

OPERATIONAL AUDIT

COAL COUNTY

For the period July 1, 2007 through June 30, 2009



*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

**COAL COUNTY OPERATIONAL AUDIT
FOR THE PERIOD JULY 1, 2007 THROUGH JUNE 30, 2009**

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Oklahoma State Auditor & Inspector

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March 6, 2012

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

Transmitted herewith is the audit report of Coal County for the period July 1, 2007 through June 30, 2009.

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, with a long horizontal stroke at the end.

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

**COAL COUNTY
OPERATIONAL AUDIT**

Background

Formerly part of Tobucksy County, Choctaw Nation, Coal County is located in southeastern Oklahoma and was created at statehood and named for the primary economic product of the region. Coal mining was once the major industry of the county, but has been dormant since 1958. Mementos of this era may be found in the Coal County Historical and Miners Museum in Coalgate, the county seat.

While agriculture is now considered to be the primary economic mainstay of the county, businesses such as Mary Hurley Hospital also contribute to the economy of the community.

Coal County History Book is available from the local genealogical society in Coalgate. For more county information, call the county clerk’s office at (580) 927-2103.

County Seat – Coalgate Area – 521.30 Square Miles

County Population – 5,743
(2005 est.)

Farms – 617 Land in Farms – 262,626 Acres

Primary Source: Oklahoma Almanac 2007-2008

County Officials:

- Cherry Hefley County Assessor
- Eugina LoudermilkCounty Clerk
- Alvin Pebworth..... County Commissioner District 1
- Johnny D. Ward County Commissioner District 2
- Michael Hensley County Commissioner District 3
- Roy Deck County Sheriff
- Gina McNutt County Treasurer
- Rachel Fuller..... Court Clerk

**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, 2009.

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 if the County’s internal controls provide reasonable assurance that revenues were accurately reported in the accounting records.

Conclusion The County’s internal controls do not provide reasonable assurance that revenues were accurately reported in the accounting records.

Methodology To accomplish our objectives, we performed the following:

- Gained an understanding of internal controls related to the revenue receipting process through discussions with County personnel, observation and review of documents.

Observation **Inadequate Segregation of Duties Over the Revenue Receipting Process**

Accountability and stewardship are overall goals of management in the accounting of funds. To help ensure a proper accounting of funds, the duties of receiving, receipting, recording, depositing cash and checks, reconciliations, and

transaction authorization should be segregated. 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.

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

County Treasurer's Office: Part-time employees work from the same cash drawer. The Treasurer and the first deputy issue receipts for checks received in the mail and endorse the back of the checks. No mail log is maintained. Employees reconcile their own cash drawer. Bank reconciliations are performed by one of the deputies that also issues receipts.

County Clerk's Office: Employees work from the same cash drawer. Two deputies receive mail and issue receipts for checks received in the mail. Employees reconcile their own cash drawer. The employee reconciling the cash drawer also makes deposits. The County Clerk's deputies endorse checks with signature stamps that are maintained in an unlocked desk drawer. No signature stamp log is maintained.

County Assessor's Office: The County Assessor does not maintain a log of checks received by mail. Receipts do not indicate method of payment. Employees work from the same cash drawer. The employee who reconciles the cash drawer also issues receipts from the same drawer. The office is not depositing daily and undeposited money is not kept in a safe overnight.

County Sheriff's Office: The County Sheriff's administrative assistant receives, receipts, and deposits checks received by mail. The County Treasurer endorses these checks. The deposits are not reviewed by any other employees.

County Election Board Office: The County Election Board secretary receives mail, endorses checks, issues receipts, prepares deposits, and takes deposits to the Treasurer.

Solid Waste: The Solid Waste employee does not issue a receipt for all funds collected. The daily collections are not reconciled to receipts issued. Deposit slips are not documented to reflect total cash and individual checks listed. Deposits are not being made daily.

These conditions could result in undetected errors or misappropriation of funds.

Recommendation

OSAI recommends that management be aware of these conditions and determine if duties can be properly segregated. In the event that segregation of duties is not

possible due to limited personnel, OSAI recommends implementing compensating controls to mitigate the risk involved with a concentration of duties. Compensating controls would include separating key processes and/or critical functions of the office, and having management review and approval of accounting functions.

Further, the following duties should be separated in the respective offices:

County Treasurer's Office: Part-time employees should not work from the same cash drawer. The Treasurer should maintain a mail log, one person should log checks received by mail, and someone else should issue receipts for the checks delivered by mail. Employees should not reconcile their own cash drawer. Bank reconciliations should be approved by someone other than the person performing the reconciliation.

County Clerk's Office: Employees should not work from the same cash drawer. The County Clerk should have a mail log, with one person logging checks received by mail, and someone else should issue receipts for the checks that are delivered by mail. Employees should not reconcile their own cash drawer.

County Assessor's Office: The County Assessor should maintain a mail log, one person should log checks received by mail, and someone else should receipt the checks that come by mail. Receipts should indicate method of payment. Employees should not work from the same cash drawer. The employee who reconciles the cash drawer should not issue receipts from the same drawer. The office should be depositing daily, and money that was collected after the deposit was made should be maintained in a safe overnight.

