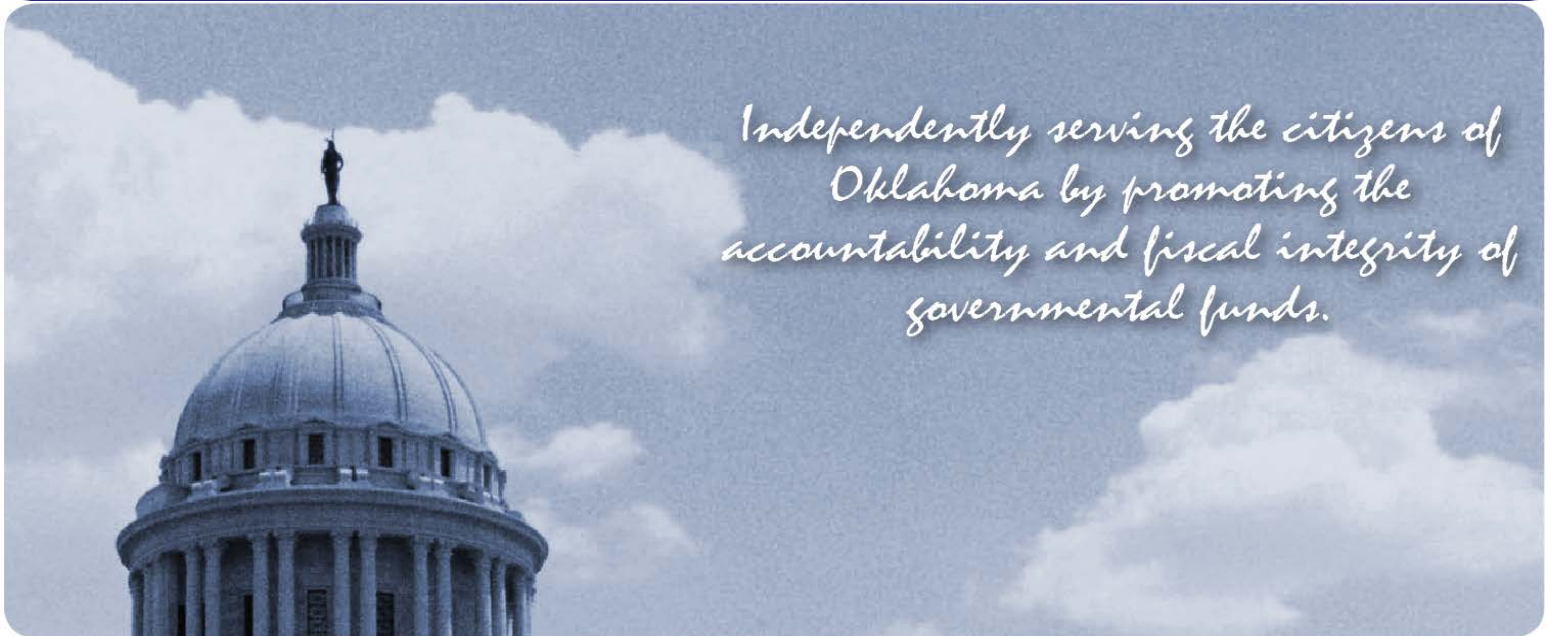


OPERATIONAL AUDIT

JEFFERSON COUNTY

For the fiscal year ended June 30, 2016



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

**JEFFERSON COUNTY OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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Oklahoma State Auditor & Inspector

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

January 16, 2018

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

Transmitted herewith is the audit report of Jefferson County for the fiscal year ended June 30, 2016.

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". The signature is fluid and cursive, with the first name "Gary" being the most prominent.

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

**JEFFERSON COUNTY, OKLAHOMA
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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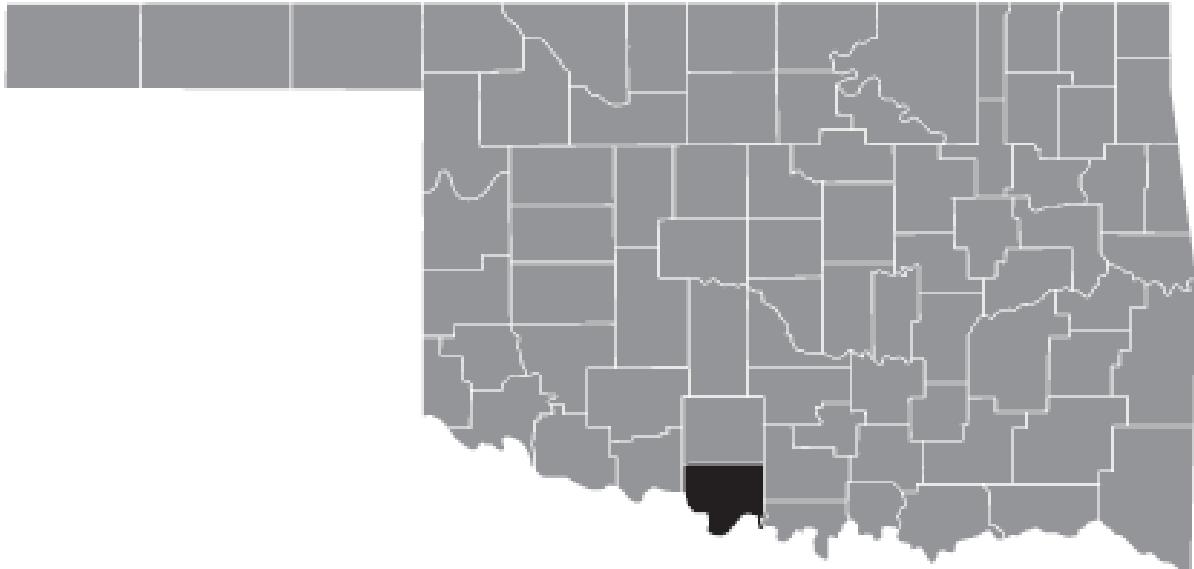
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**JEFFERSON COUNTY, OKLAHOMA
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**



