

OPERATIONAL AUDIT

# CUSTER COUNTY

For the fiscal year ended June 30, 2015



Oklahoma State  
Auditor & Inspector  
Gary A. Jones, CPA, CFE

**CUSTER COUNTY OPERATIONAL AUDIT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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# Oklahoma State Auditor & Inspector

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

July 19, 2016

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

Transmitted herewith is the audit report of Custer County for the fiscal year ended June 30, 2015.

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, reading "Gary A. Jones".

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

**CUSTER COUNTY, OKLAHOMA  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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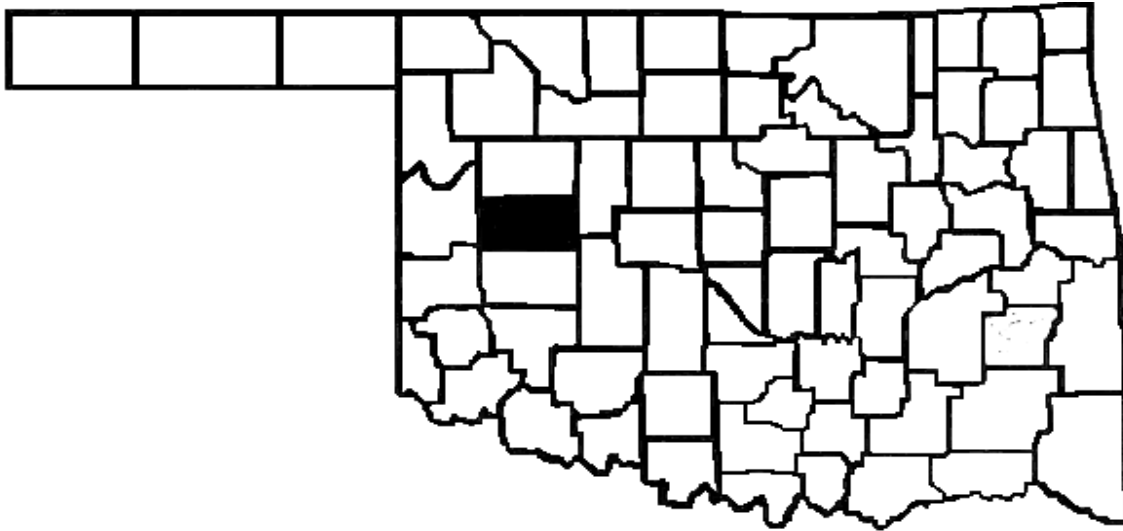
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**PRESENTED FOR INFORMATIONAL PURPOSES ONLY**

**CUSTER COUNTY, OKLAHOMA  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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A part of the original Cheyenne-Arapaho Reservation established by treaty in 1867, Custer County was named for General George A. Custer and was part of 3.5 million acres opened for settlement by the Land Run of April 19, 1892. Arapaho is the county seat.

Both Clinton and Weatherford were established largely as a result of the westward expansion of the railroads. The Rock Island Railroad completed its east-west line to present-day Clinton, then called Washita Junction, in 1903. A special act of Congress allowed four Indians to sell half of each of their 160-acre allotments to create the Clinton townsite.

The territorial government established a two-year college for training teachers at Weatherford. This college has become a four-year university offering some graduate degrees and a pharmacy school.

The economy of Custer County is allied with oil and gas prices as the area lies atop the rich Anadarko Basin. Foss State Park and a wildlife refuge near Butler as well as Freightliner and Doane's PetCare facilities in Clinton also contribute to the economy of the county.

For additional county information, call the county clerk's office at 580/323-1221.

County Seat – Arapaho

Area – 1,002 Square Miles

County Population – 29,500  
(2014 est.)

Farms – 877

Land in Farms – 622,947 Acres

Primary Source: Oklahoma Almanac 2015-2016

**CUSTER COUNTY OFFICIALS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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**Board of County Commissioners**

District 1 – Wade Anders  
District 2 – Kurt Hamburger  
District 3 – Lyle Miller

**County Assessor**

Brad Rennels

**County Clerk**

Karen Fry

**County Sheriff**

Bruce Peoples

**County Treasurer**

Janet Roulet

**Court Clerk**

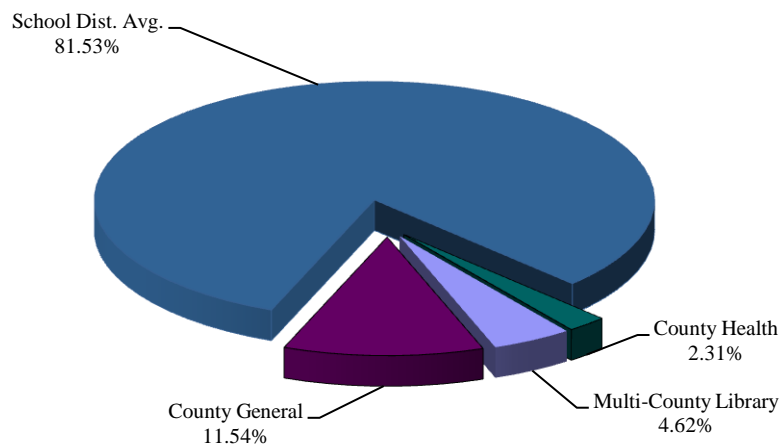
Staci Hunter

**District Attorney**

Angela Marsee

**CUSTER COUNTY, OKLAHOMA  
AD VALOREM TAX DISTRIBUTION  
SHARE OF THE AVERAGE MILLAGE  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Property taxes are calculated by applying a millage rate to the assessed valuation of property. Millage rates are established by the Oklahoma Constitution. One mill equals one-thousandth of a dollar. For example, if the assessed value of a property is \$1,000.00 and the millage rate is 1.00, then the tax on that property is \$1.00. This chart shows the different entities of the County and their share of the various millages as authorized by the Constitution.



County-Wide Millages		School District Millages								
				Gen.	Bldg.	Skd.	Career Tech.	EMS	Common	Total
County General	10.28									
County Health	2.06	Arapaho	I-5	36.10	5.16	15.40	12.31	-	4.11	73.08
Multi-County Library	4.11	Thomas/Fay/Custer	I-7	36.46	5.21	16.50	-	3.00	4.11	65.28
		Weatherford	I-26	35.82	5.12	22.71	12.31	-	4.11	80.07
		Butler	I-5	36.10	5.16	15.40	12.31	3.14	4.11	76.22
		Clinton	I-99	35.89	5.13	18.88	12.31	-	4.11	76.32
		Caddo JT	I-11	35.93	5.13	39.84	11.33	-	4.11	96.34
		Roger Mills JT	I-3	36.31	5.19	11.43	-	3.11	4.11	60.15
		Beckham JT	I-6	41.19	5.93	-	12.31	-	4.11	63.54
		Washita JT	I-11	35.61	5.09	11.80	12.31	-	4.11	68.92
		Roger Mills JT	I-66	35.61	5.09	9.00	12.31	-	4.11	66.12