County Sheriff's Office: The County Sheriff's office should have a mail log, with one person logging checks received by mail, and someone else should receipt the checks that come by mail. Someone should review deposits other than the person making the deposit ticket.

County Election Board Office: The County Election Board should have a mail log, with one person logging checks received by mail. Another employee should issue receipts for checks that are delivered by mail. One person should not be performing the duties of receipting, preparing deposits, and taking deposits to the Treasurer.

Solid Waste: The Solid Waste employee should issue a receipt for all funds collected. The employee receipting funds should not be reconciling the cash box. The cash box should be reconciled to receipts issued. The deposit slip should reflect total cash and the individual check listing. Deposits should be made daily.

**Management
Response**

The County Treasurer is aware of this condition and will implement compensating controls to mitigate the risks involved with a concentration of duties.

The County Clerk is aware of this condition and will implement compensating controls to mitigate the risks involved with a concentration of duties.

The County Assessor's office has corrected these issues.

The County Sheriff is aware of this condition and will implement compensating controls to mitigate the risks involved with a concentration of duties.

The County Commissioner, who oversees the Solid Waste program, stated that the issues concerning Solid Waste have been corrected.

Observation

Inadequate IT Controls

According to the standards of the Information Systems Audit Control Association (CobiT, Delivery and Support DS5), the need to maintain the integrity of information and protect IT assets requires a security management process. This process includes establishing and maintaining IT security roles and responsibilities, policies, standards and procedures. Security management also includes performing security monitoring and periodic testing and implementing corrective actions for identified security weaknesses or incidents. Effective security management protects all IT assets to minimize the business impact of security vulnerabilities and incidents. To help ensure proper IT system controls each person should have their own username and password. Passwords should expire at regular intervals and computers should log off after periods of inactivity with a prompt for a password to log back on.

Based upon inquiry and observation of the County Clerk's and County Treasurer's IT system the following was noted:

Passwords did not expire at regular intervals, computers did not log off after periods of inactivity, and permission restrictions have not been established.

Recommendation

OSAI recommends that the County Clerk and Treasurer work with their IT personnel or in conjunction with software vendors to establish controls that will log off or lock computers after periods of inactivity or when the user is away from their computer. OSAI further recommends that passwords be set up with a requirement for length, character and an expiration at regular intervals and controls established for permission restrictions so all employees do not have unlimited access to the County's computer systems.

**Management
Response**

The County Clerk and County Treasurer will work with software vendors to establish controls that will log off a user, after periods of inactivity, and establish permission restrictions.

Objective 2:

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

Conclusion

The County's internal controls do not provide reasonable assurance expenditures were accurately reported in the accounting records.

Methodology

To accomplish our objectives, we performed the following:

- Gained an understanding of internal controls related to the expenditure process through discussions with County personnel, observation and review of documents.

Observation

Inadequate Segregation of Duties Over the Expenditure Process

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

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

- The Purchasing Agent issues purchase orders to employees other than those appointed as requisitioning officers.
- The Purchasing Agent does not always properly encumber purchase orders as they are requested.
- The Purchasing Agent does not always stamp purchase orders noting they were not timely encumbered.
- The Purchasing Agent encumbers funds, posts to ledgers, and prints and distributes payments.
- The County Clerk does not consistently reconcile the appropriation ledger to the Treasurer's general ledger for all cash funds.
- The County Clerk has three signature stamps. One stamp is for herself, one for the first deputy, and one for the Purchasing Agent. The first deputy and Purchasing Agent maintain their stamps in an unlocked desk drawer.
- The County Treasurer has a signature stamp for herself and for the first deputy. The first deputy maintains the stamp in an unlocked desk drawer.

These conditions could result in undetected errors or misappropriation of funds.

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

Further, only requisitioning officers should be given purchase order numbers to encumber funds. The Purchasing Agent should be properly encumbering funds in the computer system to ensure that funds are available rather than writing purchase order numbers and vendor names on a spreadsheet. The duties of encumbering funds and posting to the ledgers should be separate from the printing and distribution of payments. Signature stamps should only be used by the official. Officials who utilize signature stamps should ensure that signature stamps are adequately safeguarded from unauthorized use. The County Clerk should reconcile the appropriation ledger to the Treasurer's general ledger for all cash funds on a monthly basis.

**Management
Response**

The County Clerk's office is aware of this condition and will implement compensating controls to mitigate the risks involved with a concentration of duties. Furthermore, only requisitioning officers will be allowed to encumber purchase orders, and purchase orders that are not timely encumbered will be properly identified and labeled. Also, a signature stamp log will be maintained if stamp is authorized to be used by someone else.

The County Treasurer's signature stamp is maintained in a locked drawer. A signature stamp log will be maintained if the stamp is authorized to be used by someone else.

