

OPERATIONAL AUDIT

# HUGHES 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

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

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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](http://www.sai.ok.gov)) and in the Oklahoma Department of Libraries Publications Clearinghouse Digital Collection, pursuant to 74 O.S. § 3105.B.



# Oklahoma State Auditor & Inspector

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

June 24, 2016

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

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

The goal of the State Auditor and Inspector is to promote accountability and fiscal integrity in state and local government. Maintaining our independence as we provide this service to the taxpayers of Oklahoma is of utmost importance.

We wish to take this opportunity to express our appreciation for the assistance and cooperation extended to our office during our engagement.

Sincerely,

A handwritten signature in blue ink, reading "Gary A. Jones".

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

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

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**REPORT ON STATUTORY COMPLIANCE - OTHER MATTERS**

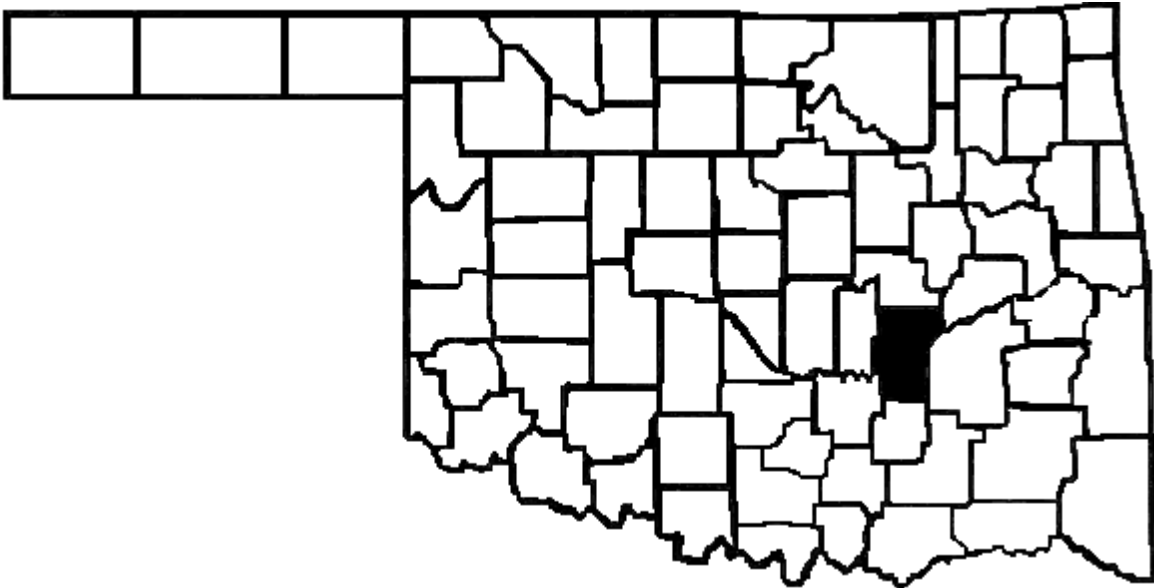
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**PRESENTED FOR INFORMATIONAL PURPOSES ONLY**

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

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Located in southeastern Oklahoma, Hughes County was created at statehood and named for W.C. Hughes, a member of the Oklahoma Constitutional Convention. Holdenville is the county seat.

Holdenville and Wetumka lakes provide recreational opportunities for the county, while other areas are available for hunting deer, dove, quail, duck, rabbit, and squirrel.

Annual events of interest include the IRA Rodeo and the Hog Wild Days in Holdenville, Sorghum Days in Wewoka, and Suckers Days in Wetumka.

The Hughes County Historical Society in Holdenville serves the area. For more information, call the county clerk's office at 405/379-5487.

County Seat – Holdenville

Area – 814.64 Square Miles

County Population – 13,806  
(2014 est.)

Farms – 921

Land in Farms – 436,121 Acres

Primary Source: Oklahoma Almanac 2015-2016

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

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**Board of County Commissioners**

District 1 – Gary Phillips  
District 2 – Gary Gray  
District 3 – Joe Moore

**County Assessor**

Jamie Foster

**County Clerk**

Carolyn Preble

**County Sheriff**

Marcia Maxwell

**County Treasurer**

Dawn Lindsey

**Court Clerk**

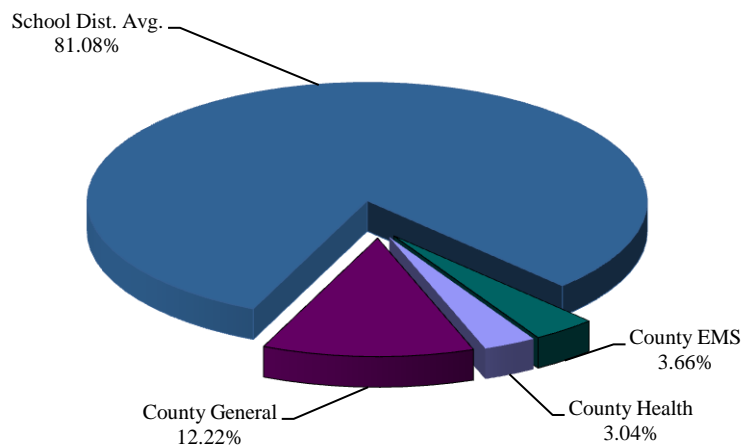
Patty Tilley

**District Attorney**

Chris Ross

**HUGHES 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					
							Career		
County General	10.39			Gen.	Bldg.	Skg.	Tech	Common	Total
County EMS	3.11	Graham-Dustin	J-54	36.80	5.26	4.49	5.23	4.15	55.93
County Health	2.59	Stuart	I-54	35.46	5.06	12.68	12.32	4.15	69.67
		Moss	I-1	36.15	5.26	16.99	5.23	4.15	67.78
		Wetumka	I-5	36.41	5.20	19.91	5.23	4.15	70.90
		Holdenville	I-35	37.20	5.31	2.62	5.23	4.15	54.51
		Calvin	I-48	36.58	5.22	2.75	12.32	4.15	61.02
		Allen	J-1	35.98	5.14	7.08	12.29	4.15	64.64
		Wewoka	J-2	47.60	6.80	17.93	15.90	4.15	92.38
		Butner	J-15	37.09	5.30	4.70	15.90	4.15	67.14
		Sasakwa	J-10	36.83	5.26	16.11	12.29	4.15	74.64
		Weleetka	J-31	35.62	5.09	29.61	5.23	4.15	79.70



