

COUNTY AUDIT

# JOHNSTON COUNTY

For the fiscal year ended June 30, 2013



*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

**JOHNSTON COUNTY, OKLAHOMA  
FINANCIAL STATEMENT  
AND INDEPENDENT AUDITOR'S REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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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 9, 2015

TO THE CITIZENS OF  
JOHNSTON COUNTY, OKLAHOMA

Transmitted herewith is the audit of Johnston County, Oklahoma for the fiscal year ended June 30, 2013. The audit was conducted in accordance with 19 O.S. § 171.

A report of this type can be critical in nature. Failure to report commendable features in the accounting and operating procedures of the entity should not be interpreted to mean that they do not exist.

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, appearing to read "Gary A. Jones".

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

**JOHNSTON COUNTY, OKLAHOMA  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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**JOHNSTON COUNTY, OKLAHOMA  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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INTERNAL CONTROL AND COMPLIANCE SECTION

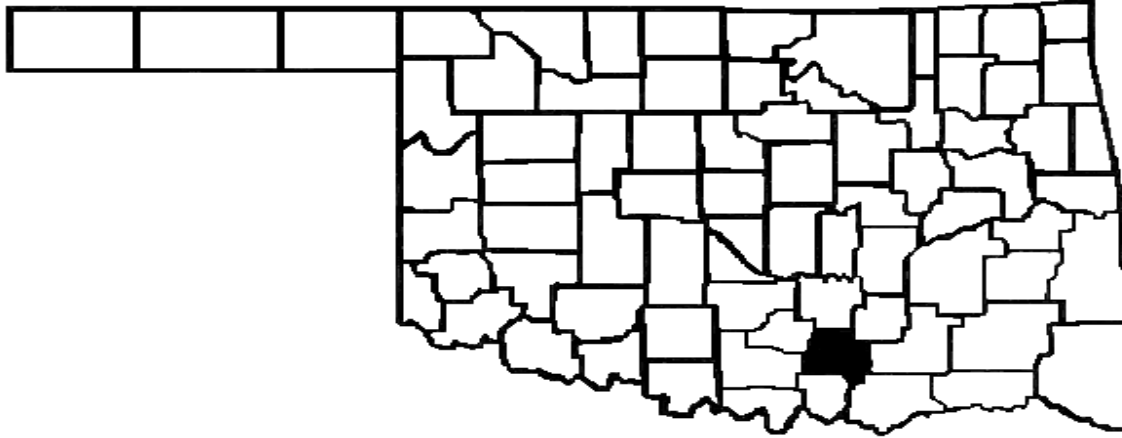
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PRESENTED FOR INFORMATIONAL PURPOSES ONLY**

**JOHNSTON COUNTY, OKLAHOMA  
STATISTICAL INFORMATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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Johnston County was created at statehood and named for Douglas H. Johnston, governor of the Chickasaw Nation. The county seat, Tishomingo, is the historic Capitol of the Chickasaw Nation. The county is rich in history, and the state has had two governors from Tishomingo. They were William H. “Alfalfa Bill” Murray, 1931-1935, and his son Johnston Murray, 1951-1955.

The Great Chickasaw Nation has restored the two-story granite building which was the last council house of the Chickasaw at the time of statehood. That building constructed in 1898 became the Johnston County Courthouse following statehood. The Capitol Building is now one of the finest cultural centers of the area, housing early artifacts and the history of the Chickasaw Nation.

Major industries in the county are Martin Marietta Material; Unimuin; U.S. Silica; TXI; Tape-Matics; Schott Pet Products, Sundowner Trailers, and agricultural and cattle operations. Wildlife and recreational areas include the Tishomingo National Wildlife Refuge, The Federal Fish Hatchery, and Catfish Research Center near Reagan, and the Blue River Public Hunting and Fishing area. *Johnston County History* and other books by the Johnston County Historical Society document the history of the area.

For additional information, call the county clerk at 580/371-3184.

County Seat – Tishomingo

Area – 658.29 Square Miles

County Population – 11,003  
(2012 est.)

Farms – 706

Land in Farms – 333,944 Acres

Primary Source: Oklahoma Almanac 2013-2014

**JOHNSTON COUNTY OFFICIALS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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**Board of County Commissioners**

District 1 – Roy Wayne Blevins  
District 2 – Mike Thompson  
District 3 – Melvin Farmer

**County Assessor**

Guyla Hart

**County Clerk**

Kathy Ross

**County Sheriff**

Jon Smith

**County Treasurer**

Rana Smith

**Court Clerk**

Cassandra Slover

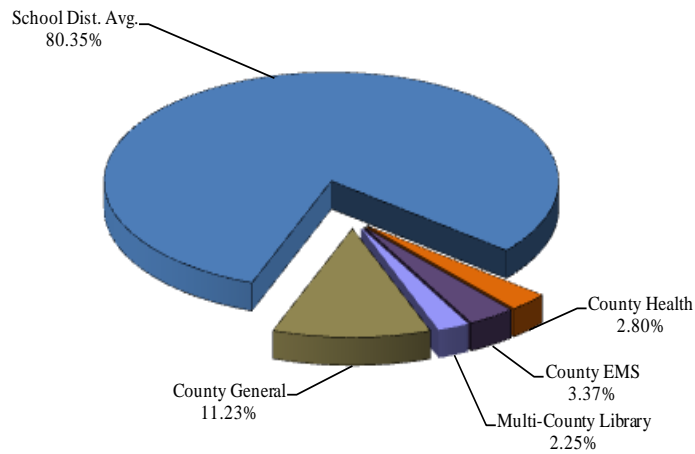
**District Attorney**

Craig Ladd



**JOHNSTON COUNTY, OKLAHOMA  
AD VALOREM TAX DISTRIBUTION  
SHARE OF THE AVERAGE MILLAGE  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

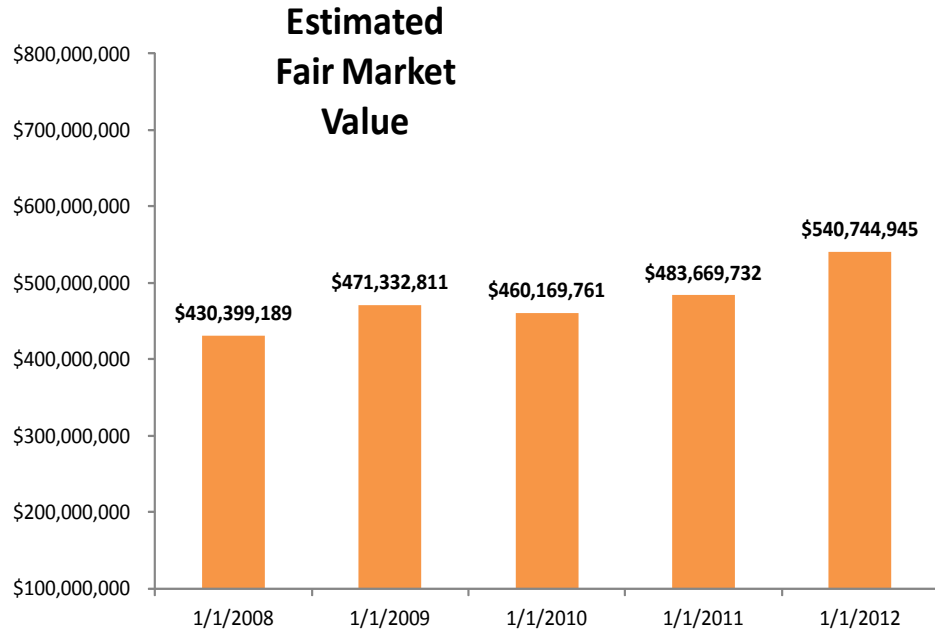
Property taxes are calculated by applying a millage rate to the assessed valuation of property. Millage rates are established by the Oklahoma Constitution. One mill equals one-thousandth of a dollar. For example, if the assessed value of a property is \$1,000.00 and the millage rate is 1.00, then the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