**CUSTER COUNTY, OKLAHOMA  
SALES TAX DISTRIBUTION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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## Sales Tax

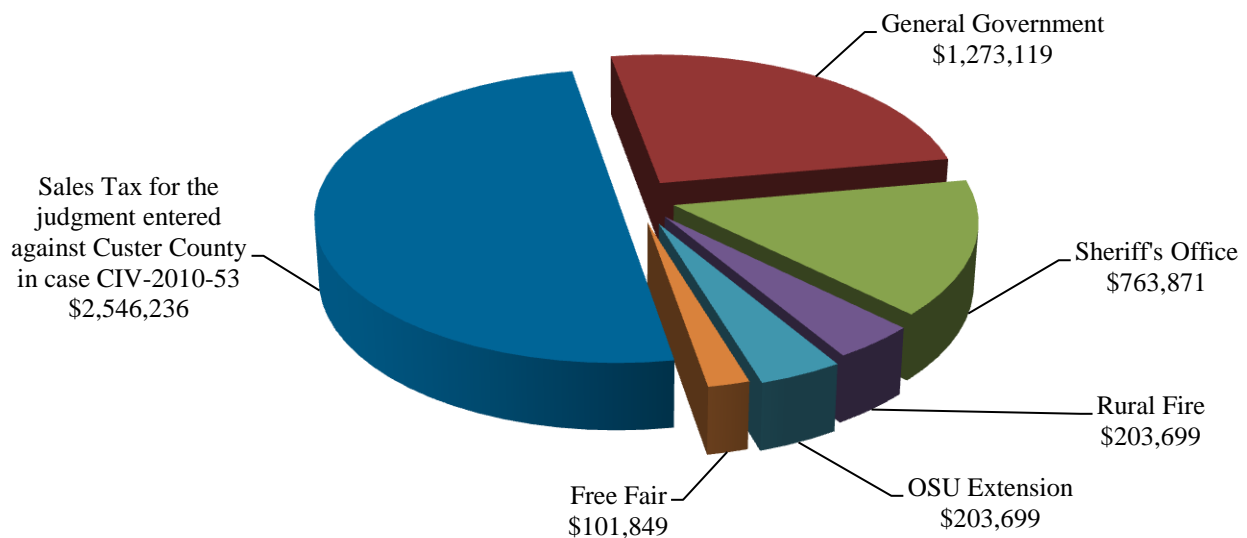
### Sales Tax of July 1, 2012

The voters of Custer County approved an extension of a one-half percent (1/2%) sales tax effective July 1, 2012 to extend for a five year period to fund the following: General Government (50%); County Sheriff (30%); Rural County Fire Departments (8%); OSU Extension Office (8%); and County Free Fair (4%). These funds are accounted for in the Sales Tax Cash Fund.

### Sales Tax of October 1, 2012

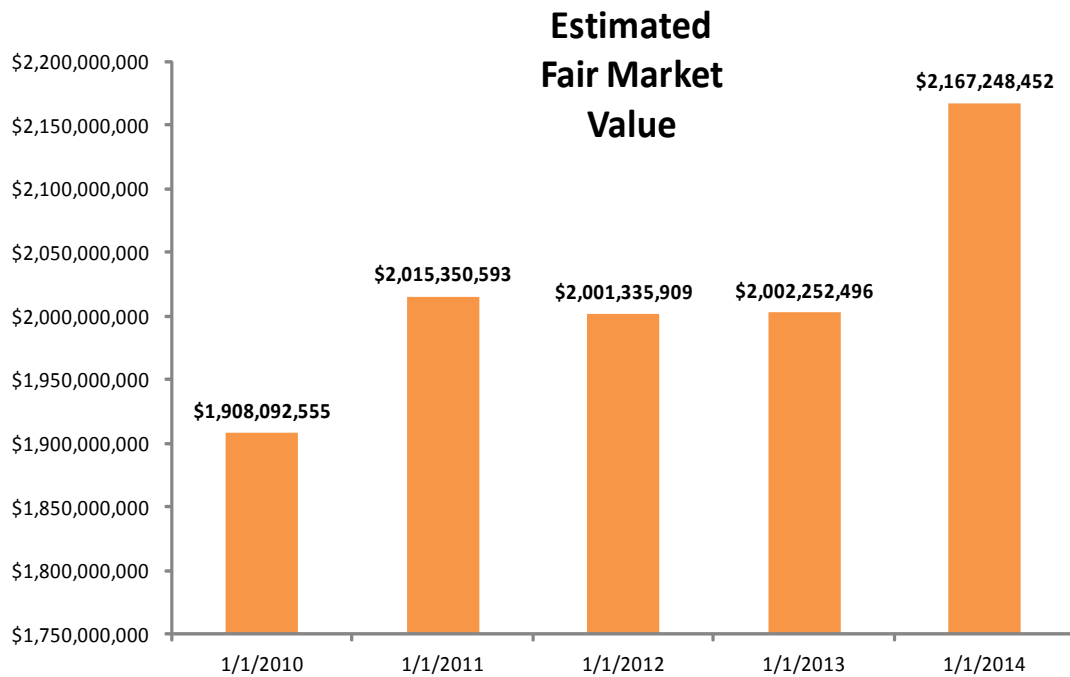
The voters of Custer County approved an extension of an existing one-half percent (1/2%) sales tax effective October 1, 2012 to extend for a five year period to provide funds to pay and satisfy the balance due and owing in the judgment entered against Custer County in case # CIV-2010-53 in the United States District Court for the Western District of Oklahoma on May 24, 2010. These funds are deposited into the Custer County Law Enforcement Judgment Sales Tax fund and transferred from the Custer County Law Enforcement Judgment Sales Tax fund to be disbursed by the County Sinking Fund to satisfy the debt. After the judgment is satisfied, the remaining sales tax will be used for the maintenance and operations of the Custer County Jail.

During the fiscal year, the County collected \$5,092,473 in total sales tax.



