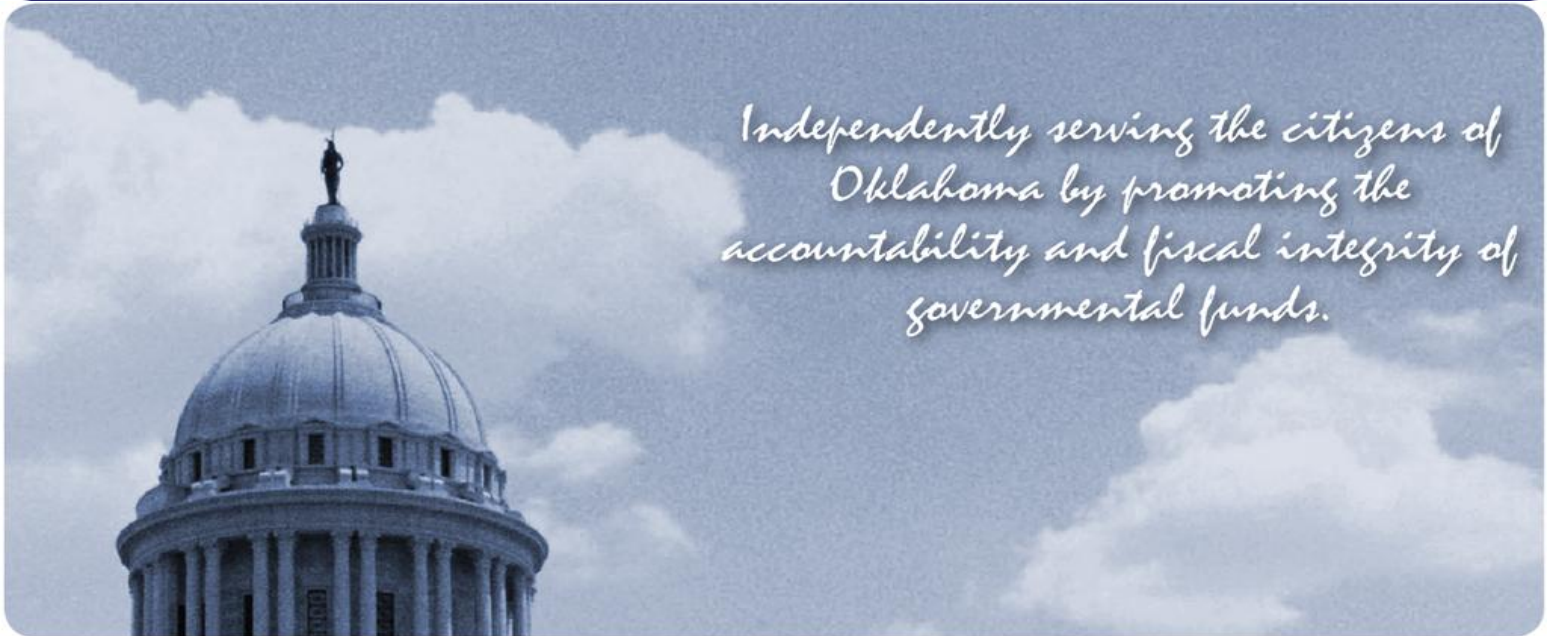


OPERATIONAL AUDIT

HARMON 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

**HARMON 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

September 27, 2016

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

Transmitted herewith is the audit report of Harmon 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

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

TABLE OF CONTENTS

OPERATIONAL AUDIT REPORT

Introductory Section (Unaudited)

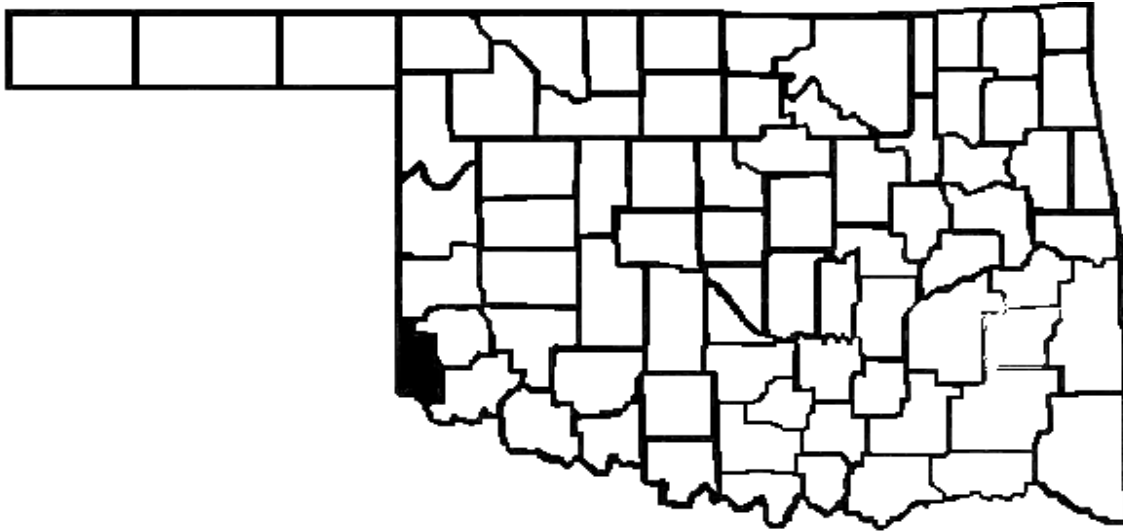
Statistical Information.....	ii
County Officials.....	iii
Ad Valorem Tax Distribution	iv
Sales Tax Distribution.....	v
Assessed Value of Property Trend Analysis	vi
County Payroll Expenditures Analysis	vii
County General Fund Analysis	viii
County Highway Fund Analysis	ix
Presentation of Apportionments, Disbursements, and Cash Balances of County Funds for Fiscal Year Ended June 30, 2015	1
Description of County Funds and Transfers	2
Comparative Schedule of Receipts, Expenditures, and Changes in Cash Balances—Budget and Actual—Budgetary Basis—General Fund	4
Comparative Schedule of Receipts, Expenditures, and Changes in Cash Balances—Budget and Actual—Budgetary Basis—County Health Department Fund.....	5
Purpose, Scope, and Sample Methodology.....	6
Objectives and Results of Operational Audit.....	7

REPORT ON STATUTORY COMPLIANCE - OTHER MATTERS

Statutory Report.....	16
Schedule of Findings and Responses	17

INTRODUCTORY SECTION
UNAUDITED INFORMATION ON PAGES ii - ix
PRESENTED FOR INFORMATIONAL PURPOSES ONLY

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



Harmon County, part of the original disputed Greer County claimed by both Texas and the United States, was created by special election in 1909 and named for Judson C. Harmon, a former governor of Ohio and alter U.S. attorney general. Located in extreme southwestern Oklahoma, the county is known today as the “Irrigation Center of the Southwest.” Hollis is the county seat.

