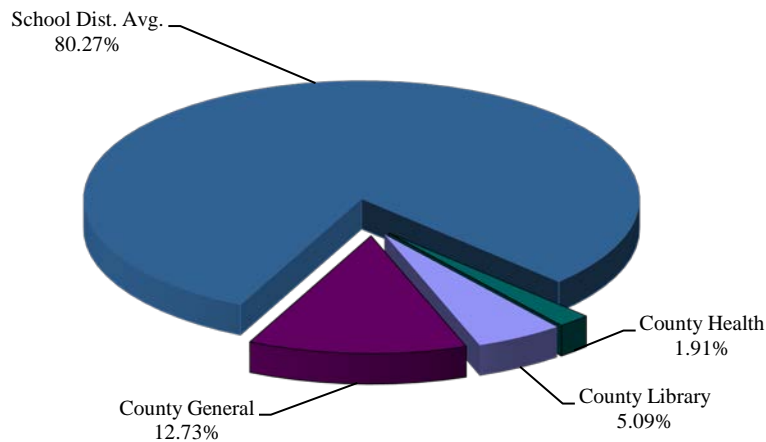
Shelly Kissinger

District Attorney

Brian Kuester

**CHEROKEE COUNTY, OKLAHOMA
AD VALOREM TAX DISTRIBUTION
SHARE OF THE AVERAGE MILLAGE
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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	10.19								
County Health	1.53	Keys	6	35.55	5.08	9.52	10.19	4.08	64.42
County Library	4.08	Lowrey	10	36.28	5.18	8.74	10.19	4.08	64.47
		Norwood	14	35.83	5.12	-	10.19	4.08	55.22
		Hulbert	16	35.81	5.12	7.47	10.19	4.08	62.67
		Woodall	21	35.84	5.12	13.66	10.19	4.08	68.89
City-Wide Millages		Shady Grove	26	36.23	5.18	-	10.19	4.08	55.68
Norwood/Ft Gibson	4.20	Peggs	31	36.15	5.16	-	10.19	4.08	55.58
		Grandview	34	35.78	5.11	8.56	10.19	4.08	63.72
		Briggs	44	35.98	5.14	11.43	10.19	4.08	66.82
		Tenkiller	66	36.22	5.17	-	10.19	4.08	55.66
		Tahlequah	I-35	35.49	5.07	24.68	10.19	4.08	79.51
		Little Kansas	I-3	35.98	5.14	26.66	11.29	4.08	83.15
		Oaks	J-5	35.81	5.12	-	11.29	4.08	56.30
		Ft. Gibson	I-3M	35.84	5.12	11.11	10.19	4.08	66.34
		Skelly/Westville	I-11	36.14	5.16	-	10.19	4.08	55.57
		Locust Grove	I-17	36.33	5.19	26.46	11.29	4.08	83.35
		Norwood/Fort Gibson	D-14-C	35.83	5.12	-	10.19	4.08	55.22

**CHEROKEE COUNTY, OKLAHOMA
SALES TAX DISTRIBUTION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Sales Tax

Sales Tax of September 15, 1998

The voters of Cherokee County 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.

Sales Tax of February 24, 2004

The voters of Cherokee County approved a three-fourth of one percent ($3/4$ %) sales tax. This sales tax is 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 of one 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.

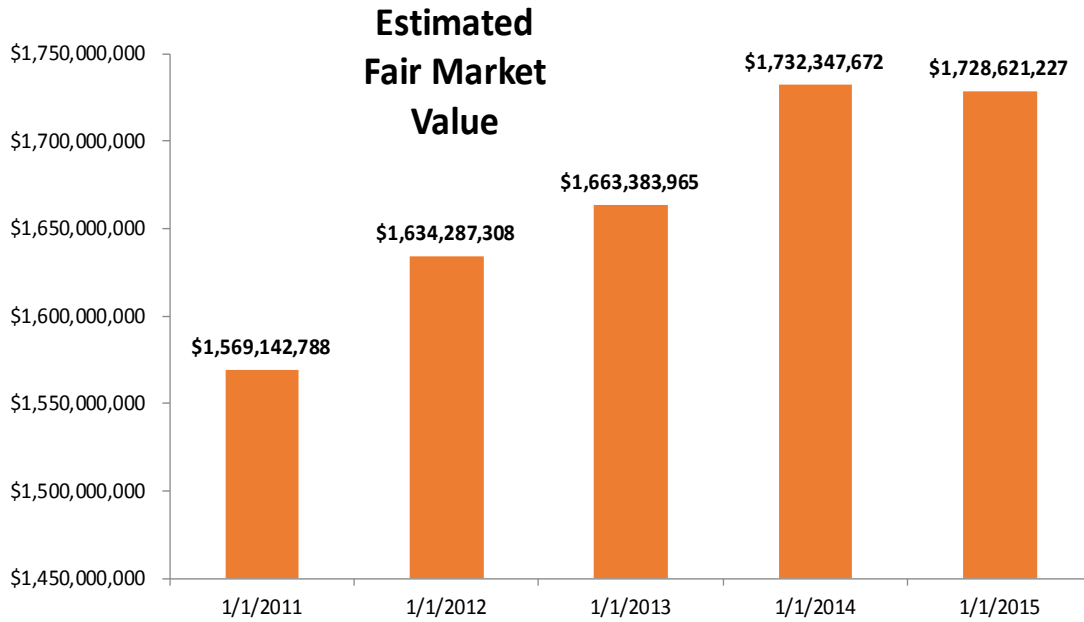
Sales Tax of April 1, 2008

The voters of Cherokee County approved a continuation of a one percent (1%) sales tax. 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 Services and 4-H clubs, and 10% for grant matching funds. There is no expiration date on this sales tax. These funds are accounted for in the Sales Tax fund and County General Fund.