Named for President Thomas Jefferson, this county was created from a portion of Comanche County in Oklahoma Territory and the southwestern corner of the Chickasaw Nation. A marker on S. H. 70 in Waurika, the county seat, designates the 98th Meridian, the dividing line between Indian Territory and Oklahoma Territory.

Waurika, meaning “camp of clear water,” was built on the junction of Beaver and Cow creeks, and is the site of Waurika Lake. Ringling was named for John Ringling, who built a railroad on this site to bring his circus to the area for its winter headquarters. Ryan is the site of the Jefferson County Courthouse, built in 1894 by the Chickasaw Nation. Landmarks include the Rock Island Railroad Depot built in 1912, and Monument Hill Marker, honoring the Chisholm Trail and its trail drivers.

Although an industrial base has been established, cattle, oil, and agriculture are still the leading sources of income. Annual events include the Waurika Volunteer Firemen Rattlesnake Hunt, the Waurika Art, and the Terral Melon Jubilee.

The Chisholm Trail Historical Association is located in Waurika, and two publications, *A History of Jefferson County* and *Post Offices in Jefferson County*, offer written historical accounts. For more information, call the county clerk’s office at 580/228-2029.

County Seat – Waurika

Area – 773.83 Square Miles

County Population – 6,292
(2014 est.)

Farms – 417

Land in Farms – 475,462 Acres

Primary Source: Oklahoma Almanac 2015-2016

**JEFFERSON COUNTY OFFICIALS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Board of County Commissioners

District 1 – Billy Kidd
District 2 – Ty Phillips
District 3 – Ricky Martin

County Assessor

Sandra Watkins

County Clerk

Traci Smith

County Sheriff

Michael Bryant

County Treasurer

Sue Grantham

Court Clerk

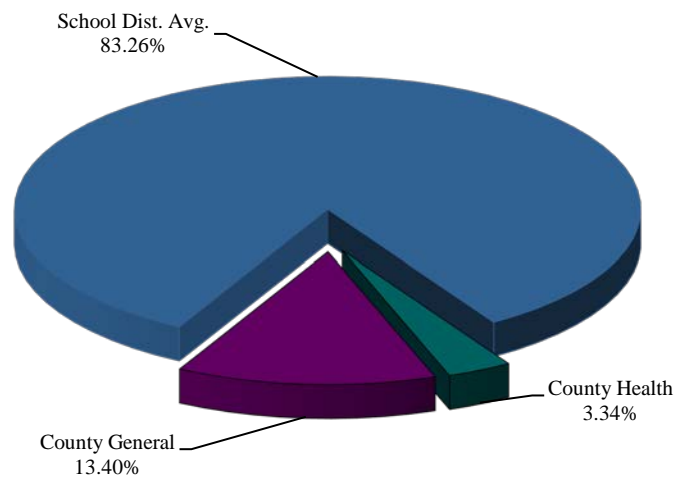
Kim Berry

District Attorney

Jason Hicks

**JEFFERSON COUNTY, OKLAHOMA
AD VALOREM TAX DISTRIBUTION
SHARE OF THE AVERAGE MILLAGE
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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

County General 10.54
County Health 2.63

Cities and Towns

Waurika Sinking 5.65

Other

EMS, SD 1 3.00
EMS, SD 3 3.00
EMS, SD 14 3.25
EMS, SD 23 3.14

School District Millages

		Career						
		Gen.	Bldg.	Skg.	Tech.	Common	Total	
Ryan	I-1	36.52	5.22	19.59	12.00	4.21	77.54	
Terral	I-3	36.34	5.19	-	12.54	4.21	58.28	
Ringling	I-14	37.87	5.41	7.83	15.21	4.21	70.53	
Waurika	I-23A	36.62	5.23	10.09	-	4.21	56.15	
Waurika	I-23B	36.62	5.23	10.09	-	4.21	56.15	
Comanche	JT-2	36.05	5.15	14.24	-	4.21	59.65	
Healdton	JT-55	35.00	5.00	16.69	15.21	4.21	76.11	
Grandview	JT-82	35.00	5.00	-	-	4.21	44.21	
Temple	JT-101	37.12	5.30	13.03	-	4.21	59.66	

**JEFFERSON COUNTY, OKLAHOMA
SALES TAX DISTRIBUTION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Sales Tax

Sales Tax of December 1, 1992

The voters of Jefferson County approved a one percent (1%) sales tax that went into effect on December 1, 1992. This sales tax has an unlimited duration. The sales tax was established to provide revenue for the general operating for the County Government, and for the support of County Civil Defense, OSU Extension services, County Law Enforcement, County-Wide Rural Fire Protection, and Fair Board maintenance and operations. These funds are accounted for in the County General Fund.

