

OPERATIONAL AUDIT

CHOCTAW COUNTY

For the period July 1, 2007 through June 30, 2011

A photograph of the Oklahoma State Capitol dome, showing the top portion of the structure with its columns and the statue on top, set against a blue sky with white clouds.

*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 PERIOD JULY 1, 2007 THROUGH JUNE 30, 2011**

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Oklahoma State Auditor & Inspector

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January 3, 2013

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

Transmitted herewith is the audit report of Choctaw County for the period July 1, 2007 through June 30, 2011.

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

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

Sincerely,

A handwritten signature in blue ink that reads "Gary A. Jones". The signature is fluid and cursive.

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

BACKGROUND

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 – 14,872
(2009 est.)

Farms – 1,134 Land in Farms – 326,300 Acres

Primary Source: Oklahoma Almanac 2011-2012

COUNTY OFFICIALS

- Becky Harris County Assessor
- Emily VanWorth.....County Clerk
- Ronnie Thompson..... County Commissioner District 1
- Randy Robertson..... County Commissioner District 2
- Roger Vandever County Commissioner District 3
- Lewis Collins County Sheriff
- Arlene Minchey County Treasurer
- Jimmy L. Walker Court Clerk

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

	Beginning Cash Balance July 1, 2010	Receipts Apportioned	Transfers In	Transfers Out	Disbursements	Ending Cash Balance June 30, 2011
Combining Information:						
County General Fund	\$ 915,264	\$ 1,171,694	\$ 3,471	\$	\$ 1,705,538	\$ 384,891
1-Cent Co. General Cash Fund		172,471			33,223	139,248
County Highway Reg.	471,620	1,899,104			1,881,351	489,373
Highway Restricted	192,136	130,053			167,105	155,084
CBRI-105 Cash Fund		1,152,890				1,152,890
1-Cent Rd. Improvement Cash Fund		344,691			174,557	170,134
CBRIF-103 Cash Fund		24,968				24,968
1-Cent Law Enforcement Cash Fund		143,516			87,880	55,636
R.E.A.P.	4,446	261,003			241,677	23,772
CDBG-EC	99,729	5,338			23,350	81,717
1-Cent Co. Extension Cash Fund		38,259			27,679	10,580
Co. Health Dept.	144,981	147,698			79,700	212,979
Fairboard Cash Acct.	9,810	7,590			8,942	8,458
1-Cent Economics Cash Fund		76,557				76,557
1-Cent Co. Library Cash Fund		9,564			7,863	1,701
Hospital Cash Fund	430,632	850,869			679,926	601,575
VFD Cash Fund	206,680	283,623			155,025	335,278
1-Cent Ambulance Cash Fund		172,166		3,471	130,746	37,949
Sheriff Lake Patrol	14,678	16,998			30,835	841
County Sinking	12					12
CDBG-General		56,061			48,045	8,016
Emergency Mgmt.	1,400	16,000			15,000	2,400
Choctaw Co. E-911	685,555	111,096			52,277	744,374
Remaining Aggregate Funds	1,901,502	627,179			414,389	2,114,292
Combined Total - All County Funds	\$ 5,078,445	\$ 7,719,388	\$ 3,471	\$ 3,471	\$ 5,965,108	\$ 6,832,725

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

PURPOSE, SCOPE, AND SAMPLE METHODOLOGY

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

The audit period covered was July 1, 2007 through June 30, 2011.

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

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. This report is a public document pursuant to the Oklahoma Open Records Act (51 O.S. § 24A.1 et seq.), and shall be open to any person for inspection and copying.

Objective 1: To determine the receipts apportioned, disbursements, and cash balances are accurately presented on the County Treasurer's monthly reports for FY 2011.

Conclusion: With respect to the items reconciled and reviewed; the receipts apportioned, disbursements, and cash balances are accurately presented on the County Treasurer's monthly reports. However, internal controls should be strengthened regarding the financial reporting process.

Methodology: To accomplish our objective, we performed the following:

- Gained an understanding of internal controls related to the process of accurately presenting the receipts apportioned, disbursements, and cash balances on the County Treasurer's monthly reports through discussions with the County Treasurer, observation, and review of documents.
- Performed the following to ensure receipts apportioned, disbursements, and cash balances were accurately presented on the County Treasurer's monthly reports:
 - Reconciled County Treasurer's receipts to amounts apportioned on the County Treasurer's monthly reports.
 - Reconciled the County Clerk's warrants issued to disbursements paid by the County Treasurer.
 - Re-performed the bank reconciliations at June 30, 2011, to determine that all reconciling items were valid, and ending balances on the general ledger agreed to the ending balances reflected on the Treasurer's monthly reports.