Observation

Inadequate IT Controls

According to the standards of the Information Systems Audit Control Association (CobiT, Delivery and Support DS5), the need to maintain the integrity of information and protect IT assets requires a security management process. This process includes establishing and maintaining IT security roles and responsibilities, policies, standards and procedures. Security management also includes performing security monitoring and periodic testing and implementing corrective actions for identified security weaknesses or incidents. Effective security management protects all IT assets to minimize the business impact of security vulnerabilities and incidents. To help ensure proper IT system controls each person should have their own username and password. Passwords should

expire at regular intervals and computers should log off after periods of inactivity with a prompt for a password to log back on.

Based upon inquiry and observation of the County Clerk's and County Treasurer's IT system the following was noted:

Passwords did not expire at regular intervals, computers did not log off after periods of inactivity, and permission restrictions have not been established.

Recommendation

OSAI recommends that the County Clerk work with their IT personnel or in conjunction with software vendors to establish controls that will log off or lock computers after periods of inactivity or when the user is away from their computer. OSAI further recommends that passwords be set up with a requirement for length, character and an expiration at regular intervals and controls established for permission restrictions so all employees do not have unlimited access to county computer systems.

**Management
Response**

The County Clerk will work with software vendors to establish controls that will log off a user, after periods of inactivity, and establish permission restrictions.

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

Conclusion

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

Methodology

To accomplish our objectives, we performed the following:

- Gained an understanding of internal controls related to the payroll expenditure process through discussions with County personnel, observation and review of documents.

Observation

Inadequate Segregation of Duties Over the Payroll Expenditures

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

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

- The Payroll Clerk enrolls new employees, makes payroll changes, runs verification reports, and reconciles and prints payroll affidavits and warrants.
- The County Clerk reviews the first deputy's reconciliation of payroll (*warrants to be issued to actual time worked*) but doesn't sign or initial it.

These conditions could result in undetected errors or misappropriation of funds.

Recommendation

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

Further, the duties of enrolling new employees, making payroll changes, running verification reports, and reconciling, initiating payment of payroll, and printing of affidavits and warrants should be adequately segregated.

**Management
Response**

The County Clerk is aware of this condition and will implement compensating controls to mitigate the risk involved with a concentration of duties.

Observation

Inadequate IT Controls

According to the standards of the Information Systems Audit Control Association (CobiT, Delivery and Support DS5), the need to maintain the integrity of information and protect IT assets requires a security management process. This process includes establishing and maintaining IT security roles and responsibilities, policies, standards and procedures. Security management also includes performing security monitoring and periodic testing and implementing corrective actions for identified security weaknesses or incidents. Effective security management protects all IT assets to minimize the business impact of security vulnerabilities and incidents. To help ensure proper IT system controls each person should have their own username and password. Passwords should expire at regular intervals and computers should log off after periods of inactivity with a prompt for a password to log back on.

Based upon inquiry and observation of the County Clerk's and County Treasurer's IT system the following was noted:

Passwords did not expire at regular intervals, computers did not log off after periods of inactivity, and permission restrictions have not been established

Recommendation OSAI recommends that the County Clerk work with their IT personnel or in conjunction with software vendors to establish controls that will log off or lock computers after periods of inactivity or when the user is away from their computer. OSAI further recommends that passwords be set up with a requirement for length, character and an expiration at regular intervals and controls established for permission restrictions so all employees do not have unlimited access to computer systems.

Management Response The County Clerk will work with software vendors to establish controls that will log off a user, after periods of inactivity, and establish permission restrictions.

Observation Inadequate Controls Over Payroll Expenditures

Accountability and stewardship are overall goals of management in the accounting of funds. Internal controls should be designed to analyze and check accuracy, completeness, and authorization of payroll calculations and/or transactions. To help ensure a proper accounting of funds, timesheets should be submitted to the payroll clerk for each pay period, the County Clerk should work with their IT personnel or in conjunction with software vendors to establish a method of tracking and maintaining personnel leave balances, and payroll affidavits should be approved by the Board of County Commissioners prior to distribution of warrants.

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

- The Court Clerk does not turn timesheets into the County Clerk,
- The Board of County Commissioners secretary does not consistently turn in a timesheet.
- The County Clerk does not track employee leave balances.
- Payroll warrants are printed and distributed before they are approved by the Board of County Commissioners.

These conditions could result in undetected errors or misappropriation of funds.

Recommendation OSAI recommends that timesheets be submitted to the payroll clerk for each pay period, and the County Clerk work with their IT personnel or in conjunction with software vendors to establish a method of tracking and maintaining personnel leave balances. Further, payroll affidavits should be approved by the Board of County Commissioners prior to distribution of payroll warrants.

**Management
Response**

The County Clerk's office will work with software vendor to implement a payroll program to track and reconcile leave accruals and usage on a monthly basis.

The Court Clerk's office has corrected this issue. Timesheets are now turned into the County Clerk's office each month.

The Board of County Commissioners will work to correct these issues.

