

OPERATIONAL AUDIT

CHOCTAW 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

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

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 Prairie Collection (<http://digitalprairie.ok.gov/cdm/search/collection/audits/>) pursuant to 65 O.S. § 3-114.



Oklahoma State Auditor & Inspector

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

March 1, 2018

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

Transmitted herewith is the audit report of Choctaw 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

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

TABLE OF CONTENTS

OPERATIONAL AUDIT REPORT

Introductory Section (Unaudited)

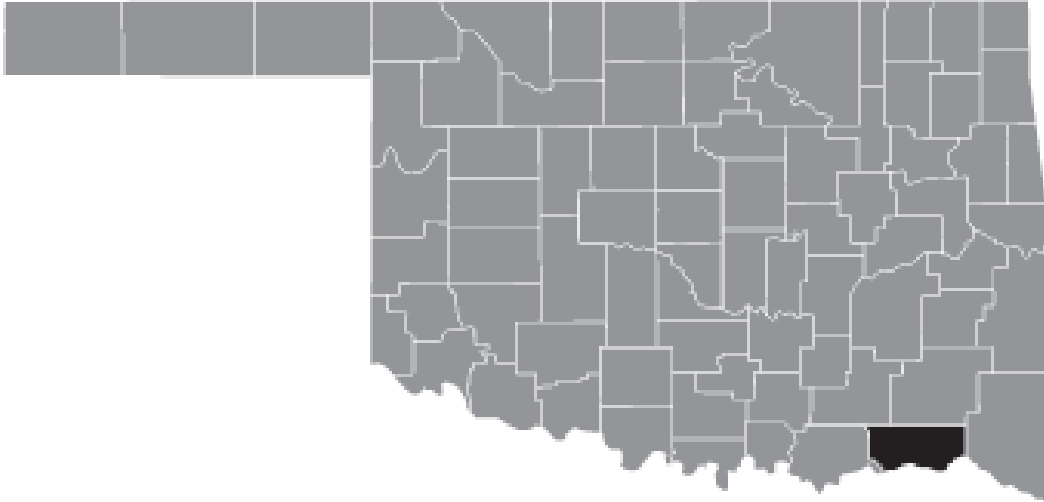
Statistical Information.....	ii
County Officials.....	iii
Ad Valorem Tax Distribution	iv
Sales Tax Distribution.....	v
Assessed Value of Property Trend Analysis	vii
County General Fund Analysis	viii
County Highway Fund Analysis	ix
 Presentation of Apportionments, Disbursements, and Cash Balances of County Funds for the Fiscal Year Ended June 30, 2016.....	 1
 Description of County Funds and Transfers	 2
 Comparative Schedule of Receipts, Expenditures, and Changes in Cash Balances—Budget and Actual—Budgetary Basis—County General Fund.....	 5
 Comparative Schedule of Receipts, Expenditures, and Changes in Cash Balances—Budget and Actual—Budgetary Basis—County Health Department Fund.....	 6
 Purpose, Scope, and Sample Methodology.....	 8
 Objectives and Results of Operational Audit.....	 69

REPORT ON STATUTORY COMPLIANCE - OTHER MATTERS

Statutory Report.....	16
Schedule of Findings and Responses.....	17

INTRODUCTORY SECTION
UNAUDITED INFORMATION ON PAGES ii - ix
PRESENTED FOR INFORMATIONAL PURPOSES ONLY

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



Choctaw County was created at the time of statehood and named for the Choctaw Nation of Indians whose tribal name is Chahta.

Early industry in the area was limited to patch farming, but agriculture became more established with the advent of the railroad and resulting increase of immigrants to the area.

Hugo, the county seat, is the winter quarters for the Carson and Barnes Circus, the largest truck-drawn circus under the big top in the United States. The Kiamichi Area Vocational-Technical School, and the Western Farmers Electric Cooperative are also located in Hugo.

The PRCA Professional Rodeo and Grant's Bluegrass Festival are held annually in June and August, respectively. Hugo Lake and Lake Raymond Gary State Park provide additional recreational outlets for the county.

Additional county information can be obtained from the Choctaw County Historical Society. *Smoke Signals* is a history book about the county. For more information, call the county clerk's office at 580/326-3778.

County Seat – Hugo

Area – 800.68 Square Miles

County Population – 15,161
(2014 est.)