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

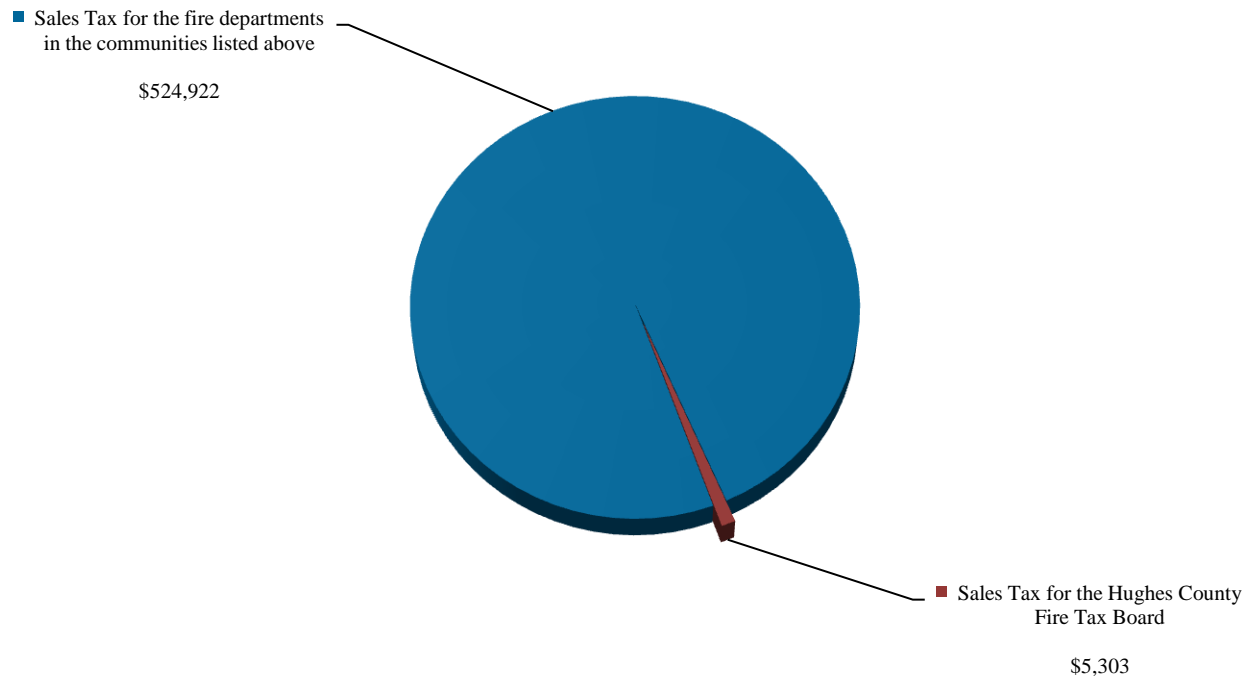
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## Sales Tax

### Sales Tax of July 27, 2010

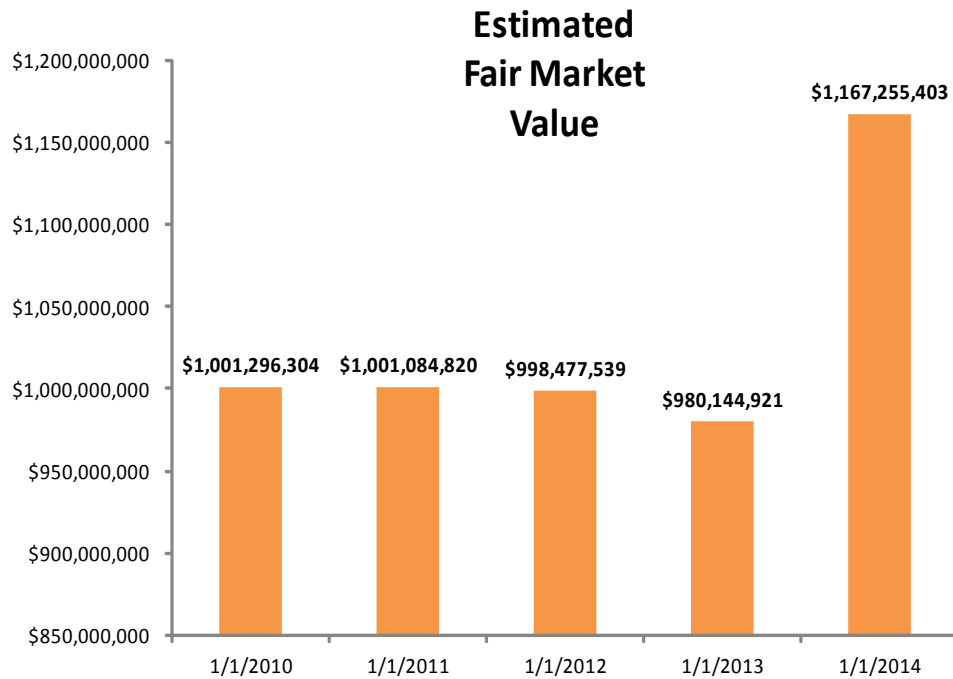
A permanent sales tax was passed July 27, 2010. The sales tax of one-quarter percent (.25%) of one cent is to provide revenues to Hughes County to be appropriated by the Board of County Commissioners for the purpose of providing funding for the fire departments in the communities of Atwood, Calvin, Dustin, Gerty, Holdenville, Horntown, Lamar, Non, Spaulding, Stuart, Wetumka, and Yeager, or others hereinafter established. The Hughes County, Oklahoma Special Sales Tax Resolution No. 030210 sets forth the division of funds stating that ninety-nine percent (99%) of the one quarter percent sales tax shall be divided equally between the fire departments listed above. The remaining one percent (1%) shall be placed in a cash fund for the Hughes County Fire Tax Board with funds to be used as deemed necessary for the improvement and enhancement of the operations and emergency response capabilities of the above listed fire departments. These funds are accounted for in the County FD Sales Tax fund.

During the fiscal year the County collected \$530,225 in total sales tax.



