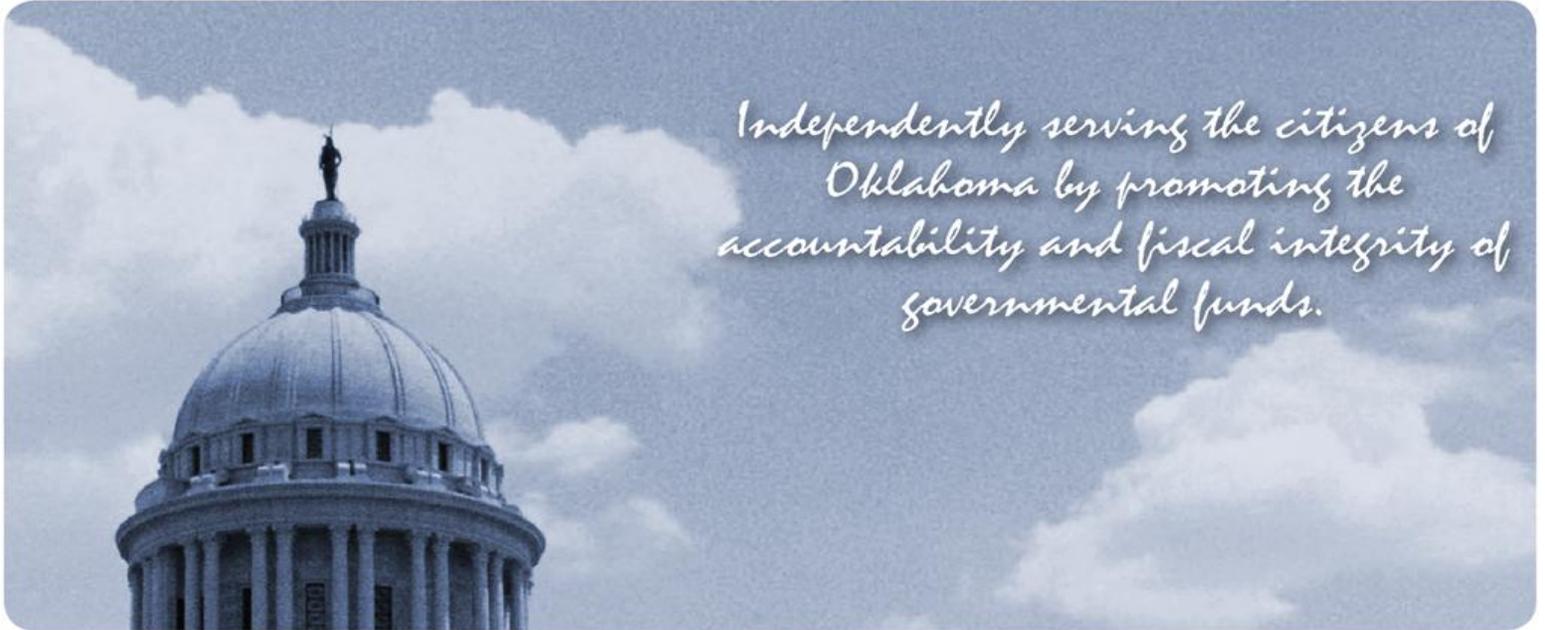


OPERATIONAL AUDIT

ELLIS COUNTY

For the fiscal year ended June 30, 2015



*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

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

This publication, issued by the Oklahoma State Auditor and Inspector's Office as authorized by 19 O.S. § 171, has not been printed, but is available on the agency's website (www.sai.ok.gov) and in the Oklahoma Department of Libraries Publications Clearinghouse Digital Prairie Collection (<http://digitalprairie.ok.gov/cdm/search/collection/audits/>) pursuant to 65 O.S. § 3-114.



Oklahoma State Auditor & Inspector

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

August 9, 2016

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

Transmitted herewith is the audit report of Ellis 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 that reads "Gary A. Jones".

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

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

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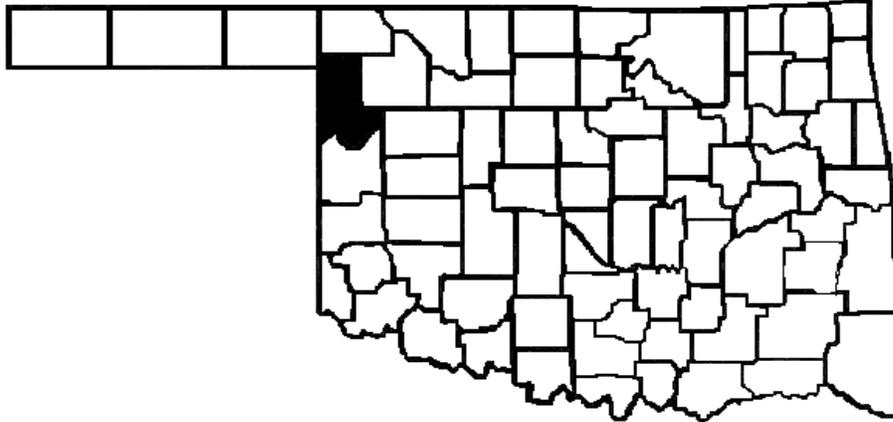
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**ELLIS COUNTY, OKLAHOMA
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**



Located in western Oklahoma and created at statehood from portions of Roger Mills and Woodward counties, Ellis County was named for Albert H. Ellis, vice president of the Oklahoma Constitutional Convention.

The site of several Indian battles including the Battle of Little Robe and the Battle of Wolf Creek, Ellis County was crossed by the Fort Elliott-Fort Supply Military Crossing, a major thoroughfare to military camps and posts in the Indian Territory and the Great Western Cattle Trail.

Once a leading dairy and oil producer, Ellis County now hosts primarily an agricultural and ranching industry. With the exception of Arnett, the county seat, the major communities of Ellis County – Shattuck, Fargo, and Gage – are located on or very near the old Atchison, Topeka, and Santa Fe Railroad, now the Burlington Northern Santa Fe Railroad.

Ellis County Heritage Volumes I and II, *A Pioneer History of Shattuck, Oklahoma; The 1910 Ellis County Plat Book*, and others offer historical information about the area. Call the county clerk's office at 580-855-7301 for more information.

County Seat – Arnett

Area – 1,231.84 Square Miles

County Population – 4,150
(2014 est.)