Finding: Inadequate Internal Controls over the County Treasurer's Monthly Reports and Lack of Segregation of Duties in the County Treasurer's Office

Condition: When documenting the process over the monthly reports, we noted the following:

- Apportionments are not reviewed by someone other than the preparer.
- Warrants are approved by the Treasurer's office for issuance without being registered or fund balances verified.
- Monthly bank reconciliations for general and official depository accounts have unidentified variances, and monthly reconciliations are not performed on the warrant and investment accounts. Reconciliations are not reviewed by someone other than the preparer.
- The County Clerk and County Treasurer are unable to reconcile all funds.

Cause of Condition: Procedures have not been designed to review apportionments, disbursements, and cash balances and verify that these amounts are accurately presented on the monthly reports.

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

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Recommendation: 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:

- Apportionments should be reviewed and approved by someone other than the preparer.
- Information regarding warrants to be issued should be recorded in the warrant register and fund balance should be verified prior to registering warrants.
- Monthly bank reconciliations should be performed for all accounts. Variances should be investigated and properly corrected. The bank reconciliation should be reviewed and approved by someone other than the preparer.
- The funds presented on the County Clerk's appropriation ledger and the Treasurer's general ledgers should be reconciled monthly.

Management Response:

County Treasurer: From this time forward all reports will be reviewed and approved by someone other than preparer. Monthly bank statements have kept consistent variance for last four years. Have researched records back to 1993 and have not found problem to correct. The County Clerk and I are now balancing on most accounts except the few that have been researched for 10 years back and cannot identify reconciling items. Just started a new system with warrants but this problem has now been rectified.

Criteria: Effective internal controls require that key functions within a process be adequately segregated to allow for prevention and detection of errors and misappropriation of funds. To help ensure a proper accounting of funds; the County Clerk's appropriation ledger should be reconciled monthly to the Treasurer's general ledger; warrants issued per the County Clerk should be reconciled to warrants paid per the County Treasurer; and bank reconciliations should be performed on a monthly basis. Reconciliations, monthly reports, and the County's Financial Statement should be reviewed and approved by someone other than the preparer.

Objective 2:	To determine the County's financial operations complied with 62 O.S. § 517.4, which requires county deposits with financial institutions be secured with collateral securities or instruments.
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Conclusion: With respect to the days tested, the County did not comply with 62 O.S. § 517.4, which requires county deposits with financial institutions be secured with collateral securities or instruments.

Methodology: To accomplish our objective, we performed the following:

- Gained an understanding of the internal controls related to pledged collateral through discussions with the County Treasurer, observation, and review of ledgers and documents.
- Tested compliance of the significant law, which included the following:
 - Selected two days per month from banks holding deposits of county funds and determined that bank balances were adequately collateralized.
 - Reviewed 100% of the audit period for banks that only have investments to determine that balances were adequately collateralized.

Finding: Inadequate Internal Controls over Pledged Collateral and Non-compliance with Statute

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

- Internal controls have not been designed to monitor deposits daily to ensure bank balances are adequately collateralized.

After performing test work regarding the pledged collateral process, the following was noted:

- The County was not adequately pledged at a local bank for two of ninety-six days tested, which are as follows:
 - January 12, 2011, in the amount of \$468,468.56.
 - January 13, 2011, in the amount of \$277,956.32.
- The County was not adequately pledged at another local bank for the period of March 16, 2009 through April 21, 2009, in the amount \$238,079.19.

Cause of Condition: Procedures have not been designed to review daily bank deposits to determine they are adequately secured.

Effect of Condition: Failure to monitor pledged collateral amounts could result in unsecured county funds and possible loss of county funds.

Recommendation: OSAI recommends that the County Treasurer implement a system of internal controls to provide reasonable assurance that county funds are adequately secured.

Further, OSAI recommends the County Treasurer maintain a ledger of daily bank balances compared to the market value of pledged securities to ensure that county funds are adequately secured.

Management Response:

County Treasurer: I will be more observant and demand that the bank has immediate paper verification of pledges.

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. Title 62 O.S. § 517.4, requires county deposits with financial institutions be secured with collateral securities or instruments.

Objective 3: 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. However, internal controls should be strengthened regarding the collections of sales tax.

Methodology: To accomplish our objective, we performed the following:

- Gained an understanding of the internal control process of receipting, apportioning, and disbursing sales tax collections through discussions with County personnel, observation, and review of documents.
- Tested compliance of the significant law, which included the following:
 - Reviewed sales tax ballots to determine designation and purpose of sales tax collections.
 - Obtained confirmations from the Oklahoma Tax Commission for sales tax payments made to the County and recalculated the amounts apportioned by the County Treasurer to ensure sales tax collections were apportioned to the proper funds.
 - Selected a random sample of 160 expenditures from the sales tax revolving funds and determined that expenditures were made for purposes designated on the sales tax ballot.

Finding: Inadequate Internal Controls over the Calculation of Sales Tax

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

- There is no independent oversight of the calculation of sales tax collections that is presented for appropriation by the County Treasurer to the County Clerk.