Farms – 965

Land in Farms – 330,410 Acres

Primary Source: Oklahoma Almanac 2015-2016

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

Board of County Commissioners

District 1 – Ronnie Thompson
District 2 – Randy Robertson
District 3 – Roger Vandever

County Assessor

Rhonda Cahill

County Clerk

Emily VanWorth

County Sheriff

Terry Park

County Treasurer

Cheri Stacy

Court Clerk

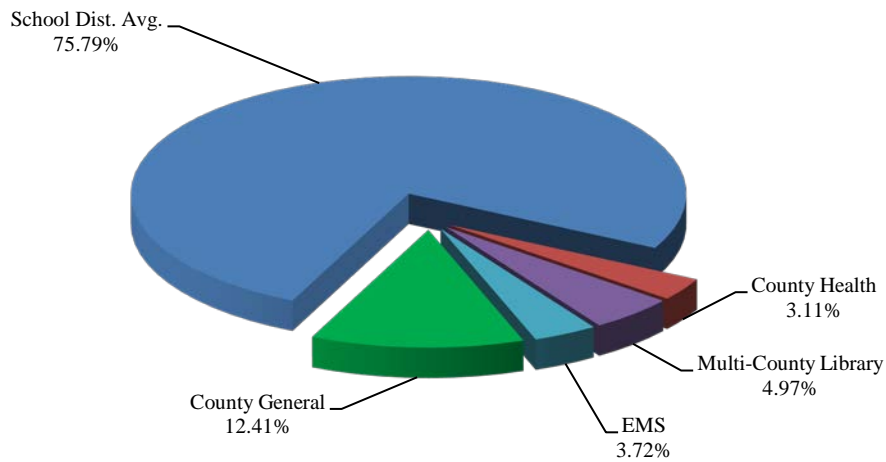
Laura Sumner

District Attorney

Mark Matloff

**CHOCTAW 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	10.30								
County Health	2.58	Boswell	I-1	36.72	5.25	0.00	12.36	4.12	58.45
Multi-County Library	4.12	Ft. Towson	I-2	35.70	5.10	0.00	12.36	4.12	57.28
EMS	3.09	Grant-Goodland	C-3	36.93	5.28	0.00	12.36	4.12	58.69
		Soper	I-4	37.49	5.36	11.04	12.36	4.12	70.37
		Hugo	I-39	35.77	5.11	7.17	12.36	4.12	64.53
		Swink	D-21	35.53	5.08	13.88	12.36	4.12	70.97
		Valliant - Jt	I-11	35.42	5.06	6.90	12.36	4.12	63.86
		Rattan - Jt	I-1	37.21	5.32	0.00	12.36	4.12	59.01

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

Sales Tax

Sales Tax of November 4, 2008

The voters of Choctaw County approved a permanent one-quarter percent (0.25%) sales tax on November 4, 2008. This sales tax was established for the purpose of providing funding for the fire departments in the following communities:

1. Bluff
2. Boswell
3. Fort Towson
4. Grant
5. Hugo
6. Messer
7. Nelson
8. Sawyer
9. Soper
10. Speer
11. Spencerville
12. Swink

These funds are accounted for in the VFD Cash fund.

Sales Tax of December 9, 2008

The voters of Choctaw County also approved a three-quarter of one percent (0.75%) sales tax on December 9, 2008 to become effective April 1, 2009, continuing unless repealed by a majority of the registered voters. This sales tax was established to provide funds for the purpose of furnishing, equipping, repairing, renovating, and maintaining the Choctaw County Memorial Hospital, including indebtedness

These funds are accounted for in the Hospital Cash fund.

Sales Tax of April 7, 2015

The voters of Choctaw County approved a continuation of a one percent (1%) sales tax on April 7, 2015 to become effective on June 1, 2015 and to expire June 30, 2020. This sales tax was reallocated to provide revenue to the County for the following areas:

- | | |
|--------------------------------------|-----|
| • Choctaw County Ambulance Authority | 15% |
| • County Road Improvement | 36% |
| • County Law Enforcement | 15% |
| • County General | 19% |
| • County Economic Development | 9% |

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

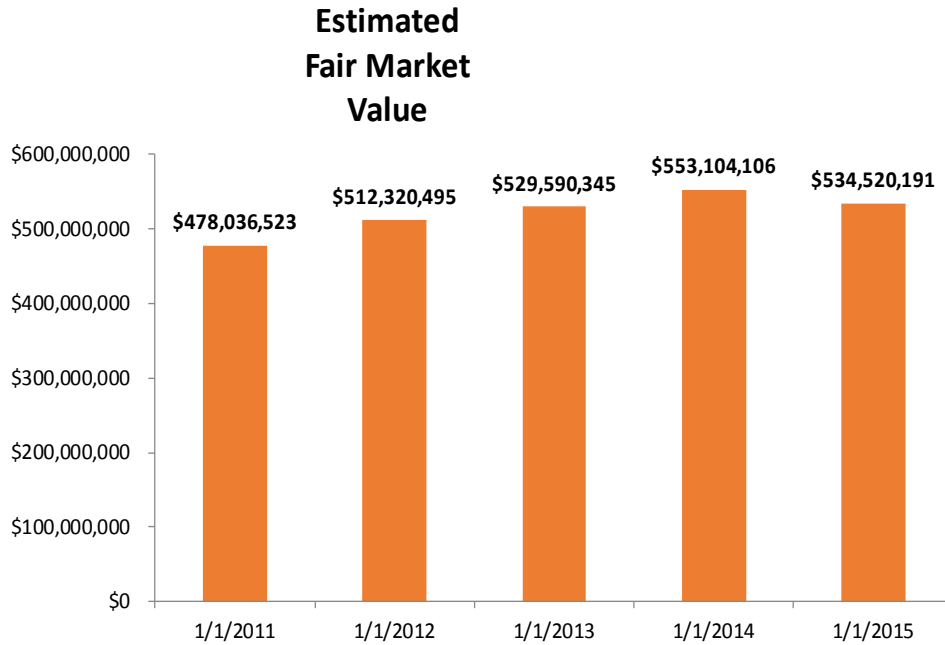
- County Extension Service 4%
- County Libraries (Maintenance and Operation) 2%