Farms – 760

Land in Farms – 758,323 Acres

Primary Source: Oklahoma Almanac 2015-2016

Board of County Commissioners

District 1 – Michael W. Latta
District 2 – Frankie Stevens
District 3 – Blake Suthers

County Assessor

Karen Perkins

County Clerk

Lynn Smith

County Sheriff

DeWayne Miller

County Treasurer

Kathy Holloway

Court Clerk

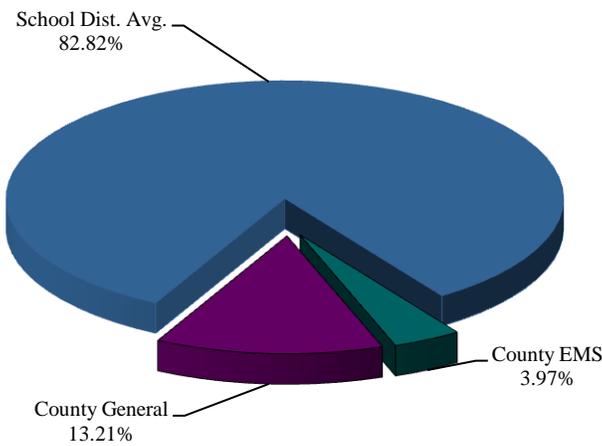
Sally Wayland

District Attorney

Angela Marsee

**ELLIS 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.	Skp.	Career Tech.	Common	Total
County General	10.62								
EMS	3.19	Fargo	I-2	37.19	5.31	24.93	13.01	4.25	84.69
		Arnett	I-3	37.59	5.37	5.67	-	4.25	52.88
		Gage	I-39	38.64	5.52	6.08	13.01	4.25	67.50
		Shattuck	I-42	36.61	5.23	31.16	-	4.25	77.25
		Vici, Dewey County	JT I-5	37.89	5.41	8.14	12.00	4.25	67.69
		Laverne, Harper County	JT I-1	35.78	5.11	-	-	4.25	45.14
		Ft. Supply Woodward County	JT J-5	37.30	5.33	11.05	13.01	4.25	70.94

**ELLIS COUNTY, OKLAHOMA
SALES TAX DISTRIBUTION
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Sales Tax

Sales Tax of August 27, 2002

On August 27, 2002, Ellis County voters approved a 1% sales tax effective on and after November 2, 2002, and shall have perpetual life. The 1% sales tax will be divided as follows:

- Arnett Fire Department: 2.67%
- Fargo Fire Department: 2.67%
- Gage Fire Department: 2.67%
- Shattuck Fire Department: 2.67%
- Catesby Fire Department: 2.66%
- Harmon Fire Department: 2.66%
- The remaining 84% is for the general operation and capital improvements for the Ellis County Free Fair, OSU Extension, General Fund, Restoration and Maintenance of Ellis County Courthouse, and Senior Citizens Transportation Bus.

These funds are accounted for in cash funds as reported on the County's Financial Statement as Senior Citizens Transport Sales Tax, Newman Memorial Hospital Sales Tax, Catesby Fire Department Sales Tax, Harmon Fire Department Sales Tax, Arnett Fire Department Sales Tax, Fargo Fire Department Sales Tax, Gage Fire Department Sales Tax, Shattuck Fire Department Sales Tax, Extension Sales Tax, Free Fair Sales Tax, Restoration Sales Tax, and EMS 2 Sales Tax.

The General Fund type county sales tax is accounted for in the general government account of the County General Fund in a subaccount entitled "Contingency."

Sales Tax of April 6, 2010

On April 6, 2010, Ellis County voters approved a 1% sales tax commencing on October 1, 2010 for five (5) years. The 1% will be divided as follows:

- .50% to be used for the funding of Shattuck Hospital Authority, a Municipal Trust, to be used for the operations and maintenance of the Newman Memorial Hospital.
- .25% to be used for funding of Ellis County Emergency Medical Service, to be used for wages and maintenance and operations of the Ellis County Emergency Medical Service.
- .25% to be used for funding of General Fund type operations of Ellis County.

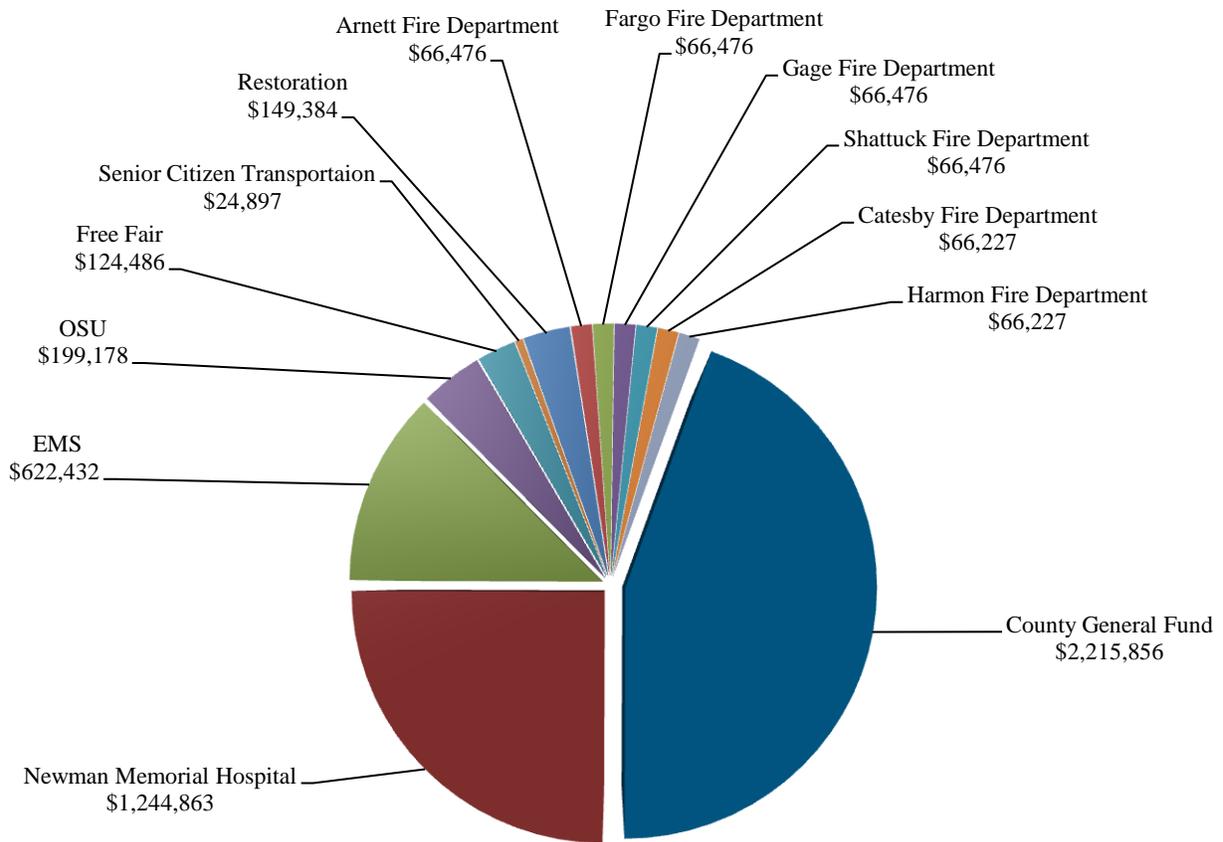
These funds are accounted for in cash funds as reported on the County's Financial Statement as Newman Memorial Hospital Sales Tax, and EMS 2 Sales Tax.