Cause of Condition: Procedures have not been designed to review the calculation of sales tax apportionments.

Effect of Condition: This condition could result in miscalculation of sales tax revenue.

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Recommendation: OSAI recommends the sales tax calculation be re-performed by someone other than the preparer, and documentation be retained to provide evidence of who performed the recalculation and date of the review.

Management Response:

County Treasurer: From this point forward, there will be another person to review and sign off on this report for verification of accuracy.

Criteria: Effective internal controls would include procedures to ensure compliance with 68 O.S. § 1370E. To ensure the proper appropriation of sales tax collections, a recalculation of the apportionment should be independently performed and documented.

Objective 4: 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 generally 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, internal controls should be strengthened regarding the application of certified levies to the tax rolls and the apportionment and distribution of ad valorem tax collections.

Methodology: To accomplish our objective, we performed the following:

- Gained an understanding of the internal controls related to the process of apportioning and distributing ad valorem tax collections, which included discussions with County personnel, observation, and review of documents.
- Tested compliance of the significant law, which included the following:
 - Compared the certified levies for the audit periods to the computer system to determine the Treasurer applied the certified levies, as fixed by the Excise Board of the County, to the tax rolls.
 - Recalculated the apportionment of ad valorem tax collections to determine collections were accurately apportioned to the taxing entities.

Finding: Inadequate Internal Controls over Ad Valorem Process and Non-compliance with Statute

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

- Certified levies entered into the computer system are not reviewed for accuracy.
- Ad valorem apportionments are not reviewed or approved by someone other than the preparer.

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After performing test work regarding the ad valorem taxes process, the following was noted:

- Levies for properties located in the town of Soper were not entered into the Treasurer's IT system.
- All ad valorem collected for one school district for the 2007 and 2008 tax year was apportioned to the County General Fund. This resulted in approximately \$57,000 in apportionment errors.

Cause of Condition: Procedures have not been designed to ensure ad valorem levies are entered into the IT system correctly and verify that ad valorem collections are accurately apportioned and distributed to the taxing entities.

Effect of Condition: These conditions could result in undetected errors, misappropriation of funds, and loss of revenues. This condition did result in ad valorem tax collections not being accurately remitted to a school district.

Recommendation: OSAI recommends the County Treasurer implement the following regarding ad valorem taxes:

- Certified levies entered in the computer should be reviewed and approved by someone other than the person entering the levies into the IT system.
- Ad valorem apportionments should be reviewed and approved by someone other than the preparer.

Management Response:

County Treasurer: This omission of tax levies for the town of Soper for 2007 and 2008 has been rectified and warrants issued to appropriate money due to all entities that should have received these ad valorem levies.

Criteria: Effective internal controls include key functions within a process be adequately segregated to allow for prevention and detection of errors and that adequate documentation of verifications be maintained. To help ensure the proper appropriation of ad valorem collections, a recalculation of the apportionment, and appropriation should be performed and documented.

Further, 68 O.S. § 2923, requires the ad valorem tax collections to be apportioned and distributed monthly among the different funds to which they belong.

<p>Objective 5: To determine the County's financial operations complied with 19 O.S. § 1505C, 19 O.S. § 1505E, and 19 O.S. § 1505F, which outlines procedures for expending county funds.</p>

Conclusion: With respect to the items tested, the County generally complied with 19 O.S. § 1505C, 19 O.S. § 1505E, and 19 O.S. § 1505F, which outlines the procedures for expending county funds.

Methodology: To accomplish our objective, we performed the following:

- Gained an understanding of the internal controls related to the process of encumbering purchase orders, authorization of payment of purchase orders, and documenting goods and services received, which included discussions with County personnel, observation, and review of documents.
- Tested compliance of the significant law, which included the following:
 - Selected a random sample of 160 purchase orders from county funds and determined:
 - Encumbrance was made prior to ordering or receiving the goods.
 - Receiving report was completed and authorized by receiving officer.
 - Invoice for goods/services was itemized.
 - The claim was reviewed/authorized by the County Clerk.
 - The Board of County Commissioners and/or management approved the purchase order/claim.

Finding: Inadequate Internal Controls over Purchasing Procedures and Non-compliance with Statute

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

- An employee of the County Clerk’s office uses a signature stamp of the Chairman of the Board of County Commissioners and a signature stamp of the County Clerk to approve warrants.

After performing test work regarding the purchasing process, the following was noted:

- Five purchases were not encumbered prior.
- Eighteen receiving reports were not complete due to lack of details regarding items received.
- Four invoices were not itemized.

Cause of Condition: Procedures designed by state statute have not been adequately implemented.

Effect of Condition: These conditions could result in unrecorded transactions, undetected errors, and misappropriation of funds, inaccurate records, incomplete information, and non-compliance with state statutes.