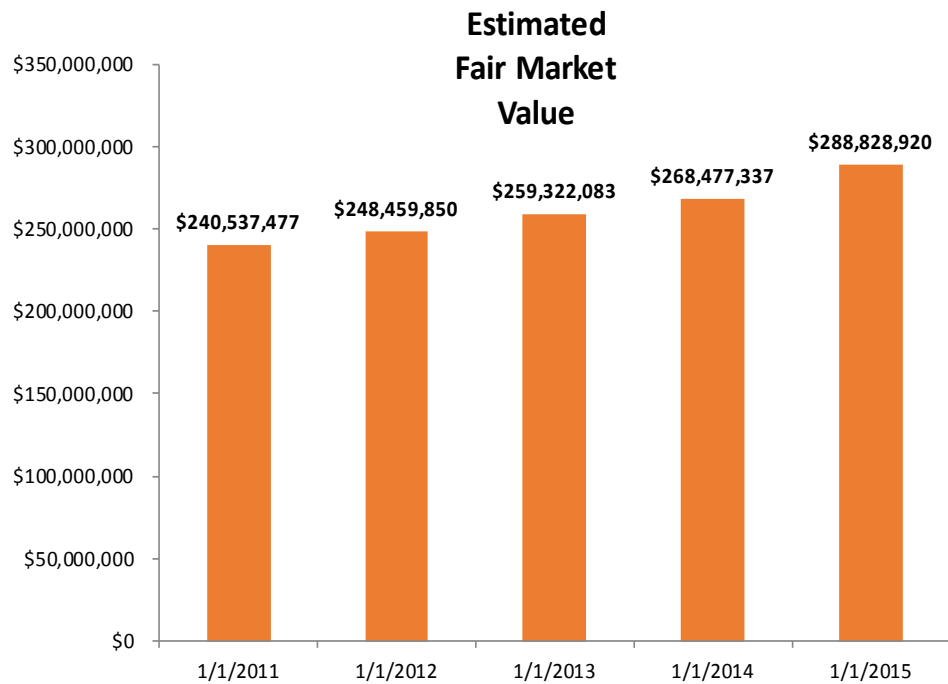
Sales Tax of June 24, 2014

The voters of Jefferson County approved the continuation of the one percent (1%) sales tax on June 24, 2014 for an additional 5 years. The originally sales tax went in to effect on November 1, 2000. The sales tax was established for planning, financing, and construction of the Jefferson County Healthcare Authority or related medical facilities. These funds are accounted for in the Jefferson Healthcare - Sales Tax fund.

During the fiscal year, the County collected \$578,449.56 in total sales tax.

**JEFFERSON COUNTY, OKLAHOMA
ASSESSED VALUE OF PROPERTY
TREND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

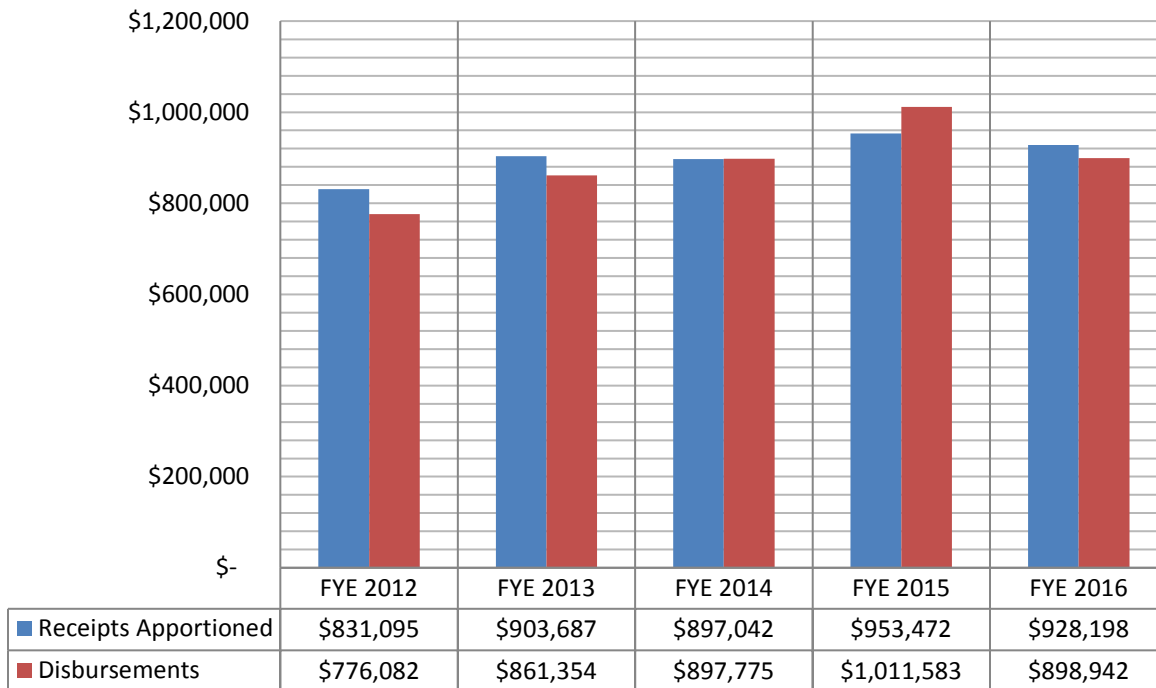
Valuation Date	Personal	Public Service	Real Estate	Homestead Exemption	Net Value	Estimated Fair Market Value
1/1/2015	\$3,952,451	\$10,852,028	\$24,723,480	\$1,456,232	\$38,071,727	\$288,828,920
1/1/2014	\$2,933,089	\$10,777,930	\$23,201,851	\$1,495,858	\$35,417,012	\$268,477,337
1/1/2013	\$2,763,967	\$10,777,930	\$22,278,657	\$1,522,708	\$34,297,846	\$259,322,083
1/1/2012	\$2,604,222	\$9,841,210	\$21,623,406	\$1,548,117	\$32,520,721	\$248,459,850
1/1/2011	\$2,587,701	\$8,944,481	\$21,176,307	\$1,473,638	\$31,234,851	\$240,537,477