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

Sales Tax - Continued

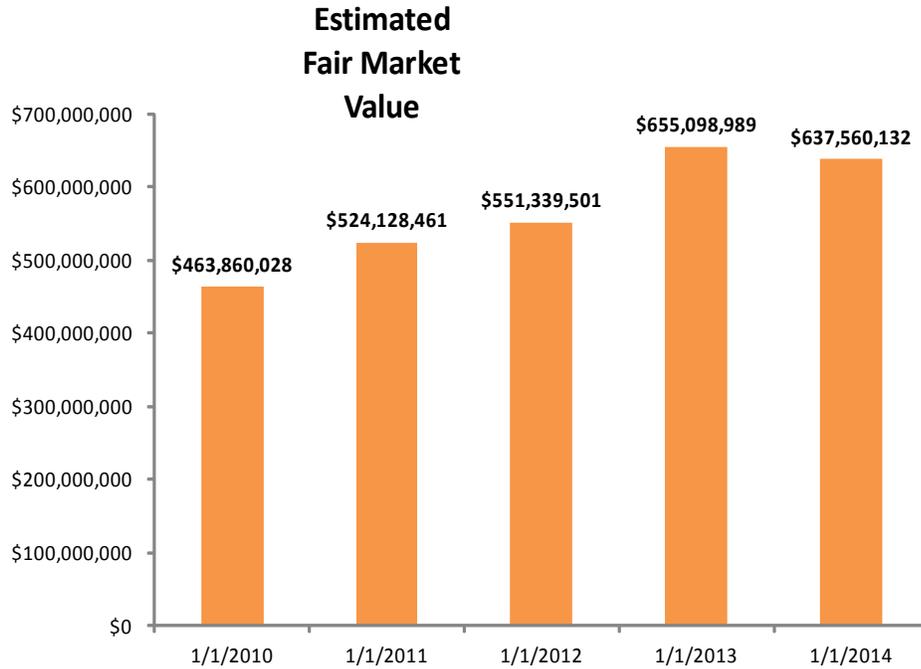
The General Fund type county sales tax is accounted for in the general government account of the County General Fund in a subaccount entitled "Contingency."

During the fiscal year the County collected \$4,979,454 in total sales tax.



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

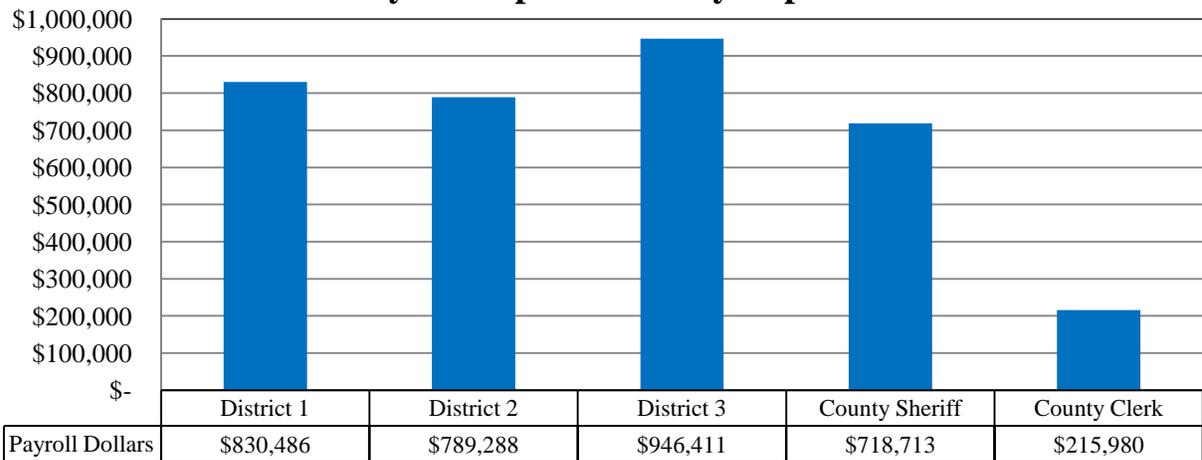
Valuation Date	Personal	Public Service	Real Estate	Total Exemptions	Net Value	Estimated Fair Market Value
1/1/2014	\$43,247,720	\$11,625,775	\$27,154,056	\$1,198,246	\$80,829,305	\$637,560,132
1/1/2013	\$47,237,412	\$10,113,834	\$26,063,044	\$1,218,492	\$82,195,798	\$655,098,989
1/1/2012	\$35,694,532	\$10,202,929	\$25,107,996	\$1,230,004	\$69,775,453	\$551,339,501
1/1/2011	\$34,024,166	\$9,389,970	\$23,939,974	\$1,230,069	\$66,124,041	\$524,128,461
1/1/2010	\$27,420,789	\$9,376,224	\$23,318,358	\$1,233,435	\$58,881,936	\$463,860,028