County-Wide Millages		School District Millages							
				Gen.	Bldg.	Skg.	Career Tech	Common	Total
County General	10.30								
County Health	2.57	Mill Creek	I-2	35.63	5.09	-	-	4.12	44.84
Multi-County Library	2.06	Mannsville	D-7	37.04	5.29	15.83	15.88	4.12	78.16
County EMS	3.09	Ravia	D-10	35.79	5.11	3.81	-	4.12	48.83
		Tishomingo	I-20	36.66	5.24	4.79	-	4.12	50.81
		Milburn	I-29	36.95	5.28	-	-	4.12	46.35
		Coleman	I-35	35.87	5.12	-	-	4.12	45.11
		Wapanucka	I-37	36.60	5.23	9.49	12.55	4.12	67.99
		Jt. Schools	Jt. 30	36.08	5.15	14.97	12.37	4.12	72.69
		Murray Co.	I-2	41.19	5.88	-	-	4.12	51.19
		Carter Co.	D-7	35.53	5.08	15.83	-	4.12	60.56
		Atoka Co.	I-37	37.26	5.32	9.49	-	4.12	56.19
		Atoka Co.	I-35	35.00	5.00	-	-	4.12	44.12
		Coal Co.	I-37	37.73	5.39	9.49	-	4.12	56.73

**JOHNSTON COUNTY, OKLAHOMA  
 ASSESSED VALUE OF PROPERTY  
 TREND ANALYSIS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Valuation Date	Personal	Public Service	Real Estate	Homestead Exemption	Net Value	Estimated Fair Market Value
1/1/2012	\$22,467,096	\$15,039,627	\$34,524,025	\$3,075,836	\$68,954,912	\$540,744,945
1/1/2011	\$17,298,961	\$13,171,073	\$33,824,432	\$3,060,713	\$61,233,753	\$483,669,732
1/1/2010	\$17,477,317	\$9,618,074	\$32,691,987	\$3,047,901	\$56,739,477	\$460,169,761
1/1/2009	\$19,254,859	\$9,762,448	\$32,178,191	\$2,990,225	\$58,205,273	\$471,332,811
1/1/2008	\$15,367,631	\$9,511,209	\$31,285,326	\$2,949,429	\$53,214,737	\$430,399,189

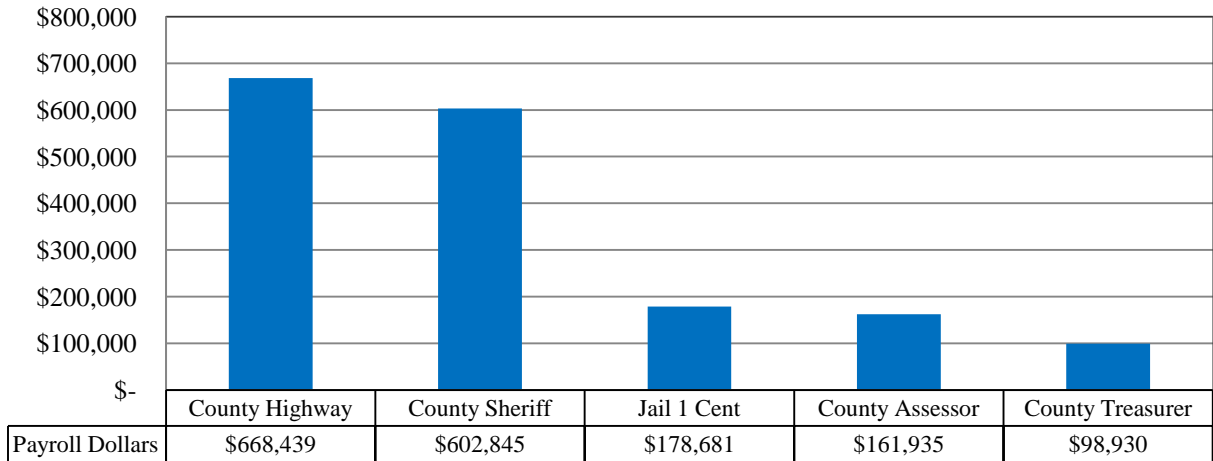


**JOHNSTON COUNTY, OKLAHOMA  
COUNTY PAYROLL EXPENDITURES ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

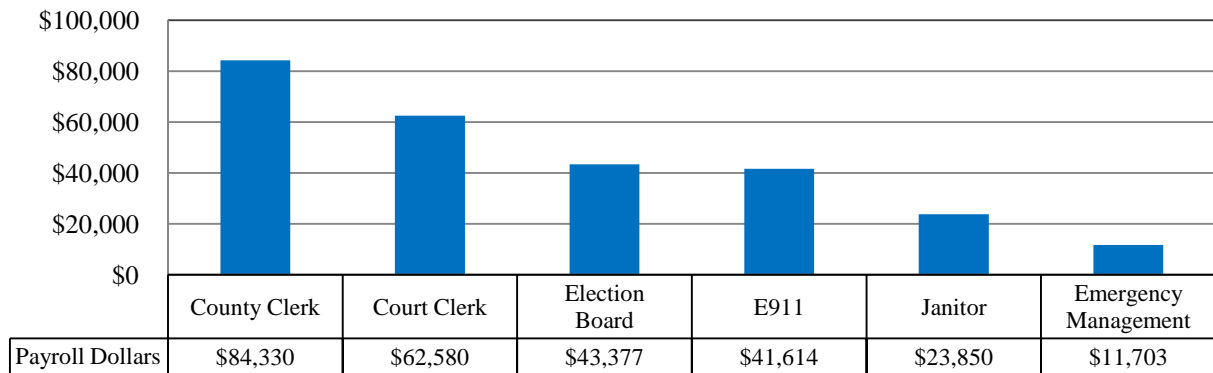
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County officers' salaries are based upon the assessed valuation and population of the counties. State statutes provide guidelines for establishing elected officers' salaries. The Board of County Commissioners sets the salaries for all elected county 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, 2013.

