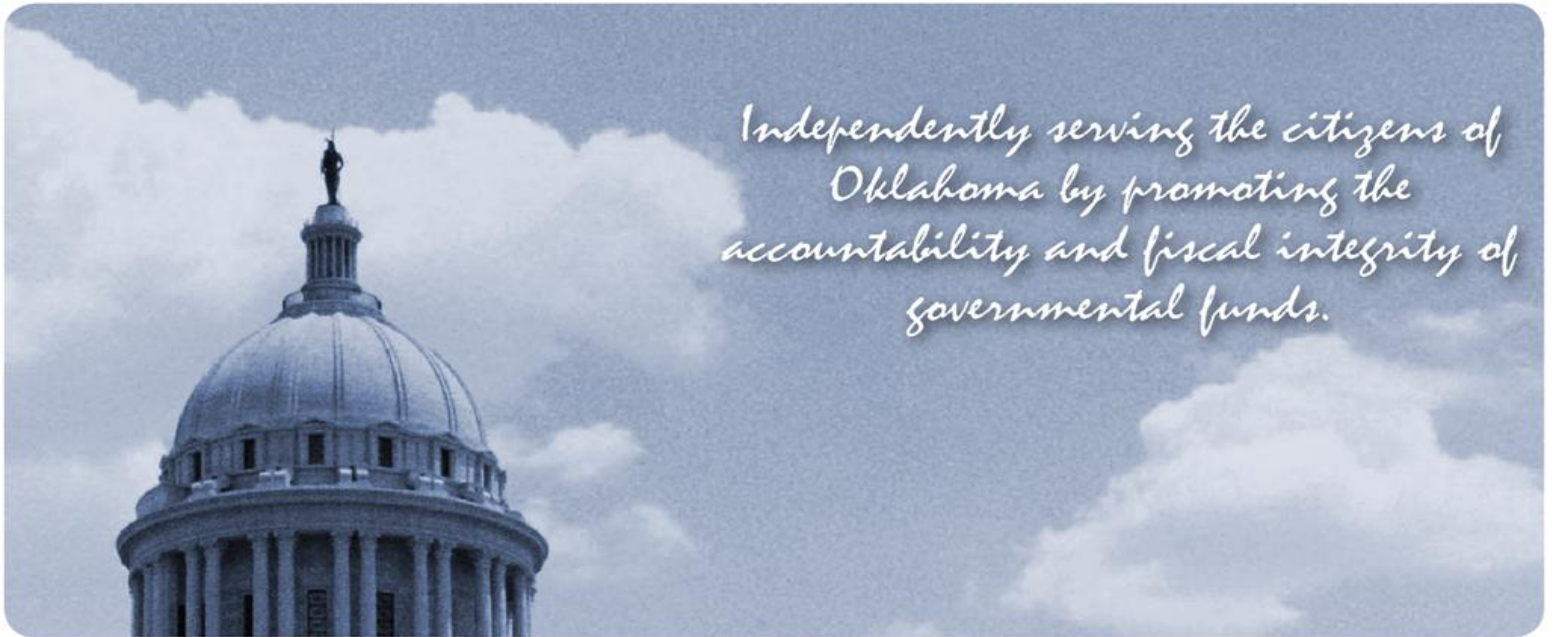


OPERATIONAL AUDIT

JOHNSTON COUNTY

For the fiscal year ended June 30, 2014



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

**JOHNSTON COUNTY OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

This publication, issued by the Oklahoma State Auditor and Inspector's Office as authorized by 19 O.S. § 171, has not been printed, but is available on the agency's website (www.sai.ok.gov) and in the Oklahoma Department of Libraries Publications Clearinghouse Digital 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

February 24, 2016

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

Transmitted herewith is the audit report of Johnston County for the fiscal year ended June 30, 2014.