**CUSTER COUNTY, OKLAHOMA  
ASSESSED VALUE OF PROPERTY  
TREND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

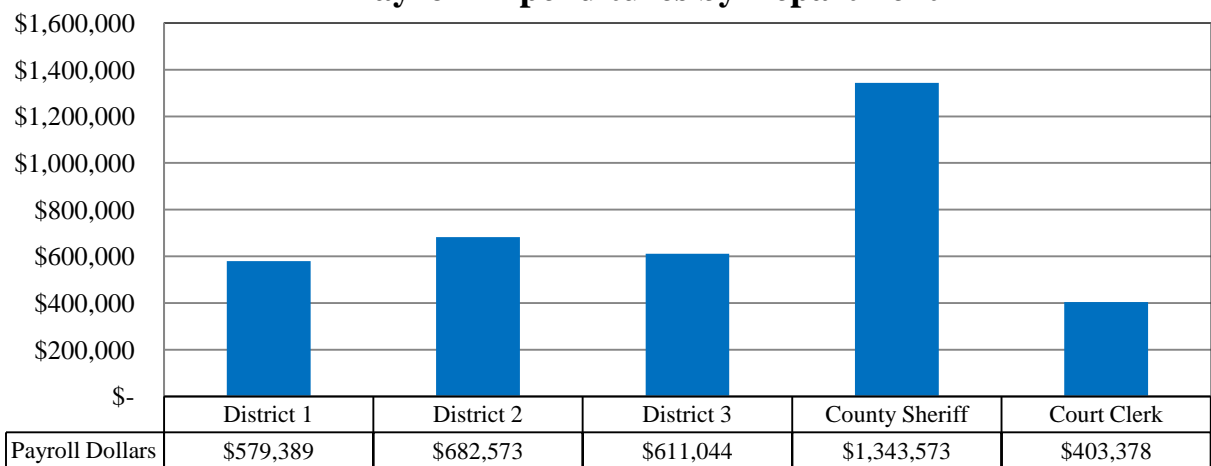
Valuation Date	Personal	Public Service	Real Estate	Homestead Exemption	Net Value	Estimated Fair Market Value
1/1/2014	\$89,345,707	\$20,700,476	\$129,766,814	\$5,599,348	\$234,213,649	\$2,167,248,452
1/1/2013	\$77,767,611	\$23,490,805	\$122,958,000	\$5,604,908	\$218,611,508	\$2,002,252,496
1/1/2012	\$81,593,985	\$25,992,577	\$117,397,278	\$5,106,816	\$219,877,024	\$2,001,335,909
1/1/2011	\$88,146,437	\$24,948,963	\$112,253,003	\$5,130,353	\$220,218,050	\$2,015,350,593
1/1/2010	\$80,270,366	\$24,948,963	\$109,118,297	\$5,158,859	\$209,178,767	\$1,908,092,555



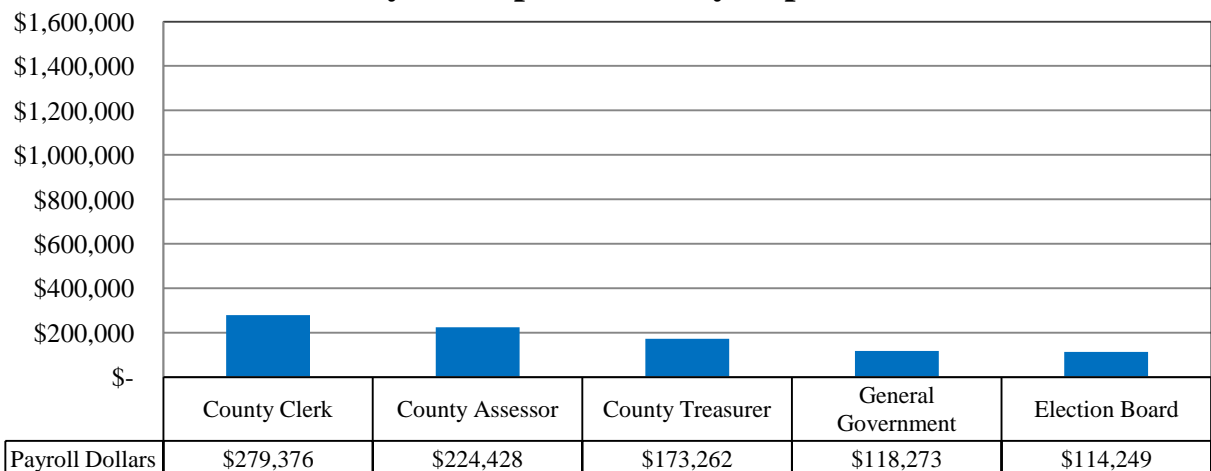
**CUSTER COUNTY, OKLAHOMA  
COUNTY PAYROLL EXPENDITURES ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

County officers' salaries are based upon the assessed valuation and population of the counties. State statutes provide guidelines for establishing elected officers' salaries. The Board of County Commissioners sets the salaries for all elected county officials within the limits set by the statutes. The designated deputy or assistant's salary cannot exceed the principal officer's salary. Salaries for other deputies or assistants cannot exceed the principal officer's salary. The information presented below is for the fiscal year ended June 30, 2015.

**Payroll Expenditures by Department**



**Payroll Expenditures by Department**

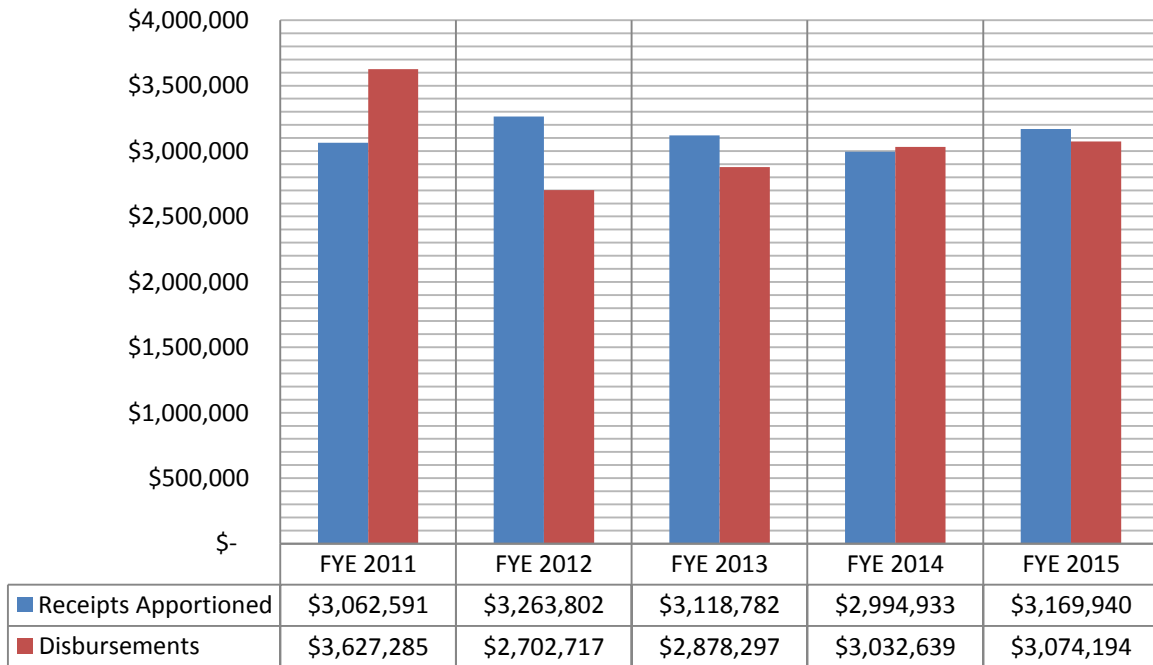


**CUSTER COUNTY, OKLAHOMA  
COUNTY GENERAL FUND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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## County General Fund

The Oklahoma Constitution and the Oklahoma Statutes authorize counties to create a County General Fund, which is the county's primary source of operating revenue. The County General Fund is typically used for county employees' salaries plus many expenses for county maintenance and operation. It also provides revenue for various budget accounts and accounts that support special services and programs. The Board of County Commissioners must review and approve all expenditures made from the County General Fund. The primary revenue source for the County General Fund is usually the county's ad valorem tax collected on real, personal (if applicable), and public service property. Smaller amounts of revenue can come from other sources such as fees, sales tax, use tax, state transfer payments, in-lieu taxes, and reimbursements. The chart below summarizes receipts and disbursements of the County's General Fund for the last five fiscal years.