**Payroll Expenditures by Department**



**Payroll Expenditures by Department**

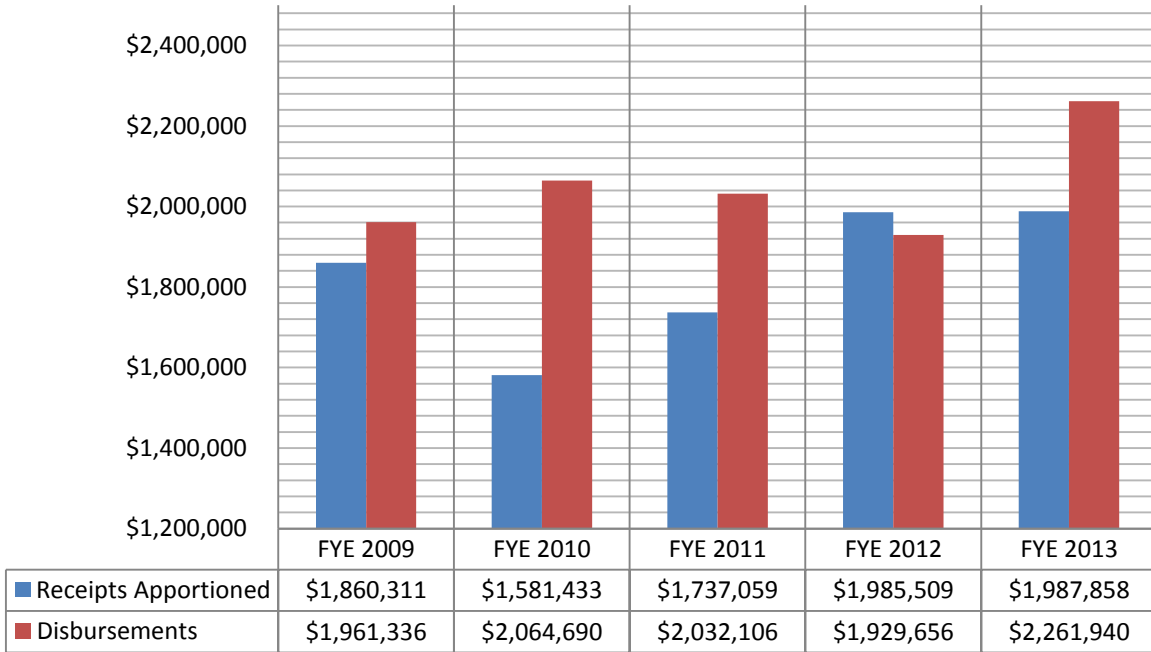


**JOHNSTON COUNTY, OKLAHOMA  
COUNTY GENERAL FUND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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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.

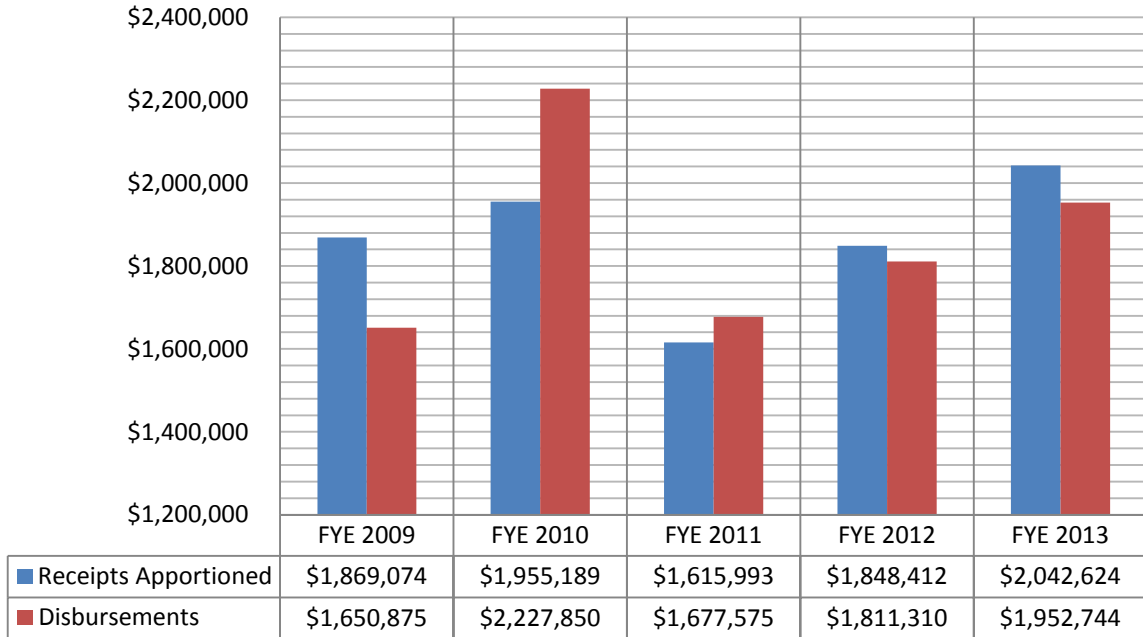


**JOHNSTON COUNTY, OKLAHOMA  
COUNTY HIGHWAY FUND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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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.



## **FINANCIAL SECTION**



# Oklahoma State Auditor & Inspector

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

## Independent Auditor's Report

TO THE OFFICERS OF  
JOHNSTON COUNTY, OKLAHOMA

### *Report on the Financial Statement*

We have audited the combined total—all county funds on the accompanying regulatory basis Statement of Receipts, Disbursements, and Changes in Cash Balances of Johnston County, Oklahoma, as of and for the year ended June 30, 2013, listed in the table of contents as the financial statement.

### *Management's Responsibility for the Financial Statement*

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the regulatory basis of accounting described in Note 1, and for determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles***

As described in Note 1 of the financial statement, the financial statement is prepared by Johnston County using accounting practices prescribed or permitted by Oklahoma state law, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

***Adverse Opinion on U.S. Generally Accepted Accounting Principles***

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of Johnston County as of June 30, 2013, or changes in its financial position for the year then ended.

***Opinion on Regulatory Basis of Accounting***

In our opinion, the financial statement referred to above presents fairly, in all material respects, the combined total of receipts, disbursements, and changes in cash balances for all county funds of Johnston County, for the year ended June 30, 2013, on the basis of accounting described in Note 1.

***Other Matters***

***Other Information***

Our audit was conducted for the purpose of forming an opinion on the combined total of all county funds on the financial statement. The Other Supplementary Information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statement.

The Other Supplementary Information, as listed in the table of contents, is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Other Supplementary Information, as listed in the table of contents, is fairly stated, in all material respects, in relation to the combined total—all county funds.

The information listed in the table of contents under Introductory Section has not been subjected to the auditing procedures applied in the audit of the financial statement, and accordingly, we do not express an opinion or provide any assurance on it.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 4, 2015, on our consideration of Johnston County’s internal control over financial reporting and on our tests of its



compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and in considering Johnston County's internal control over financial reporting and compliance.

A handwritten signature in blue ink, appearing to read "Gary A. Jones". The signature is fluid and cursive, with a long horizontal stroke at the end.