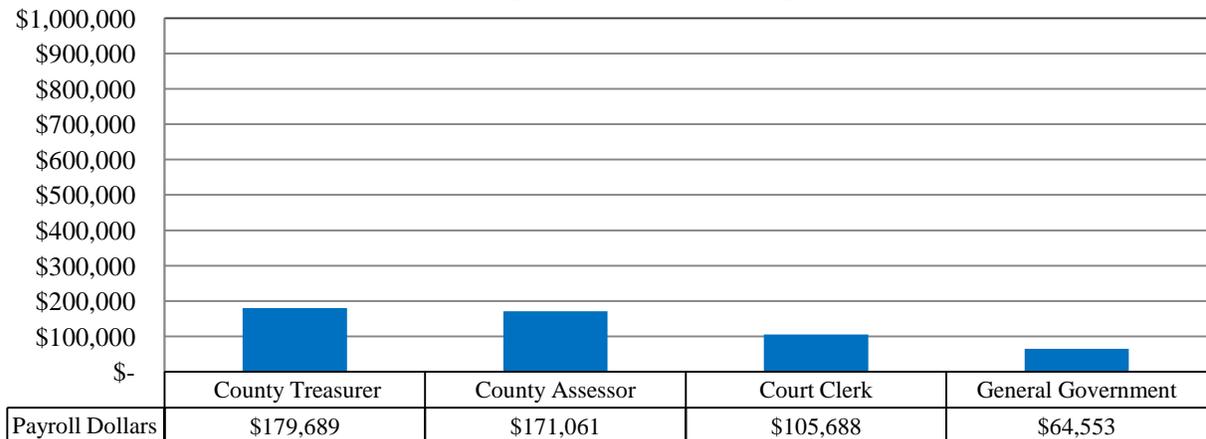
**ELLIS COUNTY, OKLAHOMA
COUNTY PAYROLL EXPENDITURES ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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



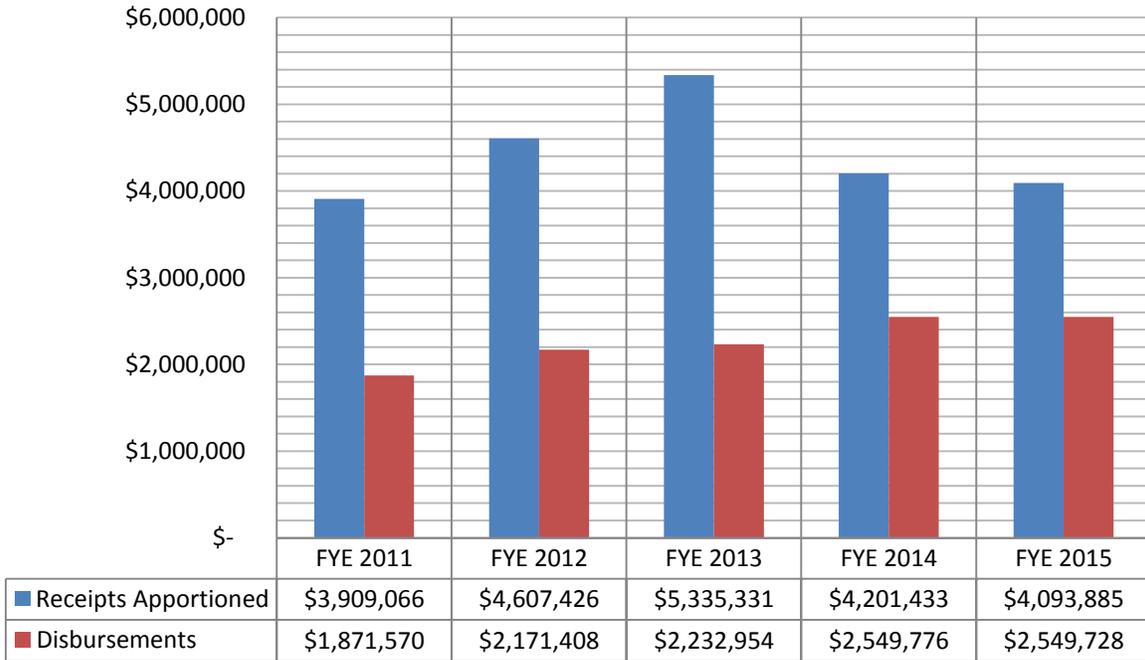
Payroll Expenditures by Department



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

County General Fund

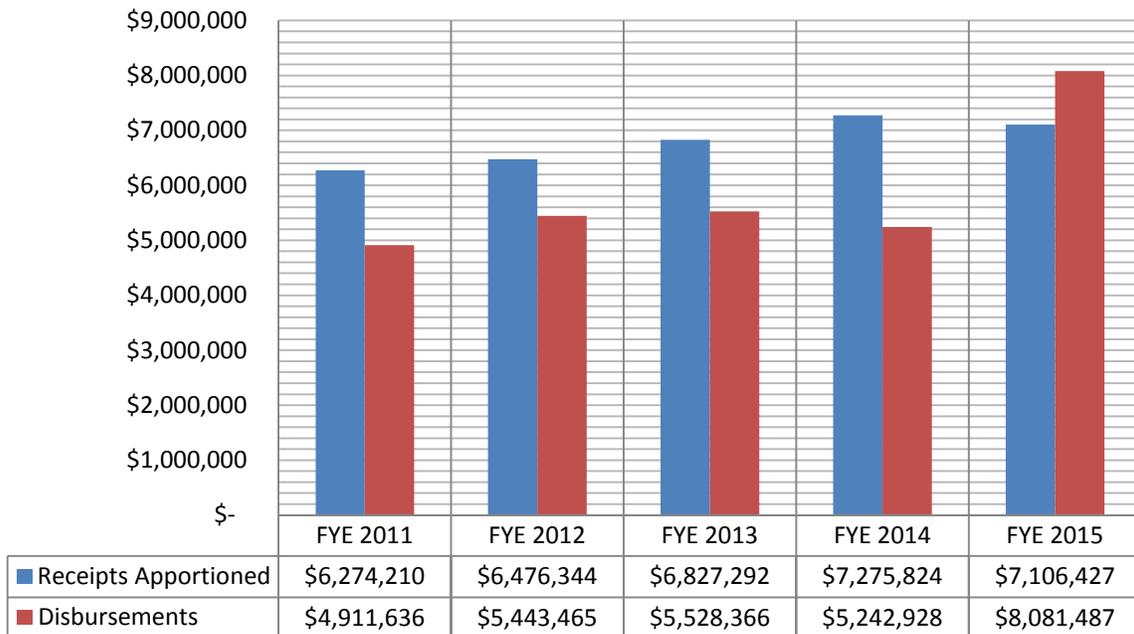
The Oklahoma Constitution and the Oklahoma Statutes authorize counties to create a County General Fund, which is the county’s primary source of operating revenue. The County General Fund is typically used for county employees’ salaries plus many expenses for county maintenance and operation. It also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



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

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.