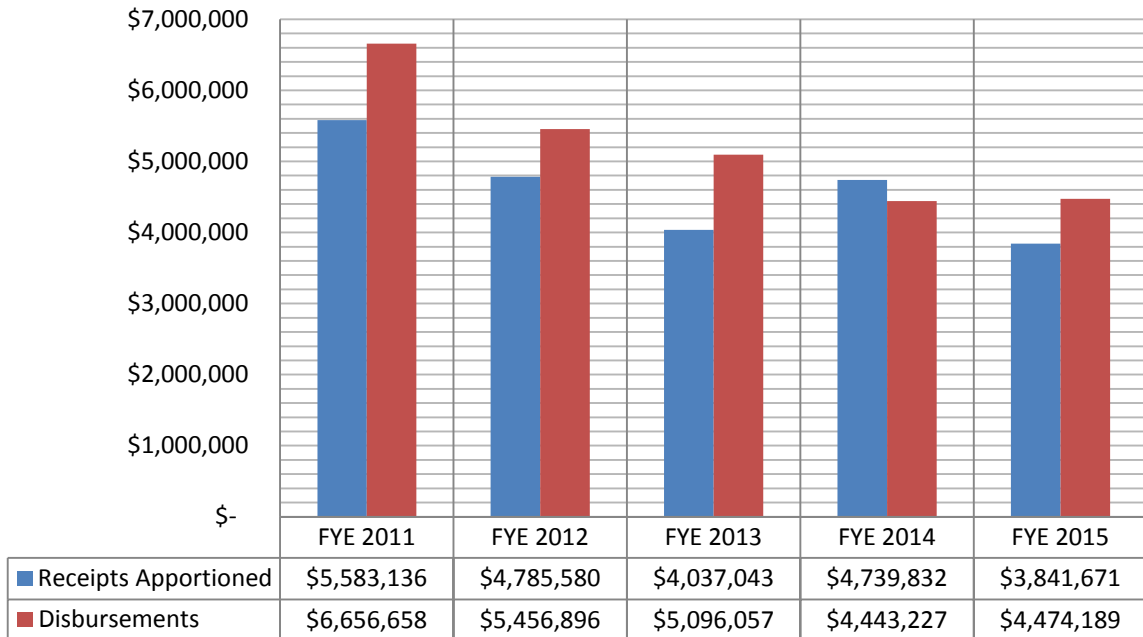


**CUSTER COUNTY, OKLAHOMA  
COUNTY HIGHWAY FUND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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## County Highway Fund

The County receives major funding for roads and highways from a state imposed fuel tax. Taxes are collected by the Oklahoma Tax Commission. Taxes are imposed on all gasoline, diesel, and special fuel sales statewide. The County's share is determined on formulas based on the County population, road miles, and land area and is remitted to the County monthly. These funds are earmarked for roads and highways only and are accounted for in the County Highway Fund. The chart below summarizes receipts and disbursements of the County's Highway Fund for the last five fiscal years.



**CUSTER COUNTY  
OPERATIONAL AUDIT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**Presentation of Apportionments, Disbursements, and Cash Balances of County Funds for Fiscal Year Ended June 30, 2015**

	Beginning Cash Balances July 1, 2014	Receipts Apportioned	Transfers In	Transfers Out	Disbursements	Ending Cash Balances June 30, 2015
Combining Information:						
County Funds:						
County General Fund	\$ 2,350,674	\$ 3,169,940	\$ -	\$ -	\$ 3,074,194	\$ 2,446,420
County Highway Cash	3,811,985	3,841,671	-	-	4,474,189	3,179,467
CBRI Cash Fund (County Bridge and Road Improvement)	366,344	281,199	-	-	327,199	320,344
Sales Tax Cash Fund	1,960,891	2,559,617	-	-	2,164,632	2,355,876
Capital Improvement Cash Fund	609,435	147,365	-	-	13,692	743,108
CCLECT - Sales Tax	2,754,049	10,270	-	-	127,132	2,637,187
Custer County Law Enforcement Judgment Sales Tax	909,703	2,551,947	-	992,467	830,386	1,638,797
Custer County Local Emergency Planning Committee	23,226	22,250	-	-	31,077	14,399
Trash Cop Cash Fund	57	-	-	-	-	57
Custer County Health Department	537,666	470,851	-	-	520,559	487,958
Courthouse/Jail Bond Fund	6,144	-	-	-	-	6,144
County Sinking Fund	229,449	28,362	992,467	-	1,250,000	278
Resale Property Fund	377,958	118,993	-	-	87,809	409,142
Treasurer Mortgage Tax Certification Fee	9,891	5,340	-	-	2,525	12,706
County Clerk Lien Fee	34,015	25,687	-	-	3,066	56,636
Assessor Revolving Fee	55,310	11,469	-	-	7,238	59,541
Assessor Visual Inspection Fund	17,326	61	-	-	-	17,387
Rural Convenience	882	-	-	-	685	197
Sheriff Fee Cash Fund	181,296	357,646	-	-	404,654	134,288
Sheriff Drug Enforcement/Donation Fund	306	80	-	-	200	186
Sheriff Training & Equipment Fund	56	-	-	-	-	56
Sheriff DARE	60	-	-	-	-	60
County Clerk Records Management Fee	53,967	38,182	-	-	29,087	63,062
Sheriff Jail Fund	9,908	20,188	-	-	21,731	8,365
Sheriff Commissary Fund	19,862	71,300	-	-	63,831	27,331
Flood Plain Cash Fund	1,689	3,600	-	-	968	4,321
Free Fair	25,465	37,187	-	-	17,098	45,554
Custer County Rural Fire Truck & Equipment	128,290	127,770	-	-	91,284	164,776
<b>Combined Total - All County Funds</b>	<b>\$ 14,475,904</b>	<b>\$ 13,900,975</b>	<b>\$ 992,467</b>	<b>\$ 992,467</b>	<b>\$ 13,543,236</b>	<b>\$ 14,833,643</b>

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

**CUSTER COUNTY  
DESCRIPTION OF COUNTY FUNDS AND TRANSFERS  
OPERATIONAL AUDIT  
FOR THE FISCAL YEAR JUNE 30, 2015**

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**Description of County Funds**

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

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

County General Fund – accounts for the general operations of the government.

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

CBRI Cash Fund (County Bridge and Road Improvement) – accounts state receipts and disbursements for the purpose of maintaining bridges and roads.

Sales Tax Cash Fund – accounts for the sales tax collected and spent on behalf of the following entities: General Government (50%); County Sheriff (30%); Rural Fire Departments (8%); OSU Extension Office (8%); Custer County Free Fair (4%).