These funds are accounted for in the 1 Cent Ambulance Cash, 1 Cent Road Improvement Cash, 1 Cent Law Enforcement Cash, 1 Cent County General Cash, 1 Cent Economics Cash, 1 Cent County Extension Cash, and 1 Cent County Library Cash funds.

During the fiscal year the County collected \$2,341,797 in total sales tax.

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

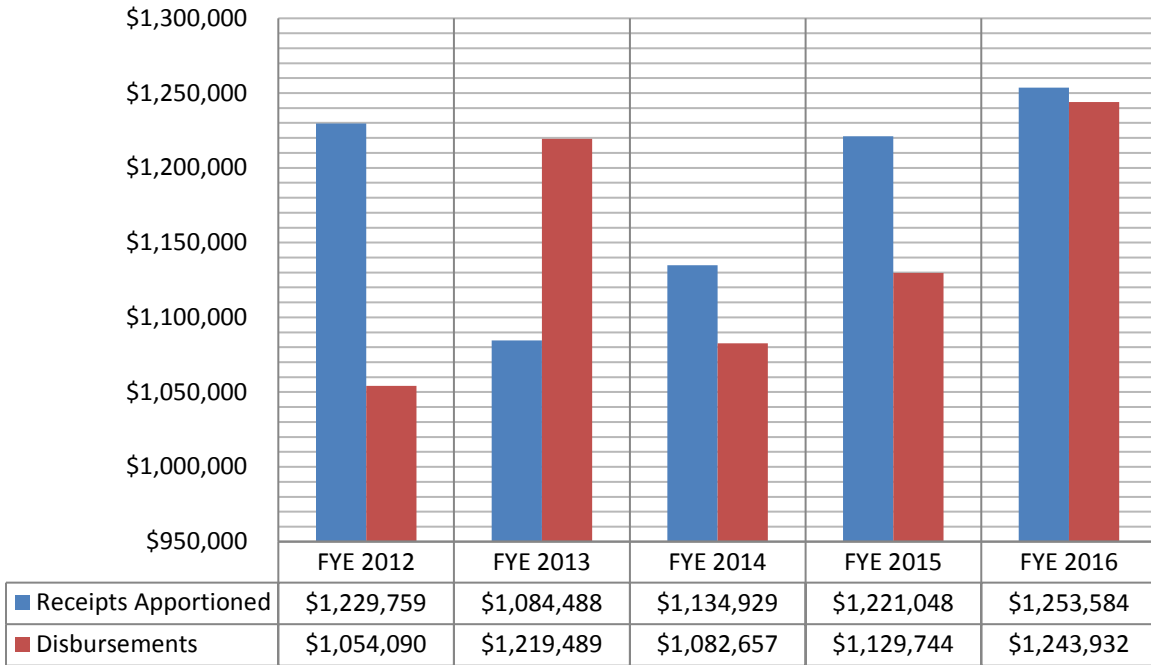
Valuation Date	Personal	Public Service	Real Estate	Homestead Exemption	Net Value	Estimated Fair Market Value
1/1/2015	\$7,621,038	\$16,011,182	\$43,468,393	\$3,905,475	\$63,195,138	\$534,520,191
1/1/2014	\$10,041,939	\$17,618,683	\$42,317,871	\$3,827,576	\$66,150,917	\$553,104,106
1/1/2013	\$8,617,747	\$17,193,442	\$41,040,470	\$3,902,896	\$62,948,763	\$529,590,345
1/1/2012	\$9,134,223	\$15,847,641	\$39,297,211	\$3,935,037	\$60,344,038	\$512,320,495
1/1/2011	\$8,766,933	\$10,745,683	\$38,444,243	\$3,965,299	\$53,991,560	\$478,036,523