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

June 4, 2015

**REGULATORY BASIS FINANCIAL STATEMENT**

**JOHNSTON COUNTY, OKLAHOMA**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND**  
**CHANGES IN CASH BALANCES—REGULATORY BASIS**  
**(WITH COMBINING INFORMATION)—MAJOR FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	Beginning Cash Balances July 1, 2012	Receipts Apportioned	Transfers In	Transfers Out	Disbursements	Ending Cash Balances June 30, 2013
Combining Information:						
Major Funds:						
County General Fund	\$ 1,582,233	\$ 1,987,858	\$ 33,384	\$ -	\$ 2,261,940	\$ 1,341,535
T-Highway	1,190,488	2,042,624	-	-	1,952,744	1,280,368
Resale Property	107,434	73,899	-	-	72,903	108,430
County Health	187,898	251,009	-	-	190,187	248,720
Sheriff Cash Fund	204,193	219,833	-	-	264,832	159,194
Emergency 911	327,528	120,694	-	-	98,216	350,006
Jail One-Cent Sales Tax	111,415	215,646	-	-	234,058	93,003
Fire 1/4 Cent Sales Tax	-	25,929	-	-	-	25,929
Community Development Block Grant	23,699	345,801	-	-	369,500	-
Johnston County Public Facilities	-	300,000	-	-	292,159	7,841
Sinking Fund	31,872	1,643	-	33,384	-	131
Remaining Aggregate Funds	1,560,082	293,600	-	107,477	460,845	1,285,360
<b>Combined Total - All County Funds</b>	<b>\$ 5,326,842</b>	<b>\$ 5,878,536</b>	<b>\$ 33,384</b>	<b>\$ 140,861</b>	<b>\$ 6,197,384</b>	<b>\$ 4,900,517</b>

The notes to the financial statement are an integral part of this statement.

**JOHNSTON COUNTY, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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**1. Summary of Significant Accounting Policies**

**A. Reporting Entity**

Johnston County is a subdivision of the State of Oklahoma created by the Oklahoma Constitution and regulated by Oklahoma Statutes.

The accompanying financial statement presents the receipts, disbursements, and changes in cash balances of the total of all funds under the control of the primary government. The general fund is the county's general operating fund, accounting for all financial resources except those required to be accounted for in another fund, where its use is restricted for a specified purpose. Other funds established by statute and under the control of the primary government are also presented.

The County Treasurer collects and remits material amounts of intergovernmental revenues and ad valorem tax revenue for other budgetary entities, including emergency medical districts, libraries, school districts, and cities and towns. The cash receipts and disbursements attributable to those other entities do not appear in funds on the County's financial statement; those funds play no part in the County's operations. Any trust or agency funds maintained by the County are not included in this presentation.

**B. Fund Accounting**

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 included as combining information within the financial statement:

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

T-Highway – accounts for state, local and miscellaneous receipts and disbursements are for the purpose of constructing and maintaining 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 statute.

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

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

Emergency 911 – accounts for grant funds received for the purpose of a 911 service.

**JOHNSTON COUNTY, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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Jail One-Cent Sales Tax – accounts for the collection of sales tax revenue and the disbursement of funds as restricted by the sales tax resolution.

Fire ¼ Cent Sales Tax – accounts for the collection of sales tax revenue and the disbursement of funds as restricted by the sales tax resolution.

Community Development Block Grant – accounts for federal grant funds for various projects, including a community system, water treatment facility, and capital improvement planning.

Johnston County Public Facilities – accounts for loan proceeds used to construct a family health center. The County Commissioners are the Board for this Authority. All purchases are subject to county purchasing procedures and are accounted for on the County's ledgers.

Sinking Fund – accounts for the payment of interest and principal on the matured portion of long-term bonded debt. Debt service receipts are derived generally from a special ad valorem tax levy and from interest earned on investments of cash not immediately required for debt service payments.

**C. Basis of Accounting**

The financial statement is prepared on a basis of accounting wherein amounts are recognized when received or disbursed. This basis of accounting differs from accounting principles generally accepted in the United States of America, which require revenues to be recognized when they become available and measurable or when they are earned, and expenditures or expenses to be recognized when the related liabilities are incurred. This regulatory basis financial presentation is not a comprehensive measure of economic condition or changes therein.

Title 19 O.S. § 171 specifies the format and presentation for Oklahoma counties to present their financial statement in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) or on a regulatory basis. The County has elected to present their financial statement on a regulatory basis in conformity with Title 19 O.S. § 171. County governments (primary only) are required to present their financial statements on a fund basis format with, at a minimum, the general fund and all other county funds, which represent ten percent or greater of total county revenue. All other funds included in the audit shall be presented in the aggregate in a combining statement.

**D. Budget**

Under current Oklahoma Statutes, a general fund and a county health department fund are the only funds required to adopt a formal budget. On or before the first Monday in July of each year, each officer or department head submits an estimate of needs to the governing body. The budget is approved for the respective fund by office, or department and object. The County Board of Commissioners may approve changes of appropriations within the fund by office or department

**JOHNSTON COUNTY, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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and object. To increase or decrease the budget by fund requires approval by the County Excise Board.

**E. Cash and Investments**

For the purposes of financial reporting, "Ending Cash Balances, June 30" includes cash and cash equivalents and investments as allowed by statutes. The County pools the cash of its various funds in maintaining its bank accounts. However, cash applicable to a particular fund is readily identifiable on the County's books. The balance in the pooled cash accounts is available to meet current operating requirements.

State statutes require financial institutions with which the County maintains funds to deposit collateral securities to secure the County's deposits. The amount of collateral securities to be pledged is established by the County Treasurer; this amount must be at least the amount of the deposit to be secured, less the amount insured (by, for example, the FDIC).

The County Treasurer has been authorized by the County's governing board to make investments. Allowable investments are outlined in statutes 62 O.S. § 348.1 and § 348.3.

All investments must be backed by the full faith and credit of the United States Government, the Oklahoma State Government, fully collateralized, or fully insured. All investments as classified by state statute are nonnegotiable certificates of deposit. Nonnegotiable certificates of deposit are not subject to interest rate risk or credit risk.

**2. Ad Valorem Tax**

The County's property tax is levied each October 1 on the assessed value listed as of January 1 of the same year for all real and personal property located in the County, except certain exempt property. Assessed values are established by the County Assessor within the prescribed guidelines established by the Oklahoma Tax Commission and the State Equalization Board. Title 68 O.S. § 2820.A. states, ". . . Each assessor shall thereafter maintain an active and systematic program of visual inspection on a continuous basis and shall establish an inspection schedule which will result in the individual visual inspection of all taxable property within the county at least once each four (4) years."

Taxes are due on November 1 following the levy date, although they may be paid in two equal installments. If the first half is paid prior to January 1, the second half is not delinquent until April 1. Unpaid real property taxes become a lien upon said property on October 1 of each year.

**JOHNSTON COUNTY, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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**3. Other Information**

**A. Pension Plan**

Plan Description. The County contributes to the Oklahoma Public Employees Retirement Plan (the Plan), a cost-sharing, multiple-employer defined benefit pension plan administered by the Oklahoma Public Employees Retirement System (OPERS). Benefit provisions are established and amended by the Oklahoma Legislature. The Plan provides retirement, disability, and death benefits to Plan members and beneficiaries. Title 74, Sections 901 through 943, as amended, establishes the provisions of the Plan. OPERS issues a publicly available financial report that includes financial statements and supplementary information. That report may be obtained by writing OPERS, P.O. Box 53007, Oklahoma City, Oklahoma 73105 or by calling 1-800-733-9008.

Funding Policy. The contribution rates for each member category are established by the Oklahoma Legislature and are based on an actuarial calculation which is performed to determine the adequacy of contribution rates.

**B. Other Post Employment Benefits (OPEB)**

In addition to the pension benefits described in the Pension Plan note, OPERS provides post-retirement health care benefits of up to \$105 each for retirees who are members of an eligible group plan. These benefits are funded on a pay-as-you-go basis as part of the overall retirement benefit. OPEB expenditure and participant information is available for the state as a whole; however, information specific to the County is not available nor can it be reasonably estimated.