Recommendation: OSAI recommends the County implement procedures to ensure compliance with purchasing statutes.

Management Response:

County Clerk: Will have receiving officers fill out correctly. More attention will be implemented. Management will try to adhere to purchasing statutes.

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District 1 Commissioner: Current Commissioner was not in office until January 1, 2011; will be held more accountable for the future.

District 2 Commissioner: Management will adhere to OSAI recommendations. We will pay closer attention and make sure receiving reports are complete with more detailed information.

District 3 Commissioner: More attention will be placed on implementing procedures to ensure compliance.

County Sheriff: Okay, OSAI recommendation noted.

Criteria: Effective internal controls require that management properly implement procedures to ensure that purchases comply with 19 O.S. § 1505C, 19 O.S. § 1505E, and 19 O.S. § 1505F.

Objective 6: To determine the County's financial operations complied with 19 O.S. § 1505B, which requires county purchases in excess of \$10,000 be competitively bid.

Conclusion: With respect to the items tested, the County generally complied with 19 O.S. § 1505B, which requires that purchases in excess of \$10,000 be competitively bid. However, internal controls should be strengthened regarding the bidding process.

Methodology: To accomplish our objective, we performed the following:

- Gained an understanding of the internal controls related to the process of competitively bidding purchases in excess of \$10,000, which included discussions with County personnel, observation, and review of documents.
- Tested compliance of the significant law, which included the following:
 - Selected a random sample of twenty purchases in excess of \$10,000 per year and determined:
 - Notice of bid was mailed to vendors on bid list.
 - Notice of bid published in County wide newspaper.
 - Notices were sent ten days prior to date that bids were opened.
 - BOCC selected successful bid in open meeting.
 - Lowest bid was accepted or reason given for not selecting lowest bid.
 - Successful bidder was notified.

Finding: Inadequate Internal Controls over County Purchases in Excess of \$10,000 and Non-compliance with Statute

Condition: Upon inquiry of County personnel, observation, and review of documents, regarding the purchases in excess of \$10,000, the following was noted:

- There is a concentration of duties in one person preparing, receiving, and maintaining all information regarding the bids.
- Affidavits for the mailing of bid packets were not prepared.
- Bid packets do not always indicate the time received.

Cause of Condition: Procedures designed by state statute to retain a signed affidavit with a listing of mailed bid packets and to date and time stamp bids as they are received in the Clerk's office have not been adequately implemented or documented.

Effect of Condition: These conditions could result in unrecorded transactions, undetected errors, inaccurate records, incomplete information, and non-compliance with state statutes.

Recommendation: OSAI recommends the County implement procedures to ensure all steps of the bidding process are properly performed. These procedures should include:

- Documentation of notification of successful bidder maintained in the bid file.
- Documentation of bids date and time stamped on the bid package.
- Proof of publication maintained in the bid file.
- Information for bids should be reviewed and approved by someone other than the preparer.

Management Response:

County Clerk: Doing affidavits now; will adhere more closely to recommendations.

Criteria: Effective internal controls require that management properly implement procedures to ensure that the county complies with 19 O.S. § 1505B.

<p>Objective 7: To determine the County's financial operations complied with 19 O.S. § 180.74 and § 180.75 regarding amounts allowed for officers' salaries.</p>
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Conclusion: With respect to the salaries tested, the County complied with 19 O.S. § 180.74 and 180.75, which establish limitations on the amount of county officers' salaries. However, internal controls should be strengthened regarding the payroll processes.

Methodology: To accomplish our objective, we performed the following:

- Gained an understanding of the internal controls related to the process of determining amounts allowed for officers' salaries, which included discussions with County personnel, observation, and review of documents.
- Tested compliance of the significant law, which included the following:
 - Reviewed the salaries paid to officers to determine that it was not in excess of the amount allowed by statute.

Finding: Inadequate Internal Controls over the Calculation of Officers Salaries and Payroll Processes

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

- There is a concentration of duties in that the County Clerk performs all key duties for payroll process, including enrolling new employees, maintaining the personnel files, inputting information in computer system, and preparing payroll and reports for Federal, State, OPERS, Social Security, Medicare, and other withholdings.
- Internal controls have not been designed to ensure officers' salaries are within statutory limits.

Cause of Condition: Procedures designed by state statute have not been adequately implemented to ensure salaries are within statutory limits. Procedures have not been designed to adequately segregate key functions of the payroll process.

Effect of Condition: These conditions could result in non-compliance with salary limitations; particularly in the event of fluctuations in the ad valorem tax revenue and population of the County that determines salary limitations. Because of the condition mentioned above, an opportunity for errors and misappropriation of County assets exists.

Recommendation: OSAI recommends the County implement procedures to ensure payroll amounts are paid in accordance with state statutes. OSAI recommends the following key accounting functions of the payroll process be adequately segregated:

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

Management Response:

County Clerk: Management will work towards trying to comply with requirements and suggestions but budget restraints make some requirements hard to do, because of shortage of staff.