The economy of the county is based largely on farming and ranching. The major manufacturing company is Western Fibers Insulation Plant, manufacturing insulation from recycled paper. Lake Hall provides fishing and recreational opportunities for the area.

Two Harmon County history books, Planning the Route and Planning the Route 2 are available. For more county information, contact the Harmon County Historical Society or call the county clerk’s office at 580/688-3658.

County Seat – Hollis

Area – 538.56 Square Miles

County Population – 2,798
(2014 est.)

Farms – 366

Land in Farms – 340,599 Acres

Primary Source: Oklahoma Almanac 2015-2016

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

Board of County Commissioners

District 1 – Gary Lewis
District 2 – Nicky Boone
District 3 – James Stegall

County Assessor

Kendra Tillman

County Clerk

Kara Gollihare

County Sheriff

Joe Johnson

County Treasurer

David Seigris

Court Clerk

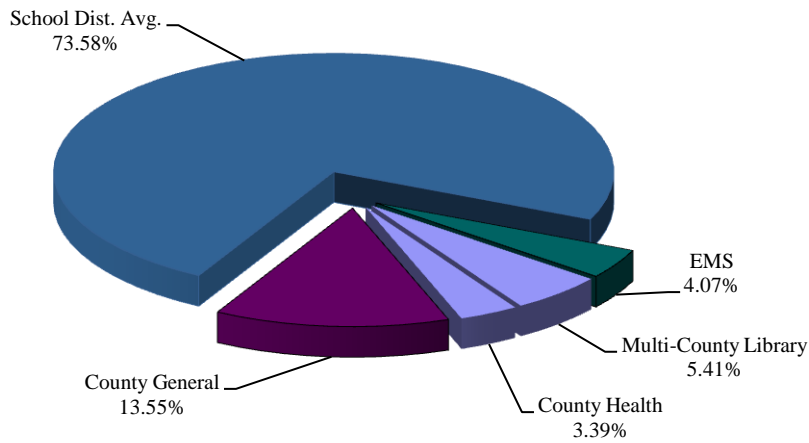
Stacy Macias

District Attorney

John Wampler

**HARMON 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.	Skg.	Career Tech.	Common	Total
County General	10.46								
County Health	2.62	Hollis	I-66	36.61	5.23	-	-	4.18	46.02
EMS	3.14	Beckham	C-51	35.00	5.00	7.00	-	4.18	51.18
Multi-County Library	4.18	Greer S.D.	C-1	39.46	5.64	10.48	-	4.18	59.76
		Jackson	JC-14	35.22	5.03	14.24	10.16	4.18	68.83
		Jackson	25J	35.63	5.09	3.15	10.16	4.18	58.21

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

Sales Tax

Sales Tax of 1984

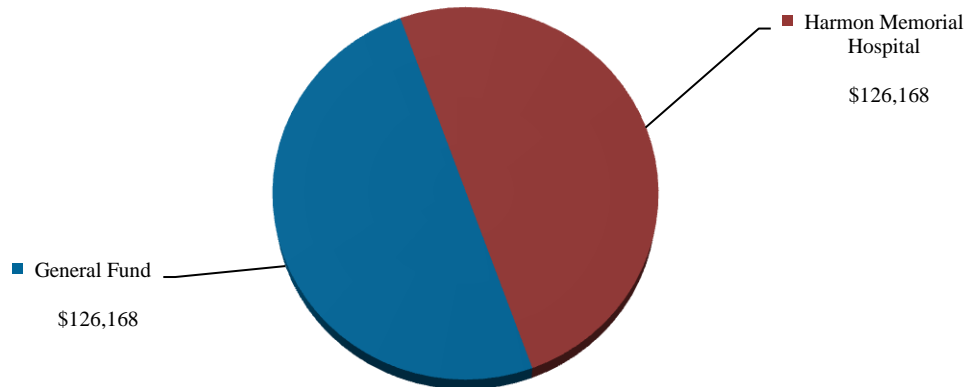
The citizens of Harmon County voted a one-cent (1%) sales tax to begin May 1, 1984, for an unlimited duration. The funds are to be used for general operations and county roads of the government of Harmon County, Oklahoma. These funds are deposited into the County General Fund.

Sales Tax of 1992

The citizens of Harmon County voted an additional one-cent (1%) sales tax effective October 1, 1993, for a limited life of twenty-five (25) years. The funds are to be used for the general operations of Harmon Memorial Hospital. These funds are deposited into the County General Fund and then disbursed to the Hospital.

All sales tax revenue is apportioned to the County General Fund and a remittance warrant is issued to the Harmon Memorial Hospital for the Hospital's portion of the sales tax.