**Additional Procedures
Performed**

As a result of control deficiencies identified under this objective, and concerns of possible fraud, waste, and abuse related to County payroll that were brought to our attention, we performed the following in an effort to determine the validity of the concerns:

- Reviewed all payroll reports related to the payroll clerk and an alleged "ghost employee," reviewed all withholdings to determine they were appropriate, and reviewed all timesheets to determine they were signed by the employee and the officer, leave balances were maintained, ending leave balances reconciled to leave earned and used, and leave accruals were within set limits.
- Reviewed certain timesheets and interviewed County Commissioners and current and former County employees regarding concerns related to work performed on private property to determine whether it was appropriate within applicable governing criteria.

Observation

Inadequate Payroll Documentation

The payroll clerk performs most of all payroll duties, which elevates the potential risk of fraud.

Upon inquiry, observation, and testwork performed on the payroll reports related to the payroll clerk, the following exception was noted:

- No payroll status form was on file for the payroll clerk.

This condition could result in undetected errors or misappropriation of funds.

Recommendation

OSAI recommends that payroll status forms be approved and maintained for each County employee.

**Management
Response**

The County Clerk's office will ensure that proper forms such as payroll status forms are maintained for each County employee.

Observation Inadequate Payroll Documentation

Upon inquiry, observation, and testwork performed on the payroll reports related to an alleged "ghost employee," the following exceptions were noted:

- No payroll status form was on file for the period July 2007 through June 2008 for this employee.
- The employee did not file timesheets with the County Clerk.
- The employee did not always identify type of leave taken on timesheets.
- The July 2007 timesheet reflected only six (6) hours worked on one day; however, no leave was taken.
- The May 2008 timesheet reflected two (2) days vacation and one-half (1/2) day sick leave; however, leave records reflected one (1) day vacation and one and one-half (1½) days sick leave.
- The June 2008 timesheet reflected one and one-half (1½) days leave; however, the leave records reflected only one (1) day.
- The July 2008 timesheet reflected only six (6) hours worked on one day; however, no leave was reflected on leave records.
- The August 2008 timesheet reflected two and one-half (2½) days off; however, leave records reflect only two (2) days off.
- The October 2008 timesheet reflected two (2) days vacation; however, leave records reflected two (2) days as sick leave.
- The March 2009 timesheet reflected two (2) days as vacation; however, leave records reflected two (2) days as sick leave.
- The May 2009 timesheet reflected one (1) day off; however, no leave was reflected on leave records.

These conditions could result in undetected errors or misappropriation of funds.

Recommendation OSAI recommends that payroll status forms be approved and maintained for each County employee. We also recommend that timesheets be submitted to the payroll clerk for each pay period, and properly reflect the type of leave being used. We further recommend that leave reflected on the timesheets be properly recorded on the leave records and that the timesheets be reviewed for accuracy prior to approval.

Management Response The County Clerk's office will work to correct these issues and ensure that proper forms such as payroll status forms are maintained for each County employee.

The Board of County Commissioners will work to correct these issues.

Observation

Work Performed on Private Property – District 2

According to 69 O.S. § 643.1, the Board of County Commissioners is authorized to enter onto private property adjoining county roads and to perform work by county employees or by contractors working for the County, on such private property, when certain criteria are met.

The District 2 County Commissioner provided personnel and equipment to perform work on private property at the request of the City of Coalgate. The County leveled the lot using a County motor grader on private property in order that a restaurant could be built. No statutory authority exists that allows the County Commissioner to provide County personnel or equipment to perform work on private property.

Recommendation

OSAI recommends that the County adhere to 69 O.S. § 643.1. OSAI further recommends that the appropriate legal authority review the above concern to determine what action, if any, may be required. We have provided a copy of this report to the District Attorney.

**Management
Response**

District 2 County Commissioner stated that the County has interlocal agreements with the City of Coalgate, and this was a City project, or he would not have been down there. The City was doing this as an incentive for a business to open in Coalgate. This would allow the City and County to collect more sales tax revenue.

Observation

Work Performed on Private Property – District 3 County Commissioner

According to 69 O.S. § 643.1, the Board of County Commissioners is authorized to enter onto private property adjoining county roads and to perform work by county employees or by contractors working for the County, on such private property, when certain criteria are met.

We obtained the following information regarding work performed on private property in District 3

- The District 2 County Commissioner stated he has observed District 3 employees working on District 3 County Commissioner’s private property, including brush hogging, and mowing the fence roll around the Commissioner’s 160 plus acres while on County time. He also stated that several people have pictures of County employees working on District 3 County Commissioner’s property and have told him they will testify.

- A former District 3 employee that currently works for District 2 stated that while he worked for District 3, the Commissioner asked him to perform work on private property on numerous occasions. He was directed to take gravel and dirt and put on private property, and fill all the holes in private driveways, including the County Commissioner's private driveway on many occasions. He stated he was told to get in and out as quickly as possible, and if anyone questioned him, the County Commissioner knew nothing about this work.

He also stated the District 3 County Commissioner directed him and another former District 3 employee, who is also a current District 2 employee, to install cattle guards on private property, and they hauled the firewood from trees they had cut from right-a-ways and removed from roads to the County Commissioner's father's property.