**C. Contingent Liabilities**

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, primarily the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable fund. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time; although, the County expects such amounts, if any, to be immaterial.

As of the end of the fiscal year, there were no claims or judgments that would have a material adverse effect on the financial condition of the County; however, the outcome of any lawsuit would not be determinable.

**D. Sales Tax**

The voters of Johnston County approved a 1% sales tax on April 7, 2009. The sales tax was established to provide revenue for: 12% City & Rural Fire Protection; 10% Ambulance Service; 1% Civil Defense; 1% Sheriff's Reserves; 1% General to Emergency Services; 10% OSU Extension & 4-H; 2% Counseling, Inc.; 2% County Free Fair; 4% Senior Citizens; 2% General to

**JOHNSTON COUNTY, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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Community Services; 11% Courthouse Maintenance & Operation; 37% Support to County Offices; and 7% General to County Government. The sales tax is for a period of five (5) years, beginning January 1, 2010 and ending December 31, 2014.

The voters of Johnston County approved a .25% sales tax on November 6, 2012. The sales tax was established to provide revenue for eleven (11) fire departments in the County which includes the following: Bee-Butcher Pen; Bromide; Coleman; Connerville; Mannsville; Milburn; Mill Creek; Ravia; Reagan; Tishomingo; and Wapanucka. Of the .25%, 12.5% of the proceeds of said tax is to be deposited in an account designated for Fire Chiefs for emergency use and for 12.5% of the proceeds of said tax going into a general account for the commissioners of said County to use in their discretion for the benefit of one or more of said fire departments. The sales tax is for a period of five (5) years beginning on January 1, 2013.

The voters of Johnston County approved a .25% sales tax on January 8, 2013. The sales tax was established to provide revenue for the maintenance and operation of the facility to house prisoners in Johnston County, Oklahoma. The sales tax is for a period of ten (10) years beginning April 2013 to April 2023.

**E. Lodging Tax**

The voters of Johnston County passed a lodging tax of five percent per room per night derived from the occupancy of hotel, motel, or lodge rooms to be used for the purpose of economic development which expired December 31, 2008. The County failed to notify the Oklahoma Tax Commission that the tax had expired and the County is still collecting the lodging tax. Collections during the fiscal year ending June 30, 2013 were \$12,855.

**F. Interfund Transfers**

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

- \$107,477 was transferred from the CBRI 105 cash fund to the Emergency Transportation Revolving Fund (ETR), (a trust and agency fund). These transfers were required due to these monies being a loan for road and bridge projects.

During the fiscal year, the County made the following residual equity transfer between cash funds.

- \$33,384 was transferred from County Sinking fund to County General Fund to close out the excess remaining balance in the County Sinking fund.



**JOHNSTON COUNTY, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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**G. Reclassification**

Due to the reclassification of funds for fiscal year ending June 30, 2013, the beginning balance as reported is different than the June 30, 2012 ending balance. The difference is due to a fund being reported as a county fund in fiscal year 2012 that should have been classified as a trust and agency fund, resulting in a decrease of \$138,013.

Prior year ending, as reported	\$5,464,855
Fund moved to trust and agency fund	<u>(138,013)</u>
Prior year ending balance, as restated	<u>\$5,326,842</u>

**OTHER SUPPLEMENTARY INFORMATION**

**JOHNSTON COUNTY, OKLAHOMA**  
**COMPARATIVE SCHEDULE OF RECEIPTS, EXPENDITURES, AND**  
**CHANGES IN CASH BALANCES—BUDGET AND ACTUAL—BUDGETARY BASIS—**  
**GENERAL FUND**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	General Fund		
	Budget	Actual	Variance
Beginning Cash Balance:	\$ 1,582,232	\$ 1,582,233	\$ 1
Less: Prior Years Outstanding Warrants	(128,059)	(128,059)	-
Less: Prior Year Reserves	(48,896)	(47,688)	1,208
Beginning cash balances, budgetary basis	<u>1,405,277</u>	<u>1,406,486</u>	<u>1,209</u>
Residual Equity Transfer In	-	33,384	33,384
Receipt:			
Ad Valorem taxes	645,669	712,856	67,187
Charges for Services	39,775	81,719	41,944
Sales Tax	748,099	862,436	114,337
Intergovernmental revenues	424,189	295,129	(129,060)
Miscellaneous Revenues	-	35,718	35,718
Total receipts, budgetary basis	<u>1,857,732</u>	<u>1,987,858</u>	<u>130,126</u>
Expenditures:			
District Attorney - County	10,000	9,854	146
County Sheriff	362,644	362,247	397
County Treasurer	67,381	67,380	1
County Commissioners	134,488	133,970	518
County Clerk	92,281	89,130	3,151
Court Clerk	67,381	67,380	1
County Assessor	68,619	68,618	1
Revaluation of Real Property	148,029	120,492	27,537
General Government	552,943	245,155	307,788
Excise - Equalization Board	2,700	2,050	650
County Election Expense	50,996	49,353	1,643
Insurance - Benefits	297,745	297,608	137
Sales Tax	569,299	250,216	319,083
Sales Tax	814,046	480,038	334,008
County Audit Budget Account	24,457	24,457	-
Total Expenditures, budgetary basis	<u>3,263,009</u>	<u>2,267,948</u>	<u>995,061</u>
Excess of Receipts and Beginning Cash Balances Over Expenditures, Budgetary Basis	<u>\$ -</u>	<u>1,126,396</u>	<u>\$ 1,126,396</u>
Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances			
Add: Current Year Outstanding Warrants		150,440	
Add: Current Year Reserves		31,315	
Ending Cash Balance		<u>\$ 1,341,535</u>	

**JOHNSTON 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, 2013**

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County Health Department Fund			
	Budget	Actual	Variance
Beginning Cash Balance:	\$ 187,898	\$ 187,898	\$ -
Less: Prior Years Outstanding Warrants	(35,055)	(35,055)	-
Beginning cash balances, budgetary basis	152,843	152,843	-
Receipts:			
Ad valorem taxes	161,104	177,615	16,511
Charges for Services	64,677	13,752	(50,925)
Intergovernmental	-	2,994	2,994
Miscellaneous revenues	-	56,648	56,648
Total receipts, budgetary basis	225,781	251,009	25,228
Expenditures:			
County Health Budget Account	378,624	225,808	152,816
Total expenditures, budgetary basis	378,624	225,808	152,816
Excess of receipts and beginning cash balances over disbursements, budgetary basis	\$ -	\$ 178,044	\$ 178,044
Reconciliation to Statement of Receipts Disbursements and Changes in Cash Balances:			
Add: Current Year Outstanding Warrants		70,676	
Ending Cash Balance		\$ 248,720	