During the fiscal year the County collected \$6,476,898 in total sales tax.

**CHEROKEE COUNTY, OKLAHOMA
 ASSESSED VALUE OF PROPERTY
 TREND ANALYSIS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

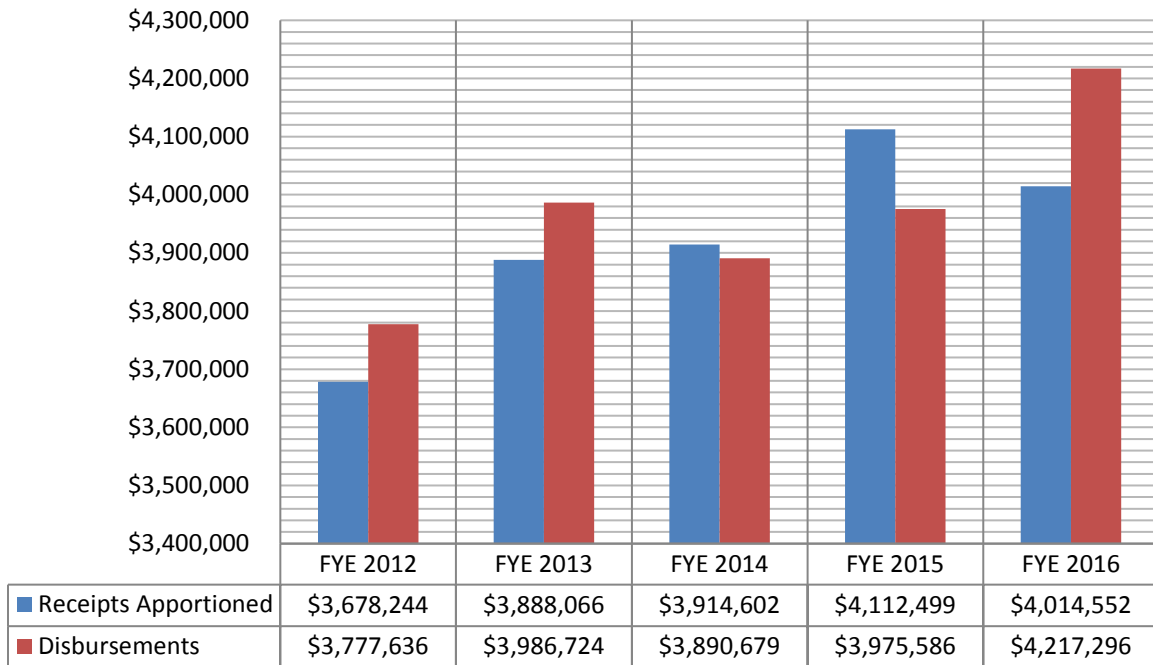
Valuation Date	Personal	Public Service	Real Estate	Homestead Exemption	Net Value	Estimated Fair Market Value
1/1/2015	\$17,461,719	\$6,019,034	\$172,686,616	\$9,679,083	\$186,488,286	\$1,728,621,227
1/1/2014	\$20,186,192	\$6,378,047	\$167,300,313	\$9,349,953	\$184,514,599	\$1,732,347,672
1/1/2013	\$19,423,785	\$6,286,009	\$160,542,099	\$9,230,457	\$177,021,436	\$1,663,383,965
1/1/2012	\$19,599,361	\$9,949,988	\$155,413,553	\$9,216,776	\$175,746,126	\$1,634,287,308
1/1/2011	\$18,313,435	\$10,432,331	\$149,302,896	\$9,279,220	\$168,769,442	\$1,569,142,788



**CHEROKEE COUNTY, OKLAHOMA
COUNTY GENERAL FUND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

County General Fund

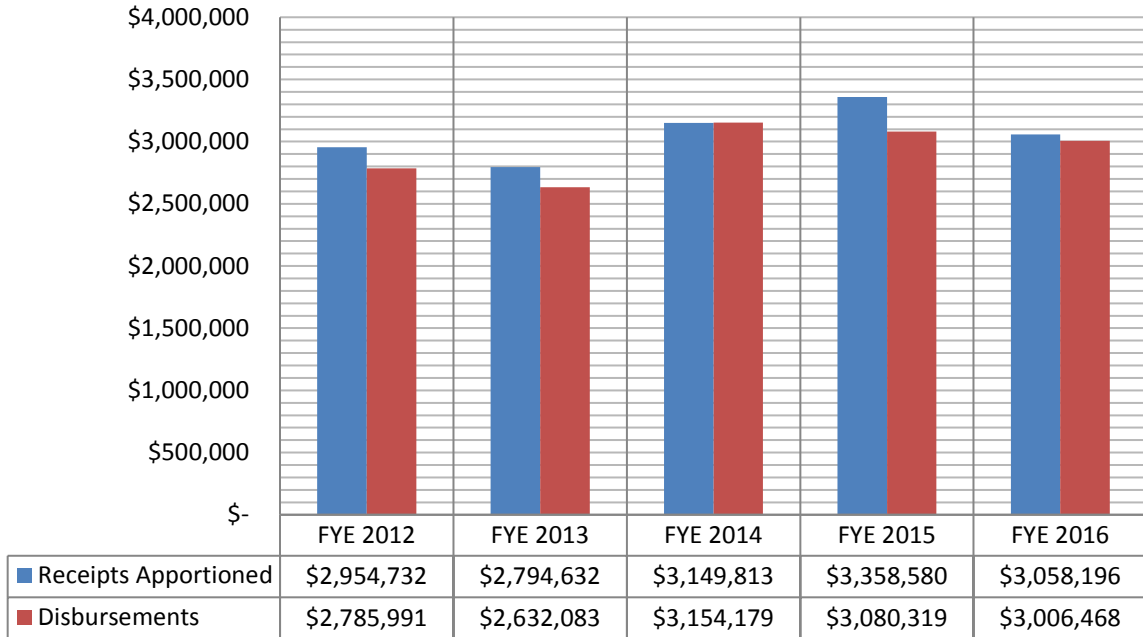
The Oklahoma Constitution and the Oklahoma Statutes authorize counties to create a County General Fund, which is the county's primary source of operating revenue. The County General Fund is typically used for county employees' salaries plus many expenses for county maintenance and operation. It also 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, 2016**