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

County General Fund

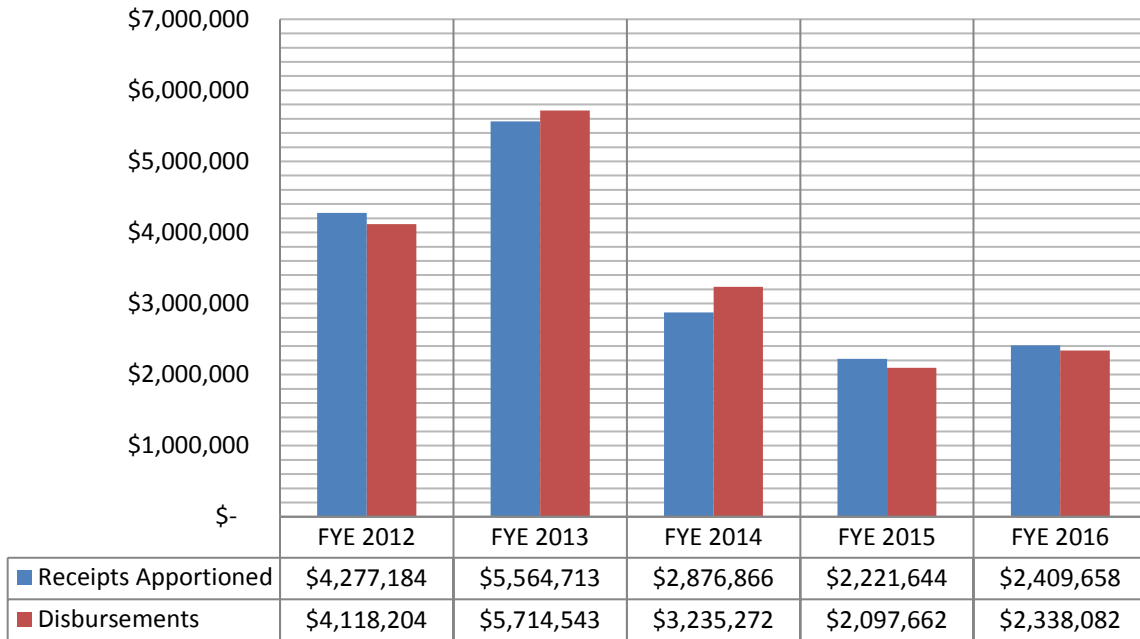
The Oklahoma Constitution and the Oklahoma Statutes authorize counties to create a County General Fund, which is the county’s primary source of operating revenue. The County General Fund is typically used for county employees’ salaries plus many expenses for county maintenance and operation. It also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



**CHOCTAW 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.



**CHOCTAW COUNTY
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
Combining Information:						
County Funds:						
County General	\$ 580,868	\$ 1,253,584	\$ -	\$ -	\$ 1,243,932	\$ 590,520
1 Cent County General Cash	149,820	222,953	-	-	210,441	162,332
County Highway	830,799	2,409,658	-	210,000	2,338,082	692,375
County Highway Restricted	60,281	190,369	-	-	166,264	84,386
1 Cent Road Improvement Cash	240,945	433,863	-	-	345,830	328,978
CBRI 105	1,388,646	378,272	-	-	559,113	1,207,805
REAP	-	89,091	-	-	89,091	-
CDBG - EC	26,628	35	-	-	-	26,663
County Health Department	60,129	176,007	-	-	132,056	104,080
Hospital Cash	412,944	878,174	-	-	728,836	562,282
Sheriff Service Fee	279,490	117,269	-	-	128,223	268,536
Sheriff Commissary	190,713	99,000	-	-	74,390	215,323
Drug Enforcement Revolving	57,768	73	-	-	1,250	56,591
1 Cent Law Enforcement Cash	80,073	175,635	-	-	213,039	42,669
Sheriff Lake Patrol	841	-	-	-	-	841
Department of Corrections Boarding	1,167,648	631,145	-	-	837,890	960,903
Emergency Management	10,626	1,400	-	-	1,092	10,934
1 Cent Ambulance Cash	16,875	175,635	-	-	177,379	15,131
Treasurer Mortgage Tax Certification Fee	8,708	2,560	-	-	1,147	10,121
County Treasurer Fee	641	60	-	-	-	701
County Treasurer Resale	169,179	111,485	-	-	150,243	130,421
County Assessor Visual Inspection	38,197	1,050	-	-	-	39,247
Fair Board Cash Account	18,927	9,947	-	-	6,139	22,735
County Clerk Lien Fee	13,171	5,451	-	-	2,371	16,251
County Clerk Preservation	61,971	16,329	-	-	20,702	57,598
VFD Cash	544,673	297,224	-	-	164,340	677,557
Insurance Recovery	16,045	35,712	-	-	35,712	16,045
DHS Advocacy	26,869	600	-	-	19,627	7,842
Choctaw County E-911	812,178	105,090	-	-	105,809	811,459
Reward	501	-	-	-	-	501
1 Cent County Library Cash	1,621	23,498	-	-	21,902	3,217
1 Cent Economics Cash	154,005	105,599	-	-	66,355	193,249
1 Cent County Extension Cash	4,275	46,836	-	-	27,509	23,602
Court Clerk Payroll	9,788	99,403	-	-	94,566	14,625
County Treasurer Cash Drawer	400	-	-	-	-	400
Combined Total - All County Funds	\$ 7,436,243	\$ 8,093,007	\$ -	\$ 210,000	\$ 7,963,330	\$ 7,355,920

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

**CHOCTAW 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 – accounts for ad valorem, officers’ fees, interest earnings, and miscellaneous collections of the County. Disbursements are for the general operations of the County.