**JEFFERSON COUNTY, OKLAHOMA
COUNTY GENERAL FUND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

County General Fund

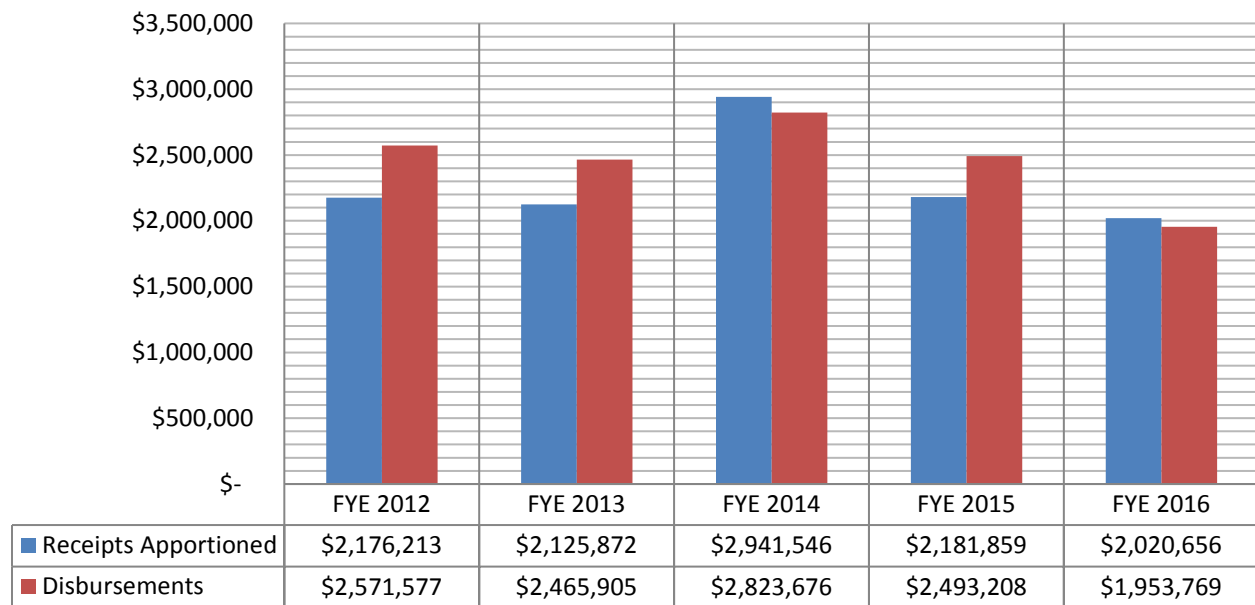
The Oklahoma Constitution and the Oklahoma Statutes authorize counties to create a County General Fund, which is the county's primary source of operating revenue. The County General Fund is typically used for county employees' salaries plus many expenses for county maintenance and operation. It also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



**JEFFERSON COUNTY, OKLAHOMA
COUNTY HIGHWAY FUND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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.



**JEFFERSON COUNTY
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Presentation of Apportionments, Disbursements, and Cash Balances of County Funds for the Fiscal Year Ended June 30, 2016

	Beginning Cash Balances July 1, 2015	Receipts Apportioned	Transfers In	Transfers Out	Disbursements	Ending Cash Balances June 30, 2016
Combining Information:						
County Funds:						
County General Fund	\$ 184,250	\$ 928,198	\$ -	\$ -	\$ 898,942	\$ 213,506
County Highway Fund	1,520,422	2,020,656	-	-	1,953,769	1,587,309
Rural Economic Action Plan (REAP)	28,785	134,990	-	-	135,405	28,370
County Health Department	102,015	95,931	-	-	93,190	104,756
Resale Property	116,734	37,913	3,906	-	62,199	96,354
Treasurer Mortgage Tax Certification Fee	1,527	1,045	-	-	120	2,452
Assessor Visual Inspection	1,126	-	-	-	-	1,126
Assessor Revolving	1,883	2,974	-	-	1,944	2,913
Sheriff Service Fee	103,347	184,072	-	-	129,269	158,150
Sheriff Department of Corrections	317,246	1,223,879	-	-	1,178,160	362,965
Sheriff Drug Abuse	10,000	-	-	-	-	10,000
Immigration and Naturalization Services (INS Account)	86	-	-	-	-	86
Community Service Sentencing Program (CSSP)	365	-	-	-	-	365
County Clerk Lien Fee	4,723	3,188	-	-	2,264	5,647
County Clerk Records Preservation Fee	22,187	8,190	-	-	11,157	19,220
Sheriff Commissary	45,498	89,142	-	-	73,178	61,462
Indigent Grant	800	-	-	-	-	800
Free Fair Special	5,288	150	-	-	250	5,188
Safety Awards	5	-	-	-	-	5
K-9	583	-	-	-	-	583
FEMA	166	-	-	-	-	166
Rewards	415	100	-	-	-	515
911 Landline Fees	35,779	46,876	-	-	53,543	29,112
911 Wireless Fees	8,198	29,231	-	-	7,780	29,649
Jefferson Healthcare - Sales Tax	22,030	309,902	-	-	307,655	24,277
Combined Total - All County Funds	\$ 2,533,458	\$ 5,116,437	\$ 3,906	\$ -	\$ 4,908,825	\$ 2,744,976