- A current District 3 employee stated that the District 3 Commissioner directed him to work on the County Commissioner's private property on random days, after he had clocked in to work for the County, but when the District 3 foreman printed his timesheet it would show vacation on these days. Although he told the County Commissioner and the foreman that he was not on vacation, they told him that if he did not sign the timesheet, which reflected that he was on vacation, he would not get his check. He stated he was afraid of being fired so he would sign his timesheet.

He also stated that the County Commissioner would give him a little cash or a small check, \$25 to \$50, for some of the days he worked on the County Commissioner's property.

- Another former District 3 employee stated that, while on county time, he was directed to cut wood from county right-of-ways in 24 inch lengths, and then deliver, unload and stack it at District 3 County Commissioner's father's house. He also stated that the County Commissioner's father would sell the firewood during the winter. He also stated that, while on county time, he had hauled firewood that had been cut off of county right-of-ways to his own father, but it could be any length.

He also stated that, while on county time, he was directed to perform work on private driveways when there was an emergency. An example would be when the hearse could not get up the driveway for a funeral. In that situation, he would shovel gravel and spread it with a rake by hand.

- District 3 County Commissioner stated that he never allowed any of his employees to work on private property while on county time. He said he

did hire one of his employees to do some work on his property. He said he would hire him to work on his property during work days as long as he would take vacation leave. However, he said he always paid him with cash or a check. He said he has all the canceled checks to document those payments. The County Commissioner stated the District Attorney's office has already investigated this issue and he showed him all his canceled checks.

District 3 County Commissioner stated that he did allow the County employees to dump brush and wood on his property when they had to clear a tree off the road. He said he had nowhere else to put the timber so he had them dump it on his property until he could burn it. District 3 County Commissioner talked to the Assistant District Attorney on June 15, 2011, and said the Assistant District Attorney told him she saw no problem with this as long as it was not an everyday event.

The County Commissioner also stated that he never had county employees cut and deliver firewood to his father's property. He said he has allowed his employees to take firewood home. The only trees they cut are ones that have fallen in the road. The trees are put on the landowner's property and the landowner is responsible for disposal of the trees when the employees move a fence line for road repair.

District 3 foreman stated that he has worked on District 3 County Commissioner's property, but never while on county time. He stated that when he worked on District 3 County Commissioner's property, he was on vacation leave.

- We noted two instances in which an employee's time card did not agree with his timesheet. In one instance on January 25, 2011, the time card reflected he worked eight hours, but his timesheet reflected one hour of vacation leave. In the other instance, the employee's time card reflected he worked five hours but his timesheet reflected four hours of vacation leave. In total, the employee's timesheet reflected that he used five hours of vacation leave while his time card reflected he used three hours of leave.

While OSAI did note some inconsistencies between timesheets and time cards, we were unable to substantiate any of these allegations since no specific dates or times were provided for these events.

Recommendation

OSAI recommends that the appropriate legal authority review the above allegations to determine what action, if any, may be required. We have provided a copy of this report to the District Attorney.

**Management
Response**

District 3 County Commissioner stated that these are false allegations made by disgruntled former employees. “The District Attorney investigator has already cleared me from all of these false allegations.”

Objective 4:

To determine if the County’s internal controls provide reasonable assurance that inventories were accurately reported in the accounting records.

Conclusion

The County’s internal controls do not provide reasonable assurance inventories were accurately reported in the accounting records.

Methodology

To accomplish our objectives, we performed the following:

- Gained an understanding of internal controls related to the inventory process through discussions with County personnel, observation and review of documents.

Observation

Inadequate Internal Controls Over Fixed Assets

An important aspect of internal controls is the safeguarding of assets. Internal controls over safeguarding of assets constitute a process, effected by the entity’s governing body, management, and other personnel, designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of fixed assets and safeguard fixed assets from loss, damage, or misappropriation.

Upon inquiry and observation of the recordkeeping process regarding fixed assets, the following was noted:

County Assessor

- Officer did not conduct and document a physical inventory of fixed assets.

County Treasurer

- Officer did not document a physical inventory of fixed assets.

County Clerk

- Officer did not conduct and document a physical inventory of fixed assets.

Election Board

- Officer did not conduct and document a physical inventory of fixed assets.
- Officer’s inventory was not recorded with the County Clerk.

District 1 & 2

- Officer did not maintain an updated inventory.
- Officer did not conduct and document a physical inventory of fixed assets.
- Officer's inventory was not recorded with the County Clerk.

District 3

- Officer did not maintain an updated inventory.
- Officer did not conduct and document a physical inventory of fixed assets.
- Officer's inventory was not recorded with the County Clerk.

Board of County Commissioners

- Commissioners do not prepare a resolution to surplus and dispose of equipment.
- Commissioners did not ensure that the auctioneer's flyer listed all County equipment being sold at auction.

Failure to maintain accurate records of fixed asset inventories and failure to perform a periodic physical inventory of fixed assets could result in inaccurate records, unauthorized use of fixed assets, or misappropriation of fixed assets.