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.



CHEROKEE COUNTY
DESCRIPTION OF COUNTY FUNDS AND TRANSFERS
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Presentation of Apportionments, Disbursements, and Cash Balances of County Funds for the Fiscal Year Ended June 30, 2016

	Beginning Cash Balances July 1, 2015	Receipts Apportioned	Transfers In	Transfers Out	Disbursements	Ending Cash Balances June 30, 2016
Combing Information:						
County Funds:						
County General Fund	\$ 1,086,517	\$ 4,014,552	\$ 400,000	\$ 400,000	\$ 4,217,296	\$ 883,773
Highway	1,651,512	3,058,196	-	-	3,006,468	1,703,240
County Bridge Road 103	1,972	-	-	-	-	1,972
CBRI 105	1,052,012	278,342	-	-	228,235	1,102,119
Sheriff Drug Buy Fund	11,138	1,000	-	-	4,100	8,038
County Health	755,481	290,456	-	-	107,082	938,855
Resale Property	348,973	322,371	-	-	284,803	386,541
Treasurer Mortgage Certification Fee	43,715	7,835	-	-	5	51,545
Sheriff Service Fee	96,086	321,155	-	-	254,479	162,762
Sheriff Training Fund	27	-	-	-	-	27
911 Wireless	101,948	226,444	-	-	221,217	107,175
County Clerk Lien Fee (CCLF)	20,999	20,998	-	-	23,117	18,880
Keys Community Building	6,751	3,085	-	-	2,573	7,263
Corps of Engineers	412	33,480	-	-	19,242	14,650
Community Building Fund	6,121	16,000	-	-	19,301	2,820
Solid Waste Fund	64,855	316,597	-	-	308,146	73,306
Assessor Visual Inspection	22	-	-	-	-	22
Use Tax	1,084,562	329,824	400,000	400,000	137,415	1,276,971
911 Emergency	47,509	116,964	-	-	80,792	83,681
County Assessor Revolving Fund	16,297	3,740	-	-	350	19,687
Cherokee County Flood Plain	16,130	3,975	-	-	450	19,655
Sales Tax	2,265,270	3,228,587	-	-	3,106,750	2,387,107
Community Service	43,694	5,081	-	-	5,686	43,089
Sheriff Auction Fund	27,672	-	-	-	9,462	18,210
Fire Department Sales Tax	1,171,995	964,218	-	-	798,511	1,337,702
Governmental Building Authority	4,590,547	2,281,206	-	-	2,673,767	4,197,986
Sheriff Drug Forfeiture	9,955	15,834	-	-	4,999	20,790
Truancy Fund	695	-	-	-	-	695
Department of Corrections	21,445	32,353	-	-	39,843	13,955
Fairgrounds	895	8,165	-	-	5,269	3,791
Preservation Fund	86,180	42,005	-	-	26,824	101,361
Boot Camp Fund	24,715	64,352	-	-	63,781	25,286
County Treasurer Cash	500	-	-	-	-	500
Governmental Building Authority Interest	6	2	-	-	-	8
Community Development Block Grant	-	323,000	-	-	323,000	-
County Assessor Cash	-	6	-	-	-	6
County Health Cash	-	100	-	-	-	100
Eastern Oklahoma Development District	-	60,000	-	-	60,000	-
Juvenile Drug Court	51	-	-	-	-	51
Combined Total - All County Funds	\$ 14,656,659	\$16,389,923	\$ 800,000	\$ 800,000	\$16,032,963	\$ 15,013,619

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

**CHEROKEE COUNTY
DESCRIPTION OF COUNTY FUNDS AND TRANSFERS
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Description of County Funds

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

Following are descriptions of the county funds within the Presentation of Apportionments, Disbursements, and Cash Balances of County Funds:

County General Fund – accounts for revenues from ad valorem taxes, sales tax, 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 are for the purpose of constructing and maintaining county roads and bridges.

County Bridge Road 103 – accounts for monies received from Oklahoma Department of Transportation. Disbursements are for the replacement, repair, and maintenance of bridges within the County.

CBRI 105 – accounts for monies received from Oklahoma Department of Transportation. Monies are earmarked for bridges, roads, and certain improvements for roads.