**HUGHES 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	\$60,549,167	\$39,708,577	\$48,733,201	\$3,752,171	\$145,238,774	\$1,167,255,403
1/1/2013	\$43,824,953	\$33,428,352	\$47,898,565	\$3,823,988	\$121,327,882	\$980,144,921
1/1/2012	\$46,616,305	\$33,879,166	\$46,906,779	\$3,801,840	\$123,600,410	\$998,477,539
1/1/2011	\$48,070,915	\$33,755,996	\$45,798,264	\$3,827,018	\$123,798,157	\$1,001,084,820
1/1/2010	\$50,744,005	\$31,203,938	\$44,376,999	\$3,805,132	\$122,519,810	\$1,001,296,304

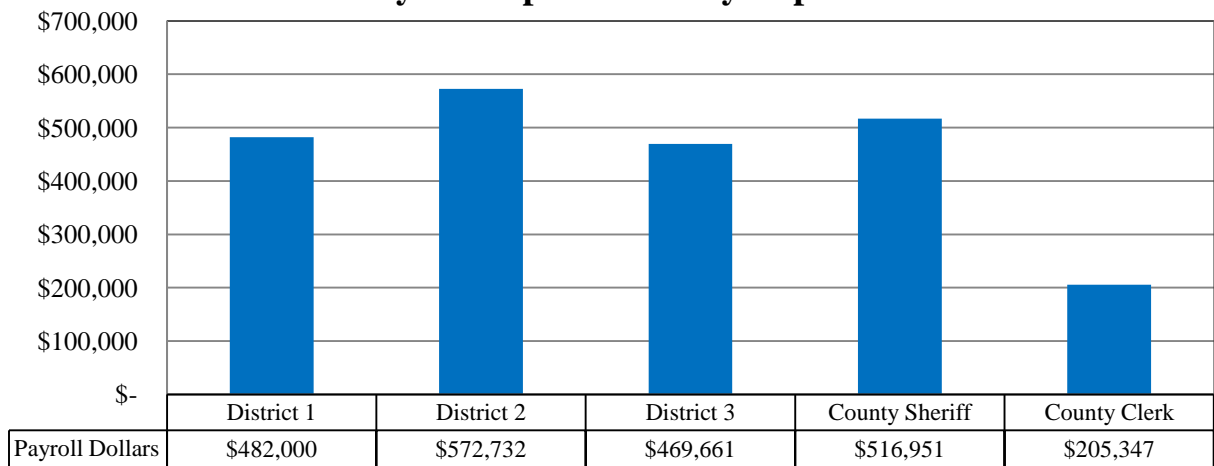


**HUGHES COUNTY, OKLAHOMA  
COUNTY PAYROLL EXPENDITURES ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

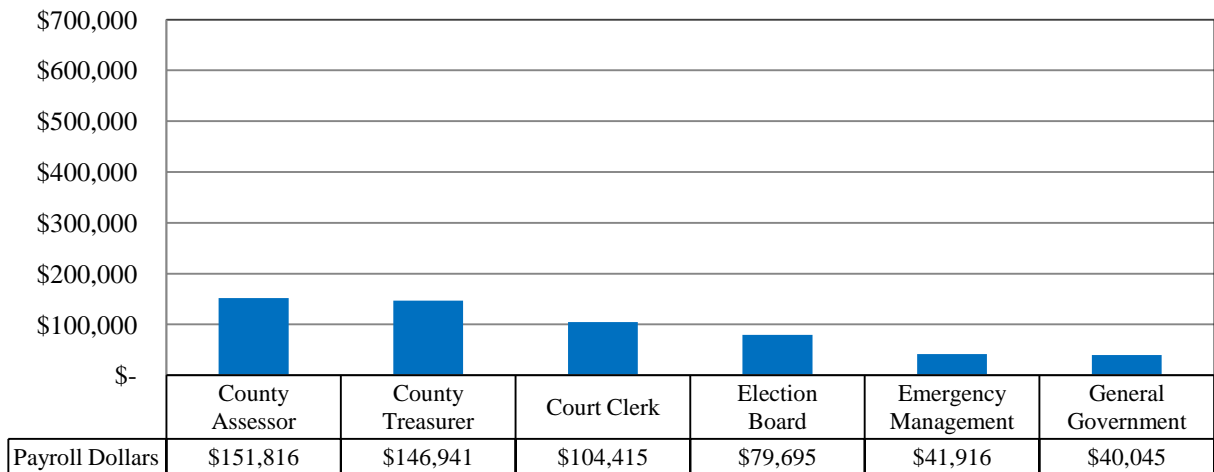
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County officers' salaries are based upon the assessed valuation and population of the counties. State statutes provide guidelines for establishing elected officers' salaries. The Board of County Commissioners sets the salaries for all elected county 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**