1 Cent County General Cash – accounts for the sales tax revenue collected, and the disbursement thereof, as restricted by sales tax, to be used for general county purposes.

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

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

1 Cent Road Improvement Cash – accounts for the collection of sales tax revenue and the disbursement of funds as restricted by the sales tax resolution to be used for county roads and bridges.

CBRI 105 – accounts for funds received from the Oklahoma Department of Transportation, and disbursements are restricted by state statutes for the purpose of reimbursement for constructing and maintaining county roads and bridges.

REAP – accounts for state grant funds received for various projects.

CDBG - EC – accounts for payments from incubator companies on a revolving loan fund established with federal funds from the Department of Commerce for the economic development of Choctaw County.

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

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

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

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

Sheriff Commissary – accounts for monies received from the commissary sales and disbursement of funds for commissary expenses and jail operating expenses.

Drug Enforcement Revolving – accounts for monies collected from the disposition of property seized during drug abuse cases, and disbursement for the intervention and prevention of narcotic use.

1 Cent Law Enforcement Cash – accounts for the collection of sales tax revenue and the disbursement of funds as restricted by the sales tax resolution to be used for the Sheriff's office.

Sheriff Lake Patrol – accounts for contract services with the Corps of Engineers for patrolling lake areas.

Department of Corrections Boarding – accounts for monies received from the State of Oklahoma for the boarding and feeding of Department of Corrections' prisoners. Disbursements of funds are for jail operating expenses.

Emergency Management – accounts for the receipt and disbursement of funds from state and local governments for civil defense purposes.

1 Cent Ambulance Cash – accounts for the collection of sales tax revenue and the disbursement of funds as restricted by the sales tax resolution to be used for ambulance related services.

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

County Treasurer Fee – accounts for the collection of fees by the County Treasurer for copy fees, research fees, and insufficient check fees to be used for the operation of the County Treasurer's office.

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

County Assessor Visual Inspection – accounts for the collection of fees for copies restricted by state statute.

Fair Board Cash Account – accounts for funds collected from Fair Board activities to be used for County fair expenses.

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

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

County Clerk Preservation – accounts for fees collected on instruments filed in the County Clerk's office, and disbursements as restricted by state statute for preservation of records.

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

Insurance Recovery – accounts for monies received from insurance companies for damages to county property.

DHS Advocacy – accounts for the state funds for the protection of minor children sponsored by Department of Human Services (DHS).

Choctaw County E-911 – accounts for monies received from private telephone companies for the operation of emergency 911 services.

Reward – accounts for state funds used to offset the cost of programs used to control illegal dumping, as restricted by state statute.

1 Cent County Library Cash – accounts for the collection of sales tax revenue and the disbursement of funds as restricted by the sales tax resolution to be used for the maintenance and operation of the county library.

1 Cent Economics Cash – accounts for the collection of sales tax revenue and the disbursement of funds as restricted by the sales tax resolution to be used by the county economic development office.

1 Cent County Extension Cash – accounts for the collection of sales tax revenue and the disbursement of funds as restricted by the sales tax resolution to be used by the county extension office.

Court Clerk Payroll – accounts for funds deposited by the Court Clerk and disbursed for payroll for the Court Clerk's office.

County Treasurer Cash Drawer – accounts for cash to maintain the change fund used for the County Treasurer's collections.

Interfund Transfers

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

- \$210,000 from the County Highway fund to the County Highway – ETR Loan fund (a trust and agency fund) for repayment of the loan.