Sheriff Drug Buy Fund – accounts monies seized and forfeited to the Sheriff’s office and disbursements are for the enforcement of drug laws.

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

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

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

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

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

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.

**CHEROKEE COUNTY
DESCRIPTION OF COUNTY FUNDS AND TRANSFERS
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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

Keys Community Building – accounts for the collection of rental fees for the Community Building. Disbursements are for maintenance and supplies for community building.

Corps of Engineers – accounts for funding provided by the Corps of Engineers. Disbursements are for the expense of a Sheriff’s patrol on corps land and lakes.

Community Building Fund – accounts for collection of rental fees for the Community Building. Disbursements are for the maintenance and operation of the building.

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

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

Use Tax – accounts for use tax remitted to the County by the Oklahoma Tax Commission. Disbursements are for any function of county government as designated by the County Commissioners.

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.

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

Cherokee County Flood Plain – accounts for revenues 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.

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

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

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

**CHEROKEE COUNTY
DESCRIPTION OF COUNTY FUNDS AND TRANSFERS
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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.

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.

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.

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

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

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

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

Boot Camp Fund – accounts for revenues from 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.

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

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

Community Development Block Grant – accounts for Community Development Block Grant funds received and disbursement of funds as restricted to the grant agreement.

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

**CHEROKEE COUNTY
DESCRIPTION OF COUNTY FUNDS AND TRANSFERS
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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

Eastern Oklahoma Development District – accounts for revenues awarded to the County through Eastern Oklahoma Development District grants for special projects.

Juvenile Drug Court – accounts for revenues 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.

Interfund Transfers

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

- \$400,000 was transferred from the Use Tax fund to the County General Fund to meet requirements of appropriations in accordance with 68 O.S. § 3021.
- \$400,000 was transferred from the County General Fund to the Use Tax for repayment of the loan in accordance with 68 O.S. § 3021.

CHEROKEE COUNTY, OKLAHOMA
COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES—BUDGET AND ACTUAL—BUDGETARY BASIS—
COUNTY GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	General Fund		
	Budget	Actual	Variance
Beginning Cash Balances	\$ 1,086,517	\$ 1,086,517	\$ -
Less: Prior Year Outstanding Warrants	(155,265)	(155,265)	-
Less: Prior Year Encumbrances	(53,013)	(52,198)	815
Beginning Cash Balances, Budgetary Basis	<u>878,239</u>	<u>879,054</u>	<u>815</u>
Receipts:			
Ad Valorem Taxes	1,727,729	1,883,755	156,026
Sales Tax	831,810	944,966	113,156
Charges for Services	145,689	162,780	17,091
Intergovernmental Revenues	548,046	504,686	(43,360)
Miscellaneous Revenues	504,830	518,365	13,535
Total Receipts, Budgetary Basis	<u>3,758,104</u>	<u>4,014,552</u>	<u>256,448</u>
Expenditures:			
County Sheriff	795,797	795,282	515
County Treasurer	246,774	244,682	2,092
County Commissioners	278,259	269,236	9,023
OSU Extension	151,816	143,775	8,041
County Clerk	457,463	400,331	57,132
Court Clerk	568,961	536,491	32,470
County Assessor	144,627	137,325	7,302
Revaluation of Real Property	440,612	424,480	16,132
General Government	1,088,356	765,683	322,673
Excise-Equalization Board	18,839	17,799	1,040
County Election Board	163,412	162,159	1,253
Charity	57,929	53,427	4,502
County Audit Budget Account	48,691	21,681	27,010
Free Fair Budget Account	31,000	30,594	406
Solid Waste	123,307	122,548	759
Emergency Management	20,500	18,815	1,685
Total Expenditures, Budgetary Basis	<u>4,636,343</u>	<u>4,144,308</u>	<u>492,035</u>

Continued on next page

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

CHEROKEE COUNTY, OKLAHOMA
COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES—BUDGET AND ACTUAL—BUDGETARY BASIS—
COUNTY GENERAL FUND - CONTINUED
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	General Fund		
	Budget	Actual	Variance
Continued from previous page			
Excess of Receipts and Beginning Cash			
Balances Over Expenditures, Budgetary Basis	\$ -	749,298	\$ 749,298
Interfund Transfers:			
Transfers In		400,000	
Transfers Out		(400,000)	
Net Interfund Transfers		-	
Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances			
Add: Current Year Outstanding Warrants		80,085	
Add: Current Year Encumbrances		54,390	
Ending Cash Balance		\$ 883,773	

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

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, 2016

	County Health Department Fund		
	Budget	Actual	Variance
Beginning Cash Balances	\$ 755,480	\$ 755,481	\$ 1
Less: Prior Year Outstanding Warrants	(4,559)	(4,586)	(27)
Less: Prior Year Encumbrances	(9,828)	(3,900)	5,928
Beginning Cash Balances, Budgetary Basis	741,093	746,995	5,902
Receipts:			
Ad Valorem Taxes	259,218	282,305	23,087
Charges for Services	-	4,731	4,731
Intergovernmental Revenues	-	3,420	3,420
Miscellaneous Revenues	9,227	-	(9,227)
Total Receipts, Budgetary Basis	268,445	290,456	22,011
Expenditures:			
County Health Budget Account	1,009,538	106,610	902,928
Total Expenditures, Budgetary Basis	1,009,538	106,610	902,928
Excess of Receipts and Beginning Cash Balances Over Expenditures, Budgetary Basis	\$ -	930,841	\$ 930,841
Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances			
Add: Current Year Encumbrances		7,747	
Add: Current Year Outstanding Warrants		267	
Ending Cash Balance		\$ 938,855	

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

**CHEROKEE COUNTY
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

PURPOSE, SCOPE, AND SAMPLE METHODOLOGY

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

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

In planning and conducting our audit, we focused on the major financial related areas of operations based on assessment of materiality and risk for the fiscal year ended June 30, 2016. Our audit procedures included:

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

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

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

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

Objective 1: To determine the receipts apportioned, disbursements, and cash balances are accurately presented on the County Treasurer's monthly reports for FY 2016.