Capital Improvement Cash Fund – accounts for the remaining balance of previous years' use tax and seven months of the current fiscal year's use tax collections, and disbursements are for improvements to the courthouse.

CCLECT – Sales Tax – accounts for the collection of a sales tax to be used to construct, equip, furnish, and operate the jail facility and for the repayment of any debt incurred in the process.

Custer County Law Enforcement Judgment Sales Tax – accounts for the collection of a sales tax for payment of a judgment against Custer County and for arbitrage fees.

Custer County Local Emergency Planning Committee – accounts for grant monies received for various grants filed for emergency management services within the County.

Trash Cop Cash Fund – accounts for grant funds received and spent on eradication of trash in the rural areas of the County.

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

Courthouse/Jail Bond Fund – accounts for the excess proceeds from a 1982 bond issue that was to fund an addition to the courthouse for jail and courthouse offices.

**CUSTER COUNTY**  
**DESCRIPTION OF COUNTY FUNDS AND TRANSFERS**  
**OPERATIONAL AUDIT**  
**FOR THE FISCAL YEAR JUNE 30, 2015**

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County Sinking Fund – accounts for the proceeds for the sale of bonds, the monthly use tax collections, and some prior years' ad valorem collections and disbursed to pay an annual payment for the judgment against Custer County.

Resale Property Fund – accounts for the collection of interest and penalties on delinquent taxes and disbursed as restricted by state statute.

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

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

Assessor Revolving Fee – accounts for the collection of fees for copies as restricted by state statute.

Assessor Visual Inspection Fund – accounts for the collection and expenditure of monies by the Assessor as restricted by state statute for the visual inspection program.

Rural Convenience – accounts for depository monies disbursed for an employee's salary that operates the rural convenience trash disposal in Thomas, Oklahoma.

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

Sheriff Drug Enforcement/Donation Fund – accounts for donations received to purchase and maintain a drug dog.

Sheriff Training & Equipment Fund – accounts for the collection of miscellaneous receipts and disbursed for the training and equipping of the County Sheriff's deputies.

Sheriff DARE – accounts for state funds disbursed for the purpose of drug education and awareness.

County Clerk Records Management Fee – accounts for fees collected for instruments filed in the County Clerk's office as restricted by state statute for preservation of records.

Sheriff Jail Fund – accounts for the County Sheriff's portion of the bond fee assessed by the Court Clerk and disbursed for the general operations of the jail.

Sheriff Commissary Fund – accounts for the collection of profits from the sale of commissary items to inmates and disbursed to purchase commissary goods and for maintenance and operations of the County jail.

**CUSTER COUNTY**  
**DESCRIPTION OF COUNTY FUNDS AND TRANSFERS**  
**OPERATIONAL AUDIT**  
**FOR THE FISCAL YEAR JUNE 30, 2015**

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Flood Plain Cash Fund – accounts for monies collected for flood plain permits and disbursed for flood plain training and certifications.

Free Fair – accounts for the collection of sales tax money, rent of the fair building/grounds, and interest earned on investments and disbursed for the operations of the free fair organization.

Custer County Rural Fire Truck & Equipment – accounts for the collection of five months of use tax and is disbursed for rural fire trucks and equipment and will be disbursed for fire trucks and equipment for rural fire departments within the County as authorized by Board of County Commissioners.

**Interfund Transfer**

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

- \$992,467 was transferred from the Custer County Local Law Enforcement Judgment Sales Tax fund to the County Sinking Fund to pay the debt incurred to satisfy the county judgment in case # CIV-2010-53.

**CUSTER COUNTY, OKLAHOMA**  
**COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS, AND**  
**CHANGES IN CASH BALANCES—BUDGET AND ACTUAL—BUDGETARY BASIS—**  
**COUNTY GENERAL FUND**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

	General Fund		
	Budget	Actual	Variance
Beginning Cash Balances	\$ 2,350,674	\$ 2,350,674	\$ -
Less: Prior Year Outstanding Warrants	(35,360)	(35,360)	-
Less: Prior Year Encumbrances	(95,389)	(95,389)	-
Beginning Cash Balances, Budgetary Basis	<u>2,219,925</u>	<u>2,219,925</u>	<u>-</u>
Receipts:			
Ad Valorem Taxes	2,188,833	2,309,391	120,558
Charges for Services	135,565	158,531	22,966
Intergovernmental Revenues	-	660,270	660,270
Miscellaneous Revenues	-	41,748	41,748
Total Receipts, Budgetary Basis	<u>2,324,398</u>	<u>3,169,940</u>	<u>845,542</u>
Expenditures:			
District Attorney	50,000	47,310	2,690
County Sheriff	692,635	690,793	1,842
County Treasurer	159,578	150,546	9,032
County Commissioners	139,630	139,630	-
County Clerk	268,040	259,346	8,694
Court Clerk	415,779	339,375	76,404
County Assessor	141,958	109,919	32,039
Revaluation	159,828	129,182	30,646
District Court	76,872	69,510	7,362
General Government	1,253,861	967,251	286,610
Excise Equalization	5,900	2,527	3,373
County Election Board	102,754	95,312	7,442
Civil Defense	48,819	48,281	538
Line Item Account	1,000,000	-	1,000,000
County Audit Budget Account	28,500	6,693	21,807
Free Fair Budget Account	169	-	169
Total Expenditures, Budgetary Basis	<u>4,544,323</u>	<u>3,055,675</u>	<u>1,488,648</u>
Excess of Receipts and Beginning Cash			
Balances Over Expenditures, Budgetary Basis	<u>\$ -</u>	2,334,190	<u>\$ 2,334,190</u>
Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances			
Add: Current Year Outstanding Warrants		79,772	
Add: Current Year Encumbrances		32,458	
Ending Cash Balance		<u>\$ 2,446,420</u>	

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

**CUSTER COUNTY, OKLAHOMA**  
**COMPARATIVE SCHEDULE OF RECEIPTS, EXPENDITURES, AND**  
**CHANGES IN CASH BALANCES—BUDGET AND ACTUAL—BUDGETARY BASIS—**  
**COUNTY HEALTH DEPARTMENT FUND**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

	County Health Department Fund		
	Budget	Actual	Variance
Beginning Cash Balances	\$ 537,666	\$ 537,666	\$ -
Less: Prior Year Outstanding Warrants	(240)	(240)	-
Less: Prior Year Encumbrances	(33,734)	(33,734)	-
Beginning Cash Balances, Budgetary Basis	503,692	503,692	-
Receipts:			
Ad Valorem Taxes	438,618	462,776	24,158
Charges for Services	4,737	4,737	-
Intergovernmental Revenues	1,410	1,410	-
Miscellaneous Revenues	1,928	1,928	-
Total Receipts, Budgetary Basis	446,693	470,851	24,158
Expenditures:			
Health and Welfare	950,385	565,802	384,583
Total Expenditures, Budgetary Basis	950,385	565,802	384,583
Excess of Receipts and Beginning Cash Balances Over Expenditures, Budgetary Basis	\$ -	408,741	\$ 408,741
Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances			
Add: Current Year Encumbrances		77,694	
Add: Current Year Outstanding Warrants		1,523	
Ending Cash Balance		\$ 487,958	

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

**CUSTER COUNTY  
OPERATIONAL AUDIT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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**PURPOSE, SCOPE, AND SAMPLE METHODOLOGY**

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

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

In planning and conducting our audit, we focused on the major financial related areas of operations based on assessment of materiality and risk for the fiscal year ended June 30, 2015. Our audit procedures included:

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

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

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

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

**CUSTER COUNTY  
OPERATIONAL AUDIT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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**Objective 1:** To determine the receipts apportioned, disbursements, and cash balances are accurately presented on the County Treasurer's monthly reports for FY 2015.

