

OPERATIONAL AUDIT

COAL COUNTY

For the period July 1, 2010 through June 30, 2011



*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, 2010 THROUGH JUNE 30, 2011**

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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, 2010 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, with a long horizontal stroke at the end.

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

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 – 5,856
(2009 est.)

Farms – 634 Land in Farms – 269,401 Acres

Primary Source: Oklahoma Almanac 2011-2012

County Officials:

- Cherry Hefley County Assessor
- Eugina Loudermilk County 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

**COAL COUNTY
OPERATIONAL AUDIT**

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

	Beginning Cash Balance July 1, 2010	Receipts Apportioned	Disbursements	Ending Cash Balance June 30, 2011
Combining Information:				
County General Fund	\$ 488,880	\$ 1,222,903	\$ 1,257,901	\$ 453,882
T-Highway	845,129	3,394,729	2,721,877	1,517,981
County Health	313,013	259,001	165,121	406,893
County Sales Tax	4,027,201	1,355,668	1,464,830	3,918,039
Sheriff's Service Fee	67,512	68,407	90,020	45,899
County Clerk Lien Fee	164,193	39,085	74,928	128,350
Use Tax	646,318	158,767	440,117	364,968
SODA HOME - OHFA	24,722	64,253	85,742	3,233
USDA Big Five		305,247	305,247	
CBRIF 105		670,118	12,592	657,526
CBRIF 103		158,494		158,494
Remaining Aggregate Funds	115,320	263,888	147,693	231,515
Combined Total - All County Funds	\$ 6,692,288	\$ 7,960,560	\$ 6,766,068	\$ 7,886,780

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, 2010 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.
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Conclusion With respect to the items reconciled and reviewed, the receipts apportioned, disbursed, and cash balances were accurately presented on the County Treasurer’s monthly reports.

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 the County Treasurer's receipts to amounts apportioned on the General Ledger.
 - 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 County Treasurer's monthly reports.

Observation

Inadequate Internal Controls Over the County Treasurer's Monthly Reports

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.

- Upon inquiry and observation of the recordkeeping process, the following was noted:
 - The County Treasurer's monthly reports are compiled from an information system in which the County Treasurer and the deputy perform daily transactions such as issuing receipts and posting disbursements.
 - There is no independent oversight of the accuracy of the County Treasurer's monthly reports.
- Upon inquiry of the reconciliation process of apportioned receipts, disbursements, and cash balances between the County Treasurer and County Clerk, we determined that neither of the officials maintains documentation supporting the reconciliation.

These conditions could result in unrecorded transactions, misstated financial reports, misappropriation of funds, or clerical errors that are not detected in a timely manner.

Recommendation

OSAI recommends that the County Treasurer implement a system of internal controls to provide reasonable assurance that receipts apportioned, disbursements, and cash balances are accurately presented on the County Treasurer's monthly reports.

Further, OSAI recommends that the County Treasurer and County Clerk implement procedures to maintain supporting documentation of monthly reconciliations of apportioned receipts, disbursements, and cash balances.

**Management
Response**

County Treasurer: The County Treasurer's office reconciles banks to the General Ledger each month. We will maintain documentation that monthly reports are reviewed and approved by someone other than the preparer.

County Clerk: The County Clerk's office will implement procedures to reconcile the apportioned receipts, disbursements, and cash balances between the County Treasurer and County Clerk. Supporting documentation of the reconciliation will also be maintained.

Objective 2: 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, misappropriation of funds, or clerical errors that are not 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: The Treasurer and the first deputy issue receipts for checks received in the mail and endorse the back of the checks. No check log is maintained. Part-time employees work from the same cash drawer. The employee

who works from the cash drawer also reconciles the cash drawer. Bank reconciliations are performed by the same employee receiving money.

County Clerk's Office: Two deputies receive mail and issue receipts for checks received in the mail. Employees work from the same cash drawer. The employee who works from the cash drawer also reconciles the cash drawer and makes the deposit.

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 does not deposit 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 employee.

County Election Board's 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 did 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 made daily.

County Court Clerk: A log of checks received by mail is not maintained. Employees work out of the same cash drawer. The employee reconciling the cash drawer also makes deposits.

These conditions could result in unrecorded transactions, misappropriation of funds, or clerical errors that are not detected in a timely manner.

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: Two persons should collect and open the mail together. The Treasurer should maintain a log of checks received by mail: one person should log checks and another person should issue receipts. Part-time employees should not work from the same cash drawer. The employee who works from the cash drawer should not reconcile the cash drawer. Bank reconciliations should be approved by someone other than the person performing the reconciliation.

County Clerk's Office: Two persons should collect and open the mail together. The County Clerk should maintain a log of checks received by mail: one person should log checks, and another person should issue receipts. Employees should not work from the same cash drawer. The employee who works from the cash drawer should not reconcile the cash drawer. The employee who reconciles the cash drawer should not make deposits unless they are reviewed and approved by another employee.

County Assessor's Office: Two persons should collect and open the mail together. The County Assessor should maintain a log of checks received by mail: one person should log checks and another person should issue receipts. 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 deposit daily, and money collected after the deposit should be maintained in a safe overnight.

County Sheriff's Office: Two persons should collect and open the mail together. The County Sheriff's office should maintain a log of checks received by mail: one person should log checks and another person should issue receipts. Someone other than the employee making the deposit ticket should review deposits.