**JOHNSTON COUNTY, OKLAHOMA**  
**COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS, AND**  
**CHANGES IN CASH BALANCES—REGULATORY BASIS—**  
**REMAINING AGGREGATE FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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	Beginning Cash Balances July 1, 2012	Receipts Apportioned	Transfers Out	Disbursements	Ending Cash Balances June 30, 2013
Remaining Aggregate Funds:					
Sheriff Unclaimed Property	\$ 3,253	\$ 112	\$ -	\$ 970	\$ 2,395
Treasurer Mortgage Certification Fee	965	1,655	-	695	1,925
County Clerk Fee Fund	16,759	12,958	-	19,151	10,566
Assessor Revolving	7,955	1,693	-	8,071	1,577
Sheriff Drug Fund	4,088	1,000	-	2,129	2,959
Waste Grant	4,405	-	-	-	4,405
Fair Barn Grant 2001	13,714	4	-	5,167	8,551
Reward Fund	500	-	-	-	500
County Clerk Preservation (RMP)	19,026	13,540	-	8,994	23,572
SODA Special Project	-	40,000	-	40,000	-
Sheriff BOJ Fund	4,322	6,435	-	6,140	4,617
Free Fair Cash Voucher Fund	2,200	-	-	1,734	466
Sheriff Commissary Cash Fund	20,097	14,067	-	14,044	20,120
CBRI 105	1,441,453	202,126	107,477	353,750	1,182,352
CBRI 103	21,345	10	-	-	21,355
<b>Combined Total - Remaining Aggregate Funds</b>	<u>\$ 1,560,082</u>	<u>\$ 293,600</u>	<u>\$ 107,477</u>	<u>\$ 460,845</u>	<u>\$ 1,285,360</u>

**JOHNSTON COUNTY, OKLAHOMA  
NOTES TO OTHER SUPPLEMENTARY INFORMATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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**1. Budgetary Schedules**

The Comparative Schedules of Receipts, Expenditures, and Changes in Cash Balances—Budget and Actual—Budgetary Basis for the General Fund and the County Health Department Fund present comparisons of the legally adopted budget with actual data. The "actual" data, as presented in the comparison of budget and actual, will differ from the data as presented in the Combined Statement of Receipts, Disbursements, and Changes in Cash Balances with Combining Information because of adopting certain aspects of the budgetary basis of accounting and the adjusting of encumbrances and outstanding warrants to their related budget year.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in these funds. At the end of the year unencumbered appropriations lapse.

**2. Remaining County Funds**

Remaining aggregate funds as presented on the financial statement are as follows:

Sheriff Unclaimed Property – accounts for monies generated as a result of the sale of unclaimed property and the disbursement of the funds as restricted by statutes.

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

County Clerk Fee Fund – accounts for lien collections and disbursements as restricted by statutes.

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

Sheriff Drug Fund – accounts for the collection of the Sheriff's percentage of drug forfeiture.

Waste Grant – accounts for federal grant monies received for solid waste stations across the County.

Fair Barn Grant 2001 – accounts for state grant monies received and used to construct a new fair barn.

Reward Fund – accounts for donations to be used as a reward for information leading to the arrest of vandals.

**JOHNSTON COUNTY, OKLAHOMA  
NOTES TO OTHER SUPPLEMENTARY INFORMATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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County Clerk Preservation (RMP) – accounts for fees collected for instruments filed in the County Clerk’s office as restricted by statute for preservation of records.

SODA Special Project – accounts for state funds to be used for various county projects.

Sheriff BOJ Fund – accounts for bond fees collected by the Sheriff’s office and the disbursement of funds as restricted by statute.

Free Fair Cash Voucher Fund – accounts for the collection of revenue generated from building rent, booth rent, and other fees, and the disbursement of funds as restricted by state statute.

Sheriff Commissary Cash Fund – accounts for the collection of fees transferred from the inmate trust money for commissary items and the disbursement of funds as restricted by state statute.

CBRI 105 – County Bridge and Road Improvement Funds (CBRI) accounts for collections from the Oklahoma Department of Transportation and the disbursements are for roadway and bridge construction within the County.

CBRI 103 – County Bridge and Road Improvement Funds (CBRI) accounts for collections from the Oklahoma Department of Transportation and the disbursements are for bridge projects within the County.

**INTERNAL CONTROL AND COMPLIANCE SECTION**





# Oklahoma State Auditor & Inspector

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

## **Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards***

TO THE OFFICERS OF  
JOHNSTON COUNTY, OKLAHOMA

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the combined total—all funds of the accompanying Combined Statement of Receipts, Disbursements, and Changes in Cash Balances of Johnston County, Oklahoma, as of and for the year ended June 30, 2013, which comprises Johnston County's financial statement, prepared using accounting practices prescribed or permitted by Oklahoma state law, and have issued our report thereon dated June 4, 2015.

Our report included an adverse opinion on the financial statement because the statement is prepared using accounting practices prescribed or permitted by Oklahoma state law, which is a basis of accounting other than accounting principles generally accepted in the United States of America. However, our report also included our opinion that the financial statement does present fairly, in all material respects, the receipts, disbursements, and changes in cash balances – regulatory basis of the County for the year ended June 30, 2013, on the basis of accounting prescribed by Oklahoma state law, described in Note 1.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statement, we considered Johnston County's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of Johnston County's internal control. Accordingly, we do not express an opinion on the effectiveness of Johnston County's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses: 2013-1, 2013-4, and 2013-5.

A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses to be a significant deficiency: 2013-3.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Johnston County's financial statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters regarding statutory compliance that we reported to the management of Johnston County, which are included in Section 2 of the schedule of findings and responses contained in this report.

### **Johnston County's Responses to Findings**

Johnston County's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. Johnston County's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on the responses.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

This report is also 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.



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

June 4, 2015

**JOHNSTON COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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**SECTION 1—Findings related to the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards***

**Finding 2013-1 – County-Wide Internal Controls**

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

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

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

**Recommendation:** The Oklahoma State Auditor & Inspector's Office (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:**

**BOCC Chairman:** The Board of County Commissioners (BOCC) will work together with all County Officials to develop a plan to monitor the County's internal controls to ensure that audit findings and other reviews are properly resolved.

**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 made. 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.

**JOHNSTON COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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**Finding 2013-3 – Written Disaster Recovery Plan**

**Condition:** Upon inquiry, the following offices do not have a Disaster Recovery Plan:

- County Clerk
- County Commissioners
- County Sheriff
- County Court Clerk

**Cause of Condition:** Policies and procedures have not been designed and implemented to prepare a formal Disaster Recovery Plan.

**Effect of Condition:** The failure to have a formal Disaster Recovery Plan could result in the County being unable to function in the event of a disaster. The lack of a formal plan could cause significant problems in ensuring County business could continue uninterrupted.

**Recommendation:** OSAI recommends the County Officials develop a Disaster Recovery Plan that addresses how critical information and systems within their offices would be restored in the event of a disaster.

**Management Response:**

**County Clerk:** Our software provider maintains an off-site backup, and understands what would be required to restore all critical information in the event of a disaster. I will complete a detailed Disaster Recovery form.

**County Commissioner District 1, District 2, and District 3:** The BOCC will work to create a Disaster Recovery Plan for each District and work with all officials to ensure that each office has a Disaster Recovery Plan and that they are all filed with the County Clerk.

**County Sheriff:** The Sheriff's office will develop a Disaster Recovery Plan for the safeguarding of assets and to ensure that business could continue as usual in the event of a disaster.

**County Court Clerk:** Our software provider maintains an off-site backup, and understands what would be required to restore all critical information in the event of a disaster. I will complete a detailed Disaster Recovery form.

**Criteria:** An important aspect of internal controls is the safeguarding of assets which includes adequate Disaster Recovery Plans. 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 in a County being unable to function in the event of a disaster.