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. However, we noted some deficiencies in internal controls regarding the financial reporting process.

FINDINGS AND RECOMMENDATIONS

Finding 2016-003 – Internal Controls Over the County Treasurer's Monthly Reports (Repeat Finding)

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

- Bank reconciliations were not reviewed and approved by someone other than the preparer.
- The daily packets or daily reports are not reviewed by someone else other than the preparer for accuracy and completeness.
- There is no documentation that the cash register void report is being reviewed and utilized by the County Treasurer.
- A monthly reconciliation is not performed between the County Clerk's appropriation ledger and the Treasurer's general ledger for all County funds.

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

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

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

- Bank reconciliations should be reviewed and approved by someone other than the preparer.
- Daily packets and daily reports should be reviewed and approved by someone other than the preparer.

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- The cash register void report should be reviewed monthly and documentation of the review should be maintained.
- The funds presented on the County Clerk's appropriation ledger and the County Treasurer's general ledger should be reconciled monthly. Documentation of this reconciliation should be reviewed and approved by someone other than the preparer.

Management Response:

County Treasurer: Effective immediately, daily reports, daily packets, and bank reconciliations will be reviewed by someone other than preparer with documentation of the review. A void report will be printed monthly and reviewed by two persons with documentation of the review. The report will be placed in a binder for future reference.

Efforts are being made to reconcile the general ledger to the County Clerk's appropriation ledger. We are currently working on past months and making an effort to get the reconciliation current. The reconciliation will be reviewed by someone other than the preparer with documentation of the review.

County Clerk: We are currently working with the County Treasurer's office to reconcile to the general ledger.

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

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

Conclusion: With respect to the items tested, the County did not comply with 68 O.S. § 1370E, which requires the sales tax collections to be deposited in the general revenue or Sales Tax Revolving Fund of the County, and we were unable to determine if sales tax was used only for the purpose for which such sales tax was designated.

FINDINGS AND RECOMMENDATIONS

Finding 2016-005 – Inadequate Internal Controls and Noncompliance Over Discrete Presentation of Sales Tax Activity (Repeat Finding)

Condition: County sales tax is apportioned into the County General Fund as specified by 68 O.S. § 1370(E) and identified as a revenue source. However, the funds are not discretely presented in a separate account within the County General Fund. Since the county sales tax collections are co-mingled with other sources of revenue, specific expenditures made with sales tax funds cannot be identified; therefore, we were unable to determine if expenditures were for the purpose designated.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure compliance with 68 O.S. § 1370(E) and Attorney General Opinions (AG Opinion).

Effect of Condition: This condition has resulted in noncompliance with the AG Opinions and state statute.

Recommendation: OSAI recommends the County establish policies and procedures that would allow for the sales tax balances and activity to be distinguished from other revenue sources activity within the County General Fund or account for sales tax activity in a revolving fund as required by state statute and AG Opinions.

Management Response:

Chairman Board of County Commissioners, County Treasurer, and County Clerk: After discussing this issue, we have decided that sales tax monies will be deposited into the ST-3 account (sales tax revolving fund). This account will have sub-accounts. The monthly sales tax funds will remain in this account instead of being deposited into the County General Fund.

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

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

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

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

4. C. As the fiscal agent responsible for superintending the funds of Canadian County, the board of county commissioners is responsible to ensure that the sales tax proceeds are not intermingled and are used exclusively for the purpose expressed in the ballot measure and resolution. The board can direct that the funds be deposited in a dedicated revolving fund

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and not intermingled with other revenues. Okla. Const. art. X, § 19; 68 O.S. 2011, § 1370; 19 O.S. Supp. 2013, § 339; 19 O.S. 2011, § 345; Cavin v. Bd. of County Comm'rs, 1934 OK 245 ¶ 11, 33 P.2d 477, 479.

Finding 2016-006 – Inadequate Internal Controls and Noncompliance Over Sales Tax Apportionments and Disbursements (Repeat Finding)

Condition: Upon inquiry and observation of the recordkeeping process of apportioning sales tax collections and disbursing of sales tax funds, the following was noted:

- The calculations of sales tax collections performed and apportioned by the County Treasurer are not reviewed or approved, by someone other than the preparer.
- The disbursements from the Governmental Building Authority fund are approved by the Authority Board instead of the Board of County Commissioners.
- The sales tax revenue that is apportioned to the Governmental Building Authority (GBA) fund is co-mingled with other funds. In addition, these other funds are considered trust and agency funds and do not belong to Cherokee County.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure collections are properly apportioned and appropriated to the designated funds.

Effect of Condition: These conditions resulted in noncompliance with state statute. Further, a single person having responsibility for recording, authorization, custody of assets, and execution of transactions without management oversight could result in unrecorded transactions, misstated financial reports, clerical errors, or misappropriation of funds.