Recommendation

OSAI recommends that each County office implement procedures to accurately maintain fixed asset records and an annual verification of fixed assets be performed and documented to properly account for fixed assets. The County Commissioners should utilize the capital outlay account to purchase fixed assets, and the Board of County Commissioners should prepare a resolution when disposing or transferring fixed assets. Further, the Board of County Commissioners should ensure that all fixed assets being sold are properly advertised.

**Management
Response**

The County Assessor's office performs a physical inventory, and will maintain documentation of the physical inventory.

The County Treasurer's office performs a physical inventory, and will maintain documentation of the physical inventory.

The County Clerk's office will conduct a physical inventory annually, and ensure that proper documentation of the physical inventory is maintained.

The County Sheriff will ensure that all fixed assets are purchased from the capital outlay account.

District 1 inventory has been updated and a physical inventory will be performed each year.

District 2 inventory has been updated and a physical inventory will be performed each year.

District 3 inventory has been updated and a physical inventory will be performed each year.

The Board of County Commissioners will ensure that a resolution to surplus equipment will be prepared and approved in an open meeting, and that all equipment sold at auctions are properly advertised.

Observation

Inadequate Internal Controls Over Consumable Inventories

An important aspect of internal controls is the safeguarding of assets. Internal controls over safeguarding of assets constitute a process, affected by the entity's governing body, management, and other personnel, designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the entity's consumable inventory from loss, damage, or misappropriation.

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

District 1

- Fuel logs are not maintained.

District 2

- Fuel logs are not maintained.
- Consumable inventory is not up to date.

District 3

- Fuel logs are not maintained.
- Consumable inventory is not up to date.

These conditions could result in undetected errors or misappropriation of consumable inventories.

Recommendation

OSAI recommends that the district barns maintain fuel logs for equipment and auxiliary tanks that can reconcile the amount of fuel purchased to the amount of fuel received. The fuel log for equipment should record description of equipment, gallons, mileage/hours, and date received. The fuel log for auxiliary fuel tanks should record the same information as the equipment log, plus fuel disbursement information. Further, consumable items purchased in lots of \$500.00 or more

should be posted on consumable cards and a periodic inventory of consumable items should be performed and reconciled to consumable cards.

**Management
Response**

District 1 stated that fuel logs will be maintained for all equipment and auxiliary tanks.

District 2 stated that consumable inventory records have been brought up to date, and fuel logs will be maintained for all equipment and auxiliary tanks.

District 3 stated that consumable inventory records have been brought up to date, and fuel logs will be maintained for all equipment and auxiliary tanks.

**Additional Procedures
Performed**

As a result of control deficiencies identified under this objective, and concerns of possible fraud, waste, and abuse related to County inventories that were brought to our attention, we performed the following in an effort to determine the validity of the concerns:

- Interviewed County personnel and reviewed certain fuel purchase and usage records in an effort to determine whether fuel usage was appropriately recorded.

Observation

County Inventory – Sheriff’s Fuel

We obtained the following information regarding the Sheriff’s fuel usage:

- The District 2 County Commissioner stated that he has personally witnessed the County Sheriff filling up his personal pickup from the County Sheriff’s fuel tank that is located behind the courthouse. He stated that two former trustees told him they had not only witnessed the Sheriff using County fuel in his personal pickup, but they have also put fuel in it for him while they were trustees in the jail. No specific times or dates were provided.
- We noted that fuel logs maintained by the Sheriff in a notebook by unit number, date, and gallons used. It may accurately document the fuel usage; however, no method existed to determine the amount of fuel remaining in the storage tank to compare to the amount recorded on the log. The Sheriff’s office has security cameras mounted on the courthouse building, positioned in a manner to record the identity of anyone obtaining fuel from the storage tank.

Since the County Commissioner was unable to provide specific dates or times for these events, OSAI was unable to substantiate this allegation.

Recommendation OSAI recommends that the appropriate legal authority review the above allegations to determine what action, if any, may be required. We have provided a copy of this report to the District Attorney.

Management Response The County Sheriff stated that neither he nor anyone else has ever put fuel purchased with County funds in his personal vehicle. "I have all my fuel records to document where I have purchased fuel for my personal vehicle."

Observation **County Inventory – District 3 Fuel**

We obtained the following information regarding District 3 fuel usage:

- A District 3 employee stated he was ordered to drive the personal truck belonging to District 3 County Commissioner to Wapanucka and fill it up with fuel. He stated that he was told to put on the ticket that the fuel was for a backhoe, grader or some other equipment. He was unable to provide specific times or dates.
- We noted the County Clerk's warrant register reflects that District 3 does purchase fuel from a vendor in Wapanuka. We also noted that supporting individual fuel tickets show date, gallons, cost and unit number, and are signed by the employee obtaining the fuel.

Since the employee was unable to provide specific dates or times for these events, OSAI was unable to substantiate this allegation.

Recommendation OSAI recommends that the appropriate legal authority review the above allegations to determine what action, if any, may be required. We have provided a copy of this report to the District Attorney.

Management Response District 3 County Commissioner stated that he has never put fuel in his personal truck and charged it to the County, nor has he ever had any of his employees put fuel in his truck. The District 3 County Commissioner stated that he had his receipts and fuel tickets if we needed them.