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

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

Sincerely,

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

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

**JOHNSTON COUNTY, OKLAHOMA
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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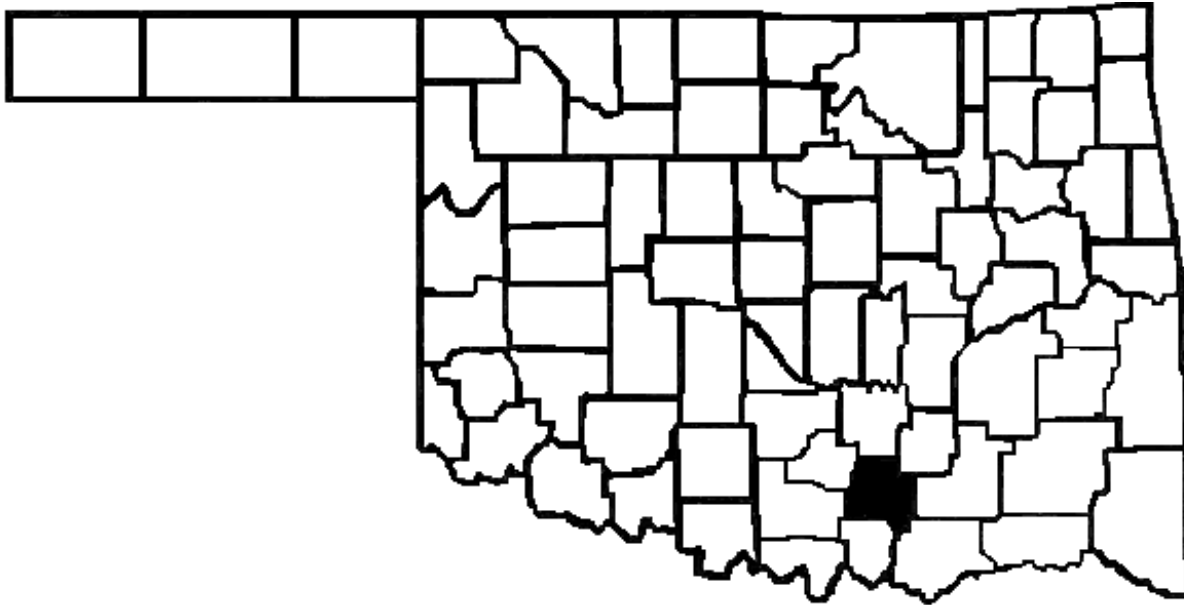
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**JOHNSTON COUNTY, OKLAHOMA
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**



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, Unimin, U.S. Silica, TXI, Tape-Matics, Scott Pet Products, Sundowner Trailers, and agriculture 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, 2014**

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

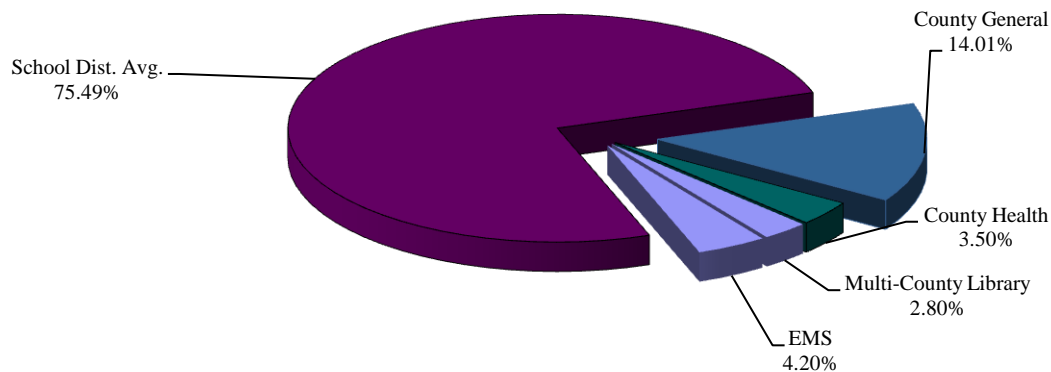
Cassandra Slover

District Attorney

Craig Ladd

**JOHNSTON COUNTY, OKLAHOMA
AD VALOREM TAX DISTRIBUTION
SHARE OF THE AVERAGE MILLAGE
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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.	Skd.	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	15.58	15.33	4.12	77.36
EMS	3.09	Ravia	D-10	35.79	5.11	3.05	-	4.12	48.07
		Tishomingo	I-20	36.66	5.24	4.57	-	4.12	50.59
		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	8.95	12.55	4.12	67.45
		Jt. Schools	Jt. 30	36.08	5.15	15.20	12.37	4.12	72.92
		Murray Co.	I-2	41.19	5.88	-	-	4.12	51.19
		Carter Co.	D-7	35.53	5.08	15.58	-	4.12	60.31
		Atoka Co.	I-37	37.26	5.32	8.95	-	4.12	55.65
		Atoka Co.	I-35	36.15	5.16	-	-	4.12	45.43
		Coal Co.	I-37	37.73	5.39	8.95	-	4.12	56.19

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

Sales Tax

Sales Tax of April 7, 2009

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

Sales Tax of November 6, 2012

The voters of Johnston County approved a 0.25% 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 accounted for in the Fire ¼ Cent Sales Tax Fund. The sales tax is for a period of five (5) years beginning January 1, 2013 and ending December 31, 2017.