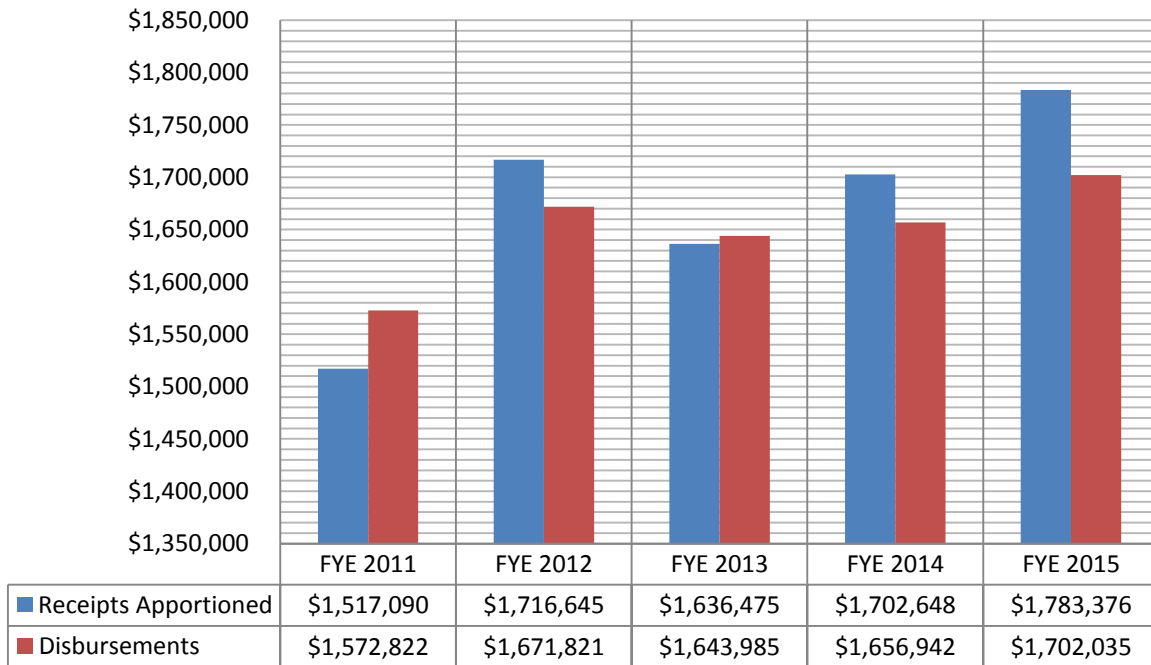


**HUGHES COUNTY, OKLAHOMA  
COUNTY GENERAL FUND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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## County General Fund

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

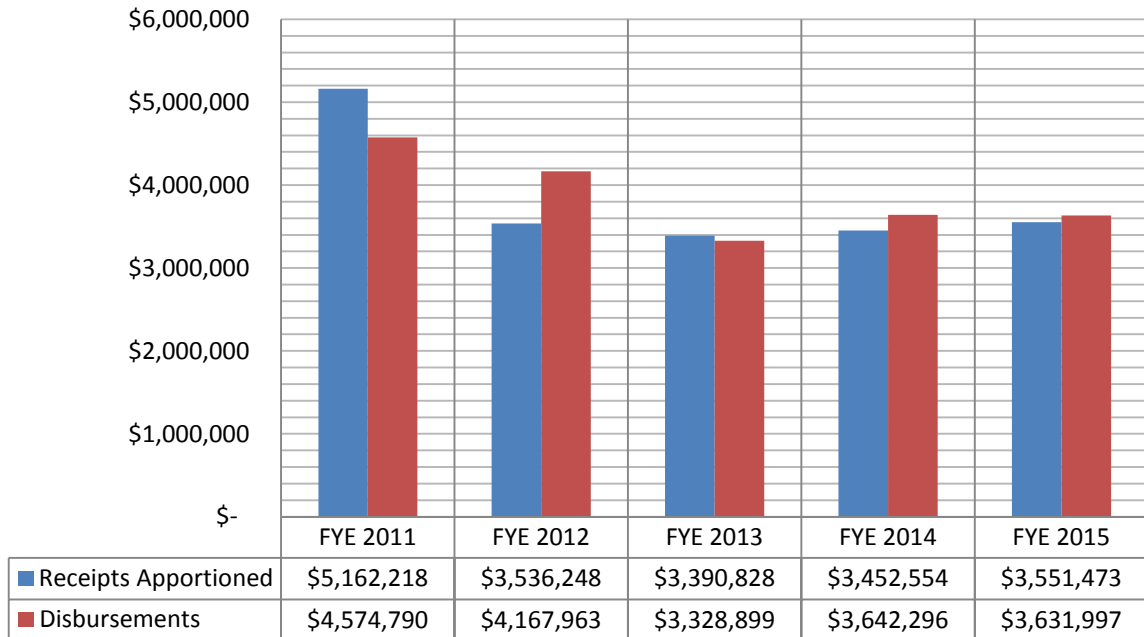


**HUGHES COUNTY, OKLAHOMA  
COUNTY HIGHWAY FUND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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## County Highway Fund

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



**HUGHES 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 July 1, 2014	Receipts Apportioned	Transfers In	Transfers Out	Disbursements	Ending Cash Balances June 30, 2015
Combining Information:						
County Funds:						
County General Fund	\$ 515,360	\$ 1,783,376	\$ 350,000	\$ 350,000	\$ 1,702,035	\$ 596,701
T-Highway	1,712,893	3,551,473	350,000	350,000	3,631,997	1,632,369
Resale Property	404,099	69,031	10,249	-	50,102	433,277
County Health	636,558	356,501	-	-	377,548	615,511
M & M Lien Fee	179,642	57,337	-	-	51,255	185,724
Mortgage Certification Fee	21,590	1,900	-	-	3,303	20,187
Sheriff Fees	214,428	116,521	-	-	71,282	259,667
Sheriff Special Fund	198,733	34,751	-	-	103,264	130,220
County Assessor Fund	7,831	3,044	-	-	4,210	6,665
Community Service Sentencing Program	2,631	-	-	-	-	2,631
County Clerk DPA	93,538	44,250	-	-	48,661	89,127
Free Fair	2,301	1,130	-	-	99	3,332
Family Resources Center Grant	268	-	-	-	-	268
Civil Defense Cash Fund	963	-	-	-	-	963
Emergency 911	68,814	35,729	-	-	30,345	74,198
DARE Program	776	-	-	-	-	776
EMPG 10 GRANT	17,610	7,500	-	-	6,489	18,621
CBRIF Highway Fund	1,206,156	281,993	-	-	282,996	1,205,153
County FD Sales Tax	785,486	530,225	-	-	67,041	1,248,670
REAP 2014-2015 RWD #6	-	11,898	-	-	11,898	-
Drug Dog Fund	3,351	6,000	-	-	3,758	5,593
Mobile Cop	241	150	-	-	139	252
JPX Pepper Ball Fund	3,500	-	-	-	3,500	-
CDBG 13-15628 RWD #2	-	188,785	-	-	188,785	-
CDBG-15906 Free Fair	-	26,249	-	-	26,249	-
CDBG-15907 Spaulding Fire Department	-	55,340	-	-	55,340	-
OBA Donation for Court Areas	-	5,675	-	-	5,675	-
Sheriff SUV Donation Fund	-	20,000	-	-	20,000	-
<b>Combined Total - All County Funds</b>	<b>\$ 6,076,769</b>	<b>\$ 7,188,858</b>	<b>\$ 710,249</b>	<b>\$ 700,000</b>	<b>\$ 6,745,971</b>	<b>\$ 6,529,905</b>

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

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

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**Description of County Funds**

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

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

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

T-Highway – accounts for revenues from state imposed fuel taxes and disbursements are for the maintenance of county roads and bridges.