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

JEFFERSON COUNTY
DESCRIPTION OF COUNTY FUNDS AND TRANSFERS
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

Rural Economic Action Plan (REAP) - accounts for state grant funds received and disbursed for various projects.

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

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

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

Assessor Visual Inspection – accounts for the receipt and disbursement of funds by the Assessor as restricted by state statute for the visual inspection program.

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

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

Sheriff Department of Corrections – accounts for the collections of state held prisoners and disbursements are for the purpose of maintaining the jail.

Sheriff Drug Abuse – accounts for the receipts from a private donations and grants and disbursements are restricted for the use of drug abuse prevention.

Immigration and Naturalization Services (INS Account) – accounts for the receipt and disbursement of monies for the Immigration and Naturalization Services Detention Facility.

JEFFERSON COUNTY
DESCRIPTION OF COUNTY FUNDS AND TRANSFERS
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Community Service Sentencing Program (CSSP) – accounts for the collection of funding through the State Department of Corrections for administrative expenses and supervision of offenders.

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

County Clerk Records Preservation Fee – accounts for fees collected for instruments filed with the County Clerk's office as restricted by statute to be used for preservation of records.

Sheriff Commissary – accounts for profits on commissary sales in the county jail to be used by the Sheriff's office for jail expenses as restricted by state statute.

Indigent Grant – accounts for monies received from the Association of South Central Oklahoma Government to aide in funeral expenses for the indigent.

Free Fair Special – accounts for revenues derived from the rental of the fair building and disbursements are for fair expenses.

Safety Awards – accounts for monies received from the Association of County Commissioners of Oklahoma to be disbursed for employee safety awards.

K-9 – accounts for monies received from donations to be disbursed for the maintenance and supplies for the Sheriff's K-9 program.

FEMA – accounts for federal funds received and disbursements are for the repairs of highways and roads.

Rewards – accounts for the monies received from the Court Clerk's office and disbursements are for rewards in cases of littering.

911 Landline Fees – accounts for funds received for landline connections and disbursed for operating emergency landline services.

911 Wireless Fees – accounts for money received from wireless connections and disbursed for operating emergency wireless services.

Jefferson Healthcare - Sales Tax – accounts for the receipts and disbursements of sales tax for the County Healthcare Authority.

JEFFERSON COUNTY
DESCRIPTION OF COUNTY FUNDS AND TRANSFERS
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Interfund Transfer

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

- \$3,906 was transferred from the Excess Resale fund (a trust and agency fund) to the Resale Property fund in accordance with 68 O.S. § 3131(C).

JEFFERSON 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, 2016

	General Fund		
	Budget	Actual	Variance
Beginning Cash Balances	\$ 184,250	\$ 184,250	\$ -
Less: Prior Year Outstanding Warrants	(50,074)	(50,074)	-
Less: Prior Year Encumbrances	(6,582)	(6,337)	245
Beginning Cash Balances, Budgetary Basis	<u>127,594</u>	<u>127,839</u>	<u>245</u>
Receipts:			
Ad Valorem Taxes	362,585	383,578	20,993
Charges for Services	30,748	32,798	2,050
Intergovernmental Revenues	195,325	203,574	8,249
Sales Tax	247,272	289,225	41,953
Miscellaneous Revenues	8,818	19,023	10,205
Total Receipts, Budgetary Basis	<u>844,748</u>	<u>928,198</u>	<u>83,450</u>
Expenditures:			
District Attorney - State	2	-	2
County Sheriff	220,000	192,890	27,110
County Treasurer	75,907	75,867	40
County Commissioners OSU Extension	22,128	16,532	5,596
County Clerk	102,674	102,264	410
Court Clerk	72,258	71,925	333
County Assessor	61,300	60,868	432
Revaluation of Real Property	113,063	105,067	7,996
General Government	61,727	50,835	10,892
Excise - Equalization Board	3,901	3,869	32
County Election Expense	59,181	57,265	1,916
Insurance - Benefits	163,200	152,293	10,907
Fire Fighting Services	1	-	1
Recording Account	3,500	3,413	87
Civil Defense	1,000	429	571
County Audit Budget Account	4,000	4,000	-
Free Fair Budget Account	8,500	8,489	11
Provision for Interest	-	96	(96)
Total Expenditures, Budgetary Basis	<u>972,342</u>	<u>906,102</u>	<u>66,240</u>
Excess of Receipts and Beginning Cash			
Balances Over Expenditures, Budgetary Basis	<u>\$ -</u>	149,935	<u>\$ 149,935</u>
Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances			
Add: Cancelled Warrants		44	
Add: Current Year Outstanding Warrants		56,487	
Add: Current Year Encumbrances		7,040	
Ending Cash Balance		<u>\$ 213,506</u>	