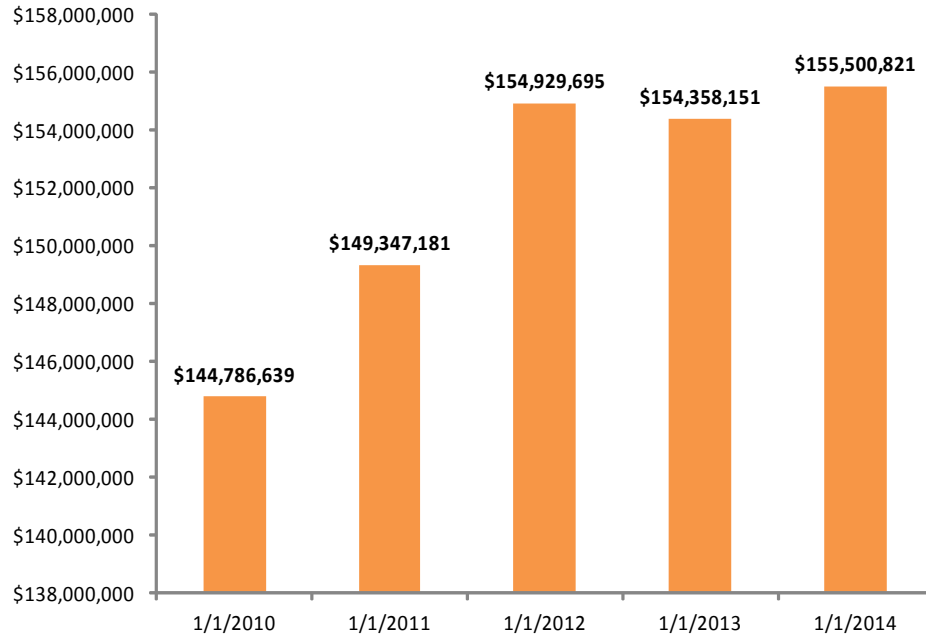
During the fiscal year, the County collected \$252,336 in total sales tax.



**HARMON 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	\$2,737,706	\$2,998,001	\$14,347,950	\$637,083	\$19,446,574	\$155,500,821
1/1/2013	\$2,663,296	\$3,220,445	\$14,168,420	\$662,075	\$19,390,086	\$154,358,151
1/1/2012	\$2,819,721	\$3,295,721	\$14,041,048	\$673,110	\$19,483,380	\$154,929,695
1/1/2011	\$2,435,787	\$2,840,106	\$13,994,353	\$689,891	\$18,580,355	\$149,347,181
1/1/2010	\$2,116,414	\$2,854,149	\$13,759,086	\$705,931	\$18,023,718	\$144,786,639

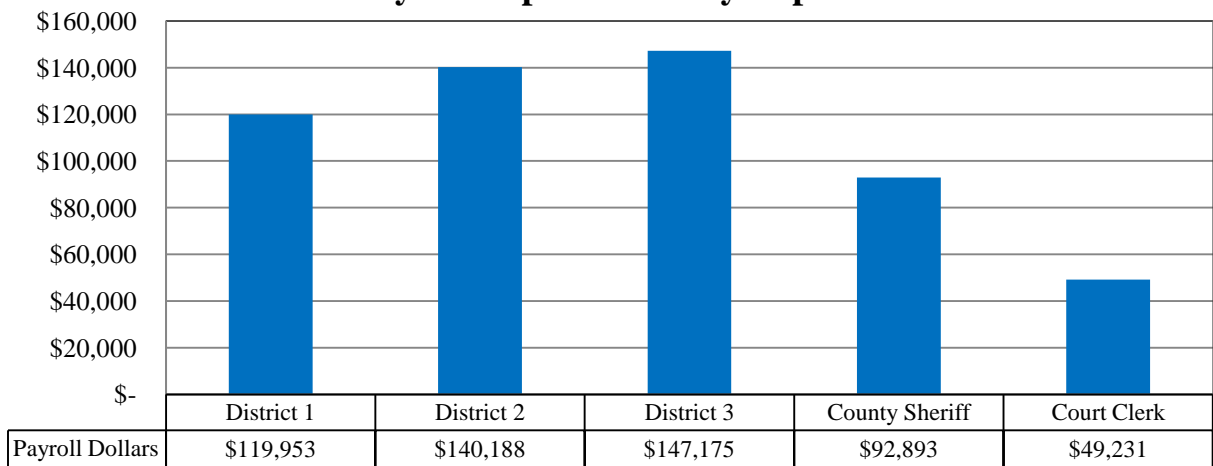
**Estimated
 Fair Market
 Value**



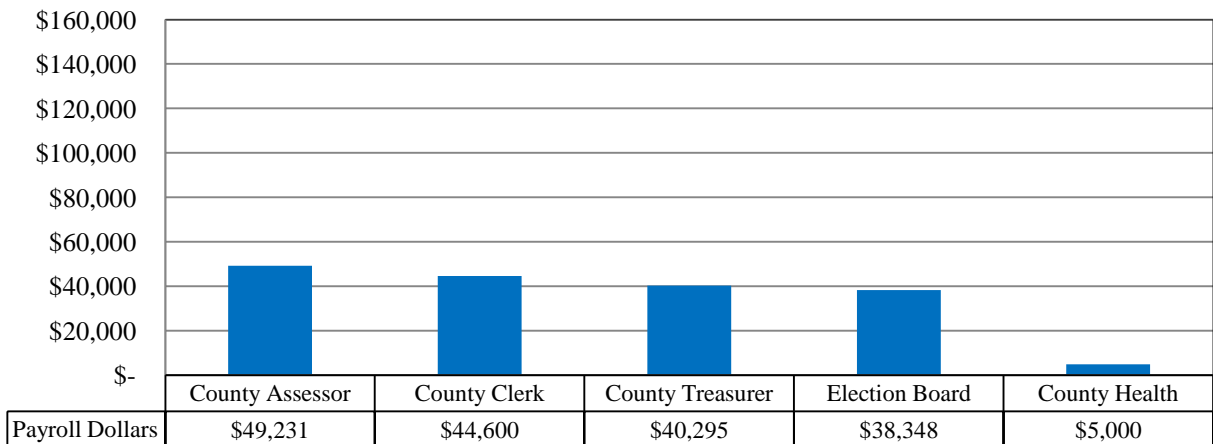
**HARMON COUNTY, OKLAHOMA
COUNTY PAYROLL EXPENDITURES ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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