**Conclusion:** With respect to the items reconciled and reviewed; the receipts apportioned, disbursements, and cash balances are accurately presented on the County Treasurer's monthly reports. However, we noted some deficiencies in internal controls regarding the financial reporting process.

### FINDINGS AND RECOMMENDATIONS

#### **Finding 2015-2 – Inadequate Internal Controls Over the County Treasurer's Monthly Reports**

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

- The monthly reports are not being reviewed for accuracy by someone other than the preparer.
- The County Treasurer's General Ledger balances per fund are not reconciled to the County Clerk Appropriation Ledger.
- Bank reconciliations were not reviewed and approved by someone other than the preparer.

**Cause of Condition:** Policies and procedures have not been designed and implemented to review apportionments, disbursements, and cash balances to verify that these amounts are accurately presented on the monthly reports, and ensure a reconciliation of the County Clerk's appropriation ledger to the County Treasurer's general ledger was performed. Additionally, policies and procedures have not been designed and implemented to ensure all bank accounts are reviewed and approved and that all reconciling items are documented and investigated.

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

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

- Monthly reports should be reviewed by someone other than the preparer.
- The funds presented on the County Clerk's appropriation ledger and the County Treasurer's general ledger should be reconciled monthly. Documentation of this reconciliation should be reviewed and approved by someone other than the preparer.
- Bank reconciliations should be reviewed by someone other than the preparer.

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**Management Response:**

**County Treasurer:** We have already implemented a process to fix this condition. We will start keeping documentation of the review of bank reconciliations and the monthly reports.

**County Clerk:** We are fixing this condition right now.

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

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

**Conclusion:** With respect to the items tested, the County complied with 68 O.S. § 1370E, which requires the sales tax collections to be deposited in the general revenue or Sales Tax Revolving Fund of the County and be used only for the purpose for which such sales tax was designated.

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

**Conclusion:** With respect to the items tested, the County complied with 68 O.S. § 2923, which requires the ad valorem tax collections to be apportioned and distributed monthly among the different funds to which they belong.

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

**Conclusion:** With respect to the items tested, the County's internal controls provide reasonable assurance that expenditures (including payroll) were accurately reported in the accounting records. However, we noted some deficiencies in internal controls regarding the disbursement process.

Also, the County's financial operations did not comply with 19 O.S. § 1505.C and 1505.E, which requires that disbursements be properly received and encumbered.

**FINDINGS AND RECOMMENDATIONS**

**Finding 2015-5 – Inadequate Internal Controls and Noncompliance Over the Disbursement Process (Repeat Finding)**

**Condition:** Upon inquiry and observation of the disbursement process, our test of twenty-five (25) purchase orders reflected the following:

- Four (4) instances were noted in which the purchase order was not encumbered prior to the date on the vendor's invoice and/or worked performed.

Fiscal Year	Fund	Purchase Order Number	Warrant Number	Warrant Date	Amount
2015	County General Fund	1917	710	12/08/14	\$20.00
2015	County General Fund	2507	831	01/12/15	\$496.17
2015	Sheriff Commissary Fund	3956	52	05/11/15	\$6,020.00
2015	County Highway Cash (D2)	4443	2059	06/08/15	\$310.88

- One (1) instance was noted in which the purchase order was not supported by adequate documentation. This purchase was for inmate groceries. The receiving report was not detailed with regard to items purchased nor were the items received checked off the itemized receipts.
- One (1) receiving report was issued for multiple days' purchases.

Fiscal Year	Fund	Purchase Order Number	Warrant Number	Warrant Date	Amount
2015	Sheriff Fee Cash Fund	116	25	08/11/14	\$1,465.12

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**Cause of Condition:** Policies and procedures have not been designed and implemented to ensure the County is in compliance with state statutes.

**Effect of Condition:** These conditions resulted in noncompliance with state statutes and could result in unrecorded transactions, misstated financial reports, undetected errors, and misappropriation of funds.

**Recommendation:** OSAI recommends that all purchase orders be prepared by the purchasing agent after receipt of the requisition from the requisitioning officer. The County Clerk shall then encumber the funds and assign a purchase order number in accordance with 19 O.S. § 1505.C and 1505.E.

**Management Response:**

**County Commissioner District 2:** I was unaware this was a billable repair at the time.

**County Clerk:** I will make sure receiving reports are more detailed.

**County Sheriff:** We have already changed this process to correct this condition.

**Criteria:** Accountability and stewardship are overall goals of management in the accounting of funds. Internal controls should be designed to analyze and check accuracy, completeness, and authorization of disbursements and/or transactions.

Title 19 O.S. § 1505.C states in part,

C. After selection of a vendor, the procedure for the purchase, lease-purchase, or rental of supplies, materials, equipment and information technology and telecommunication goods and services used by a county shall be as follows:

1. The county purchasing agent shall prepare a purchase order in quadruplicate and submit it with a copy of the requisition to the county clerk;
2. The county clerk shall then encumber the amount stated on the purchase order and assign a sequential number to the purchase order;

Title 19 O.S. § 1505.E states in part,

5. The receiving officer shall complete a receiving report in quadruplicate which shall state the quantity and quality of goods delivered. The receiving report form shall be prescribed by the State Auditor and Inspector. The person delivering the goods shall acknowledge the delivery by signature, noting the date and time;
6. The receiving officer shall file the original receiving report and submit:
  - a. the original purchase order and a copy of the receiving report to the county purchasing agent, and
  - b. a copy of the receiving report with the delivery documentation to the county clerk;

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**All Objectives:**

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

**Finding 2015-1 - Inadequate County-Wide Controls (Repeat Finding)**

**Condition:** When assessing the County-Wide Controls and Estimate of Needs, the following was noted:

- The County has not addressed the components of internal control formally in the documentation of County-Wide Internal Controls.
- The Estimate of Needs for the County General Fund did not carry forward the accurate ad valorem tax estimate to fiscal year 2015 which caused the amount appropriated for expenditures to exceed the amount available by \$145,809.
  - Exhibit “Y” CERTIFICATION OF EXCISE BOARD ESTIMATE OF NEEDS FOR 2014-2015 indicates the ad valorem “balance required” as \$2,188,833.01. However on Exhibit “A” GENERAL FUND ACCOUNTS COVERING THE PERIOD JULY 1, 2014 to JUNE 30, 2015 indicates the “balance available as \$2,043,023.91. This amount was not changed from the previous year’s document.