County Election Board's Office: Two persons should collect and open the mail together. The County Election Board should maintain a log of checks received by mail: one person should log checks and another person should issue receipts. One person should not perform 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 reconcile the cash box. The cash box should be reconciled daily to receipts issued. The deposit slip should reflect total cash and the individual check listing. Deposits should be made daily.

County Court Clerk's Office: Two persons should collect and open the mail together. The Court Clerk should maintain a log of checks received by mail: one person should log checks and someone else should issue receipts. Employees

should not work from the same cash drawer. The employee who works from the cash drawer should not reconcile the cash drawer. The employee who reconciles the cash drawer should not make deposits unless they are reviewed and approved by another employee.

**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.

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

Objective 3: 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 did not properly encumber purchase orders as they are requested.
- The Purchasing Agent did not consistently 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 did 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 her use, one is for the first deputy's use, and one is for the Purchasing Agent's use. The first deputy and Purchasing Agent keep their stamps in an unlocked desk drawer.
- The County Treasurer has one signature stamp for her use and one for the first deputy's use. The first deputy keeps the stamp in an unlocked desk drawer.

These conditions could result in misappropriation of funds or clerical errors that are not detected in a timely manner.

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 properly encumber funds in the computer system to ensure that funds are available rather than write 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.

Objective 4: 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 does not sign or initial it.

These conditions could result in misappropriation of funds or clerical errors that are not detected in a timely manner.

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 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 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 County Court Clerk does not turn timesheets into the County Clerk.

- The Board of County Commissioners secretary does not consistently turn in a time sheet.
- The Board of County Commissioners secretary’s leave balance does not accurately reflect leave used on 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 misappropriation of funds or clerical errors that are not detected in a timely manner.

Recommendation

OSAI recommends that timesheets be submitted to the payroll clerk for each pay period and the County Clerk work with 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, and timesheets should be reviewed for accuracy prior to approval.

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 County 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.

Objective 5: 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 & 3

- 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.

Failure to maintain accurate records of fixed asset inventories and failure to perform a periodic physical inventory of fixed assets could result in unauthorized use of fixed assets, misappropriation of fixed assets, or inaccurate records that are not detected in a timely manner.

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 should utilize the capital outlay account to purchase fixed assets, and the BOCC should prepare a resolution when disposing or transferring fixed assets.

**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.

District 1 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.

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 were not maintained.

District 2

- Fuel logs were not maintained.

District 3

- Fuel logs were not maintained.
- Consumable inventory was not up to date.

This condition could result in misappropriation of consumable inventories or clerical errors that are not detected in a timely manner.

Recommendation

OSAI recommends that the district barns maintain fuel logs for equipment and auxiliary tanks. 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 and District 2 stated that 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.

Objective 6: 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's financial operations complied with 62 O.S. § 517.4, which requires county deposits with financial institutions be secured with collateral securities or instruments. However, the County has not properly designed and implemented internal controls related to pledged collateral.

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, 2010 through June 30, 2011, 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.

Failure to maintain a ledger to monitor pledged securities could result in 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.

Objective 7:

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

Conclusion

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

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 was apportioned in accordance with sales tax ballot.
- Randomly selected 40 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 misappropriation of funds or clerical errors that are not detected in a timely manner.

Recommendation

OSAI recommends that the County 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 misappropriation of funds or clerical errors that are not detected in a timely manner.

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 Citizen’s 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 **No Documentation for Purchase Order**

Of the 40 purchase orders selected to determine that the sales tax expenditures were made for designated purposes on sales tax ballot as required by 68 O.S. §1370E, the following exceptions were noted:

- One item could not be tested because purchase order 1599 out of County Sales Tax M&O could not be located.
- Purchase order 2196 and 2944 from the County Sales Tax M&O fund were used to pay the utility bills at a County owned building that has been leased to a second party that is responsible for paying their own utilities per contract with the County.

This condition could result in misappropriation of funds or clerical errors that are not detected in a timely manner.

Recommendation OSAI recommends that the County Clerk maintain all purchase orders and supporting documentation for all expenditures of County funds. OSAI further recommends that all sales tax expenditures be made for purposes as designated on the sales tax ballot.

Management Response Management will work to correct these issues.

Objective 8: 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’s financial operations complied with 68 O.S. § 2923, which requires ad valorem tax collections to be apportioned and distributed monthly among the different funds to which they belong. However, the County has not properly designed and implemented internal controls related to ad valorem tax collections.

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 2010-11, are true and correct.
- Randomly select 25 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 to the taxing entities.

Observation

Inadequate Segregation of Duties Over Ad Valorem Tax Apportionments

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 ad valorem tax should be segregated or reviewed by an independent party.

The County Assessor and County Treasurer's first deputy review that the correct certified levies were entered into the ad valorem system by the County Treasurer, but there is no documentation maintained.

This condition could result in misappropriation of funds or clerical errors that are not detected in a timely manner.

Recommendation

OSAI recommends that the County Treasurer implement internal control procedures for the County Assessor and County Treasurer's first deputy to document that they were present and visually verified that the correct levies were entered into the ad valorem system.

**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 County Treasurer's first deputy.

All Objectives:

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

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 County 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.

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, misappropriation of funds, or clerical errors that are not detected in a timely manner.

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

No Disaster Recovery Plan

The County Clerk, the County Court Clerk, and the 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's, County Court Clerk's, and County 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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