**ELLIS 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	Disbursements	Ending Cash Balances June 30, 2015
Combining Information:				
County Funds:				
County General Fund	\$ 11,500,585	\$ 4,093,885	\$ 2,549,728	\$ 13,044,742
County Highway Cash	8,622,347	7,106,427	8,081,487	7,647,287
Board of Prisoners	27,208	6,018	9,390	23,836
Resale Property	165,624	40,506	16,702	189,428
Treasurer Mortgage Tax Certification Fee	10,567	716	683	10,600
Assessor Visual Inspection	195	-	-	195
Sheriff Service Fee	31,358	19,708	22,008	29,058
County Clerk Lien Fee	119,517	21,698	25,933	115,282
Sheriff Forfeiture	500	-	-	500
Assessor Revolving	42,996	4,560	15,239	32,317
Sheriff Dare	131	-	-	131
RM&P Cash Account	77,460	22,683	11,228	88,915
Senior Citizens Transport Sales Tax	42,225	27,491	48,054	21,662
Newman Memorial Hospital Sales Tax	137,008	1,245,003	1,324,868	57,143
Catesby Fire Department Sales Tax	213,200	66,466	15,645	264,021
Harmon Fire Department Sales Tax	173,683	66,413	82,376	157,720
Arnett Fire Department Sales Tax	71,531	66,544	118,442	19,633
Fargo Fire Department Sales Tax	252,040	66,751	39,296	279,495
Gage Fire Department Sales Tax	150,365	66,640	40,290	176,715
Shattuck Fire Department Sales Tax	348,222	66,856	6,959	408,119
Extension Sales Tax	1,119,780	199,178	54,756	1,264,202
Free Fair Sales Tax	319,608	124,486	21,653	422,441
Restoration Sales Tax	512,300	149,384	21,221	640,463
PL911	400,075	66,924	128,084	338,915
PC911	120,520	23,726	-	144,246
EMS 2 Sales Tax	966,157	623,488	578,529	1,011,116
Combined Total - All County Funds	\$ 25,425,202	\$ 14,175,551	\$ 13,212,571	\$ 26,388,182

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

**ELLIS COUNTY
DESCRIPTION OF COUNTY FUNDS
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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 are for the purpose of constructing and maintaining county roads and bridges.

Board of Prisoners – accounts for the collection of monies from the Oklahoma Department of Corrections and disbursements are used for the operations of the Sheriff's department.

Resale Property – accounts for the collection of interest and penalties on delinquent taxes and the disposition of same 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.

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

Sheriff Service Fee – accounts for the collection and disbursements of Sheriff Process service fees as restricted by state statute.

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

Sheriff Forfeiture – accounts for money forfeited or money earned from the sale of items forfeited to the Sheriff and disbursements are for drug related programs.

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

Sheriff Dare – grant money expended to educate children on drug awareness.

RM&P Cash Account – accounts for records management and preservation fees collected for instruments filed with the County Clerk as restricted by state statute.

**ELLIS COUNTY
DESCRIPTION OF COUNTY FUNDS
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Senior Citizens Transport Sales Tax – accounts for sales tax collected and disbursed on behalf of the account as specified in the sales tax ballot.

Newman Memorial Hospital Sales Tax – accounts for sales tax collected and disbursed on behalf of the account as specified in the sales tax ballot.

Catesby Fire Department Sales Tax – accounts for sales tax collected and disbursed on behalf of the account as specified in the sales tax ballot.

Harmon Fire Department Sales Tax – accounts for sales tax collected and disbursed on behalf of the account as specified in the sales tax ballot.

Arnett Fire Department Sales Tax – accounts for sales tax collected and disbursed on behalf of the account as specified in the sales tax ballot.

Fargo Fire Department Sales Tax – accounts for sales tax collected and disbursed on behalf of the account as specified in the sales tax ballot.

Gage Fire Department Sales Tax – accounts for sales tax collected and disbursed on behalf of the account as specified in the sales tax ballot.

Shattuck Fire Department Sales Tax – accounts for sales tax collected and disbursed on behalf of the account as specified in the sales tax ballot.

Extension Sales Tax – accounts for sales tax collected and disbursed on behalf of the account as specified in the sales tax ballot.

Free Fair Sales Tax – accounts for sales tax collected and disbursed on behalf of the account as specified in the sales tax ballot.

Restoration Sales Tax – accounts for sales tax collected and disbursed on behalf of this account as specified in the sales tax ballot.

PL911 – On February 5, 2008, the Ellis County voters approved an E911 be established and that an emergency telephone fee not exceeding 15% or maximum allowed by the state be collected by the local service provider from all telephone customers located within the County for the purpose of funding the operations of the Ellis County E911 system.

PC911 – On February 5, 2008, the Ellis County voters approved a 911 wireless emergency telephone fee of the maximum amount required by law (currently \$0.50 per month, per wireless connection) be imposed upon each wireless connection in Ellis County as determined by the zip code of the subscriber, for the purpose of providing revenue to fund the costs of processing 911 emergency wireless calls.

**ELLIS COUNTY
DESCRIPTION OF COUNTY FUNDS
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

EMS 2 Sales Tax – accounts for sales tax collected and disbursed on behalf of the account as specified in the sales tax ballot.