**Cause of Condition:** Although internal controls have been discussed at the county-wide level, management has not prepared the documentation of County-Wide Controls.

**Effect of Condition:** Without written documentation of the County-Wide Controls it is more difficult to retain organizational knowledge, communicate that knowledge to personnel, indicate what internal controls are present and monitor those controls as provided in sections 3.10 and 3.11 of the Green Book.

Without proper review and verification of the County’s Estimate of Needs, it is more likely that amounts are not accurate, and can cause errors in the County’s budgeting process.

**Recommendation:** OSAI recommends that the county document the County-Wide Controls in a written format. OSAI further recommends that the documentation address the 17 principles that cover Control Environment, Risk Assessment, Control Activities, Information and Communication, Control Activities, and Monitoring. We additionally recommend the County Official review and verify the Estimate of Needs before approving it.

**Management Response:**

**County Commissioner District 1:** We will discuss how to best approach this in our County Commissioners meeting.

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**County Commissioner District 2:** During the officers' meetings, we will start to document the 17 principles for County-Wide Controls.

**County Commissioner District 3:** A document plan for controls would be a good advantage for new officers, as well as being a base line to go back to as procedures drift over time. Under Chairman Hamburger's leadership, I anticipate this being pursued in monthly officers meetings.

**County Clerk:** We have already scheduled quarterly meetings to start discussing County-Wide Controls. The County Clerk will meet with the Budget Maker and review the Estimate of Needs for accuracy and completeness.

**County Sheriff:** We will comply with the suggestions of the Auditor's office and begin the process of documenting our control activities.

**County Treasurer:** I will participate in any discussions the County has regarding County-Wide Controls.

**Court Clerk:** I will participate in any meetings to prepare documentation for County-Wide Controls. The County Clerk will call the budget maker and will completely review future financial category amounts.

**County Assessor:** I am more than willing to participate in any meeting regarding County-Wide Controls.

**Criteria:** Management is responsible for the development and maintenance of its internal control system. The internal control system provides reasonable assurance that the objectives of effectiveness and efficiency of operations, reliability of financial reporting and compliance with laws and regulations are being satisfied. Internal controls also serve as the first line of defense in the safeguarding of assets and preventing and detecting errors and fraud. Part of developing effective internal controls, includes the review and monitoring of the estimate of needs in the budgetary process so as to provide accurate financial information for decision making.

**REPORT ON STATUTORY COMPLIANCE – OTHER MATTERS**



# Oklahoma State Auditor & Inspector

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

Custer County  
Board of County Commissioners  
Custer County Courthouse  
Arapaho, Oklahoma 74738

Dear Chairman:

For the purpose of complying with 19 O.S. § 171 and 20 O.S. § 1312, we have performed statutory procedures regarding the following offices and departments for the fiscal year ended June 30, 2015:

- All County Offices - Fixed Assets procedures (19 O.S. § 178.1 and 69 O.S. § 645).
- All County Offices - Consumable Inventories procedures (19 O.S. § 1502 and 19 O.S. § 1504).
- Court Clerk procedures (20 O.S. § 1304 and 19 O.S. § 220).
- Inmate Trust Fund procedures (19 O.S. § 531 and 19 O.S. § 180.43).

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

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

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

A handwritten signature in blue ink, reading "Gary A. Jones", is positioned above the printed name.

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

July 18, 2016

**CUSTER COUNTY, OKLAHOMA  
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**SCHEDULE OF FINDINGS AND RESPONSES**

**Finding 2015-8 – Inadequate Internal Controls and Noncompliance Over Fixed Assets (Repeat Finding)**

**Condition:** Upon inquiry of employees and review of records, we noted that the following offices did not maintain evidence that an annual physical verification of fixed assets was performed:

- County Commissioner District 2
- Court Clerk
- County Sheriff

Additionally, a review of the Court Clerk's assets indicated that all of the five (5) items selected were not properly marked with the correct property identification number or had no property identification number. Also, three (3) of the five (5) items selected from the County Sheriff's office inventory list did not have property identification numbers on them.

**Cause of Condition:** Policies and procedures have not been designed and implemented by county officers to document annual fixed assets inventory counts and properly mark equipment with county identification numbers.

**Effect of Condition:** These conditions resulted in noncompliance with state statute. When fixed assets are not monitored and equipment is not properly marked with property identification numbers opportunities for misuse or loss of equipment can occur.

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

**Management Response:**

**County Commissioner District 2:** I will start performing an annual inventory.

**County Sheriff:** We are going to assign someone other than the inventory clerk to perform an annual review of inventory and keep documentation of this.

**Court Clerk:** All inventory items that were not labeled or listed incorrectly on inventory has been marked with correct property identification numbers or appropriate names. (J10515, J10512, J29923 (serial number corrected), J10516). Additionally, the following inventory is removed from list due to being under \$500.00: Handheld scanner.

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

Title 19 O.S. § 178.1 states, "The board of county commissioners in each county of this state shall take, or cause to be taken, an inventory of all working tools, apparatus, machinery and equipment belonging to the county or leased or otherwise let to it or to any department thereof, other than that which is affixed to and made a part of lands and buildings, the cost of which as to each complete working unit thereof is more than Five Hundred Dollars (\$500.00), and thereafter maintain or cause to be maintained a continuous inventory record thereof and of like tools, apparatus, machinery and equipment purchased, leased or otherwise coming into the custody of the county or of any office, board, department, commission or any or either thereof, and the disposition thereof whether sold, exchanged, leased or let where authorized by statute, junked, strayed or stolen, and annually thereafter, or oftener in event of death, resignation or removal of an elective officer with a term, to verify or cause to be verified by count and report of the same as of the end of a term of office and as part and parcel of the accounting required by law of a retiring or re-elected officer, and, as to appointive heads of departments amenable directly to the board of county commissioners and as to quasi-governmental boards and commissions such as free fair boards, hospital boards and the like, the same shall be as of the last business day immediately preceding the day certain commencing a new term of the board of county commissioners; all in the manner as provided by law."

**Finding 2015-9 – Inadequate Internal Controls and Noncompliance Over Consumable Inventories (Repeat Finding)**

**Condition:** Upon inquiry of the recordkeeping processes regarding consumable inventories in the two County Commissioner Districts, the following was noted:

- District 2 has not maintained records to track the use or balances of consumable inventory items during the audit period.
- District 3 has not maintained accurate records of consumable inventories. Four (4) out of the five (5) items selected were not accurately listed on their inventory records.

**Cause of Condition:** Policies and procedures have not been implemented with regard to accounting for and safeguarding the consumable items that are purchased by District 2 and District 3.

**Effect of Condition:** These conditions resulted in noncompliance with state statute. When consumable inventory items are not adequately accounted for and safeguarded there is an opportunity for misappropriation and undetected errors.