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

JEFFERSON 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, 2016

	County Health Department Fund		
	Budget	Actual	Variance
Beginning Cash Balances	\$ 102,015	\$ 102,015	\$ -
Less: Prior Year Outstanding Warrants	(148)	(148)	-
Less: Prior Year Encumbrances	(7,976)	(7,823)	153
Beginning Cash Balances, Budgetary Basis	93,891	94,044	153
Receipts:			
Ad Valorem Taxes	90,474	95,699	5,225
Intergovernmental Revenues	200	224	24
Miscellaneous Revenues	-	8	8
Total Receipts, Budgetary Basis	90,674	95,931	5,257
Expenditures:			
County Health Budget Account	184,565	99,954	84,611
Total Expenditures, Budgetary Basis	184,565	99,954	84,611
Excess of Receipts and Beginning Cash Balances Over Expenditures, Budgetary Basis	\$ -	90,021	\$ 90,021
Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances			
Add: Current Year Encumbrances		14,602	
Add: Current Year Outstanding Warrants		133	
Ending Cash Balance		\$ 104,756	

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

**JEFFERSON COUNTY
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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, 2016. 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.

**JEFFERSON COUNTY, OKLAHOMA
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Objective 1: To determine the receipts apportioned, disbursements, and cash balances are accurately presented on the County Treasurer's monthly reports for FY 2016.

Conclusion: With respect to the items reconciled and reviewed; the receipts apportioned, disbursements, and cash balances are accurately presented on the County Treasurer's monthly reports.

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

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

FINDINGS AND RECOMMENDATIONS

Finding 2016-4 – Inadequate Internal Controls and Noncompliance Over the Disbursements of County Sales Tax (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 Title 68 O.S. § 1370E and identified as such as a revenue source. However, the funds were not discretely presented in a separate account within the County General Fund and therefore, specific expenditures made with sales tax funds could not be identified.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure compliance with 68 O.S. § 1370E and Attorney General Opinions.

Effect of Condition: This condition resulted in noncompliance with state statute and Attorney General Opinions and could result in unrecorded transactions, misstated financial reports, undetected errors, and misappropriation of funds.

Recommendation: The Oklahoma State Auditor & Inspector's Office (OSAI) recommends that the County sales tax apportioned to the County General Fund be accounted for in a separate account so as to discretely present the expenditures. In addition, the sales tax should be expended in such a manner to provide

**JEFFERSON COUNTY, OKLAHOMA
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

assurance that expenditures are made in accordance with purposes specified by the ballot as outlined by Title 68 O.S. § 1370E.

Management Response:

Chairman, Board of Commissioners: The Board of County Commissioners will implement changes and report sales tax in accordance with Oklahoma Statutes and AG Opinion 2005-23 and 2014-15.

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.”

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.

**JEFFERSON COUNTY, OKLAHOMA
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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

FINDINGS AND RECOMMENDATIONS

Finding 2016-5 – Inadequate Internal Controls and Noncompliance Over the Disbursement Process (Repeat Finding)

Condition: During a test of forty (40) purchase orders, we noted the following weaknesses with regard to the disbursement process:

- One (1) instance, for the office of the County Clerk, in which the purchase order was not signed by an approved requisition officer.
- Twelve (12) instances in which the purchase orders encumbrance was not made prior to receiving goods or services.
- The names of the Purchasing Agent and County Clerk are pre-printed on purchase orders by other offices maintaining the same software system and in thirty-six (36) instances, there was no evidence to support a review by the Purchasing Agent for the approval of the issuance and encumbrance and the County Clerk certifying encumbrance of available funds of said appropriation.
- Three (3) instances in which the secretary to the District 2 County Commissioner, who is not designated as the First Deputy, signed as a member of the governing board for approval of payment on the purchase orders.
- Two (2) instances in which the secretary to the District 2 County Commissioner, signed as the requisition officer and was not a designated requisitioning officer.

Further, in the review of Resolution 09-2015/2016 the following was reflected:

- Four (4) departments designated more than two employees as requisitioning officer in the absence of the County Official;
 - County Sheriff
 - District 1
 - District 2
 - District 3

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- Five departments designated more than two receiving officers;
 - County Clerk
 - County Assessor
 - District 1
 - District 2
 - District 3
- Four (4) departments only designated one receiving officer;
 - Election Board
 - OSU Extension
 - Court Clerk
 - Emergency Management
- Eleven (11) departments designated the same individuals as both requisitioning and receiving officers;
 - County Clerk
 - County Sheriff
 - Court Clerk
 - Custodian
 - Emergency Management
 - Excise Board
 - OSU Extension
 - District 1
 - District 2
 - District 3
 - County Assessor

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

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

Recommendation: OSAI recommends the County implement a system of internal controls over the disbursement process. Such controls should include ensuring that funds are encumbered prior to the receipt of goods and/or services, implementing review process with adequate documentation to support the review, and implementing procedures to ensure authorized personnel requisition, receive, and approve disbursements in accordance with 19 O.S. § 1501(A)(4), 19 O.S. § 1503(A), and 19 O.S. § 1505.