Recommendation: The most effective controls lie in management's overseeing of office operations and a periodic review of operations. OSAI recommends designing and implementing internal controls that are critical functions of the office, and having management review and approval of accounting functions. Also, documentation and evidence of management reviewing these ledgers and reports should be retained in the County Treasurer's office. Furthermore, revenues that belong to the Governmental Building Authority fund should be accounted for separately from the County sales tax money.

Management Response:

County Treasurer: The calculation of sales tax collections performed and apportioned by the County Treasurer have been reviewed; however, no one documented the review. We will begin having both the preparer and reviewer sign and date the sales tax calculations.

Chairman Board of County Commissioners, County Treasurer, and County Sheriff: In regard to the GBA sales tax money being co-mingled with other funds, we are working to rectify this issue.

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Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. To help ensure proper accounting of funds, ledgers and reports should be reviewed by someone other than the preparer to reduce the risk of error or fraud. The duties of receiving, receipting, recording, depositing cash and checks, reconciliations, and transaction authorization should be reviewed and documented.

Title 68 O.S. § 1370(I), states in part.... “Each such revolving fund shall be designated for a particular purpose and shall consist of all monies generated by such sales tax which are designated for such purpose. Monies in such funds shall only be expended for the purposes specifically designated as required by this section. A county sales tax revolving fund shall be a continuing fund not subject to fiscal year limitations.”

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

Conclusion: With respect to the items tested, the County complied with 68 O.S. § 2923, which requires the ad valorem tax collections to be apportioned and distributed monthly among the different funds to which they belong. However, we noted some deficiencies in internal controls regarding the ad valorem apportionment process.

FINDINGS AND RECOMMENDATIONS

Finding 2016-004 – Inadequate Internal Controls Over Ad Valorem Tax Apportionments (Repeat Finding)

Condition: Upon inquiry and observation of the recordkeeping process of apportioning ad valorem collections, the following was noted:

- The County Treasurer’s office did not maintain documentation that certified levies were reviewed for accuracy when entered into the ad valorem tax system.

Cause of Condition: Policies and procedures have not been designed and implemented to document and retain evidence of procedures performed to ensure ad valorem tax levies are accurately entered into the ad valorem system.

Effect of Condition: This condition could result in ad valorem tax collections being incorrectly apportioned and remitted.

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Recommendation: OSAI recommends the County Treasurer implement a system of internal controls to provide reasonable assurance that the tax levies are entered into the County Treasurer's system accurately and maintain evidence of these controls.

Management Response:

County Treasurer: The levies were reviewed by each of the four cashiers; however, the reviews were not documented. In the future, each person who verifies the levies will sign and date the document.

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

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

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

The County's financial operations did not comply with 19 O.S. § 1505, which requires that disbursements to be timely encumbered and properly approved.

FINDINGS AND RECOMMENDATIONS

Finding 2016-008 – Inadequate Internal Controls and Segregation of Duties Over Payroll Process (Repeat Finding)

Condition: Upon inquiry, observation, review of documentation, and testwork of the County's payroll disbursement process, the following was noted:

- The Payroll Clerk enrolls new employees, inputs payroll information into the system, maintains personnel files, prepares state and federal tax reports, processes payroll claims, prints and reviews payroll verification reports for errors, prints payroll warrants, distributes payroll warrants, and initiates direct deposits.

Cause of Condition: Policies and procedures have not been designed and implemented with regards to segregation of duties and/or compensating controls over the payroll process.

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Effect of Condition: These conditions could result in unrecorded transactions, undetected errors, inaccurate records, incomplete information, and 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 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.

Management Response:

County Clerk: We are aware of the segregation of duties issue over the payroll process and are working to segregate the duties of the payroll clerk.

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 2016-009 – Inadequate Internal Controls and Noncompliance Over the Disbursement Process (Repeat Finding)

Condition: Upon inquiry and observation of the County's disbursement process, the following weaknesses were noted:

- One employee encumbers purchase orders, review purchase orders for accuracy, prepares warrants, prints warrants, and distributes warrants.
- Secretary for County Commissioner District 1 has access to Commissioner's signature stamp.
- The Purchasing agent reviews cash voucher claims for accuracy, approves and prints the claims and distributes cash vouchers.

The test of forty (40) disbursements reflected the following exceptions:

- Five (5) were not timely encumbered.
- One (1) was not reviewed or approved by the Board of County Commissioners. This disbursement was made using County sales tax funds from the Governmental Building Authority fund, which were approved by the Governmental Building Authority Board.

Cause of Condition: Policies and procedures have not been designed with regard to the disbursement process to ensure adequate internal controls and compliance with state statute. Additionally, policies and procedures have not been designed to ensure signature stamps are used only by the owner.

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Effect of Condition: These conditions resulted in noncompliance with state statute and could result in inaccurate records, incomplete information, or misappropriation of assets.

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 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. Also, signature stamps should be used only by the official to whom it belongs. Officials who utilize signature stamps should ensure that signature stamps are adequately safeguarded from unauthorized use.

OSAI recommends that the County adhere to state purchasing guidelines. Purchase orders should be encumbered before goods or services are ordered and approved by the Board of County Commissioners.

Management Response:

Chairman Board of County Commissioners, County Clerk, and County Sheriff: In regard to the sales tax not being approved by the Board of County Commissioners, we are aware of this finding and are working to rectify this situation.