CHOCTAW 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	\$ 580,868	\$ 580,868	\$ -
Less: Prior Year Outstanding Warrants	(63,164)	(63,164)	-
Less: Prior Year Encumbrances	(9,047)	(8,354)	693
Beginning Cash Balances, Budgetary Basis	<u>508,657</u>	<u>509,350</u>	<u>693</u>
Receipts:			
Ad Valorem Taxes	588,841	637,362	48,521
Charges for Services	53,000	58,305	5,305
Intergovernmental Revenues	398,037	519,267	121,230
Miscellaneous Revenues	<u>3,000</u>	<u>38,650</u>	<u>35,650</u>
Total Receipts, Budgetary Basis	<u>1,042,878</u>	<u>1,253,584</u>	<u>210,706</u>
Expenditures:			
District Attorney - State	8,000	6,823	1,177
County Sheriff	125,186	125,185	1
County Treasurer	73,525	73,502	23
County Commissioners	10,800	-	10,800
County Commissioners OSU Extension	17,173	17,167	6
County Clerk	92,130	92,096	34
Court Clerk	105,969	105,797	172
County Assessor	60,330	59,001	1,329
Revaluation	214,589	208,004	6,585
General Government	710,690	429,679	281,011
Excise Equalization	5,250	5,250	-
County Election Expense	58,941	54,693	4,248
Civil Defense	45,420	31,410	14,010
County Audit Budget Account	16,032	10,439	5,593
Free Fair Budget Account	<u>7,500</u>	<u>7,479</u>	<u>21</u>
Total Expenditures, Budgetary Basis	<u>1,551,535</u>	<u>1,226,525</u>	<u>325,010</u>

Continued on next page

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

CHOCTAW 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	\$ -	536,409	\$ 536,409
Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances			
Add: Current Year Outstanding Warrants		44,331	
Add: Current Year Encumbrances		9,780	
Ending Cash Balance		\$ 590,520	

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

CHOCTAW 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	\$ 60,129	\$ 60,129	\$ -
Less: Prior Year Outstanding Warrants	(1,119)	(1,119)	-
Less: Prior Year Encumbrances	(1,664)	(1,326)	338
Beginning Cash Balances, Budgetary Basis	57,346	57,684	338
Receipts:			
Ad Valorem Taxes	147,496	159,639	12,143
Intergovernmental Revenues	16,321	7,756	(8,565)
Miscellaneous Revenues	-	8,612	8,612
Total Receipts, Budgetary Basis	163,817	176,007	12,190
Expenditures:			
County Health Budget Account	221,163	174,737	46,426
Total Expenditures, Budgetary Basis	221,163	174,737	46,426
Excess of Receipts and Beginning Cash Balances Over Expenditures, Budgetary Basis	\$ -	58,954	\$ 58,954
Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances			
Add: Current Year Encumbrances		39,335	
Add: Current Year Outstanding Warrants		5,791	
Ending Cash Balance		\$ 104,080	

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

**CHOCTAW 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 2016-001 – Inadequate Internal Controls Over the County Treasurer's Monthly Reports and Bank Reconciliations in the County Treasurer's Office (Repeat Finding)

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

- One person prepares the monthly reports which were not reviewed for accuracy by someone other than the preparer.
- One person performs the bank reconciliations which were not reviewed and approved by someone other than the preparer.

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. Additionally, policies and procedures have not been designed and implemented to ensure bank account reconciliations are reviewed by someone other than the preparer and documentation of the review is maintained

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

- Monthly reports should be reviewed by someone other than the preparer.
- Bank reconciliations should be reviewed by someone other than the preparer.

Management Response:

County Treasurer: Recommendations have now been implemented to correct this finding.

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

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. An important aspect of internal controls is the safeguarding of assets. Internal controls over safeguarding of assets constitute a process, affected by an entity's governing body, management, and other personnel, designed to provide reasonable assurance regarding prevention or timely detection of unauthorized transactions, and safeguarding assets from misappropriation. To help ensure a proper accounting of funds, the duties of receiving, receipting, recording, depositing cash and checks, reconciliations, and transaction authorization should be segregated

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 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.

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.

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 be properly supported and timely encumbered.

FINDINGS AND RECOMMENDATIONS

Finding 2016-004 – Inadequate Internal Controls and Noncompliance Over the Disbursement Process (Repeat Finding)

Condition: Upon inquiry of County personnel, observation, and review of documents, regarding the disbursement process, the following was noted:

- The County Clerk’s office has designed and implemented segregation of duties; however due to limited personnel the same employee may encumber and certify the purchase order.
- The County Clerk has physical control of the signature stamps for County Commissioner District 1, District 2, and District 3, which are retained in an unsecured location.

The test of fifty-two (52) purchase orders reflected the following exceptions:

- Three (3) were not encumbered prior to ordering or receiving the goods.
- One (1) does not have a completed receiving report.
- Two (2) were not supported by adequate documentation.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure adequate segregation of duties in the County Clerk’s office with regard to the purchasing process. Additionally, the County did not follow the policies and procedures designed by state statute regarding the purchasing process. Also, the County Commissioners do not have physical control of their signature stamps.

Effect of Condition: These conditions resulted in noncompliance with state statute and could result in unrecorded transactions, undetected errors, inaccurate records, incomplete information, and misappropriation of funds.

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 having management review and approve accounting functions. Additionally, OSAI recommends the County implement internal control procedures to ensure compliance with the purchasing statutes. We also recommend that signature stamps be used only by the official to whom it belongs. Officials who utilize signature stamp should ensure that signature stamps are adequately safeguarded from unauthorized use.