Sales Tax of January 8, 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 accounted for in the Jail One-Cent Sales Tax Fund. The sales tax is for a period of ten (10) years beginning April 2013 to April 2023.

Lodging Tax

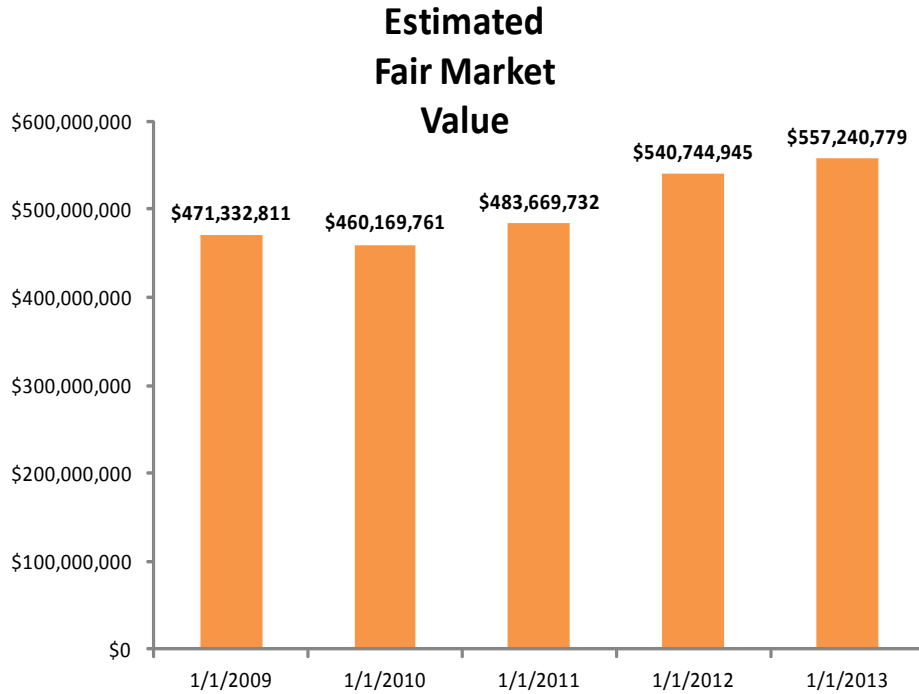
The voters of Johnston County passed a lodging tax of 5% per room per night derived from the occupancy of hotel, motel, or lodge rooms to be used for the purpose of economic development. This tax was to expire December 31, 2008. The County failed to notify the Oklahoma Tax Commission that the tax had expired and the County is still collecting the lodging tax. The lodging tax is accounted for in the JCIA Lodging Tax fund. The revenue is remitted directly to the Johnston County Industrial Authority.

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

Sales Tax Accounts in County General Fund	Total Collection
City & Rural Fire Protection	\$ 112,016
Ambulance Service	93,346
Civil Defense	9,335
Sheriff's Reserves	9,335
General to Emergency Services	9,335
OSU Extension & 4-H	93,346
Counseling, Inc.	18,669
County Free Fair	18,669
Senior Citizens	37,340
General to Community Services	18,669
Courthouse Maintenance & Operation	102,681
Support of County Offices	345,382
General to County Government	<u>65,342</u>
Total Sales Tax of April 7, 2009	\$ 933,465
Fire ¼ Cent Sales Tax fund	
Bee-Butcher Pen Fire Department	\$ 15,911
Bromide Fire Department	15,911
Coleman Fire Department	15,911
Connerville Fire Department	15,911
Mannsville Fire Department	15,911
Milburn Fire Department	15,911
Mill Creek Fire Department	15,911
Ravia Fire Department	15,911
Reagan Fire Department	15,911
Tishomingo Fire Department	15,911
Wapanucka Fire Department	15,911
Fire Chiefs for Emergency Use	29,172
General Use of Fire Departments	<u>29,172</u>
Total Fire ¼ Cent Sales Tax fund	\$ 233,365
Jail One-Cent Sales Tax fund	\$ 233,366
JCIA Lodging Tax fund	<u>\$ 11,142</u>
Total Collection	<u>\$1,411,338</u>