According to the standards of the Information Systems Audit and Control Association (CobiT Delivery and Support 4), information services function management should ensure that a written disaster recovery plan is documented and contains the following:

**JOHNSTON COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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- Guidelines on how to use the recovery plan;
- Emergency procedures to ensure the safety of all affected staff members;
- Roles and responsibilities of information services function, vendors providing recovery services, users of services and support administrative personnel;
- Listing of systems requiring alternatives (hardware, peripherals, software);
- Listing of highest to lowest priority applications, required recovery times and expected performance norms;
- Various recovery scenarios from minor to loss of total capability and response to each in sufficient detail for step by step execution;
- Training and/or awareness of individual and group roles in continuing plan;
- Listing of contracted service providers;
- Logistical information on location of key resources, including back-up site for recovery operating system, applications, data files, operating manuals, and program/system/user documentation;
- Current names, addresses, telephone numbers of key personnel; and
- Business resumption alternatives for all users for establishing alternative work locations once IT services are available.

**Finding 2013-4 – Internal Controls Over Cash Receipting Process**

**Condition:** Adequate internal controls and segregation of duties over the receipting process do not appear to be in place. Upon inquiry and observation with County personnel, the following was noted:

- **County Clerk:** The employee who issues receipts also reconciles the cash drawer, prepares the deposit, and reconciles the official depository account to the Treasurer. Only one cash drawer is used. Any of the deputies can open the mail however, no mail log is maintained.
- **County Assessor:** The Assessor and all deputies issue receipts and use the same cash drawer. One employee prepares the deposit. There is no review or approval of these functions other than the employee performing the task. Any of the deputies can open the mail however, no mail log is maintained.
- **County Sheriff:** The employee who issues receipts also reconciles the cash drawer, prepares the deposit, and reconciles the official depository account to the Treasurer. There is no review or approval of these functions other than the employee performing the task. No mail log is maintained.
- **Election Board:** The Election Board Secretary and the Deputy issue receipts and the Deputy prepares the deposit. There is no review or approval of these functions other than the employee performing the task. No mail log is maintained.

**Cause of Condition:** In order to provide prompt services to citizens of Johnston County and for ease of operations, the County offices utilize all employees to issue receipts. Additionally, due to the limited number of personnel, one individual is sometimes responsible for all the key functions of the office.

**JOHNSTON COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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

**Recommendation:** OSAI recommends the following key accounting functions of the County offices be adequately segregated:

- Issuing receipts.
- Preparing/reviewing deposits and taking them to the County Treasurer.
- Maintaining accounting ledgers and reconciling to the County Treasurer.

In addition, OSAI recommends establishing a system of internal controls to adequately protect the collections of the offices, which include but are not limited to the following:

- Establish separate cash drawers for all employees receiving cash.
- Compiling a daily mail log of payments received in the mail.

**Management Response:**

**County Clerk:** In order to efficiently utilize office space and employee time, we only have one cash drawer. We will maintain documentation of an independent verification of all reconciliations. The County Clerk will implement compensating controls to mitigate the risks involved with a concentration of duties.

**County Assessor:** This has been corrected. The duties within the Assessor's office have been properly segregated.

**County Sheriff:** We will implement compensating controls to mitigate the risks involved with a concentration of duties. This will include maintaining documentation where receipts are reconciled to deposits, and an independent verification of all reconciliations

**County Election Board Secretary:** I will maintain documentation of an independent verification of all reconciliations. I will implement compensating controls to mitigate the risks involved with a concentration of duties.

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

**Finding 2013-5 – Inadequate Internal Controls and Noncompliance Over the Disbursement Process**

**Condition:** We noted the following weaknesses regarding the disbursement process:

- The Purchasing Agent solely performs key duties with no independent verification of accuracy.

**JOHNSTON COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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- The Purchasing Agent encumbers funds, verifies availability of encumbrance, prints the purchase orders, verifies supporting documentation, initiates payments for claims, and prints warrants.
- The County Clerk reconciles the appropriation ledger and warrants registered to the County Treasurer monthly; however, there is no verification of an independent review maintained.
- The duties of processing payroll are not adequately segregated. The Payroll Clerk enrolls new hires, makes payroll changes, runs verification reports, prints payroll checks, distributes payroll checks, and maintains personnel files.

While testing 60 disbursements, the following was not timely encumbered:

Purchase Order Number	Warrant Number	Vendor	Purchase Order Date	Invoice Date	Amount	Purpose
3454	1597	ODOT	4/11/13	4/1/13	\$4,797.97	Lease Payment

**Cause of Condition:** Procedures have not been designed to adequately segregate key accounting functions regarding the purchasing and payroll processes to ensure compliance with state statutes.

**Effect of Condition:** These conditions resulted in noncompliance with state statute, laws, regulations, or legislative intent, and could result in inaccurate records, incomplete information, or misappropriation of assets.

**Recommendation:** 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.

OSAI also recommends the following key account functions of the payroll process be adequately segregated:

- Posting new hires and/or making payroll changes to the payroll system.
- Maintaining personnel files.
- Preparing end of month payroll reports.

Further, OSAI recommends County Officials implement procedures to ensure that purchases comply with Title 19 O.S. § 1500-1505.

**Management Response:**

**BOCC Chairman:** Purchase orders will have proper documents attached and be properly encumbered or a letter from our legal counsel will be obtained prior to BOCC approval of purchase orders.

**County Clerk:** Compensating controls over payroll will be implemented. The key payroll processes will be separated where possible. All reviews will be documented and dated. To become more compliant with the statutes, I will send out a memo to all entities to ensure that proper procedures are followed when purchasing. Receiving reports, purchase orders being encumbered initially, requisitioning and receiving

**JOHNSTON COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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officers, have all been stressed in following proper procedures. All purchase orders that do not comply with purchasing guidelines will be marked as *“Does not comply with purchasing guidelines”* prior to being submitted to the BOCC for approval.

**Criteria:** Title 19 O.S. § 1500-1505 prescribes the procedures established for the requisition, purchase, lease-purchase, rental, and receipt of supplies, material, and equipment for maintenance, operation, and capital expenditures of county government.

Further, effective internal controls would include all supporting documentation related to disbursements be attached to the purchase order prior to approval for payment.

**SECTION 2—This section contains certain matters not required to be reported in accordance with *Government Auditing Standards*. However, we believe these matters are significant enough to bring to management’s attention. We recommend that management consider these matters and take appropriate corrective action.**

**Finding 2013-10 – Inadequate Internal Controls and Noncompliance Over the Inmate Trust Fund Checking Account and Sheriff Commissary Fund**

**Condition:** Upon inquiry of Sheriff’s staff and observation of the recordkeeping process over the Inmate Trust Fund Checking Account and the Sheriff Commissary Fund, we noted the following weaknesses:

- There is an inadequate segregation of duties regarding the County Sheriff’s Inmate Trust Fund Checking Account. The Commissary Administrator performs all of the daily activity in the Inmate Trust Fund Checking Account. The Commissary Administrator receipts payments, prepares and makes the bank deposits, prepares inmate reports and reconciles the bank statement.
- Inmate funds were posted to inmate accounts at the time of receipt, but were not deposited at the financial institution on a daily basis.
- The Sheriff’s office does not file an annual report for the Commissary Fund with the Board of County Commissioners by January 15th of each year.