Criteria: Effective internal controls include management design procedures to ensure that officers' salaries comply with 19 O.S. § 180.74 and 180.75.

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.

Objective 8: To determine the County's financial operations complied with 19 O.S. § 1504A, which requires the receiving officer to maintain a record of all supplies, materials, and equipment received, disbursed, stored and consumed by his department.

Conclusion: With respect to the items tested, the County did not comply with 19 O.S. § 1504A, which requires the receiving officer to maintain a record of all supplies, materials, and equipment received, disbursed, stored and consumed by their department.

Methodology: To accomplish our objective, we performed the following:

- Gained an understanding of the internal controls related to the process of maintaining a record of all supplies, materials, and equipment received, disbursed, stored and consumed by a department, which included discussions with County personnel, observation, and review of documents.
- Tested compliance of the significant law, which included the following:
 - Selected a sample of 15 consumable records to determine that the district barns are maintaining accurate records and that the records agree to a physical inventory count.
 - Reviewed fuel logs for Districts 1 and 3 to determine that fuel logs are maintained, reconciled, and agree to physical count on hand (District 2 does not maintain an inventory of fuel at the district yard).

Finding: Inadequate Internal Controls over Consumable Inventory and Non-compliance with Statute

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

- District 1, 2, and 3 each have one person that is in charge of consumable inventories and that person performs all key processes including recording, maintaining, and verifying consumable inventories.
- District 1, 2, and 3 did not retain documentation of the count of physical inventories for consumables.

After performing test work regarding consumable inventories, the following was noted:

- Fuel logs for District 3 did not maintain a balance for amount used and received, and was not reconciled to amount on hand.

Cause of Condition: Procedures have not been implemented for the accurate reporting of consumable inventories.

Effect of Condition: These conditions could result in inaccurate records, unauthorized use of consumable inventories, or loss of consumable inventories.

Recommendation: OSAI recommends management implement internal controls to ensure compliance with 19 O.S. § 1504A. These controls would include:

- Performing and documenting a periodic physical count of inventory.
- Separating the key functions of receiving, maintaining and verifying consumable inventories.
- Maintaining a fuel log with all pertinent information with a current balance.
- Reconciling fuel log periodically to fuel on hand and explain any variance or adjustments.

Management Response:

District 1 Commissioner: Will document count of physical inventory for consumables, and will have secretary or foreman perform consumable inventory.

District 2 Commissioner: Management will implement procedures to follow OSAI recommendations.

District 3 Commissioner: We will start documenting a physical account of consumable and ensure fuel logs will be reconciled for fuel on hand.

Criteria: 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. § 1504A.

Objective 9:	To determine the County's financial operations complied with 19 O.S. § 178.1 and 69 O.S. § 645, which requires the maintenance of inventory records, periodic inventory verifications, and that equipment be clearly and visibly marked "Property of" the County.
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Conclusion: With respect to the items tested, the County did not comply with 19 O.S. §178.1, which requires the maintenance of inventory records, and periodic inventory verifications. With respect to the items tested, the County did comply with requires that equipment be clearly and visibly marked "Property of" the County.

Methodology: To accomplish our objective, we performed the following:

- Gained an understanding of the internal controls related to the process of maintaining inventory records, verifying inventory, and marking equipment "Property of" the County, which included discussions with County personnel, observation, and review of documents.
- Tested compliance of the significant law, which included the following:
 - Selected a sample of 48 fixed assets and verified to their records of inventories to determine that inventory records are correct. The sample also included items that are required to be marked "Property of" the County.

Finding: Inadequate Internal Controls over Fixed Assets and Non-compliance with Statute

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

- Periodic physical inventories were not performed for the following offices:
 - County Clerk
 - County Election Board
 - County Health Department
 - County Treasurer
- Periodic physical inventories were not documented for the following offices:
 - County Assessor
 - County Sheriff
 - District 1
 - District 2
 - District 3

Cause of Condition: Procedures have not been implemented for the accurate reporting of fixed assets.

Effect of Condition: When an annual inventory count is not performed or documented, and the duties of receiving and recording fixed assets are not adequately segregated, there is an opportunity for misuse or loss of equipment.

Recommendation: OSAI recommends that management implement internal controls to ensure compliance with state statute 19 O.S. §178.1. These controls would include that all offices:

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

Management Response:

County Clerk: Will adhere to annual inventory count and retain documentation.

County Election Board: Inventory count will be implemented by both employees with a signed and notarized document, retained in the office, and filed with County Clerk yearly.

County Sheriff: Will document physical inventory in the future.

County Treasurer: There will from this time forward be an annual inventory count performed.

District 1 Commissioner: Already performing periodic inventory; in the future we will retain documentation to document inventory count.