Observation **Consumable Inventory – District 3 Fuel**

We obtained the following information regarding District 3 fuel usage:

- Two former District 3 employees currently employed by District 2 stated that a couple years ago, District 3 had several pieces of equipment the County was selling in an auction, and that the District 3 County Commissioner and the District 3 foreman directed them to siphon all of

the diesel they could out of each piece of equipment, and put it in a diesel tank in back of the county yard. According to the employees, they put around 1400 gallons in the tank. The tank was locked and only the District 3 foreman had the key. They stated that the next week when they went to fill up a grader, the tank was empty.

- The District 3 foreman, on August 23, 2011, stated that he did have the employees remove diesel from the equipment they were selling at auction and transfer it to the storage tank located at the district barn. According to the foreman, the diesel was used on other county equipment, but no fuel logs were maintained on this storage tank.
- A former District 3 employee currently employed by District 2 stated that in 2009 District 3 left a track hoe parked at the site where it was used to remove a bridge. He also stated that the District 3 foreman would direct him to fill up the drag tank in the back of his county pickup each week with diesel, and that the foreman would claim he was putting the diesel in the track hoe. The informant could not provide specific dates.
- The District 3 foreman, on August 23, 2011, stated that he never used county fuel for personal use, and that the fuel in the drag tank was used to fill county equipment. He also stated that he does own a small tractor that runs on diesel, but he never uses it.
- During our review of consumable inventory, it was noted that no fuel logs are maintained for the drag tanks.

Since proper fuel logs and consumable inventory records for fuel were not maintained, and no specific dates were provided for these events, OSAI was unable to substantiate this allegation.

Recommendation

OSAI recommends that proper fuel logs and consumable inventory records be maintained. OSAI further recommends the appropriate legal authority review the above allegation to determine what action, if any, may be required. We have provided a copy of this report to the District Attorney.

**Management
Response**

District 3 County Commissioner stated that the fuel was used in County equipment, and he will make sure that proper fuel logs and consumable records are maintained. We have already implemented the use of fuel logs on drag tanks.

Objective 5: To determine the County's financial operations complied with 62 O.S. §517.4, which requires county deposits with financial institutions be secured with collateral securities or instruments.

Conclusion With respect to the days tested, the County 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 objectives, we performed the following:

- Gained an understanding of internal controls related to the process of recordkeeping regarding pledged securities through discussions with County personnel, observation and review of documents.
- Judgmentally selected the day with the highest balance for each month at all banks containing County funds from July 1, 2007 through June 30, 2009, to determine if the County's funds were adequately secured as required by 62 O.S. § 517.4.

Observation Inadequate Internal Controls Over Pledged Securities

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

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

Further, the County's bank account balances and investments at Shamrock Bank were inadequately pledged in the amount of \$84,828.44 on December 28, 2007, and \$844,492.41 on January 8, 2008.

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

Recommendation OSAI recommends the County Treasurer maintain a ledger to monitor County pledges routinely to ensure that deposits are adequately secured at all times.

**Management
Response**

The County Treasurer's office will maintain a ledger to monitor pledged securities on a daily basis.

The County Treasurer will ensure that County funds are properly secured and a ledger to monitor pledged securities on a daily basis will be maintained.

Objective 6:

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

Conclusion

With respect to items tested, the County did not comply with 68 O.S. §1370E, which requires the sales tax collections to be deposited in the general revenue or sales tax revolving fund of the County and be used only for the purpose for which such sales tax was designated.

Methodology

To accomplish our objectives, we performed the following:

- Gained an understanding of internal controls related to sales tax apportionments and appropriations through discussions with County personnel, observation and review of documents.
- Reviewed the sales tax ballot to determine designation and purpose of sales tax collections.
- Recalculated 100% of the amount of sales tax collections to determine collections were apportioned in accordance with sales tax ballot and in accordance with 68 O.S. § 1370E.
- Randomly selected 91 purchase orders to determine the expenditures were made for designated purposes on sales tax ballot as required by 68 O.S. § 1370E.

Observation

Inadequate Segregation of Duties Over Sales Tax Apportionments and Appropriations

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

Upon inquiry and observation of the sales tax apportionments and appropriations, it was noted that there was no independent verification of the calculation and apportionment of sales tax.

This condition could result in undetected errors or misappropriation of funds.

Recommendation OSAI recommends that the Treasurer implement internal control procedures for the accurate reporting and apportioning of sales tax revenue, including an independent verification of the calculation of the sales tax apportionment.

Management Response The County Treasurer's office performs an independent verification of the calculation and apportionment of sales tax, and will maintain documentation of this verification.

Observation **No Board of County Commissioners Resolution for Sales Tax Allocation**

Upon inquiry and observation of the sales tax apportionments and appropriations, it was noted that the sales tax ballot did not specify how to apportion the sale tax to the Fire Districts or the Senior Citizens' Centers, nor was there a resolution on file with the County documenting how the sales tax apportionments should be distributed to the eight Fire Districts and the four Senior Citizens' Centers.