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

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

M & M Lien Fee – accounts for lien collections and disbursements as restricted by state statute.

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

Sheriff Fees – accounts for the collection and disbursement of Sheriff process service fees as restricted by state statute.

Sheriff Special Fund – accounts for the collection of revenues for the housing of Department of Corrections' inmates and disbursements as restricted by state statute.

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

Community Service Sentencing Program – accounts for funds received from the Oklahoma Department of Corrections for administrative expenses and supervision of offenders.

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

Free Fair – accounts for the collection of rent for the Expo building and disbursements for maintenance of the Expo building.

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

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Family Resources Center Grant – accounts for federal funds to be used for the prevention of domestic violence.

Civil Defense Cash Fund – accounts for the receipt and disbursement of funds from state and local governments for civil defense purposes.

Emergency 911 – accounts for the collection of fees charged on telephone bills for the County's Emergency 911 system. Disbursements are for expenditures related to providing 911 services.

DARE Program – accounts for the receipt and disbursement of grant funds to educate children on drug awareness.

EMPG 10 Grant – accounts for Emergency Management Performance Grants received from the U.S. Department of Homeland Security and disbursed as restricted by the grant agreement.

CBRIF Highway Fund – accounts for the receipt of funds from the State of Oklahoma to be disbursed for road and bridge improvement projects.

County FD Sales Tax – accounts for the collection of sales tax revenue and disbursement of funds as restricted by the sales tax resolution.

REAP 2014-2015 RWD #6 – accounts for state grant funds received and disbursement of funds as restricted by grant agreement.

Drug Dog Fund – accounts for donations to be used for the purchase, training, and care of a drug dog.

Mobile Cop – accounts for a donation to be used for the purchase and installation of a computer in a Sheriff's vehicle.

JPX Pepper Ball Fund – accounts for a donation to be used towards the purchase of JPX pepper systems weapons for law enforcement.

CDBG 13-15628 RWD #2 – accounts for Community Development Block Grant received and disbursed as restricted by the grant agreement.

CDBG-15906 Free Fair – accounts for Community Development Block Grant received and disbursed as restricted by the grant agreement.

CDBG-15907 Spaulding Fire Department – accounts for Community Development Block Grant received and disbursed as restricted by the grant agreement.



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

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OBA Donations for Court Areas – accounts for donations to be used for improvements to the courtroom.

Sheriff SUV Donation Fund – accounts for donations to be used for the purchase of a sports utility vehicle for a canine unit.

**Transfers**

During the fiscal year, the County made the following transfers between cash funds.

- \$350,000 from the T-Highway fund to the County General Fund to meet requirements of appropriations in accordance with 68 O.S. § 3021.
- \$350,000 from the County General Fund into the T-Highway fund for repayment of the loan in accordance with 68 O.S. § 3021.
- \$10,249 from the Excess Resale fund (a trust and agency fund) to the Resale Property fund in accordance with 68 O.S. § 3131.

**HUGHES 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**

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	General Fund		
	Budget	Actual	Variance
Beginning Cash Balances	\$ 515,360	\$ 515,360	\$ -
Less: Prior Year Outstanding Warrants	(49,284)	(49,284)	-
Less: Prior Year Encumbrances	(22,082)	(20,884)	1,198
Beginning Cash Balances, Budgetary Basis	443,994	445,192	1,198
Receipts:			
Ad Valorem Taxes	1,509,031	1,353,232	(155,799)
Charges for Services	112,363	139,631	27,268
Intergovernmental Revenues	155,121	165,845	10,724
Miscellaneous Revenues	122,622	124,668	2,046
Total Receipts, Budgetary Basis	1,899,137	1,783,376	(115,761)
Expenditures:			
District Attorney - County	4,770	4,770	-
County Sheriff	509,000	508,901	99
County Treasurer	115,826	111,775	4,051
County Commissioners	190,055	190,055	-
County Commissioners OSU Extension	22,128	20,525	1,603
County Clerk	139,000	134,037	4,963
Court Clerk	106,415	105,206	1,209
County Assessor	111,966	111,445	521
Revaluation of Real Property	80,000	79,947	53
Juvenile Shelter Bureau	11,000	9,706	1,294
General Government	699,840	268,021	431,819
Excise Equalization Board	3,726	3,581	145
County Election Expense	83,249	83,093	156
Emergency Management	43,415	42,836	579
County Audit Budget Account	26,290	-	26,290
Free Fair Budget Account	10,000	9,978	22
Other Deductions	186,451	-	186,451
Total Expenditures, Budgetary Basis	2,343,131	1,683,876	659,255

Continued on next page

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

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

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	General Fund		
	Budget	Actual	Variance
Continued from previous page			
Excess of Receipts and Beginning Cash			
Balances Over Expenditures, Budgetary Basis	<u>\$ -</u>	544,692	<u>\$ 544,692</u>
Operating Transfers:			
Transfers In		350,000	
Transfers Out		<u>(350,000)</u>	
Net Operating Transfers		-	
Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances			
Add: Current Year Outstanding Warrants		39,512	
Add: Current Year Encumbrances		<u>12,497</u>	
Ending Cash Balance		<u>\$ 596,701</u>	

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

**HUGHES 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**

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	County Health Department Fund		
	Budget	Actual	Variance
Beginning Cash Balances	\$ 636,558	\$ 636,558	-
Less: Prior Year Outstanding Warrants	(19,558)	(19,558)	-
Less: Prior Year Encumbrances	(22,680)	(20,996)	1,684
Beginning Cash Balances, Budgetary Basis	594,320	596,004	1,684
Receipts:			
Ad Valorem Taxes	341,971	337,331	(4,640)
Charges for Services	3,850	3,850	-
Miscellaneous Revenues	-	15,320	15,320
Total Receipts, Budgetary Basis	345,821	356,501	10,680
Expenditures:			
County Health Budget Account	940,141	368,454	571,687
Total Expenditures, Budgetary Basis	940,141	368,454	571,687
Excess of Receipts and Beginning Cash Balances Over Expenditures, Budgetary Basis	\$ -	584,051	\$ 584,051
Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances			
Add: Current Year Encumbrances		5,270	
Add: Current Year Outstanding Warrants		26,190	
Ending Cash Balance		\$ 615,511	

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

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

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**PURPOSE, SCOPE, AND SAMPLE METHODOLOGY**

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

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

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

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

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

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

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

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

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

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

**FINDINGS AND RECOMMENDATIONS**

**Finding 2015-1 – Inadequate Internal Controls Over the Reconciliation of Appropriation Ledger to General Ledger (Repeat Finding)**

**Condition:** The following was noted regarding the County Clerk's monthly reconciliation of the appropriation ledger to the County Treasurer's general ledger:

- The reconciliations are being performed each month; however, the reconciliations are not initialed and dated showing evidence of review.
- The County Clerk reconciles all of the county cash funds from the appropriation ledger to the County Treasurer's general ledger except for T-Highway fund.