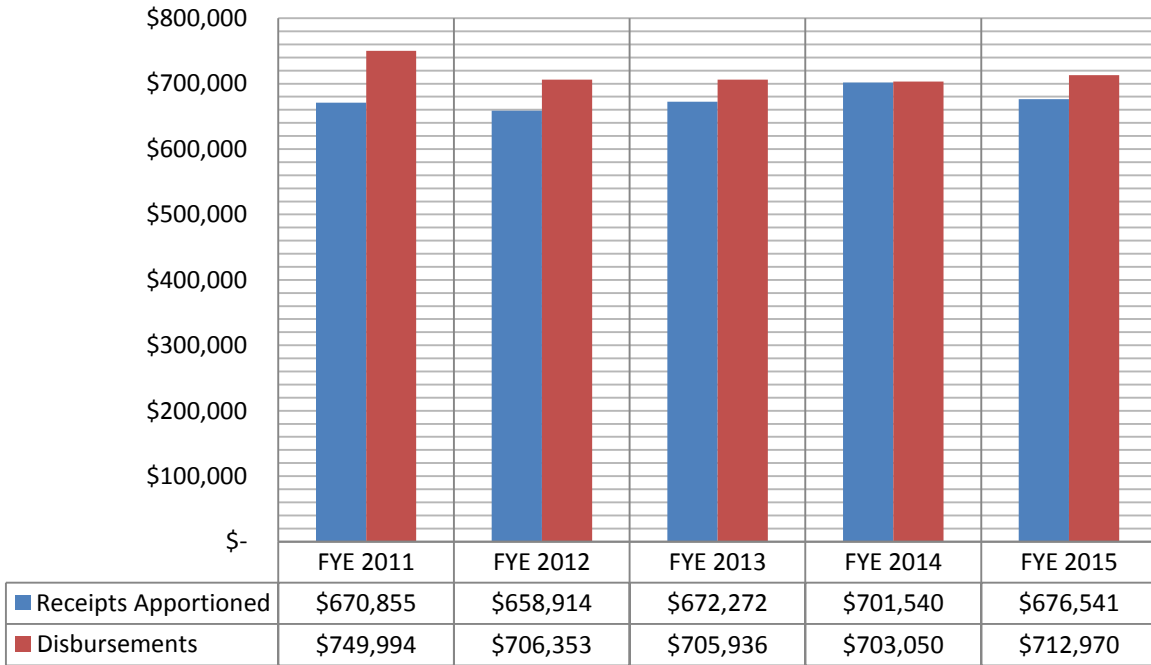
Payroll Expenditures by Department



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

County General Fund

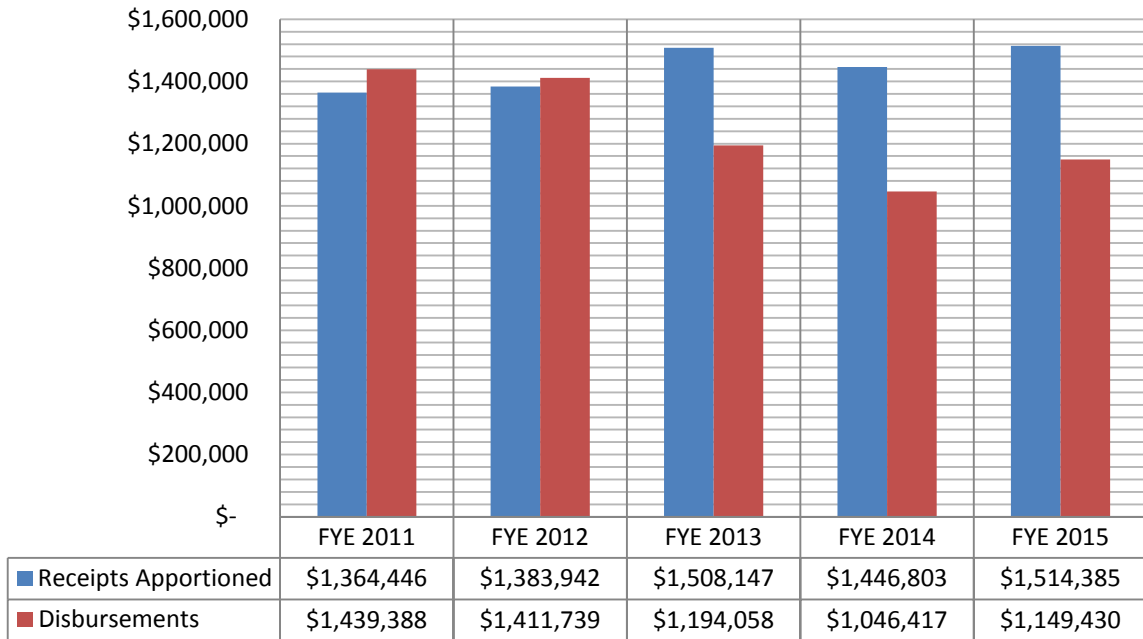
The Oklahoma Constitution and the Oklahoma Statutes authorize counties to create a County General Fund, which is the county’s primary source of operating revenue. The County General Fund is typically used for county employees’ salaries plus many expenses for county maintenance and operation. It also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



**HARMON 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.



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

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

	Beginning Cash Balances As Restated July 1, 2014	Receipts Apportioned	Transfers In	Transfers Out	Disbursements	Ending Cash Balances June 30, 2015
Combing Information:						
County Funds:						
County General Fund	\$ 409,781	\$ 676,541	\$ -	\$ -	\$ 712,970	\$ 373,352
County Highway Fund	4,092,740	1,514,385	75,972	-	1,149,430	4,533,667
County Bridge and Road Improvement						
Restricted Highway	1,026,036	192,787	-	-	74,732	1,144,091
County Health Department	37,331	124,346	-	-	89,266	72,411
REAP	-	79,142	-	-	79,142	-
Grants/FEMA	75,972	-	-	75,972	-	-
County Bridge and Road Improvement Primary Road	65,676	264	-	-	1,617	64,323
Resale Property	22,100	7,671	-	-	4,226	25,545
County Clerk Lien Fee	38,911	4,260	-	-	1,133	42,038
Treasurer Mortgage Tax Certification Fee	5,392	840	-	-	620	5,612
Assessor Visual Inspection	10,087	141	-	-	-	10,228
Assessor Revolving Fund	14,068	2,428	-	-	265	16,231
Sheriff Service Fee	106,448	42,647	-	-	35,873	113,222
Sheriff Drug Enforcement	309	-	-	-	-	309
Sheriff Department of Corrections	35,466	7,329	-	-	13,317	29,478
County Clerk Records Management Preservation Fee	20,457	3,754	-	-	8,103	16,108
Insurance Recovery	747	-	-	-	-	747
Cash Drawer	400	-	-	-	-	400
Combined Total - All County Funds	\$ 5,961,921	\$ 2,656,535	\$ 75,972	\$ 75,972	\$ 2,170,694	\$ 6,447,762

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

**HARMON COUNTY
DESCRIPTION OF COUNTY FUNDS AND TRANSFERS
OPERATIONAL AUDIT
FOR THE FISCAL YEAR 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 Fund – accounts for state, local and miscellaneous receipts and disbursements are for the purpose of constructing and maintaining county roads and bridges.