ELLIS 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	\$ 11,500,585	\$ 11,500,585	\$ -
Less: Prior Year Outstanding Warrants	(178,719)	(178,719)	-
Less: Prior Year Encumbrances	-	-	-
Beginning Cash Balances, Budgetary Basis	<u>11,321,866</u>	<u>11,321,866</u>	<u>-</u>
Receipts:			
Ad Valorem Taxes	780,370	871,245	90,875
Charges for Services	-	67,186	67,186
Intergovernmental Revenues	-	817,983	817,983
Sales Tax	-	2,215,856	2,215,856
Miscellaneous Revenues	-	121,615	121,615
Total Receipts, Budgetary Basis	<u>780,370</u>	<u>4,093,885</u>	<u>3,313,515</u>
Expenditures:			
District Attorney	4,500	4,061	439
County Sheriff	891,573	876,646	14,927
County Treasurer	213,453	191,404	22,049
County Clerk	269,069	220,780	48,289
Court Clerk	116,837	110,488	6,349
County Assessor	129,642	124,421	5,221
Revaluation of Real Property	108,212	99,721	8,491
General Government	10,225,559	823,048	9,402,511
Excise-Equalization Board	3,700	1,786	1,914
County Election Board	91,608	80,606	11,002
Charity	1	-	1
Recording Account	40,000	-	40,000
County Audit Budget Account	8,082	908	7,174
Total Expenditures, Budgetary Basis	<u>12,102,236</u>	<u>2,533,869</u>	<u>9,568,367</u>
Excess of Receipts and Beginning Cash Balances Over Expenditures, Budgetary Basis	<u>\$ -</u>	12,881,882	<u>\$ 12,881,882</u>
Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances			
Add: Current Year Outstanding Warrants		<u>162,860</u>	
Ending Cash Balance		<u>\$ 13,044,742</u>	

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

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

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.

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

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.

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

FINDINGS AND RECOMMENDATIONS

Finding 2015-8 – Inadequate Internal Controls and Noncompliance Over County General Fund County Sales Tax (Repeat Finding)

Condition: Upon inquiry and observation of the record-keeping process of collecting and expending county sales tax specified for general operations, the following weakness was noted:

- The county sales tax designated for the County General Fund was accounted for in the general government account as a subaccount entitled “Contingency” in the County’s Estimate of Needs. The “Contingency” subaccount includes other sources of revenue for the County General Fund in addition to county sales tax. Thus, the county sales tax designated for general operations has not been discretely presented.

Cause of Condition: Policies and procedures with regard to county sales tax collections and disbursements processes have not been designed and implemented in accordance with the state statute.

Effect of Condition: This condition could result in unrecorded transactions, misstated financials reports, undetected errors, and misappropriation of funds for county sales tax, and resulted in noncompliance with state statute and nonconformity with the AG opinion concerning the county sales tax statute.

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

Recommendation: OSAI recommends the County implement policies and procedures to properly monitor the appropriation and disbursement of the county sales tax for the County General Fund in accordance with Title 68 O.S. § 1370E to allow for the sales tax balances and activity to be distinguished from other revenue sources activity within the County General Fund.

Management Response:

County Clerk: We will move this sales tax money from the Contingency Account into its separate account with County General Fund and name it County General Fund-Sales Tax for the 2016-2017 Budget year.

Criteria: 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 of sales tax calculations prior to being appropriated.

Title 68 O.S. § 1370E states in part, “Any sales tax which may be levied by a county shall be designated for a particular purpose...The county shall identify the purpose of the sales tax when it is presented to the voters pursuant to the provisions of subsection A of this section...the proceeds of any sales tax levied by a county shall be deposited in the general revenue or sales tax revolving fund of the county and shall be used only for the purpose for which such sales tax was designated....”

Further, AG opinion 2005 OK AG 23 dated 07/13/2005 states:

3. Proceeds of a county sales tax voted for a specific purpose but placed in the county’s general fund must be accounted for as a discrete fund, and any surplus not needed for the stated purpose during one fiscal year must be transferred to the county budget for the next fiscal year, for the same specified purpose.”

Additionally, AG opinion 2014 OK AG 15 dated 10/31/2014 states:

4. C. As the fiscal agent responsible for superintending the funds of Canadian County, the board of county commissioners is responsible to ensure that the sales tax proceeds are not intermingled and are used exclusively for the purpose expressed in the ballot measure and resolution. The board can direct that the funds be deposited in a dedicated revolving fund and not intermingled with other revenues. Okla. Const. art. X, § 19; 68 O.S. 2011, § 1370; 19 O.S. Supp. 2013, § 339; 19 O.S. 2011, § 345; *Cavin v. Bd. of County Comm’rs*, 1934 OK 245 ¶ 11, 33 P.2d 477, 479.

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

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

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

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

Conclusion: The County's internal controls provide reasonable assurance that expenditures, including payroll, were accurately reported in the accounting records. However, the financial operations did not comply with significant laws and regulations and internal controls over timesheet reporting of certain employees should be strengthened.

However, internal controls over timesheet reporting of certain employees should be strengthened.

FINDINGS AND RECOMMENDATIONS

Finding 2015-4 – Inadequate Internal Controls and Noncompliance Over the Disbursement and Payroll Processes

Condition: Upon inquiry of County officials and observation of the documentation of employee payroll, we determined the following:

- The Emergency Management Director and Safety Director did not submit timesheets to document hours worked, annual and sick leave accrued and used, and overtime worked or taken during the fiscal year.

The test of forty (40) purchase orders, reflected several exceptions with regard to Purchase Order #649 for \$45,546.13 for repairs.

- The date of service was prior to the date the purchase order was requisitioned.
- The purchase order was for equipment repairs, but was not on a blanket purchase order.
- The date on the invoice appears to have been altered to reflect a later date.

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Cause of Condition: Policies and procedures have not been designed and implemented to strengthen internal controls over the disbursement process (including payroll) and ensure compliance with state statutes. Further, the County has not designed and implemented internal controls with regard to time reporting for the Emergency Management Director or Safety Director.

Effect of Condition: These conditions resulted in noncompliance with state statutes and could result in wages being paid in incorrect amounts, misstated leave balances, undetected errors, and misappropriation of funds.

Recommendation: OSAI recommends timesheets be prepared and signed by the employees and the approving supervisor or official. The original timesheets should be forwarded to the County Clerk's office.

Additionally, OSAI recommends the following in accordance with 19 O.S. § 1501B and 62 O.S. § 310.8(2).

- County funds should be encumbered prior to the receipt of goods and/or services.
- Disbursements of county funds should be supported with accurate invoices and receiving reports.
- Repairs to County equipment should be obtained as defined by state statutes.

Management Response:

District 1 Commissioner: I will look into the exempt and non-exempt policy to determine any statutes that apply and require them to fill out and turn in timesheets. Subsequently, I am now signing off on timesheets. I will make sure to encumber funds prior to obtaining products or services and make sure that repairs are put on blanket purchase orders and make sure that vendors honor the estimated cost of repair.

District 2 and District 3 Commissioner: We have turned the timesheet issue over to the District Attorney and are waiting on a response. We will make sure to encumber funds prior to obtaining products or services and make sure that repairs are put on blanket purchase orders.