Management Response:

County Clerk: We are trying to implement segregation of duties over the disbursement process. We will address the concerns regarding the signature stamps. We will try to get all other departments to comply with the state statutes over the purchasing process.

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

County Commissioner District 1: My signature stamp is currently in my possession and will be retained and utilized by me.

County Commissioner District 2: My signature stamp will be retained and used only by me. The County will work to correct the disbursement problems.

County Commissioner District 3: My stamp is in my truck and I am the only one that uses it. Purchase orders will be closely reviewed to determine corrective actions to be taken.

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 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 are made in compliance with 19 O.S. § 1505.

Finding 2016-005 – Inadequate Internal Controls and Segregation of Duties Over the Payroll Process (Repeat Finding)

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

- The County Clerk’s office has designed and implemented segregation of duties; however due to limited personnel the same employee may perform various pertinent duties within the payroll process.

The test of forty-five (45) payroll disbursements reflected the following exceptions:

- Five (5) timesheets were not on file with the County Clerk’s office.
- Nine (9) timesheets were incomplete.
- Five (5) timesheets were not signed and approved by the supervisor/department head.
- One (1) timesheet was not signed by the employee.
- Seven (7) payroll claims/affidavits were not reviewed and approved by the department head/requisition officer.
- Seven (7) payroll claims/affidavits were not reviewed and approved by the Board of County Commissioners.
- One (1) payroll claim/affidavit was not reviewed and approved by department head/requisition officer or by the Board of County Commissioners.

Cause of Condition: Policies and procedures have not been designed and implemented with regards to segregation and/or compensating controls over the payroll process. Additionally, policies and procedures have not been designed and implemented to ensure timesheets are completed, signed by employees,

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

approved by the supervisor/department head, and filed with the County Clerk's office. Further, policies and procedures have not been designed and implemented to ensure payroll claims are adequately reviewed and approved.

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. Additionally, all timesheets should be completed and signed by the employee, then approved by the immediate supervisor/department head, and filed in the County Clerk's office. Further, payroll claims should be reviewed and approved by the department head and the Board of County Commissioners.

Management Response:

County Clerk: The payroll process now involves other employees to prepare OPERS reports, enroll new hires, prepare the warrant registers, maintains the personnel files, and distributes checks. We are now requiring all departments to write down all hours worked on the timesheets. We will correct these issues and make sure every department head signs and approves payroll.

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

All Objectives:

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

Finding 2016-006 – Inadequate County-Wide Controls (Repeat Finding)

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

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

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

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

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

Management Response:

Chairman Board of County Commissioners: We will start having quarterly meetings with all Elected Officials on how to address risk assessment and monitoring within the County.

County Treasurer: My office will work with other County Officials to help monitor and prevent risk within the County.

County Clerk: We currently have initiated quarterly meetings and we will start documenting in the minutes.

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 Risk Assessment and Monitoring for the achievement of these goals.

Finding 2016-012 – Inadequate Internal Controls Over Information System 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 controls in place to safeguard data from unauthorized modification, loss, or disclosure. The specifics of the condition have 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.

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

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

Management Response:

County Clerk: The issues are being addressed. The specifics of the response have been sanitized to protect the County pursuant to the provision of 51 O.S. § 24A.28.

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 on monitoring and periodic testing and implementing corrective actions for identified security weakness or incidents. Effective security management protects all IT assets to minimize the business impact of security vulnerabilities and incidents.

REPORT ON STATUTORY COMPLIANCE – OTHER MATTERS



Oklahoma State Auditor & Inspector

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

Choctaw County
Board of County Commissioners
Choctaw County Courthouse
Hugo, Oklahoma 74743

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).
- Inmate Trust Fund procedures (19 O.S. § 531 and 19 O.S. § 180.43).

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

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

March 1, 2018

**CHOCTAW COUNTY, OKLAHOMA
STATUTORY REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

SCHEDULE OF FINDINGS AND RESPONSES

Finding 2016-007 – Inadequate Internal Controls and Noncompliance Over Fixed Assets and Consumable Inventory (Repeat Finding)

Condition: While gaining an understanding of internal controls by inquiry of County personnel, observation, and review of documents, and performing testwork, regarding fixed assets and consumable inventories, the following was noted:

- The County has not set forth procedures to perform and document an annual physical inventory to ensure compliance with 19 O.S. § 178.1 and 19 O.S. § 178.2. A complete fixed assets inventory was not on file with the County Clerk for the following offices/departments: Election Board, Health Department, and Fire Departments: Bluff, Boswell, Fort Towson, Grant, Hugo, Messer, Nelson, Sawyer, Soper, Speer, Spencerville, and Swink.
- District 1, 2, and 3 do not maintain consumable cards for all consumable items.
- District 3 does not reconcile fuel logs to the actual fuel on hand.