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**Recommendation:** OSAI recommends management implement internal controls to ensure compliance with 19 O.S. § 1502(A)(1), and 19 O.S. § 1502(B)(1). Additionally, the key functions of receiving duties and inventory control duties should be performed by separate employees in order to effectively segregate those duties. OSAI recommends that the County implement procedures to ensure compliance with 19 O.S. § 1504A, which would provide assurance that the consumable items of the County are protected from loss and misuse.

**Management Response:**

**County Commissioner District 2:** I have already updated my consumable inventory and we will now perform a monthly review of our consumable inventory.

**County Commissioner District 3:** District 3 has a good system in place for reporting use of consumables and recording of such inside the office, but I have been lax in performing a physical inventory and having consumables in order to be counted. I am committed to improve this error and we will be organizing the inventory better as well as doing inventory counts on a monthly basis.

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

Title 19 O.S. § 1502(A)(1) requires a prescribed uniform identification system for all supplies, materials, and equipment of a county used for maintenance for roads and bridges.

Title 19 O.S. § 1502(B)(1) requires a prescribed uniform identification system for all supplies, materials, and equipment of a county not used in the construction and maintenance for roads and bridges.

Title 19 O.S. § 1504A provides guidance with regard to accounting for the consumable items including maintaining a record of all such items received, disbursed, stored and consumed by the department.

**Finding 2015-10 – Inadequate Internal Controls and Noncompliance Over the Inmate Trust Fund Checking Account and Sheriff Commissary Fund**

**Condition:** An audit of the Inmate Trust Fund Checking Account and Sheriff Commissary Fund reflected the following conditions:

- The County Sheriff's office did not make daily deposits of inmate trust collections.
- Disbursements were made from the Inmate Trust Fund Checking Account for purposes other than allowed by state statute, including payments to the Commissary vendor, bail bondsman payments, and payments to the Court Clerk for bonds.
- There is no policy or procedure regarding unclaimed funds.
- Bank reconciliations are not reviewed by someone other than preparer.

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- The Sheriff's annual commissary report filed with the Board of County Commissioners, did not reflect a beginning balance or an ending balance. It was also determined that expenditures for the Sheriff Commissary Fund were either reported incorrectly or not reported on the annual report.

**Cause of Condition:** Policies and procedures have not been fully designed and implemented regarding the Inmate Trust Fund Checking Account and to accurately report the activity of the Sheriff Commissary Fund.

**Effect of Condition:** These conditions resulted in noncompliance with state statutes. Without proper accounting and safeguarding of the Inmate Trust Fund Checking Account, there is an increased risk of misappropriation of funds. Additionally, this condition resulted in inaccurate reporting of the Sheriff Commissary Fund in the annual report filed with the Board of County Commissioners.

**Recommendation:** Regarding the Inmate Trust Fund Checking Account, OSAI recommends that the County Sheriff deposit inmate funds daily and have bank reconciliations reviewed by someone other than the preparer. Also, we recommend that disbursements only be made to the Sheriff's Commissary Account and to the inmate in accordance with 19 O.S. § 531.A. OSAI recommends that the Sheriff follow the disposition procedures for unclaimed property or money in sheriff's possession as outlined in 22 O.S. § 1325. Further OSAI recommends the Sheriff include beginning and ending balances, deposits, and disbursements of the Sheriff's Commissary Account in their annual report to the Commissioners in accordance with 19 O.S. § 180.43.D.

**Management Response:**

**County Sheriff:** We will work on resolving these issues.

**Criteria:** The overall goal of effective internal control is to demonstrate accountability and stewardship. To help ensure a proper accounting of funds, adequate internal controls include procedures designed to ensure that the Sheriff Commissary Fund records and Inmate Trust Fund Checking Account records comply with state statutes.

Effective accounting procedures and internal controls are necessary to ensure stewardship and accountability of public funds. Safeguarding controls are an aspect of internal controls. Safeguarding controls relate to the prevention or timely detection of unauthorized transaction and unauthorized access to assets.

These funds may be used for crime prevention, education, training or programming. The fund or any portion of it may be expended in paying the expenses of the sheriff or any duly authorized deputy or employee of the campus police agency to attend law enforcement or public safety training courses which are conducted by the Oklahoma Council on Law Enforcement Education and Training (CLEET) or other certified trainers, providers, or agencies.

Further, Title 22 O.S. § 1325(F, H) states;

F. A sheriff's office having in its possession money or legal tender under the circumstances provided in subsection A of this section, prior to appropriating the same for deposit into

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a special fund, shall file an application in the district court of its county requesting the court to enter an order authorizing it to so appropriate the money for deposit in the special fund. The application shall describe the money or legal tender, together with serial numbers, if any, the date the same came into the possession of the sheriff's office or campus police agency, and the name and address of the owner, if known. Upon filing, the application, which may be joined with an application as described in subsection C of this section, shall be set for hearing not less than ten (10) days nor more than twenty (20) days from the filing thereof, and notice of the hearing shall be given as provided in subsection D of this section. The notice shall state that, upon no one appearing to prove ownership to the money or legal tender, the same will be ordered by the court to be deposited in the special fund by the sheriff's office or campus police agency. The notice may be combined with a notice to sell personal property as set forth in subsection D of this section. At the hearing, if no one appears to claim and prove ownership to the money or legal tender, the court shall order the same to be deposited by the sheriff's office or campus police agency in the special fund, as provided in subsection H of this section.

H. The money received from the sale of personal property as above provided, after payment of the court costs and other expenses, if any, together with all money in possession of the sheriff's office or campus police agency, which has been ordered by the court to be deposited in the special fund, shall be deposited in such fund which shall be separately maintained by the sheriff's office in a special fund with the county treasurer or campus police agency to be expended upon the approval of the sheriff or head of the campus police agency for the purchase of equipment, materials or supplies that may be used in crime prevention, education, training or programming.

Title 19 O.S. § 180.43.D states,

D. Each county sheriff may operate, or contract the operation of, a commissary for the benefit of persons lawfully confined in the county jail under the custody of the county sheriff. Any funds received pursuant to said operations shall be the funds of the county where the persons are incarcerated and shall be deposited in the Sheriff's Commissary Account. The sheriff shall be permitted to expend the funds to improve or provide jail services. The sheriff shall be permitted to expend any surplus in the Sheriff's Commissary Account for administering expenses for training equipment, travel or for capital expenditures. The claims for expenses shall be filed with and allowed by the board of county commissioners in the same manner as other claims. The sheriff shall receive no compensation for the operation of said commissary. The sheriff shall file an annual report on any said commissary under his or her operation no later than January 15 of each year.

Title 19 O.S. § 531.A states,

A. Notwithstanding any other provisions of law, the county sheriff may establish a checking account, to be designated the "Inmate Trust Fund Checking Account", to be managed by the county sheriff and maintained separately from regular county funds. The checking account shall be subject to audit by the State Auditor and Inspector. The county sheriff shall deposit all monies collected from inmates incarcerated in the county jail into

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this checking account and may write checks to the Sheriff's Commissary Account for purchases made by the inmate during his or her incarceration and to the inmate from unencumbered balances due the inmate upon his or her discharge.



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