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

**Effect of Condition:** These conditions resulted in noncompliance with state statutes. Also, a single person having responsibility for more than one area of recording, authorization, custody of assets, and execution of transactions could result in unrecorded transactions, misstated financial reports, clerical errors, or misappropriation of funds not being detected in a timely manner.

**Recommendation:** OSAI recommends management be aware of these conditions and determine how to properly segregate duties. OSAI recommends implementing compensating procedures to mitigate the risks involved with a concentration of duties. Compensating procedures would include separating key



**JOHNSTON COUNTY, OKLAHOMA  
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FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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processes and/or critical functions of the office, and having management review and approve the accounting functions. The duties of issuing receipts, depositing, and reconciling should be performed by separate individuals.

Additionally, OSAI recommends that the County Sheriff make daily deposits of funds collected under color of office, and comply with 19 O.S. § 180.43 and file an annual report for the commissary fund with the board of County Commissioners by January 15 of each year.

**Management Response:**

**County Sheriff:** We will implement compensating controls to mitigate the risks involved with a concentration of duties. This will be accomplished by having a separation of individuals counting the funds, receipting the funds, and depositing the funds. All receipts will be issued in numerical order, and deposited daily. We will also work to file with the Board of County Commissioners an annual report on the Sheriff's Commissary by January 15<sup>th</sup> of each year.

**Criteria:** Effective accounting procedures and internal controls are necessary to ensure stewardship and accountability of public funds. Safeguarding controls are an aspect of internal controls. Safeguarding controls relate to the prevention or timely detection of unauthorized transaction and unauthorized access to assets. Failure to perform tasks that are part of internal controls, such as reconciliations not performed or not timely prepared, are deficiencies in internal control. Further, reconciliations should be performed on a monthly basis.

Effective internal controls should provide for procedures wherein receipts for the monies collected are maintained and available for inspection and deposits are made in a timely manner.

Title 19 O.S. § 180.43 E. and D. states in part, "Any funds received pursuant to said operations shall be the funds of the county where the persons are incarcerated and shall be deposited in the Sheriff's Commissary Account. The sheriff shall be permitted to expend the funds to improve or provide jail services. The sheriff shall be permitted to expend any surplus in the Sheriff's Commissary Account for administering expenses for training equipment, travel or for capital expenditures. The claims for expenses shall be filed with and allowed by the board of county commissioners in the same manner as other claims. The Sheriff shall receive no compensation for the operation of said commissary. The sheriff shall file an annual report on any said commissary under his or her operation no later than January 15th of each year."

Title 19 O.S. § 531 (A) states in part, "The county sheriff may establish a checking account, to be designated the "Inmate Trust Checking Account." The county sheriff shall deposit all monies collected from inmates incarcerated in the county jail into this checking account and may write checks to the Sheriff's Commissary Account for purchases made by the inmate during his or her incarceration and to the inmate from unencumbered balances due the inmate upon his or her discharge." In addition, Title 19 O.S. § 531 C. states, "Banking fees on the account may be paid out of the Sheriff Commissary Account or the county Sheriff's Service Cash Fund."

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**Finding 2013-11 – Inadequate Internal Controls and Noncompliance Over Fixed Assets and Consumable Inventories**

**Condition:** Upon inquiry and observation of fixed assets and consumable inventory records, the following weaknesses were noted:

- **County Commissioner District 2, and 3:** The consumable inventory process is not adequately segregated. One individual verifies that goods were received, records the items on the inventory cards, and performs a visual verification of the items on hand.
- **County Commissioner District 2:** Although transfer documents are maintained, District 2 does not properly update consumable inventory balances to reflect items transferred in or out.

Additionally, our test of eighty-nine (89) fixed assets noted the following exceptions:

Five (5) Items were not properly marked with County identification numbers:

- District 1            302-18        2000 Mack Truck
- District 1            439-5         Powerwasher
- District 2            304-31        John Deere 6615 Tractor
- District 2            323-2         Caterpillar Dozer
- District 2            323-3         John Deere Dozer

Two (2) Items were mis-labeled:

- District 1            302-17        2000 International Truck marked as 302-14
- District 1            340-1         Asphalt Patcher marked as 340-3

One (1) Item was not located:

- County Clerk        240-13        HP Elite 8300 Computer

**Cause of Condition:** Policies and procedures have not been designed and implemented by County Officers for the accurate reporting of fixed assets and consumable inventory items, as well as procedures to ensure the proper marking of equipment.

**Effect of Condition:** These conditions resulted in noncompliance with state statutes. Opportunities for loss and misappropriation of County assets may be more likely to occur when the County does not have procedures in place to account for fixed assets and consumable inventories.

**Recommendation:** OSAI recommends the County adopt policies and procedures to implement a system of internal controls over the fixed assets and consumable inventory records. These controls would include that all offices:

- Perform an annual inventory count.
- Retain documentation to verify the physical inventory counts are performed.

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- Inventory count should be performed by someone other than the receiving officer or inventory officer.

Further, OSAI recommends the County comply with 19 O.S. § 178.1 by maintaining inventory records and properly marking assets with county identification numbers, and performing and documenting a periodic inventory of fixed assets. The verification should be performed by an individual independent of the fixed asset recordkeeping process. Additionally, OSAI recommends the County comply with 69 O.S. § 645 by designing procedures to ensure that all equipment is properly marked with county identification numbers and “Property of Johnston County.”

Further, OSAI recommends the County comply with 19 O.S. § 1502 (A)1 by maintaining consumable inventory records that properly reflect items transferred in or out.

**Management Response:**

**County Commissioner District 1:** We will maintain documentation of the physical inventory in the future.

**County Commissioner District 2:** We will maintain documentation of the physical inventory in the future. Consumable inventory records will be updated, and we will also work to implement a system of internal controls over the consumable inventory records.

**County Commissioner District 3:** We will maintain documentation of the physical inventory in the future, and ensure that all items are properly marked with county identification numbers. We will also work to implement a system of internal controls over the consumable inventory.

**County Clerk:** We will update our inventory and maintain documentation of the annual inventory count.

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

**Finding 2013-12 – Inadequate Segregation of Duties – Court Clerk**

**Condition:** OSAI noted instances in which a single person could be responsible for the recording, authorization, custody, and execution of revenue transactions. We noted the following concerns:

- All employees work out of one cash drawer.
- All Court Clerk employees perform the duties of receiving money and issuing receipts. The Court Clerk employees are also rotating the duties of balancing the cash drawer, preparing the deposit, making the deposit, and posting to the ledger. The one employee will perform all of these duties on the day of their rotation.
- Any of the deputies can open the mail however, no mail log is maintained.

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**Cause of Condition:** Policies and procedures have not been designed with regards to segregation of duties and/or compensating controls within the Court Clerk's office.

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

**Recommendation:** OSAI recommends management be aware of these conditions and realize that 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. Regarding the receipting process, OSAI 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.

**Management Response:**

**Court Clerk:** In order to efficiently utilize office space and employee time, we only have one cash drawer. We do confirm with another employee any money we receive and change given back. A different person does the deposit daily. I maintain a log of the denominations of all bills that we start with in the cash drawer each day. We will maintain documentation of an independent verification of all reconciliations. The Court Clerk will implement compensating controls to mitigate the risks involved with a concentration of duties, and we will also work on establishing a mail log.

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



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