**Cause of Condition:** Policies and procedures have not been designed and implemented to ensure someone other than the preparer reviews the reconciliation of the County Clerk's appropriation ledger to the County Treasurer's general ledger for accuracy, documenting evidence of the review with initials and dates, and that the reconciliation includes all county cash funds.

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

**Recommendation:** The Oklahoma State Auditor's Office (OSAI) recommends that the preparer initial and date the reconciliation and that someone review the reconciliation for accuracy and document evidence of the review with initials and dates and that the reconciliation includes all county cash funds.

**Management Response:**

**County Clerk:**

- The Hughes County Clerk's office now has two signature lines at the bottom of the County Clerk's monthly balance sheet; one for completion and one for the County Treasurer to review the reconciliation for accuracy. This should ensure evidence of the review procedure.
- The Hughes County Clerk has reconciled the T-Highway fund with the County Treasurer starting July 2015.

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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, reconciliations should be reviewed for accuracy and performed on a monthly basis.

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

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

### **FINDINGS AND RECOMMENDATIONS**

#### **Finding 2015-2 – Inadequate Internal Controls Over Sales Tax Collections and Disbursements**

**Condition:** Upon inquiry and observation of the County's sales tax collection and disbursement processes, we noted the following:

- No one, other than the preparer, reviews the calculations to verify that the amounts for the sales tax appropriation are correct.
- One (1) of the nine (9) sales tax disbursements tested was not approved by the Hughes County Fire Tax Board to ensure purchase was made in accordance with the sales tax ballot.

**Cause of Condition:** Policies and procedures have not been designed and implemented to with regard to the sales tax collection and disbursement processes to ensure adequate internal controls.

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

**Recommendation:** OSAI recommends that the County implement a review process over the calculations for the sales tax appropriation, which would include someone other than the preparer reviewing and approving the calculations for accuracy. OSAI recommends that all sales tax purchases be reviewed and approved to verify that the disbursement is made in accordance with the sales tax ballot; this process should be documented.

**Management Response:**

**County Clerk:** The deposit letter will be obtained from the Oklahoma Tax Commission (OTC) website and the information will be entered into a prepared spreadsheet according to Sales Tax Resolution

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030210. These two pieces of information will then be reviewed by a second party and signed. This should be the segregation of duty needed to confirm that the information is correct and we are in compliance with the needed internal controls within this office. In addition, more effort will be made to ensure that a copy of the approved Hughes County Fire Tax Board monthly minutes will be attached to each purchase order requested by the Board of County Commissioners (BOCC) to complete the purchase order process for all disbursements. This should be the action needed to verify that purchases are made in accordance with the sales tax ballot.

**Chairman of the Board of County Commissioners:** The Hughes County Fire Tax Board will be required to approve or disapprove in minutes prior to expending funds. This action along with minutes will be given to the County Clerk in order to set up a purchase order.

**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 sales tax calculations and/or transactions. To help ensure a proper accounting of funds, calculations for sales tax appropriations should be reviewed and approved for accuracy and sales tax disbursements should be reviewed and approved to determine that sales tax monies are spent according to the sales tax ballot.

<b>Objective 3:</b>	<b>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.</b>
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**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.

<b>Objective 4:</b>	<b>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.</b>
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**Conclusion:** The County's internal controls do not provide reasonable assurance that expenditures, including payroll, were accurately reported in the accounting records.

The County's financial operations did not comply with 19 O.S. § 1505, which requires that disbursements be timely encumbered, properly authorized, and supported with adequate documentation.



<b>FINDINGS AND RECOMMENDATIONS</b>
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**Finding 2015-3 - Inadequate Internal Controls and Noncompliance Over the Disbursement Process (Repeat Finding)**

**Condition:** Upon inquiry and observation of the County's disbursement process, we noted the following:

- The County Clerk's blank warrant stock is not maintained in a secure location.
- The County Clerk does not require the warrant register to be signed by officials, employees, or vendors at the time warrants are distributed.
- The County Clerk allowed her deputies to use her signature stamp for stamping purchase orders.

Of the forty (40) disbursements tested, the following exceptions were noted:

- Three (3) were not timely encumbered.
- One (1) did not have a signature indicating the review and authorization of the purchase order.
- One (1) did not have an invoice attached.

**Cause of Condition:** Policies and procedures have not been designed with regard to the disbursement process to ensure adequate internal controls and compliance with state statute.

**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.

**Recommendation:** OSAI recommends the following regarding internal controls:

- The blank warrant stock should be maintained in a secure location with limited access.
- The County Clerk should require all officials, employees, or vendors to sign the warrant register when picking up warrants. If warrants are disbursed through the mail, then the warrant register should indicate the warrant as mailed.
- The County Clerk's signature stamp should be used only by the County Clerk and should be adequately safeguarded from unauthorized use.

OSAI recommends that the County adhere to state purchasing guidelines. Purchase orders should be encumbered before goods or services are ordered. Adequate supporting documentation should be attached to the purchase order and all purchase orders reviewed and authorized.

**Management Response:**

**County Clerk:**

- The Hughes County Clerk's Office now has the unused warrants in a secure cabinet.
- The Hughes County Clerk's Office now keeps a warrant register in our office and all vendor checks picked up by the different offices are signed or initialed by the individual picking up the check. This ensures that the needed internal controls for this task are in place.