Management Response:

County Clerk: The County Clerk is aware of this condition and will implement controls to ensure that all purchase orders are timely encumbered, signed by an approved requisitioning officer, and signed by the

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purchasing agent and herself. Also, the personnel designated as receiving and requisitioning officers will be updated accordingly.

County Sheriff: The County Sheriff will update all personnel designated as receiving and requisitioning officers according to state statute.

District 1 Commissioner/Chairman: The Commissioner will designate appropriate personnel as receiving and requisitioning officers. We are aware of these conditions and will emphasize to all office the importance of internal controls, timely encumbrance, and compliance with state statutes.

District 2 Commissioner: The Commissioner will designate appropriate personnel as receiving and requisitioning officers and will ensure that all appropriate signatures are on all purchase orders.

District 3 Commissioner: The Commissioner will designate appropriate personnel as receiving and requisitioning officers.

County Assessor: The County Assessor will designate appropriate personnel as receiving and requisitioning officers.

Court Clerk: The Court Clerk will designate appropriate personnel as receiving and requisitioning officers.

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/disbursements calculations and/or transactions. Further, Title 19 O.S. § 1501(A)(4), 19 O.S. § 1503(A), and 19 O.S. § 1505 prescribes the procedures for requisition, purchase, and receipt of supplies, material, and equipment.

All Objectives:

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

Finding 2016-1 - Inadequate County-Wide Controls (Repeat Finding)

Condition: County-wide controls regarding Risk Assessment and Monitoring have not been designed.

Cause of Condition: Policies and procedures have not been designed and implemented to address risks of the County.

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Effect of Condition: Without an adequate system of county-wide internal controls, there is risk of a breakdown in control activities which could result in unrecorded transactions, undetected errors, or misappropriation of funds.

Recommendation: OSAI recommends that the County design and implement 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:

Chairman, Board of County Commissioners: We are aware of the condition and will work toward assessing and identifying risks to design written county-wide controls. The Board of County Commissioners will set up quarterly meetings with all elected officials to discuss and take action regarding Risk Assessment and Monitoring.

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.

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 process.

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Other Item(s) Noted:

Finding 2016-3 – Inadequate Internal Controls and Noncompliance Over the Bidding Process

Condition: Based upon inquiry and observation of the disbursements, it was noted that the County did not bid for the purchase of software used by the County Treasurer with a total cost of \$21,997.54.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure that expenditures are competitively bid in compliance with state statute 19 O.S. § 1505(B).

Effect of Condition: This condition resulted in noncompliance with state statute and could result in inaccurate records, incomplete information, or misappropriation of assets.

Recommendation: OSAI recommends that the County research items that are to be purchased and make every effort to obtain the best price for the County. Further, purchases in excess of \$15,000 should be competitively bid in accordance with state statutes.

Management Response:

County Treasurer: Our office will ensure that any expenditures over \$15,000 have been bid.

County Clerk: We will work to ensure compliance with state statutes and that all disbursements over \$15,000 go through the bid process.

Criteria: Best business practices would include following the competitive bidding process to ensure the taxpayers of the County receive the best value for their tax dollars.

Further, Title 19 O.S. § 1505(B) requires the counties to solicit bids, compare them to the state contract price for the items, and select “the lowest and best bid based upon, if applicable, the availability of material and transportation cost to the job site within 30 days,” specifying the reason “any time the lowest bid was not considered to be the lowest and best bid.”

Finding 2016-2 – Driving County Vehicle While Receiving the Monthly Travel Allowance (Repeat Finding)

Condition: During the audit period, District 2 and District 3 County Commissioners, received the monthly travel allowance in addition to driving a county-owned vehicle.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure compliance with state statutes regarding travel.

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Effect of Condition: This condition resulted in noncompliance with state statute and Attorney General (AG) opinion which prohibits an official from receiving both the travel allowance and driving a vehicle for in-county travel purposes.

Recommendation: OSAI recommends that the Board of County Commissioners establish and approve a policy pertaining to County Officials' monthly travel allowance. Further, OSAI recommends after establishing a travel policy for the elected official that each officer choose and document one of the following travel elections:

- Receive the monthly travel allowance as outlined by state statute.
- File monthly claims with appropriate documentation for actual out of pocket travel expenses.
- Drive a County-owned vehicle in lieu of a monthly allowance.

Management Response:

County Commissioner District 2: I only drive a county vehicle to pick up and deliver parts and employees. This issue will be discussed with our legal counsel.

County Commissioner District 3: I only drive a county vehicle when transporting employees, delivering fuel to equipment, as well as driving a dump truck. This issue will be discussed with our legal counsel.

Criteria: Title 19 O.S. § 165A outlines the monthly travel allowance in lieu of reimbursements.

Further, 1999 OK AG 68 states in part, “Both the monthly travel allowances of Section 165 and the use of a county-owned vehicle under Section 19 O.S. 180.43 (C) are “in lieu of” receiving a mileage reimbursement under Section 164. The use of a county-owned vehicle is also “in lieu” of the Section 165 monthly travel allowance.” “Section 165 was amended in 1998 to specify that receipt of a travel allowance under Section 165 does not preclude the “emergency use of a county-owned vehicle or county-owned equipment by a county officer when such county officer is acting on behalf of the county or when such use is related to county business.” Under this section, either a county sheriff or county commissioner may use a county-owned vehicle in an emergency situation even if the official receives a monthly allowance.