This condition could result in undetected errors or misappropriation of funds.

Recommendation OSAI recommends that the Board of county Commissioners adopt a resolution each fiscal year to document the amounts to be apportioned to each Fire District and each Senior Citizens' Center.

Management Response The Board of County Commissioners will prepare a resolution each year to document the sales tax percentage to be apportioned to each Fire District and Senior Citizens' Center.

Observation **Incorrect Sales Tax Allocations**

The County did not comply with 68 O.S. § 1370E, which requires the sales tax collections to be deposited in the general revenue or sales tax revolving fund of the County and be used only for the purpose for which such sales tax was designated.

During the first six months of fiscal year 2008, July through December 2007, the sales tax collections were allocated at 12% to the Capital Improvements on County Buildings and 5% to Solid Waste and Recycling Program. The sales tax should have been allocated at 14% to the Capital Improvements on County Buildings and 3% to Solid Waste and Recycling Program.

Failure to comply with state statutes could lead to violation of the statute and misappropriation of sales tax collections.

Recommendation OSAI recommends that the County Treasurer update the sales tax calculation to reflect the current approved ballot percentages and the Board of County Commissioners review and determine what adjustments are necessary

Management Response The County Treasurer has implemented this recommendation. In February 2008, corrections were made. The corrections were from 2005 to current and the amount transferred from solid waste and recycling program to capital improvements on county buildings was \$461,707.74.

Objective 7: 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 did not comply 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.

Methodology To accomplish our objectives, we performed the following:

- Gained an understanding of internal controls related to the process of apportioning and distributing ad valorem tax collections through discussions with County personnel, observation and review of documents.
- Tested internal controls which included:
 - Determining that the County Clerk certified that the levies, as made by the Excise Board of Coal County for the fiscal years 2007-8 and fiscal year 2008-9 are true and correct.
- Randomly selected 50 remittances for the audit period and compared to the apportionment sheet and determined amounts collected were accurately remitted to the taxing entity as required by 68 O.S. § 2923.
- Recalculated the apportionment of County funds to determine that ad valorem tax collections were accurately apportioned.

Observation **Inadequate IT Controls**

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

**Management
Response**

County Treasurer will maintain documentation that the correct levies were entered into the ad valorem system and verified by the County Assessor and the Treasurer's first deputy.

Other Item(s) Noted:

Although not considered significant to the audit objectives, we feel the following issues should be communicated to management.

Observation Inadequate County-Wide Controls

Internal control is an integral component of an organization's management that provides reasonable assurance that the objectives of effectiveness and efficiency of operations, reliability of financial reporting and compliance with laws and regulations are being made. Internal control comprises the plans, methods, and procedures used to meet missions, goals, and objectives. Internal control also serves as the first line of defense in safeguarding assets and preventing and detecting errors and fraud. County management is responsible for designing a county-wide internal control system comprised of Control Environment, Risk Assessment, Information and Communication, and Monitoring for the achievement of these goals.

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

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

County-wide controls regarding Risk Management and Monitoring have not been designed. This condition could result in unrecorded transactions, undetected errors, or misappropriation of funds.

Recommendation OSAI recommends that the County implement a system of internal controls to provide reasonable assurance regarding the achievement of goals and objectives.

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

Observation **Disaster Recovery Plan**

The County Clerk and County Treasurer do not have a Disaster Recovery Plan that addresses how critical information and systems would be restored in the event of a disaster

According to the standards of the Information Systems Audit and Control Association (CobiT, Delivery and Support 4), information services function management should ensure that a written disaster recovery plan is documented and contains the following:

- Guidelines on how to use the recovery plan;
- Emergency procedures to ensure the safety of all affected staff members;
- Roles and responsibilities of information services function, vendors providing recovery services, users of services and support administrative personnel;
- Listing of systems requiring alternatives (hardware, peripherals, software);
- Listing of highest to lowest priority applications, required recovery times and expected performance norms;
- Various recovery scenarios from minor to loss of total capability and response to each in sufficient detail for step-by-step execution;
- Specific equipment and supply needs are identified such as high speed printers, signatures, forms, communications equipment, telephones, etc. and a source and alternative source defined;
- Training and/or awareness of individual and group roles in continuity plan;
- Listing of contracted service providers;
- Logistical information on location of key resources, including back-up site for recovery operating system, applications, data files, operating manuals and program/system/user documentation;
- Current names, addresses, telephone/pager numbers of key personnel;

- Business resumption alternatives for all users for establishing alternative work locations once IT resources are available.

Failure to have a current Disaster Recovery Plan could result in the County being unable to function in the event of a disaster. The lack of a procedure addressing how critical information and/or systems would be restored could cause significant problems in ensuring that County business could continue without interruption.

Recommendation OSAI recommends the County develop a Disaster Recovery Plan addressing how critical information and/or systems would be restored in the event of a disaster.

Management Response The County Clerk and Treasurer's office will develop a current Disaster Recovery Plan addressing how critical information and/or systems would be restored in the event of a disaster.



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