County Bridge and Road Improvement Restricted Highway – accounts for state receipts and disbursements are for the purpose of maintaining bridges and roads.

County Health Department – accounts for monies collected for charges for services and ad valorem taxes expended for operations of the county health department.

REAP – accounts for grant monies received and disbursed per the grant agreement for community projects.

Grants/FEMA – accounts for all grant monies received by Harmon County and disbursed per grant agreements.

County Bridge and Road Improvement Restricted Highway – accounts for state receipts and disbursements are for the purpose of maintaining bridges and road

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

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

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

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

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

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

Sheriff Service Fee – accounts for the collection of fees for the services provided by the County Sheriff's office and disbursed for the operations of the Sheriff's office.

Sheriff Drug Enforcement – accounts for the collection of drug forfeitures and disbursements are for the purpose of equipment and training.

Sheriff Department of Corrections – accounts for the collection of monies from the Oklahoma Department of Corrections and disbursements are for the purpose of housing inmates.

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

Insurance Recovery – accounts for monies received from insurance claims filed and funds received are used to repair or replace County owned property.

Cash Drawer – accounts for money used in the County Treasurer's office for the purpose of making change.

Transfers

During the fiscal year, \$75,972 was transferred from the Grants/FEMA fund to the County Highway Fund to close the Grants/FEMA fund upon the completion of FEMA projects.

HARMON 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	\$ 409,780	\$ 409,781	\$ 1
Less: Prior Year Outstanding Warrants	(22,352)	(22,352)	-
Beginning Cash Balances, Budgetary Basis	<u>387,428</u>	<u>387,429</u>	<u>1</u>
Receipts:			
Ad Valorem Taxes	184,919	202,438	17,519
Sales Tax	190,000	252,336	62,336
Charges for Services	11,000	14,093	3,093
Intergovernmental Revenues	79,000	147,070	68,070
Miscellaneous Revenues	45,000	60,604	15,604
Total Receipts, Budgetary Basis	<u>509,919</u>	<u>676,541</u>	<u>166,622</u>
Expenditures:			
District Attorney County	250	250	-
County Sheriff	122,810	119,601	3,209
County Treasurer	62,709	59,849	2,860
OSU Extension	15,931	12,370	3,561
County Clerk	54,097	52,588	1,509
Court Clerk	50,481	49,538	943
County Assessor	58,482	56,121	2,361
Revaluation of Real Property	15,500	3,499	12,001
Juvenile Shelter Bureau	5,000	261	4,739
General Government	151,516	61,429	90,087
Excise-Equalization Board	2,300	1,813	487
County Election Board	43,940	41,727	2,213
Insurance - Benefits	142,680	133,737	8,943
Charity	1	-	1
County Audit Budget Account	3,050	3,050	-
Free Fair Budget Account	2,600	2,483	117
County Hospital Budget Account	150,000	126,168	23,832
Building Maintenance Account	16,000	-	16,000
Total Expenditures, Budgetary Basis	<u>897,347</u>	<u>724,484</u>	<u>172,863</u>
Excess of Receipts and Beginning Cash			
Balances Over Expenditures, Budgetary Basis	<u>\$ -</u>	339,486	<u>\$ 339,486</u>
Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances			
Add: Current Year Outstanding Warrants		33,866	
Ending Cash Balance		<u>\$ 373,352</u>	

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

**HARMON 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	\$ 37,331	\$ 37,331	\$ -
Less: Prior Year Outstanding Warrants	(821)	(821)	-
Beginning Cash Balances, Budgetary Basis	36,510	36,510	-
Receipts:			
Ad Valorem Taxes	46,318	50,706	4,388
Intergovernmental Revenues	73,629	66,796	(6,833)
Miscellaneous Revenues	-	6,844	6,844
Total Receipts, Budgetary Basis	119,947	124,346	4,399
Expenditures:			
County Health Budget Account	156,457	90,849	65,608
Total Expenditures, Budgetary Basis	156,457	90,849	65,608
Excess of Receipts and Beginning Cash Balances Over Expenditures, Budgetary Basis	\$ -	70,007	\$ 70,007
Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances			
Add: Current Year Outstanding Warrants		2,404	
Ending Cash Balance		\$ 72,411	

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

**HARMON 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.

**HARMON 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. However, we noted some deficiencies in internal controls regarding the financial reporting process.

FINDINGS AND RECOMMENDATIONS

Finding 2015-2 - Inadequate Internal Controls Over the Collection Process (Repeat Finding)

Condition: Based upon inquiry of the County Treasurer and deputy, and through observation of the collection and deposit process for the County Treasurer's office, the following deficiencies were noted:

- The County Treasurer and the deputy perform the duties of issuing receipts, preparing deposits, making deposits with the financial institution, and reconciling bank statements. Further, documentation did not exist to support a review of these processes.
- Bank reconciliations were not performed for one bank account and documentation did not exist to support reviews over bank reconciliations for all accounts.

Cause of Condition: Policies and procedures have not been designed and implemented by the County Treasurer to ensure duties over the collection process are adequately segregated. Further, procedures have not been designed and implemented to maintain documentation supporting review processes over the input of certified tax levies and the review of monthly bank reconciliations of all bank accounts.

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, misstated financial reports, clerical errors, or misappropriation of funds not being detected in a timely manner.