REPORT ON STATUTORY COMPLIANCE – OTHER MATTERS



Oklahoma State Auditor & Inspector

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Jefferson County
Board of County Commissioners
Jefferson County Courthouse
Waurika, Oklahoma 73573

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, 2016:

- All County Offices - Fixed Assets procedures (19 O.S. § 178.1, 19 O.S. 178.2, 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 Jefferson 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.

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

January 2, 2018

**JEFFERSON COUNTY, OKLAHOMA
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SCHEDULE OF FINDINGS AND RESPONSES

Finding 2016-6 – Inadequate Segregation of Duties Over the Court Clerk Revolving Fund and Court Fund Collection Processes and Noncompliance with Court Clerk Revolving Fund and Court Fund Expenditures (Repeat Finding)

Condition: Upon inquiry and observation of the Court Clerk Revolving Fund and Court Fund collection and disbursement processes, the following weaknesses were noted:

- All employees work from one cash drawer which is kept unlocked throughout the day.
- All employees can void receipts without authorization and/or review.

Additionally, the audit of twelve (12) Court Clerk Revolving Fund vouchers and twenty-five (25) Court Fund vouchers, reflected the following:

- Three (3) of the twelve (12) Court Clerk Revolving Fund vouchers tested did not have supporting documentation attached to the claim.
- Six (6) of the twenty-five (25) Court Fund vouchers tested did not have supporting documentation attached to the claim.

Cause of Condition: Policies and procedures have not been designed and implemented with regards to segregating the duties over all aspects of the collection and disbursement processes of the Court Clerk Revolving Fund and Court Fund. Additionally, procedures have not been implemented to ensure supporting documentation is attached to all claims.

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

Recommendation: OSAI recommends that management be aware of these conditions and determine if duties can be properly segregated. In the event that segregation of duties is not possible due to limited personnel, OSAI recommends implementing compensating controls to mitigate the risks involved with a concentration of duties. Compensating controls would include separating key processes and/or critical functions of the office, and having management review and approval of accounting functions. OSAI recommends the Court Clerk design and implement policies and procedures to ensure proper internal controls over the Court Clerk Revolving Fund and the Court Fund expenditure processes in compliance with 19 O.S. § 220 and 20 O.S. § 1304.

OSAI also recommends management establish separate cash drawers for each employee that receipts monies. The cash drawer should be closed out, reconciled to the employee's daily receipts, and be approved by someone independent of the cash drawer.

Furthermore, OSAI recommends that all Court Clerk Revolving and Court Fund expenditures have adequate supporting documentation.

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Management Response:

Court Clerk: We will implement compensating controls to mitigate the risks involved with a concentration of duties. We will attach supporting documentation to all claims.

Criteria: Effective internal controls are necessary to ensure stewardship and accountability of public funds. Aspects of effective accounting procedures include maintaining invoices and/or supporting documentation for all expenditures of the Court Clerk Revolving Fund and Court Fund.

Furthermore, 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, reviewing supporting documentation, certifying receipt of goods/services, signing the claim, and preparing and signing the checks should be segregated.

Title 19 O.S. § 220 and 20 O.S. § 1304 outlines the procedures for expending Court Clerk Revolving Fund monies and Court Fund monies, including proper documentation being attached to all claims.

Finding 2016-7 – Inadequate Internal Controls Over the Inmate Trust Fund Checking Account and Sheriff Commissary Fund (Repeat Finding)

Condition: Upon inquiry and observation of the Inmate Trust Fund Checking Account and Sheriff Commissary, the following exceptions were noted:

- One individual is responsible for opening the mail, receiving payments, preparing deposits, and preparing disbursements.
- Bank deposits are not made on a daily basis and there is no independent oversight of deposits.
- Bank statements are reconciled monthly; however, there is no independent oversight of the reconciliations to ensure accuracy.
- There is no independent oversight of reconciliations of phone card inventory.
- An annual Report of Sheriff Commissary Fund was not filed with the Board of Commissioners.

Cause of Condition: Policies and procedures have not been designed and implemented regarding the Inmate Trust Fund Checking Account and Sheriff Commissary Fund.

Effect of Condition: These conditions resulted in noncompliance with state statute and could result in an increased risk of unrecorded transactions, misstated reports, undetected errors, or 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 procedures lie in management's overseeing of office operations and a periodic review of operations. OSAI also recommends that deposits be made daily and that bank statements be reconciled monthly. OSAI further recommends that the Sheriff file an annual report with the Board of County Commissioners by January 15th of each year.

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Management Response:

County Sheriff: The County Sheriff will work towards enhancing internal controls over bank reconciliations, inmate ledgers, and phone card inventory. An annual report of Sheriff Commissary Fund will be filed with the Board of Commissioners.

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 disbursement calculations and/or transactions. To help ensure a proper accounting of funds, the duties of processing and authorizing should be segregated, and all monies collected should be deposited daily.

Title 19 O.S. § 180.43(D) states in part; “The sheriff shall file an annual report on any said commissary under his or her operation no later than January 15 of each year.”



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