District 2 Commissioner: Will continue to perform annual inventory count and retain documentation to verify count was performed.

District 3 Commissioner: We will perform an annual inventory count and retain documentation.

Criteria: Effective internal controls include management design procedures to ensure that all inventory records are maintained, periodic inventory verifications are performed, and that equipment be clearly and visibly marked "Property of" the County to comply with 19 O.S. §178.1 and 69 O.S. § 645.

Objective 10: To determine the County's financial operations complied with 19 O.S. § 682, which requires officers to deposit daily in the official depository all collections received under the color of office.
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Conclusion: With respect to the days tested and items reconciled, the County Sheriff did not comply with state statute 19 O.S. § 682, which requires officers to deposit daily in the official depository all collections received under the color of office. However, internal controls regarding the collections and depositing process should be strengthened in all county offices.

Methodology: To accomplish our objective, we performed the following:

- Gained an understanding of the internal controls related to the process of officers depositing daily in the official depository all collections received under the color of office, which included discussions with County personnel, observation, and review of documents.
- Tested compliance of the significant law, which included the following:
 - Selected the Sheriff Service Fee account and the Treasurer's Motor Vehicle account receipts to determine that:
 - All monies received were receipted.
 - Monies were deposited daily.

Finding: Inadequate Internal Controls over Official Depository Accounts and Non-compliance with Statute-Sheriff

Condition: Upon inquiry of County personnel, observation, and review of documents, regarding the official depository accounts, duties were not adequately segregated regarding the following:

- **County Assessor:**
 - Receipts issued by all employees.
 - Employees use same cash drawer.
 - Deposit prepared by all employees.
 - One person vouchers funds and reconciles account.
 - Reconciliations are performed by an employee that has additional duties in the receipting process and is not reviewed by someone other than the preparer.

- **County Clerk:**
 - Receipts issued by all employees.
 - Employees use same cash drawer.
 - Deposit prepared by all employees.
 - One person vouchers funds and reconciles account.
 - Reconciliations are performed by an employee that has additional duties in the receipting process and is not reviewed by someone other than the preparer.

- **Court Clerk:**
 - Receipts issued by all employees.
 - Employees use same cash drawer.
 - Deposit prepared by all employees.

- **County Election Board:**
 - Receipts issued by both employees.
 - Employees use same cash drawer.
 - Deposit prepared by both employees.
 - One person vouchers funds and reconciles account.
 - Reconciliations are performed by an employee that has additional duties in the receipting process and is not reviewed by someone other than the preparer.

- **County Sheriff:**
 - Receipts issued by all employees.
 - Employees use same cash drawer.
 - Deposit prepared by one employee.
 - One person vouchers funds and reconciles accounts.
 - Reconciliations are performed by an employee that has additional duties in the receipting process and is not reviewed by someone other than the preparer.
 - The Sheriff's office retains funds in official depository.

- **County Treasurer:**
 - Receipts issued by all employees.
 - Employees use same cash drawer.
 - Deposit prepared by one employee.
 - Reconciliations are performed by an employee that has additional duties in the receipting process and is not reviewed by someone other than the preparer.

After performing test work regarding official depository accounts, the following was noted:

- Of the eighty-two receipts tested for the Sheriff Service Fee account, eight were not timely deposited.

Cause of Condition: In order to provide prompt services to the citizens of Choctaw County and for ease of operations, the offices of the County utilize all employees to issue receipts. Additionally, due to the limited number of personnel within each office, one individual is sometimes responsible for all the key functions of the office. Procedures have not been implemented in the Sheriff's Office to ensure deposits are made daily with the County Treasurer.

Effect of Condition: These conditions could result in misappropriation of assets, inaccurate records, incomplete information, and non-compliance with state statutes.

Recommendation: OSAI recommends establishing a system of controls to adequately protect the collections of each office, which include but are not limited to the following:

- The person preparing the deposit should not issue receipts or reconcile the account to the Treasurer's monthly report.
- Each office should establish separate cash drawers for all employees receiving cash.
- Deposits of collections should be made daily with the County Treasurer.

Management Response:

County Assessor: Receipts and deposits are normally done by whoever is available at the time to wait on the customer. Because of limited personnel, I cannot assign one person to issue receipts and one person to deposit, but in the future whoever issues the receipts will then give to another employee to deposit the money.

County Clerk: Will try to implement a new procedure to comply with requirements.

Court Clerk: Because we try to have an immediate response to our customers, receipts are issued by all employees; it is convenient to have one drawer for Court Clerk officer. Two cost administrators have drawers. Deposits are made by everyone, so just one person will not be handling.

County Election Board: One employee will deposit and the other employee will issue receipts. No cash drawer for either employee.

County Sheriff: Will operate office to best of my ability.

County Treasurer: These functions are segregated as much as number of personnel in office allows.