Chairman Board of County Commissioners: In regard to purchase orders not being timely encumbered, we have discussed this with the staff and believe they now have a better understanding of the sequence to obtain a purchase order. Also, we will include the correct method to acquire a purchase order in the policy and procedure handbook.

County Sheriff: In response to the purchases that were not timely encumbered, in the future we are going to make sure they are encumbered before purchase are made. Additionally, we have discussed purchasing procedures with office personnel.

County Commissioner District 1: My signature stamp has not been used on any official document. The stamp has been removed from the courthouse and stored under lock and key.

County Clerk: In response to segregation over the disbursement process, our office is working to segregate these duties.

In response to segregation of duties over the cash voucher process, I will start approving the cash voucher claims and a second deputy will distribute cash vouchers in an effort to segregate these duties.

In response to the purchase orders not timely encumbered, these purchases did not belong to our office. We will make an effort to ensure all offices follow proper purchasing procedures.

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

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

Effective internal controls require that management properly implement procedures to ensure that purchases comply with 19 O.S. § 1505.

All Objectives:

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

Finding 2016-001 – Inadequate County-Wide Controls (Repeat Finding)

Condition: Through the process of gaining an understanding of the County’s internal control structure, it was noted that county-wide controls regarding Control Environment, Risk Assessment, Information and Communication, and Monitoring have not been designed.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure that an adequate system of county-wide controls exists.

Effect of Condition: Without an adequate system of county-wide controls, there is greater risk of a breakdown in control activities which could result in unrecorded transactions, undetected errors, or misappropriation of funds.

Recommendation: OSAI recommends that the County design and implement a system of county-wide procedures to identify and address risks related to financial reporting and to ensure that information is communicated effectively. 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 Treasurer, and County Clerk: We all three met to discuss this issue. The problem was acknowledged and addressed. Cherokee County elected officials will evaluate our needs and develop an internal control system, including policies and procedures. We will meet quarterly to discuss and stay aware of changes and needs in the County.

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

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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.

The Control Environment sets the tone of an entity and influences the control consciousness of its people. The Control Environment is the foundation for all other components of internal control and provides structure and discipline. Among the important elements of the control environment are the attitude, awareness, and actions of management, as well as those charged with governance, concerning internal control.

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.

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

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

Other Item(s) Noted:

Although not considered significant to the audit objectives, we feel the following issue(s) should be communicated to management.

Finding 2016-002 – Inadequate Internal Controls Over Information Systems Security – County Clerk (Repeat Finding)

Condition: Upon review of the computer systems within the County Clerk’s office, it was noted that there does not appear to be adequate internal controls in place to safeguard data from unauthorized modification, loss, or disclosure. The specifics of the condition has been sanitized to protect the County pursuant to the provision of 51 O.S. § 24A.28.

Cause of Condition: Policies and procedures have not been designed and implemented to prevent unauthorized access to data.

Effect of Condition: This condition could result in compromised security for computers, computer programs, and data.

Recommendation: OSAI recommends the County comply with best practices presented in the criteria. The specifics of the recommendation has been sanitized to protect the County pursuant to the provision of 51 O.S. § 24A.28.

Management Response:

County Clerk: In order to maintain the integrity of the information and protect it, we will establish and maintain security management processes.

Criteria: According to the standards of the Information Systems Audit and Control Association (CobiT, Delivery and Support DS5), the need to maintain the integrity of information and protect IT assets requires a security management process. This process includes establishing and maintaining IT security roles and responsibilities, policies, standards, and procedures. Security management also includes performing security monitoring and periodic testing and implementing corrective actions for identified security weaknesses or incidents. Effective security management protects all IT assets to minimize the business impact of security vulnerabilities and incidents.

Finding 2016-011 – Inadequate Internal Controls Over the Schedule of Expenditures of Federal Awards

Condition: During our audit, we identified federal programs that were not accurately listed on the County’s Schedule of Expenditures of Federal Awards (SEFA). Federal expenditures were understated by \$578,719. The following misstatements were noted:

- The actual expenditures for the Flood Control Projects, CFDA #12.106, were \$88,214 and the County reported \$0. The County understated the expenditures for CFDA #12.106 by \$88,214.
- The actual expenditures for the Community Development Block Grants/State’s program and Non-Entitlement Grants in Hawaii 15095 and 15298, CFDA #14.228, were \$87,000 and \$323,000

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respectively and the County reported \$0. The County understated the expenditures for CFDA #14.228 by \$410,000.

- The actual expenditures for Payments in Lieu of Taxes, CFDA #15.226, were \$80,505 and the County reported \$0. The County understated the expenditures for CFDA #15.226 by \$80,505.

Reported Total Expenditures of Federal Award	\$ 0
Add: Flood Control Projects (CFDA #12.106)	88,214
Add: Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii (CFDA #14.228)	410,000
Add: Payments in Lieu of Taxes (CFDA # 15.226)	<u>80,505</u>
Actual Schedule of Expenditures of Federal Awards	<u>\$578,719</u>
Original SEFA understated	<u>\$578,719</u>

Cause of Condition: Policies and procedures have not been designed and implemented to ensure accurate reporting of expenditures for all federal awards.

Effect of Condition: This condition resulted in the erroneous reporting and a material misstatement of the County's Schedule of Expenditures of Federal Awards, and could increase the potential for material noncompliance.