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- The signature stamp has been destroyed and is no longer in use, as of August 2015.
- The Hughes County Clerk's Office has implemented a new procedure for the purchase order process:
  - The Purchasing Agent reviews the purchase orders for timely encumbrances, then completes purchase orders, and then prints and attaches supporting documentation.
  - It is then reviewed by a second deputy for correct information, signatures and amounts, and then scanned into our software.
  - The County Clerk then reviews all information and places the purchase orders into the batch pay; matching amounts on the invoice with the purchase order. I also verify that the invoice number is inserted in the comments, so said payment will be correctly posted to the right account when received.
  - This new procedure should ensure that we are checking for timely encumbrances, better segregation of duty, and completing all information on the purchase orders.

**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 disbursement calculations and/or transactions. To help ensure a proper accounting of funds, unused warrants should be secured with limited access, warrant registers should be signed by officials, employees, or vendors and/or show as mailed, and signature stamps should only be used by the registered owner.

Effective internal controls require that management properly implement procedures to ensure that purchases are made in compliance with 19 O.S. § 1505.

**Finding 2015-4 – Inadequate Segregation of Duties and Internal Controls Over the Payroll Process (Repeat Finding)**

**Condition:** Upon inquiry and observation of the County's payroll process, we noted the following:

- The County Clerk performs the duties of entering payroll information in the payroll system, prints payroll verification forms, enters all payroll changes, prints all payroll affidavits, prints payroll warrants, distributes payroll warrants, and maintains the personnel files. The Purchasing Agent reviews the payroll changes and verification forms for accuracy. However, no documentation of this review is maintained.
- County employee personnel files are maintained in an unlocked cabinet.
- The BOCC approves payroll affidavits after payroll warrants are printed and distributed.
- One (1) of the five (5) payroll claims tested was supported by a timesheet that was not signed by the employee and the supervisor.

**Cause of Condition:** Policies and procedures have not been designed and implemented with regard to the payroll process to ensure adequate segregation of duties and internal controls.

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**Effect of Condition:** This condition could result in unrecorded transactions, misstated financial reports, undetected errors, and misappropriation of funds.

**Recommendation:** OSAI recommends management be aware of these conditions and realize that a concentration of duties and responsibilities in a limited number of individuals is not desired from a control point of view. The most effective controls lie in management's oversight of office operations and a periodic review of operations. In the event that segregation of duties is not possible due to limited personnel, OSAI recommends implementing compensating controls to mitigate the risks involved with a concentration of duties. Compensating controls would include separating key processes and/or critical functions of the office, and having management review and approval of accounting functions.

Furthermore, regarding internal controls, OSAI recommends the following:

- County personnel files should be secured with access limited only to authorized personnel.
- The BOCC should review and approve payroll before payroll warrants are printed and distributed.
- All timesheets should be signed by the employee and the supervisor.

**Management Response:**

**County Clerk:** Since August 2015, the Hughes County Clerk's Office has implemented new segregation of duties regarding the payroll process. We have attached a checklist to the folder of each pay period to check and segregate the four main duties of the payroll process:

- Entering new employees information;
- Entering payroll claim information;
- Verifying payroll; and
- Printing checks and balancing insurance/garnishments/OPERS/state and federal taxes.

Since August 2015, the Hughes County Clerk's Office has secured the employee personnel files by locking the file cabinet.

After much research, we have implemented the SA&I Form for payroll claims. This document will be submitted from each departmental office the Friday before the Monday morning BOCC regularly scheduled weekly meeting. This will enable the Commissioners to approve our payroll before the checks are written. This process is being added to the agenda before the Hughes County Budget Board on October 13, 2015, to be discussed in detail, so all officials will understand the new process for Hughes County. We will implement this new process beginning with the October 30<sup>th</sup> payroll.

In the future we will review each timesheet more carefully to ensure they have the proper signatures.

**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 to allow for prevention and detection of errors and abuse. To help ensure a proper accounting of funds, key functions within the payroll process such as the duties of processing, authorizing, and payroll distribution should be adequately segregated, supporting documentation such as payroll claims and timesheets should be maintained and signed for review and

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approval by the appropriate personnel, and personnel records should be secured to limit unauthorized access.

**All Objectives:**

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

**Finding 2015-5 – Inadequate County-Wide Controls (Repeat Finding)**

**Condition:** Through the process of gaining an understanding of the County’s internal control structure, it was noted that county-wide controls regarding Risk Assessment and Monitoring have not been designed.

**Cause of Condition:** The County was not fully aware of the benefits gained by the implementation of procedures regarding Risk Assessment and Monitoring as it relates to the strengthening of its internal control structure.

**Effect of Condition:** Without an adequate system of county-wide controls, there is greater risk of a breakdown in control activities which could result in unrecorded transaction, 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.

**Management Response:**

**County Commissioner District 1, District 2, and District 3, County Treasurer, and County Clerk:** Hughes County will begin the process to design and implement procedures to address and monitor risks so that we may strengthen our internal 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 Risk Assessment and Monitoring for the achievement of these goals.

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

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

**Other Item(s) Noted:**

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

**Finding 2015-6 – Inadequate Internal Controls Over the County Clerk’s Information Technology System (Repeat Finding)**

**Condition:** Upon review of the computer systems within the County Clerk’s office, it was noted that there does not appear to be adequate internal controls in place to safeguard data from unauthorized modification, loss, or disclosure. 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:** Policies and procedures have not been designed and implemented to prevent unauthorized access to data.

**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. 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 Clerk:** These issues are being addressed.

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**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.

**Finding 2015-7 – Inadequate Internal Controls Over Inmate Telephone Cards and Proceeds of Sales (Repeat Finding)**

**Condition:** Upon inquiry and observation of the processes within the County Sheriff's office, we noted the following:

- One employee retrieves, counts, and deposits all monies collected from the telephone card kiosk. No one other than this employee reviews or recounts the monies that are collected and deposited.
- Monies collected from the kiosk are not reconciled to the number of telephone cards sold. A report cannot be printed from the kiosk to prepare a reconciliation of telephone cards sold to the amount deposited. Additionally, an inventory of telephone cards is not maintained.

**Cause of Condition:** Policies and procedures have not been designed and implemented with regard to the inmate telephone card process to ensure adequate segregation of duties and adequate internal controls.