Criteria: Effective internal controls include management design procedures to ensure that all collections received under the color of office are receipted and deposited to comply with state statute 19 O.S. § 682. Effective internal controls require that key functions within a process be adequately segregated to allow for prevention and detection of errors and possible misappropriation of funds.

Objective 11: To determine the County Court Clerk's financial operations complied with 19 O.S. § 220 and 20 O.S. § 1304, which outlines procedures for expending Court Clerk Revolving Fund monies and Court Fund monies, respectively.
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Conclusion: With respect to Court Clerk Revolving Fund monies and Court Fund monies tested, the County did not comply with 19 O.S. § 220 and 20 O.S. § 1304, which outlines procedures for expending Court Clerk Revolving Fund monies and Court Fund monies.

Methodology: To accomplish our objective, we performed the following:

- Gained an understanding of the internal controls related to expending Court Clerk Revolving Fund monies and Court Fund monies, which included discussions with County personnel, observation, and review of documents.
- Tested compliance of the significant law, which included the following:
 - Selected a sample of twenty Court Clerk Revolving Fund expenditures and determined:
 - Expenditures were made for the lawful operation of the office.
 - Claims were approved by the Court Clerk and either the District Judge or Associate District Judge.
 - Selected a sample of fifty Court Fund expenditures and determined:
 - Expenditures were made for the lawful operation of the office.
 - Claims were approved by the District Judge and either the Court Clerk or the Associate District Judge.
 - Written approval by the Chief Justice was obtained for expenditures made from restricted categories.

Finding: Inadequate Internal Controls over the Court Clerk Financial Operations and Non-compliance with Statute

Condition: Upon inquiry of County personnel, observation, and review of documents, regarding the Court Clerk financial operations, the following weaknesses were noted:

- The Court Clerk has physical custody of the District Judges signature stamp and uses it to approve the Court Clerk Revolving Fund and Court Fund expenditures.

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- The Court Clerk performs all key processes for the Court Clerk Revolving Fund including, preparing claims, approving claims, and submitting the claims to the County Clerk's office for payment.
- The Court Clerk performs all key processes for the Court Fund expenditures including, preparing claims, approving claims, preparing voucher, and approving vouchers.

After performing test work regarding Court Clerk Revolving Fund expenditures, the following was noted:

- Of the twenty Court Clerk Revolving Fund expenditures selected, eighteen were not approved by a majority of the Court Board due to the following:
 - Four claims were approved by the Court Clerk using signature stamp of the District Judge.
 - Four claims had no second signature.
 - Ten claims were approved by the BOCC; the claims did not reflect any signatures for the Judge or Court Clerk.

After performing test work regarding court fund expenditures, the following was noted:

- Of the fifty Court Fund expenditures selected, fifty were not approved by a majority of the Court Board due to Court Clerk using the District Judge's signature stamp to approve all claims.

Cause of Condition: Because the Court Clerk is ultimately responsible for the Court Clerk Revolving Fund and Court Fund, she feels most comfortable in performing the key duties herself. In addition, procedures designed by state statute have not been implemented to ensure proper approval of expenditures by the majority of the governing board.

Effect of Condition: These conditions could result in misappropriation of assets, inaccurate records, incomplete information, and non-compliance with state statutes.

Recommendation: OSAI recommends that procedures be developed to separate key functions with regard to the Court Fund disbursement process, which include but are not limited to the following:

- Obtaining proper approval for expenditures
- Key process for the expenditures of the Court Clerk Revolving Fund and Court Fund should be adequately segregated including receiving goods, preparing claims, authorizing claims, preparing vouchers, and signing vouchers.

Management Response:

Court Clerk: When the judge began his term, I was ordered to get a personal stamp for him, that he would not sign the claims. The claim not signed was in over sight. County Commissioners are not supposed to sign my claims.

Criteria: Effective internal controls include management design procedures to ensure that all expenditures of Court Clerk Revolving Fund monies and Court Fund monies comply with state statutes 19 O.S. § 220 and 20 O.S. §1304.

Objective 12: To determine the County Sheriff's Inmate Trust Fund financial operations complied with 19 O.S. § 531A, which requires these funds only be expended to refund monies to inmates or to transfer funds to the Sheriff's Commissary Fund for inmate expenditures.

Conclusion: With respect to the County Sheriff's Inmate Trust Fund, the Sheriff did not comply with 19 O.S. § 531A, which outlines the procedures for the expenditures from the Inmate Trust Fund account.

Methodology: To accomplish our objective, we performed the following:

- Gained an understanding of the internal controls related to expending funds from the Sheriff's Inmate Trust Fund, which included discussions with County personnel, observation, and review of documents.
- Tested compliance of the significant law, which included the following:
 - Selected a sample of 148 Inmate Trust Fund vouchers to determine that the purpose of the expenditure was to transfer funds to the Sheriff's Commissary Fund or to refund money to inmate.