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 creating and maintaining of a fixed assets inventory record. Policies and procedures have not been designed and implemented with regard to effective internal controls over safeguarding of consumable inventory.

Effect of Condition: These conditions resulted in noncompliance with state statutes and could result in unrecorded transactions, misappropriation of assets, unauthorized use of consumable inventories, or loss of consumable inventories.

Recommendation: OSAI recommends the County implement internal controls to ensure compliance with 19 O.S. § 178.1 and 19 O.S. § 178.2 by performing and documenting an annual inventory of fixed assets. Documentation of annual inventory verification should be retained and filed with the County Clerk.

OSAI also recommends management implement internal controls to ensure compliance with 19 O.S. § 1502 and 19 O.S. § 1504A, which includes maintaining consumable cards for all consumable items and performing periodic review of consumable items on hand.

Management Response:

County Commissioner District 1: We are currently notifying all officer/departments the requirement to perform an annual physical inventory. We have corrected the condition regarding consumable items, as we are now maintaining consumable cards for all consumable items.

County Commissioner District 2: We will start having all inventory items on consumable cards, and ensure an annual physical inventory is performed.

**CHOCTAW COUNTY, OKLAHOMA
STATUTORY REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

County Commissioner District 3: We will work to comply with state statutes to ensure an annual invent is performed. From this point all consumable items will be maintained on a consumable card. Policies and procedures will be implemented to ensure all fuel usage is tracked.

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. Effective internal controls include management design procedures to ensure that all fixed assets records be maintained to comply with 19 O.S. § 178.1 and 19 O.S. § 178.2.

Additionally, effective internal controls include management design procedures to ensure that all supplies, materials, and equipment received, disbursed, stored and consumed by their department comply with 19 O.S. § 1502 and 19 O.S. § 1504A.

Finding 2016-010 – Inadequate Segregation of Duties Over the Collection Process - Court Clerk (Repeat Finding)

Condition: Upon inquiry of the Court Clerk employees, and observation, we noted the following weaknesses with regard to internal controls related to the collection process of the Court Clerk.

- All employees issue cash receipts utilizing the same cash drawer.
- Employees issuing receipts also prepare deposits, deliver the deposit to the County Treasurer, and reconcile daily receipts.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure accountability and stewardship over all funds. Additionally, due to the limited number of personnel within each office, one individual is responsible for all the key functions of the office.

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

Recommendation: OSAI recommends that management be aware of these conditions and realize that concentration of duties and responsibilities in a limited number of individuals is not desired from a control point of view. Regarding the collection process, OSAI recommends that one employee should not be performing all of the duties regarding issuing receipts, preparing the deposit, and reconciling the daily receipts.

Management Response:

Court Clerk: All employees issue cash receipts with a main cash register in the office. Only four people prepare deposits and the alternate every day and reconcile daily receipts. The deputy, who does not do the

**CHOCTAW COUNTY, OKLAHOMA
STATUTORY REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

deposit, delivers the deposit to the Treasurer daily. To correct this issue on receipts and deposits, the person who prepares the deposits may not issue a receipt on the day they do that deposit.

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

Finding 2016-011 – Inadequate Internal Controls and Noncompliance Over Inmate Trust and Sheriff Commissary Funds (Repeat Finding)

Condition: Regarding the Inmate Trust Fund depository account, the following weaknesses were noted:

- The Sheriff's Inmate Trust Fund depository account balance was not reconciled to the County Treasurer's balance at June 30, 2016.
- The Inmate Trust Fund balance was not reconciled to the inmates' ledger balance at June 30, 2016.
- Commissary profit is not timely transferred to the Sheriff Commissary Fund.
- The County Sheriff does not file an annual report for the Sheriff Commissary Fund with the Board of County Commissioners by January 15th, of each year.

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

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

Recommendation: OSAI recommends the following:

- Inmate Trust Fund reconciliations should be performed on a monthly basis.
- Inmate Trust Fund monies should be maintained in a manner that reflects each inmate's trust deposits, disbursements, and account balances. The inmate's trust fund balance should be reconciled to the total of the inmate's balances.
- Profit generated from sales should be deposited in the Commissary Fund on timely manner.
- The Sheriff should file a report of the commissary with the County commissioners by January 15th, of each year.

Management Response:

County Sheriff: The Sheriff's office began reconciling with the County Treasurer at the end of each month. We will start depositing the profits made from sales monthly into the Sheriff Commissary Fund. Additionally, we will file the appropriate annual report to the County Commissioners each year.

Criteria: Effective internal controls include management properly implementing procedures to ensure the safeguarding of inmate trust funds and compliance with 19 O.S. § 180.43(D).



OFFICE OF THE STATE AUDITOR & INSPECTOR
2300 N. LINCOLN BOULEVARD, ROOM 100
OKLAHOMA CITY, OK 73105-4896

WWW.SAI.OK.GOV