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

**Recommendation:** OSAI recommends the following regarding internal controls:

- The 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 have physical custody of assets, prepare deposits, and make deposits. In the event that segregation of duties is not possible due to limited personnel, OSAI recommends implementing compensating controls to mitigate the risks involved with a concentration of duties. Compensating controls would include having management review and approve accounting functions.
- Monies retrieved from the kiosk should be reconciled to the number of telephone cards sold. A review of the reconciliation by an employee independent of this duty should be performed and documented. In addition, an inventory of telephone cards should be performed and maintained. This inventory is necessary to maintain an accurate accounting of telephone cards on hand and would be instrumental in the reconciliation of monies collected to telephone cards sold.

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**Management Response:**

**County Sheriff:** Telephone cards will be placed in the machine in sequential order using the batch control number. The numbers will be documented as sold and two employees will collect, count, and sign off on money collected.

**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 calculations and/or transactions. To help ensure a proper accounting of funds, no one individual should have the ability to have physical custody of assets, prepare deposits, and make deposits. Also, an inventory of phone cards should be maintained and reconciliations should be performed, reviewed, and approved.

**REPORT ON STATUTORY COMPLIANCE – OTHER MATTERS**





# Oklahoma State Auditor & Inspector

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Hughes County  
Board of County Commissioners  
Hughes County Courthouse  
Holdenville, Oklahoma 74848

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).

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 Hughes County.

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

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

A handwritten signature in blue ink, reading "Gary A. Jones".

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

June 22, 2016

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

**Finding 2015-8 – Inadequate Segregation of Duties – Court Clerk (Repeat Finding)**

**Condition:** Upon inquiry and observation of the Court Fund, Court Clerk Revolving Fund, and District Court expenditure process, the following was noted:

The Court Clerk performs the following duties pertaining to expenditures:

- Prepares claims;
- Approves claims for payment;
- Prepares vouchers for payment;
- Registers vouchers with Treasurer; and
- Distributes vouchers to vendor.

**Cause of Condition:** Since the Court Clerk is ultimately responsible for the Court Fund, Court Clerk Revolving Fund, and the District Court, she feels it is her responsibility to perform the related duties.

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

**Recommendation:** OSAI recommends that procedures be developed to separate key functions of the Court Fund, Court Clerk Revolving Fund, and District Court expenditure process. In the event that segregation of duties is not possible due to limited personnel, OSAI recommends implementing compensating controls to mitigate the risk involved with a concentration of duties. Compensating controls would include separating key processes and/or critical functions of the office, and having management review and approve accounting functions.

**Management Response:**

**Court Clerk:** I will start the process to implement policies and procedures to meet the requirements to separate key functions of the Court Fund, Court Clerk Revolving Fund, and District Court expenditure process.

**Criteria:** Accountability and stewardship are overall goals of management in the accounting of funds. To help ensure a proper accounting of funds, the duties of preparing the claim, approving the claim, preparing the vouchers, signing the vouchers, and reconciliation of the accounts should be segregated.

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

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

- The offices of County Commissioner District 1, County Sheriff, and Election Board have not designed procedures to perform and document an annual physical inventory of all fixed assets.

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- County Commissioner District 2 does not have documentation to support that an annual review of fixed assets was performed.
- County Commissioner District 3 performed an annual review of fixed assets; however, it was incomplete as not all inventory items from the list were verified.

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

District 1:

- The District performed a partial physical review of consumable inventory, but all items on the inventory records were not verified to the items on hand.
- The District does not reconcile fuel records to the actual fuel on hand.

District 2:

- A physical review of consumable inventory is not performed.

District 3:

- A physical review of consumable inventory is not performed.
- The District does not document their reconciliation of fuel records to the actual fuel on hand.

**Cause of Condition:** Policies and procedures have not been designed to ensure compliance with the state statutes regarding maintaining fixed assets. Additionally, procedures have not been designed and implemented to provide for accurate fixed assets and consumable items inventory records.

**Effect of Condition:** These conditions resulted in noncompliance with state statutes. When fixed assets are not monitored, opportunities for misuse or loss of equipment can occur. Additionally, when consumable inventories are not monitored on a regular basis, opportunities for misuse or theft of items are more likely to occur.

**Recommendation:** OSAI recommends that the County perform and document a physical inventory review of fixed assets. OSAI also recommends that the County perform and document a consumable inventory review on a regular basis. The review should be initialed and dated by the employee performing the physical review and retained to show the design and implementation of internal controls by the County Commissioners. Furthermore, the District should document and maintain a reconciliation of fuel records to the actual fuel on hand.

**Management Response:**

**District 1 Commissioner:** Upon the recommendation of OSAI, District 1 now has a designed procedure to perform and document an annual physical inventory of all fixed assets. This will be implemented by the Foreman and Secretary and documented and initialed. This will be presented to the Commissioner for accuracy and retained in a permanent file.

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A complete review of consumable inventory will be recorded and verified semiannually by two persons, then presented to the Commissioner for accuracy. Each person will initial and date and it will be retained in a permanent file.

District 1 has not been able to reconcile fuel records to fuel on hand as the V Root machine is not consistent with the amount of fuel being dispensed at the actual pump. To ensure accuracy, the Foreman is physically measuring and recording the pump readings daily. These are given to the Secretary who is recording them on the fuel logs as Auditor suggested. A call has been made to schedule a service man to fix the problem and when all is calibrated correctly readings will be taken weekly.

**District 2 Commissioner:** I will see that the inventory, consumable and fixed assets, will be reviewed and documented and approved bi-annually and annually. I will see that the fuel records are reconciled weekly.

**District 3 Commissioner:** We will start making sure the review includes 100% of County owned assets. We will start doing a physical review of consumable inventory twice a year as informed by the Auditor's office. We have changed our form to document reconciliation of fuel records.

**Election Board Secretary:** As of 2015, an annual physical inventory of all fixed assets was completed and filed with the Hughes County Clerk. The inventory was completed by the Secretary of the Election Board and was confirmed by the Chief Clerk.

**County Sheriff:** Excel spreadsheets will be developed for inventory control and will be updated as needed and kept current. We will also perform and document an inventory annually.

**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 in part, "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..."

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Title 19 O.S. § 1504 (A) states, “A receiving officer shall receive all purchased, lease-purchased or rented items procured for the department and shall identify such items received in a manner prescribed by the county road and bridge inventory officer or board of county commissioners or designee. The receiving officer shall also maintain a record of all such items received, disbursed, stored, and consumed by the department.”



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