Recommendation: OSAI recommends county officials and department heads gain an understanding of federal programs awarded to Cherokee County. Internal control procedures should be designed and implemented to ensure accurate reporting of expenditures on the SEFA and to ensure compliance with federal requirements.

Management Response:

Chairman of the Board of County Commissioners: The Commissioner's office will prepare the SEFA reports. The County will use the criteria listed in the audit findings to develop internal controls that satisfy the recommendations of the OSAI for reporting on the SEFA. The design and implementation of these procedures will be included in our new handbook.

County Clerk and County Treasurer: In the future, the County Commissioner's office will be responsible for preparing the SEFA. In an effort to assist, the Treasurer's office has prepared a binder to place a copy of all federal monies received.

Criteria: OMB 2 CFR 200, Subpart F, §___.510(a)(b) reads as follows:

Subpart F—Audit requirements

§___.510 Financial statements

The auditee must:

- a) Prepare financial statements that reflect its financial position, results of operations or changes in net assets, and, where appropriate, cash flows for the fiscal year audited. The

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financial statements must be for the same organizational unit and fiscal year that is chosen to meet the requirements of this part.

(b) Prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with § 200.502 Basis for determining Federal awards expended.

Further, accountability and stewardship should be overall goals in management's accounting of federal funds. Internal controls should be designed to monitor compliance with laws and regulations pertaining to grant contracts.

REPORT ON STATUTORY COMPLIANCE – OTHER MATTERS



Oklahoma State Auditor & Inspector

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Cherokee County
Board of County Commissioners
Cherokee County Courthouse
Tahlequah, Oklahoma 74464

Dear Chairman:

For the purpose of complying with 19 O.S. § 171 and 20 O.S. § 1312, we have performed statutory procedures regarding the following offices and departments for the fiscal year ended June 30, 2016:

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

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

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

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

A handwritten signature in blue ink that reads "Gary A. Jones". The signature is fluid and cursive, with the first name "Gary" being the most prominent.

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

April 19, 2018

**CHEROKEE COUNTY, OKLAHOMA
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SCHEDULE OF FINDINGS AND RESPONSES

Finding 2016-012 – Inadequate Internal Controls and Noncompliance Over Fixed Assets and Consumable Inventories (Repeat Finding)

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

- Cherokee County has not designed procedures to perform and document an annual physical inventory of all fixed assets.
- The following fire departments did not file an inventory list with the County Clerk: Chicken Creek, Gideon, Lowery, Norwood, Peggs, Sparrow Hawk, Spring Valley, and Woodall.
- County Commissioners District 1 and District 3 had an inventory list on file with the County Clerk's office but it did not contain signatures documenting the annual review.

Upon inquiry and observation of consumable inventory items for District 1, 2, and 3, we noted the following:

- District 2 does not maintain a consumable inventory for any consumable items, except for R11-225 tires.

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, creating and maintaining of a fixed assets inventory record, and properly identifying fixed assets. Additionally, procedures have not been designed and implemented to provide for accurate inventory records and the safeguarding of consumable inventory items.

Effect of Condition: These conditions resulted in noncompliance with state statutes. When fixed assets are not monitored, opportunities for misuse or loss of equipment can occur. Additionally, when consumable inventories are not monitored, opportunities for misuse or theft of items are more likely to occur.

Recommendation: OSAI recommends management implement internal controls to ensure compliance with 19 O.S. § 178.1 and 19 O.S. § 178.2. OSAI recommends the performing and documenting of periodic inventory of fixed assets. Additionally, the key functions of receiving duties and inventory control duties should be performed by separate employees in order to effectively segregate those duties.

Additionally, OSAI recommends the performing and documenting of a monthly consumable inventory count. Counts should be initialed and dated by the employee performing the physical count and retained to show the design and implementation of internal controls by the County Commissioners. Additionally, the key functions of receiving duties and consumable inventory control duties should be performed by separate employees in order to effectively segregate those duties.

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Management Response:

Chairman Board of County Commissioners: Cherokee County will design procedures to perform and document inventories for the various entities under the County “umbrella” based on the recommendations of OSAI. The State Statutes will be used to achieve the criteria mentioned.

County Commissioner District 1: A fixed inventory list was filed with the County Clerk’s office. It now has signatures on annual documents.

County Commissioner District 2: As the new County Commissioner, I have implemented keeping an inventory of consumable items.

County Commissioner District 3: In response to no signatures documenting the annual review of the inventory list, we will work to correct this issue.

County Clerk: We are aware of this condition and since the previous audit have informed each county office and the fire departments, the requirement to submit an annual physical inventory to our office.

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

Title 19 O.S. § 178.1 states in part, “The board of county commissioners in each county of this state shall take, or cause to be taken, an inventory of all working tools, apparatus, machinery and equipment belonging to the county or leased or otherwise let to it or to any department thereof, other than that which is affixed to and made a part of lands and buildings, the cost of which as to each complete working unit thereof is more than Five Hundred Dollars (\$500.00), and therefore maintain or cause to be maintained a continuous inventory record thereof and of like tools, apparatus, machinery and equipment purchased, leased, or otherwise coming into custody of the county or of any office, board, department, commission or any either thereof, and the disposition thereof whether sold, exchanged, leased, or let where authorized by statute, junked, strayed or stolen, and annually thereafter...”

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.”

Title 19 O.S. § 1504A provides guidance with regard to accounting for the consumable items.



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