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

Title 19 O.S. § 1501(B) states, "each department of county government needing repairs to equipment, machinery or vehicles shall make estimates and requisition a purchase order from the county purchasing agent for repairs not in excess of Ten Thousand Dollars (\$10,000.00). Repairs in excess of Ten Thousand Dollars (\$10,000.00) shall be submitted on a blanket purchase order as provided in Section 310.8 of Title 62 of the Oklahoma Statutes."

Title 62 O.S. § 310.8(2) states, "the repair of county equipment, machinery or vehicles when the estimated cost of repairs is greater than Five Thousand Dollars (\$5,000.00). The maximum authorized amount of a blanket purchase order may be increased to cover

unforeseen expenses. A written explanation of said increase shall be attached to the blanket purchase order prior to payment.”

All Objectives:

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

Condition: Documentation of County-Wide internal controls has not been prepared.

Cause of Condition: Management was not aware of the need to prepare a formal written 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.

Recommendation: We recommend that the county document the County-Wide-controls in a written format. We further recommend that the documentation address the principles that cover Control Environment, Risk Assessment, Control Activities, Information and Communication, Control Activities, and Monitoring.

Management Response:

County Clerk: The County Officers will be reviewing the personnel policy and will address documentation of County-Wide controls when updating the personnel policy.

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.

Finding 2015-2 - Inadequate Internal Controls Over the Schedule of Expenditures of Federal Awards (Repeat Finding)

Condition: The County has not designed and implemented internal controls for the reporting of federal programs as required by OMB Circular A-133. During the review and reconciliation of the Schedule of Expenditures of Federal Awards (SEFA) as initially prepared by Ellis County officials, we determined the SEFA was not complete and accurate.

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The amounts reported on the SEFA for the beginning and ending balances were incorrect due to prior years inaccurate record keeping for federal funds reported.

Cause of Condition: Internal controls have not been designed and implemented to ensure those responsible for compiling the information recorded on the SEFA is accurate and complete with regard to amounts reported for the Federal Emergency Management Agency (FEMA) cash receipts and cash disbursements.

Effect of Condition: These conditions resulted in the inaccurate reporting of federal grant funds on the SEFA, and noncompliance with OMB A-133 Compliance supplement Subpart C, §__ .300 (b)(d).

Recommendation: OSAI recommends the County design and implement procedures to ensure all federal money is tracked and reported accurately on the Schedule of Expenditures of Federal Awards by the preparers of the report. We further recommend that the Schedule of Expenditures of Federal Awards be reconciled to accounting records, including miscellaneous receipts and project worksheets where applicable for FEMA cash receipts and cash disbursements.

Management Response:

County Clerk: I will ensure that I review all the required support documentation to verify the amounts reported on the SEFA.

District 1 Commissioner, District 2 Commissioner, and District 3 Commissioner: I will make sure that my District keeps accurate records for federal disasters and reporting purposes.

County Treasurer: I will make sure that the federal receipts reported on the SEFA are accurate amounts.

Criteria: OMB A-133, Subpart C, §__.300 (b)(d) reads as follows:

Subpart C – Auditees

§__.300 Auditee responsibilities.

The auditee shall:

(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal Awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of it Federal programs.

(d) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with §__.310.

Further, accountability and stewardship are overall goals of management in the accounting of funds. To help ensure a proper accounting of funds, an accurate record of federal expenditures should be maintained.

Other Item(s) Noted:

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

Finding 2015-3 - Inadequate Controls and Noncompliance Over the Collections Process for Depository Accounts (Repeat Finding)

Condition: As part of our audit of the collection process, we noted weaknesses in internal controls in the observation of official depository collections. These weaknesses were related to the officials in a nonreportable comment for fiscal year 2013 but have not been corrected.

- The County Assessor's office maintains a "money bag" in an unlocked file cabinet where daily collections are kept until Friday of each week. Once a week, one employee posts the receipts to a ledger sheet, prepares the deposit, reconciles the money in the "moneybag" to the receipts and takes the deposit to the County Treasurer's office. Additionally, the County Assessor's office does not maintain a cash drawer for the purpose of making change. They request the County Treasurer's office make change as necessary.
- The County Clerk's office maintains the collections received in one lockbox. All employees work from the same lockbox. The County Clerk's office does not maintain a cash drawer for the purpose of making change. They request the County Treasurer's office make change as necessary.
- The Court Clerk's office maintains the collections received in an unlocked drawer under the front counter. All employees work from the same drawer. The County Court Clerk's office does not maintain a cash drawer for the purpose of making change. They request the County Treasurer's office make change as necessary.
- The County Sheriff's office does not review or document evidence of a reconciliation of receipts to deposits made with the County Treasurer. The County Sheriff's office does not maintain a cash drawer for the purpose of making change. They request the County Treasurer's office make change as necessary.

Cause of Condition: Policies and procedures have not been designed and internal controls have not been implemented over the official depository collection process within several offices.

Effect of Condition: Inadequate safeguarding of assets and 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, clerical errors, or misappropriation of funds not being detected in a timely manner.

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Recommendation: OSAI recommends management be aware of these conditions and determine how to implement controls over the collection process to safeguard assets and to properly segregate duties. OSAI further recommends implementing compensating procedures to mitigate the risks involved with a concentration of duties. Compensating procedures would include separating key processes and/or critical functions of the office, and having management review and approve the accounting functions.

OSAI further recommends that each office deposit daily in accordance with 19 O.S. § 682.

Management Response:

County Assessor: Everyone in the office will maintain the collections for the receipts they issue locked and secure. I do not want the liability of maintaining cash drawers in my office. We will continue to get change from the Treasurer's office. We deposit if the collections are substantial for the day, otherwise we deposit with the Treasurer on Fridays.

County Clerk: I will have 2 employees assigned to issue receipts and take collections. Each employee will have their own locked cash drawer or bag to keep collections. I do not want the liability of a cash drawer for making change so I will continue to get change from the Treasurer's office.

Court Clerk: I will get a lock box for everyone in my office to keep secure the collections that they receipt.

County Sheriff: We will get two lock boxes and have two deputies responsible for issuing receipts and securing their collections for the receipts they issue. I do not want the liability of keeping a cash drawer for the purpose of making change. I will continue to get change through the Treasurer's office.