Recommendation: The Oklahoma State Auditor & Inspector's Office (OSAI) recommends management be aware of this condition and implement internal controls over the collection process. In the event that segregation of duties is not possible due to limited personnel, OSAI recommends implementing compensating internal controls to mitigate the risks involved with a concentration of duties. Compensating internal controls would include separating key processes and/or critical functions of the office, and having management review and approve accounting functions.

Management Response:

County Treasurer: We have started segregating duties within our office in the 2016 fiscal year. We will also work towards documenting our review processes and ensuring reconciliations are completed.

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

Criteria: Effective internal controls require that key functions within a process be adequately segregated to allow for prevention and detection of errors and possible misappropriation of funds. 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 transactions.

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 2015-10 – Inadequate Internal Controls and Noncompliance Over the Disbursements and Appropriation of County Sales Tax Collections (Repeat Finding)

Condition: Upon inquiry and observation of the recordkeeping process of collecting and expending county sales tax, the following was noted:

- The county sales tax was deposited into the County General Fund as specified by 68 O.S. § 1370E and identified as such as a revenue source. However, the funds were not presented in a separate account within the County General Fund and therefore, specific expenditures made with sales tax funds could not be identified.
- The county sales tax collections for the Harmon County Memorial Hospital, is expended by purchase orders; however, adequate documentation to support the expenditures are not maintained or attached. Therefore, sales tax expenditures could not be tested, to ensure that expenditures are in accordance to the purposes specified by the ballot and to document oversight by the Board of County Commissioners (BOCC).
- Further, there is no evidence of independent oversight of the calculation of sales tax collections presented for appropriation by the County Treasurer or the County Clerk.

Cause of Condition: Policies and procedures have not been designed and implemented to have someone review the calculation of sales tax apportionments for accuracy and to ensure compliance with the sales tax ballot. Further, procedures have not been designed to ensure compliance with 68 O.S. § 1370E.

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

Effect of Condition: These conditions resulted in noncompliance with state statute and could result in unrecorded transactions, misstated financial reports, undetected errors, and misappropriation of funds. Further, sales tax may not be apportioned in accordance with the sales tax ballot.

Recommendation: OSAI recommends that the County sales tax apportioned to the County General Fund be accounted for in separate account so as to discretely present the expenditures. In addition, the sales tax should be expended in such a manner to provide assurance that expenditures are in accordance to the purposes specified by the ballot as outlined by 68 O.S. § 1370E.

Further, OSAI recommends that sales tax collections disbursed to the Harmon County Memorial Hospital by purchase order have adequate documentation attached for the purpose of review by the BOCC.

OSAI also recommends that an employee recalculate the apportionment of sales tax collections presented for appropriation by the County Treasurer to the County Clerk.

Management Response:

Chairman of the BOCC: We have corrected this condition in the 2016 fiscal year by the establishment of the General Sales Tax fund.

County Clerk: We will document our recalculation of the sales tax for accuracy to ensure compliance with the sales tax ballot. We will request the Hospital provide adequate documentation with purchase orders for sales tax expenditures.

Criteria: Title 68 O.S. § 1370E, requires the sales tax collections be deposited in the general revenue or sales tax revolving fund of the County and be used only for the purpose for which 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.

**HARMON 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. However, internal controls regarding the application of certified levies to the tax rolls and the apportionment and distribution of ad valorem tax collections should be strengthened.

FINDINGS AND RECOMMENDATIONS

Finding 2015- 12 – Inadequate Internal Controls Over Certified Ad Valorem Tax Levies and Ad Valorem Tax Apportionment

Condition: Upon inquiry and observation of the ad valorem tax apportionment process, the following was noted:

- The County Treasurer manually inputs the certified ad valorem tax levies into the system and the Assessor verifies the levies; however no evidence of independent oversight of the accuracy of this process is maintained.
- The County Treasurer manually inputs the monthly ad valorem tax apportionments into the system with no evidence of independent oversight of the accuracy of this process.

Cause of Condition: Policies and procedures have not been designed and implemented to document and retain evidence of procedures performed to ensure ad valorem tax levies are accurately entered into the system, and ad valorem tax apportionments are distributed correctly.

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

Recommendation: OSAI recommends that the County Treasurer implement a system of internal controls to provide reasonable assurance that certified ad valorem tax levies are reviewed by someone independent of the process and the ad valorem tax collections are apportioned and distributed correctly among the different funds to which they belong. Such controls may include independent verification of accuracy of reports.

Management Response:

County Treasurer: When new ad valorem taxes are entered into the computer, someone else will initial the certified levies. Also, documentation of the independent review will be maintained that ad valorem taxes are apportioned and distributed correctly among the different funds.

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

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 did not provide reasonable assurance that expenditures (including payroll) were accurately reported in the accounting records and financial operations complied with significant laws and regulations.

FINDINGS AND RECOMMENDATIONS

Finding 2015- 3 – Inadequate Internal Controls and Noncompliance over the Disbursement and Payroll Process (Repeat Finding)

Condition: Upon inquiry and observation of the disbursement process, we noted the following:

- The County Clerk maintains physical control of not only her signature stamp but those of the Sheriff and the District 3 County Commissioner.
- The duties of processing payroll are not adequately segregated within the office of the County Clerk. The County Clerk enrolls new hires, makes payroll changes, maintains personnel files, and prepares state and federal tax reports.

Further, the test of forty (40) purchase orders reflected the following:

- One (1) instance was noted in which the disbursement was not approved by the County Clerk/Deputy.
- One (1) instance was noted in which the disbursement was not reviewed and authorized by the County Clerk/Deputy.
- Nine (9) disbursements were not supported by adequate documentation.
- Ten (10) disbursements were not encumbered prior to receiving goods or services.

Cause of Condition: Policies and procedures have not been designed and implemented over the disbursement process to strengthen internal controls and ensure compliance with state statutes.

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

Effect of Condition: These conditions resulted in noncompliance with state statutes. Further, these conditions resulted in the County Clerk, Deputy County Clerk, and the Secretary to the BOCC having access to signature stamps.