Finding: Inadequate Internal Controls over Inmate Trust Fund Account and Non-compliance with Statute

Condition: Upon inquiry of County personnel, observation, and review of documents, regarding the Inmate Trust Fund account, the following weaknesses were noted:

- The Inmate Trust Fund bank account balance is not reconciled to the total of the inmates' balances and profit held in account.
- Bank reconciliations are not reviewed by someone other than the preparer.
- Deposits are not made daily.
- Vouchers were issued with the Treasurer and Treasurer's deputy as authorizing signatures; vouchers were not signed by the Sheriff or his designee.

After performing test work regarding Inmate Trust Fund account expenditures, the following non-compliance was noted regarding disbursements:

- Fourteen vouchers were issued to a correctional faculty for "Gang pay."
- Twelve vouchers were issued to the Oklahoma Tax Commission for sales taxes.
- Two vouchers were issued to the Court Clerk for filing fees on behalf of the inmate.

Cause of Condition: In order to expedite the payment of bills and court costs, the Sheriff paid amounts from the Inmate Trust Fund account instead of transferring the proceeds from the inmate sales to the Sheriff Commissary Fund account. Procedures have not been designed to adequately segregate the duties regarding the collecting, depositing, disbursing, and recording of inmate trust funds.

Effect of Condition: These conditions could result in misappropriation of funds, inaccurate records, incomplete information, and non-compliance with state statutes.

Recommendation: OSAI recommends the County implement procedures to ensure that checks disbursed from the inmate trust funds are made payable to either the Sheriff’s Commissary Fund account or paid directly to the inmate. OSAI also recommend that vouchers issued be properly approved by the Sheriff’s office. OSAI further recommends that key accounting processes be adequately segregated.

Management Response:

County Sheriff: Management will look into OSAI recommendations.

Criteria: Effective internal controls include management properly implementing procedures to ensure that expenditures of inmate funds comply with 19 O.S. § 531A and that internal control procedures be implemented to ensure the safeguarding of inmate trust funds.

All Objectives:

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

Finding: Inadequate County-Wide Controls

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

Cause of Condition: Procedures have not been designed to address risks of the County.

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

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

Examples of risks and procedures to address risk management:

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

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Examples of activities and procedures to address monitoring:

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

Management Response:

County Clerk: Management will identify problem areas and create a procedure to prevent risks.

County Treasurer: Management will try to adhere to these recommendations of OSAI.

District 2 Commissioner: Management will assess and identify risk and work to implement recommendation of OSAI.

District 3 Commissioner: Choctaw County will assess the risk and implement an adequate plan to correct.

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 made. Internal control comprises the plans, methods, and procedures used to meet missions, goals, and objectives. Internal control also serves as the first line of defense in safeguarding assets and preventing and detecting errors and fraud. County management is responsible for designing a county-wide internal control system comprised of Risk Assessment and Monitoring for the achievement of these goals.

Risk Assessment is a component of internal control, which should provide for an assessment of the risks the County faces from both internal and external sources. Once risks have been identified, they should be analyzed for their possible effect. Management then has to formulate an approach for risk management and decide upon the internal control activities required to mitigate those risks and achieve the internal control objectives.

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

Finding: Disaster Recovery Plan

Condition: Upon inquiry, the following offices do not have a written Disaster Recovery Plan:

- County Assessor
- County Clerk
- Court Clerk
- County Commissioners Districts 1, 2, and 3
- County Election Board
- County Sheriff
- County Treasurer

Cause of Condition: Procedures have not been designed and implemented to prepare a formal Disaster Recovery Plan.

Effect of Condition: The failure to have a formal Disaster Recovery Plan could result in the County being unable to function in the event of a disaster. The lack of a formal plan could cause significant problems in ensuring County business could continue uninterrupted.

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

- Current names, addresses, contact numbers of key county personnel and their roles and responsibilities of information services function;
- Listing of service providers and vendors;
- Information on location of key resources, including back-up site for recovery operating system, applications, data files, operating manuals, and program/system/user documentation; and
- Alternative work locations once IT resources are available.

Management Response:

County Assessor: We are currently working on a Disaster Recovery Plan and it should be completed by next year.

County Clerk: County is currently working on this.

Court Clerk: This office has a Disaster Recovery Plan but is not up to date. I will try to work in preparing a new Disaster Recovery Plan.

County Election Board: The State Election Board has back up files for this office. This office has a contract with an IT vendor for the backup of files the State Election Board does not back up. These backups are on a daily basis. On election days, we have a disaster plan to follow for the State Election Board.

District 2 Commissioner: Will try to develop a Disaster Recovery Plan.

County Treasurer: This issue is currently being dealt with and should be rectified within the year.

Criteria: An important aspect of internal controls is the safeguarding of assets, which includes adequate Disaster Recovery Plans. 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 in a county being unable to function in the event of a disaster.



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