Auditor Response: It is recommended by OSAI that each employee maintain a separate change fund and drawer from which to make change as a safeguard against unrecorded transactions, misstated financial reports, clerical errors, or misappropriation of funds not being detected in a timely manner. Further, the state statute mandates that funds be deposited daily. We strongly recommend the officials design and implement internal controls over the collection process within each office.

Criteria: Accountability and stewardship are overall goals of management in 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.

Title 19 O.S. § 682, states in part "It shall be the duty of each and every county officer, county board, county commission and all members and employees of either thereof, to deposit daily in the official depository designated in § 681 of this title, all monies, checks drafts, orders, vouchers, funds, rentals, penalties, costs, proceeds of sale of property, fees, fines, forfeitures and public charges of any kind received or collected by virtue or under color of office, except that each county officer, county board, and county commission is hereby authorized to keep in the office, from this deposit, no more than one thousand five hundred dollars (\$1,500.00) to be used for their change needs. The amount so retained shall not be cumulative so that after each such deposit there shall not be on hand more

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than authorized by this section. A notation of the retention of this money shall be made in the proper accounting records.”

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

Ellis County
Board of County Commissioners
Ellis County Courthouse
100 S Washington
Arnett, Oklahoma 73832

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 Ellis 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 that reads "Gary A. Jones".

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

August 8, 2016

SCHEDULE OF FINDINGS AND RESPONSES

Finding 2015-5 - Inadequate Internal Controls Over Court Fund Disbursements (Repeat Finding)

Condition: Upon inquiry of the Court Clerk employees, we noted the several weaknesses with regard to internal controls related to the disbursement process over the Court Fund claims.

- One employee is responsible for:
 - Preparing the Court Fund claims,
 - Signing the claim for approval,
 - Entering the information into the OCIS system to prepare vouchers,
 - Printing and signing the Court Fund vouchers,
 - Taking vouchers to the County Treasurer to be registered, and
 - Distributing the vouchers to vendors.

- The receiving agent is not reviewing the goods/services for accuracy and is not signing the Court Fund claims as acknowledgment of goods/services.

Cause of Condition: Internal controls have not been designed and implemented over the Court Fund claims to safeguard the disbursement process.

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

Recommendation: OSAI recommends the Court Clerk design and implement procedures to ensure proper internal controls over the Court Fund disbursement process.

Further, the following accounting functions of the disbursement process should be adequately segregated:

- Preparation of claims,
- Initiation of payment,
- Printing and signing of vouchers, and
- Monthly reconciliation with the County Treasurer.

Also, the receiving agent should review goods/services for accuracy and sign as acknowledgment of goods/services on Court Fund claims.

Management Response:

Court Clerk: I will have my deputy prepare the claim. The judge will review, approve, and sign the claim. I will enter the claim into the system as I review it for accuracy and prompt the system to prepare and print the voucher. I will sign the claim and the voucher. My deputy will take the voucher to the Treasurer to be registered.

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

Finding 2015-6 – Inadequate Internal Controls and Noncompliance Over Inmate Funds for Telephone Cards (Repeat Finding)

Condition: Upon inquiry and observation of inmate funds maintained by the County Sheriff, we learned the County Sheriff does not maintain a Sheriff Commissary, but does maintain inmate funds for the purchase of phone cards. The following conditions were noted in relation to the safeguarding of inmate funds:

- Inmate cash is put in an envelope and placed in a lockbox.
- The key to the lockbox is accessible by all employees of the office.
- Sheriff employees remove cash from the inmate’s envelopes for the purchase of telephone cards, without documenting the transaction.
- One of the Sheriff’s employees posts the transaction to the OTIS system.

Cause of Condition: The County Sheriff has not established policies and procedures with regard to implementing internal controls over inmate funds used to purchase telephone cards.

Effect of Condition: Inmate funds are not adequately safeguarded and could result in misappropriation of funds.

Recommendation: OSAI recommends the County Sheriff implement a system of internal controls to provide reasonable assurance that inmate money is adequately secured, accounted for, and transactions are processed and documented as provided in 19 O.S. § 531A and 19 O.S. § 180.43.

Management Response:

County Sheriff: We have a policy that allows an inmate to have \$50.00 on their account for the purpose of buying phone cards. We have three designated employees that can issue phone cards to inmates. I will have one employee remove the inmate’s money from the envelope for the purchase of a phone card and enter the transaction into the OTIS system and have a second employee verify and sign-off on the transaction. I will secure the key to the lockbox.

Criteria: Title 19 O.S. § 531A states,

“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 this checking account and may write checks to the Sheriff’s Service Fee Account for

**ELLIS COUNTY, OKLAHOMA
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phone card purchases made by the inmate during his or her incarceration and to the inmate for unencumbered balances due the inmate upon his or her discharge.”

Additionally, Title 19 O.S. § 180.43E states,

“E. Each county sheriff may operate, or contract the operation of, a telephone system 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 Service Fee Account. Such funds may be expended according to the guidelines previously established for expenditures from the general fund. The claims for expenses shall be filed with and allowed by the board of county commissioners in the same manner as other claims.”

Finding 2015-7 – Inadequate Internal Controls and Noncompliance Over Fixed Assets Inventory (Repeat Finding)

Condition: Upon inquiry of county officers and employees and observation of fixed asset inventory documentation, we noted the following weaknesses:

- The documentation provided to us by the Commissioner's secretary did not provide audit evidence that a physical inspection of fixed assets was performed.
- The County Sheriff was unable to provide the auditor with audit evidence of a physical inventory being performed for the fiscal year.

Cause of Condition: Policies and procedures have not been designed and implemented for all county offices to ensure compliance with the state statutes regarding maintaining a fixed assets inventory.

Effect of Condition: These conditions resulted in noncompliance with the state statute. When fixed assets inventories are not monitored, opportunities for misuse or loss of equipment can occur.

Recommendation: OSAI recommends management implement internal controls to ensure compliance with 19 O.S. § 178.1, including the performing and documenting of an annual inventory of fixed assets.

Management Response:

District 1 Commissioner: I will perform an annual visual verification of inventory and maintain audit evidence.

District 2 Commissioner: Subsequently, I did perform an inventory verification and now maintain evidence.

District 3 Commissioner: I will provide audit evidence of annual fixed asset verification.

County Sheriff: I will perform an annual visual verification of inventory and maintain audit evidence.

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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.



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