Recommendation: OSAI recommends the following with regards to disbursement processes:

- Key accounting functions over payroll disbursements should be adequately segregated as to posting new hires and/or making payroll changes to the payroll system, access to personnel files, and preparing state and federal reports.
- Signature stamps should be adequately safeguarded from unauthorized use and be utilized only by the official to whom it belongs.
- Disbursements should be approved by the County Clerk/Deputy in accordance with 19 O.S. § 1505 (D)(1)(C).
- Disbursements should be encumbered prior to the receipt of goods and/or services in accordance with 19 O.S. § 1505(C)(3).
- Disbursements of County funds should be supported with invoices and receiving reports in accordance with 19 O.S. § 1505(E).

Management Response:

Chairman of the BOCC: We will work to make sure all disbursements have proper approval, reviewed and authorized, encumbered prior to the goods and services being received, and have adequate supporting documentation.

County Clerk: I will destroy District 3 Commissioners' signature stamp as he has passed away. Also, I will speak with the Sheriff about having possession of his own signature stamp and I will make sure that my personal stamp is locked in the cabinet. We will work to make sure all disbursements have proper approval, reviewed and authorized, encumbered prior to the goods and services begin received, and have adequate supporting documentation. Further, I will work to segregate the duties over payroll claims and I will provide documentation of the review over those payroll claims.

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

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

Further, Title 19 O.S. § 1505 prescribes the procedures established for the requisition, purchase, lease-purchase, rental, and receipt of supplies, material, and equipment for maintenance, operation, and capital expenditures of county government.

All Objectives:

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

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

Condition: When assessing the county-wide controls the following weaknesses were noted:

- County management has not designed and implemented internal controls regarding Control Environment, Risk Assessment, and Monitoring.

Cause of Condition: Policies and procedures have not been designed to address risks of the County, implement proper controls, or monitor potential impacts on the operations and reporting of the County.

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

Recommendation: OSAI recommends that the County design procedures to identify and address risks. OSAI also recommends that the County design monitoring procedures to assess the quality of performance over time. These procedures should be written policies and procedures and could be included in the County's policies and procedures handbook. Further, OSAI recommends the County design procedures to document their Internal Control Framework.

Management Response:

Board of County Commissioners: The Board of County Commissioners will work towards assessing and identifying risks to design written policies and procedures regarding county-wide controls.

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

Finding 2015-9 – Inadequate Internal Controls Over Information Technology – County Treasurer

Condition: Upon review of the computer systems within the County Treasurer’s office, it was noted that the office does not have any mitigating controls to reduce the high risk associated with the lack of adequate internal controls within the County’s financial/bookkeeping software. The specifics of the condition has been sanitized to protect the County pursuant to the provision of 51 O.S. § 24A.28.

Cause of Condition: The County Treasurer’s financial/bookkeeping software system has not been updated.

Effect of Condition: This condition could result in compromised security for computers, computer programs, and data.

Recommendation: OSAI recommends the County comply with best practice presented in the criteria. In addition, OSAI recommends software updates be implemented upon availability. The specifics of the recommendation has been sanitized to protect the County pursuant to the provision of 51 O.S. § 24A.28.

Management Response:

County Treasurer: We are in the process of changing our financial/bookkeeping software program.

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

Other Item(s) Noted:

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

Finding 2015-4 – Noncompliance Over the Oklahoma Temporary Motorist Liability Plan

Condition: The Harmon County Sheriff stated that he does not participate in the Oklahoma Temporary Motorist Liability Plan; however, participation in this plan is not optional. Further, one tag was collected, paid for by the customer, and deposited into the Sheriff’s account; however, the fees have never been disbursed to the County Sheriff’s Association as prescribed by law.

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

Cause of Condition: Policies and procedures have not been designed and implemented to ensure when a tag is brought into the Sheriff's office that it is logged and properly recorded. Further, there are no policies and procedures in place to ensure collections are properly disbursed.

Effect of Condition: As a result of the condition, proper information is not submitted to the Oklahoma Tax Commission, fees may not be properly disbursed to the appropriate seizing agencies, and drivers may not be covered under the group insurance policy.

Recommendation: OSAI recommends the Harmon County Sheriff incorporate internal controls over the collection of license plates and ensure the fees are properly collected, deposited, and disbursed in accordance with 47 O.S. § 7-606.

Management Response:

County Sheriff: We will research to fix the problem.

Criteria: Title 47 O.S. § 7-606 states in part, "... (1) After the issuance of the citation, the law enforcement agency issuing the citation shall, within three (3) days, deposit the license plate and deliver a copy of the citation to the county sheriff's office of the county where the violation has occurred. The county sheriff's office shall provide the plan administrator with the seized license plate number. The plan administrator shall maintain a database including all seized license plates and shall submit such information to the Oklahoma Tax Commission."

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

Harmon County
Board of County Commissioners
Harmon County Courthouse
Hollis, Oklahoma 73550

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 Harmon 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

September 21, 2016

**HARMON COUNTY, OKLAHOMA
STATUTORY REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

SCHEDULE OF FINDINGS AND RESPONSES

Finding: 2015-6- Inadequate Internal Controls and Noncompliance over Fixed Assets and Consumable Inventories

Condition: Upon inquiry and observation of fixed assets inventory, we noted the following:

County Treasurer:

- One person has the responsibility of updating the inventory, as well as performing the annual count of fixed assets.

County Assessor:

- One person has the responsibility of updating the inventory, as well as performing the annual count of fixed assets.
- A review of fixed assets reflected one (1) of the eight (8) items selected was not properly marked with a county identification number.

County Sheriff:

- An annual count of fixed assets was not performed for the office of the County Sheriff.
- A review of fixed assets reflected two (2) of the eight (8) items selected were not properly marked with a county identification number.

Court Clerk:

- One person has the responsibility of updating the inventory, as well as performing the annual count of fixed assets.

County Commissioner District 1:

- A review of fixed assets reflected one (1) of the eight (8) items selected was not properly marked as “Property of Harmon County.”

County Commissioner District 3:

- One person has the responsibility of updating the inventory, as well as performing the annual count of fixed assets.
- A review of fixed assets reflected two (2) of the eight (8) items selected were not properly marked as “Property of Harmon County.”

Upon inquiry and observation of consumable inventory items for District 1, 2 and 3, we noted the following:

County Commissioner District 1:

- All consumable inventory items purchased in lots of \$500 or more are not documented on stock cards.
- Documentation was not maintained to support monthly consumable inventory counts.

**HARMON COUNTY, OKLAHOMA
STATUTORY REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

- Fuel reconciliations were not performed; therefore, monitoring with regards to the receiving of and/or use of fuel was not present.

County Commissioner District 2:

- All consumable inventory items purchased in lots of \$500 or more are not documented on stock cards.
- Documentation was not maintained to support monthly consumable inventory counts.
- Fuel reconciliations were not performed; therefore, monitoring with regard to the receiving of and/or use of fuel was not present.

County Commissioner District 3:

- All consumable inventory items purchased in lots of \$500 or more are not documented on stock cards.
- Consumable inventory stock cards are only updated on a monthly basis instead of at the time of receipt and/or transfer of consumable inventory items.
- Fuel reconciliations were not performed; therefore, monitoring with regards to the receiving of and/or use of fuel was not present.

Cause of Condition: Policies and procedures have not been designed and implemented by county offices/departments to ensure the accurate reporting of fixed assets and consumable inventory items, as well as adequate procedures to ensure equipment is properly identified in accordance with state statutes.

Effect of Condition: These conditions resulted in noncompliance with state statutes. Opportunities for loss and misappropriation of county assets may be more likely to occur when the County does not have procedures in place to account for fixed assets. Additionally, when consumable inventory items are not adequately documented and inadequate segregation of duties exist, the opportunity for the misappropriation and undetected errors could result.

Recommendation: OSAI recommends management implement internal controls to ensure compliance with 19 O.S. § 178.1, 19 O.S. § 1502(A)(1), 19 O.S. § 1502(B)(1), and 69 O.S. § 645 by maintaining inventory records and marking assets with county identification numbers and “Property of.” 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.

OSAI also recommends the performing and documenting of a monthly consumable inventory count. Counts should be initialed and dated by the employee performing the physical count and retained to show the design and implementation of internal controls by the County Commissioners. Additionally, the key functions of receiving duties and consumable inventory control duties should be performed by separate employees in order to effectively segregate those duties.

**HARMON COUNTY, OKLAHOMA
STATUTORY REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Management Response:

County Sheriff: We will maintain documentation of the periodic physical inventory counts and file a copy with the County Clerk. Further, we will work to make sure that all inventories have proper identification.

County Treasurer: We will work to segregate the annual review duty and inventory control duty.

County Assessor: We will work to segregate the annual review duty and inventory control duty. Further, we will work to make sure all inventories have proper identification.

County Court Clerk: We will work to segregate the annual review duty and inventory control duty.

County Commissioner District 1: We will work to maintain documentation of monthly consumable inventory checks. Further, we will begin performing fuel reconciliations and we will keep record of all consumable inventory items.

County Commissioner District 2: We will work to maintain documentation of monthly consumable inventory checks. Further, we will begin performing fuel reconciliations and we will keep record of all consumable inventory items.

County Commissioner District 3: We will work to segregate the annual review duty and inventory control duty. Further, we will begin performing fuel reconciliations, updating stock records on a daily basis, and we will keep record of all consumable inventory items.

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. § 178.1 requires the board of county commissioners in each county of this state to take or cause to be taken, an inventory of all working tools, apparatus, machinery and equipment.

Title 19 O.S. § 1502(A)(1), which 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 69 O.S. § 645 requires that county-owned rented, or leased road machinery or equipment be clearly and visibly marked "Property Of."

**HARMON COUNTY, OKLAHOMA
STATUTORY REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Finding 2015-7 – Inadequate Internal Controls and Noncompliance Over the Court Clerk’s Collection and Deposit Process, and Court Fund Expenditures (Repeat Finding)

Condition: Upon inquiry of the Court Clerk and Deputy, we noted the following deficiencies in the collection and deposit process:

- One employee removes collections from the drawer at the end of the day and the next morning the employee will print the deposit report and reconcile the report to cash and checks. This employee also takes the deposit report and cash and checks to the County Treasurer to be deposited.
- All employees use the same log-in password when using the computer/workstation at the counter.
- There was no documentation maintained that monthly reconciliations between the Court Clerk official depository account and the County Treasurer were performed and reviewed.

With regard to the expenditure process of the Court Fund, the test of twenty-five (25) claims reflected the following:

- The Court Clerk prepares and approves the Court Fund claims, prepares the vouchers, initials the vouchers, takes the vouchers to the County Treasurer’s office for registration, and distributes the vouchers.
- Nine (9) vouchers did not have invoices attached to support the disbursement.
- Fourteen (14) vouchers did not have receiving reports.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure proper segregation of duties over the collection and deposit process as well as the Court Fund expenditure process and compliance with the state statutes.

Effect of Condition: These conditions resulted in noncompliance with state statute. Further, lack of internal controls 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, misstated financial reports, clerical errors, or misappropriation of funds not being detected in a timely manner.

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 recommends the Court Clerk design and implement procedures to ensure proper internal controls over the court fund expenditure process in compliance with 20 O.S. § 1304.

Management Response:

Court Clerk: Sometimes there is only one person working in the office when the other person is in the courtroom. We will start using individual passwords to log into the system and we will log out each time.

**HARMON COUNTY, OKLAHOMA
STATUTORY REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

We will include documentation of a monthly reconciliation over Official Depository. We will try to get attorneys to send more documentation with the Court Fund claims.

Criteria: Accountability and stewardship are overall goals of management in accounting of funds. Internal controls over safeguarding of assets constitute a process, affected by the entity's governing body, management, and other personnel, designed to provide reasonable assurance regarding the prevention and detection of error and/or fraud and to safeguard an entity's assets from loss, damage, or misappropriation.

Title 20 O.S. § 1304 provides guidance with regard to the expenditure process for the Court Fund.



OFFICE OF THE STATE AUDITOR & INSPECTOR
2300 N. LINCOLN BOULEVARD, ROOM 100
OKLAHOMA CITY, OK 73105-4896

WWW.SAI.OK.GOV