**JOHNSTON COUNTY, OKLAHOMA
ASSESSED VALUE OF PROPERTY
TREND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

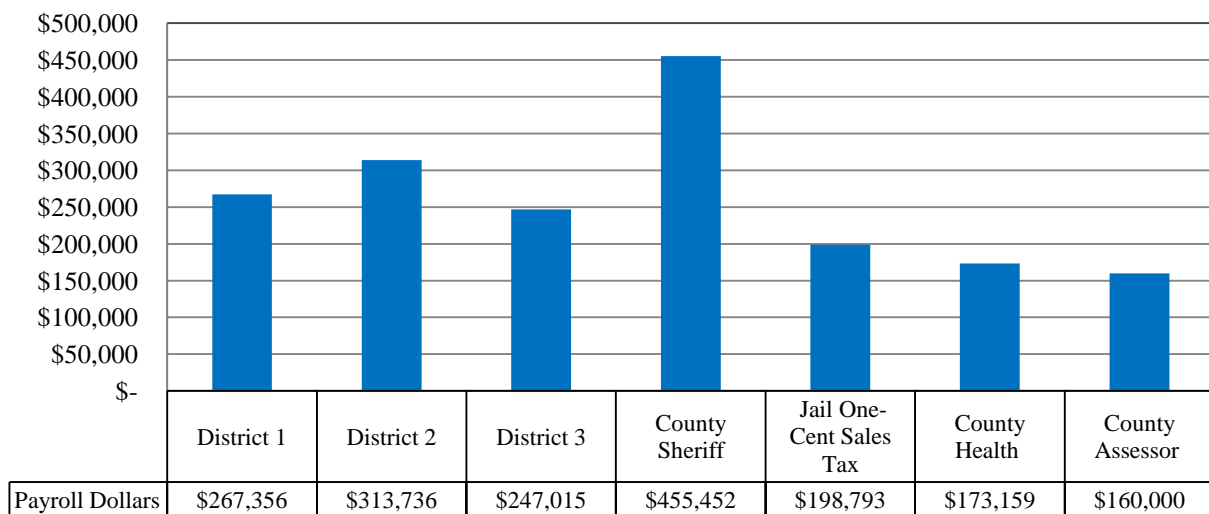
Valuation Date	Personal	Public Service	Real Estate	Homestead Exemption	Net Value	Estimated Fair Market Value
1/1/2013	\$23,454,010	\$15,205,166	\$35,429,676	\$3,107,275	\$70,981,577	\$557,240,779
1/1/2012	\$22,467,096	\$15,039,627	\$34,524,025	\$3,075,836	\$68,954,912	\$540,744,945
1/1/2011	\$17,298,961	\$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



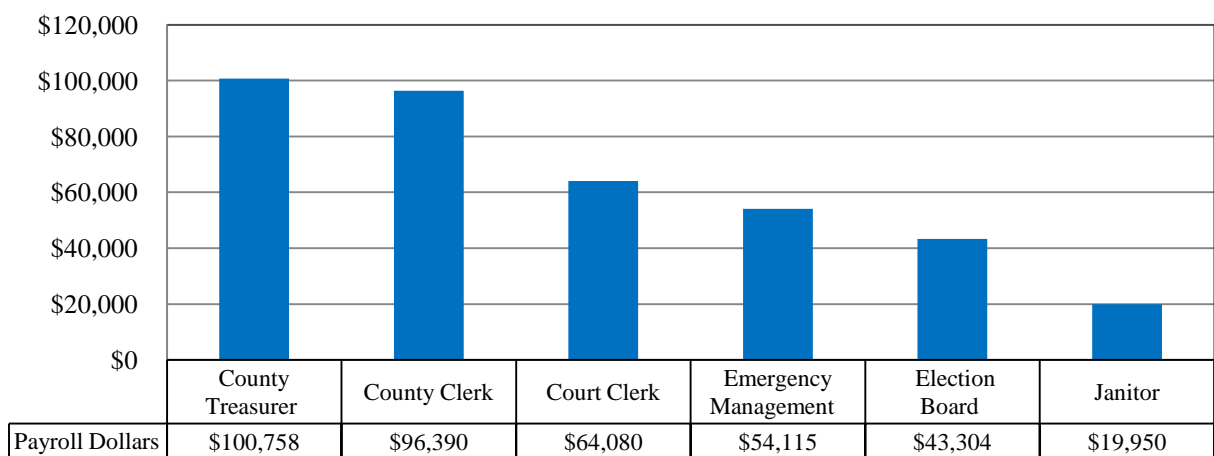
**JOHNSTON COUNTY, OKLAHOMA
COUNTY PAYROLL EXPENDITURES ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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, 2014.

Payroll Expenditures by Department



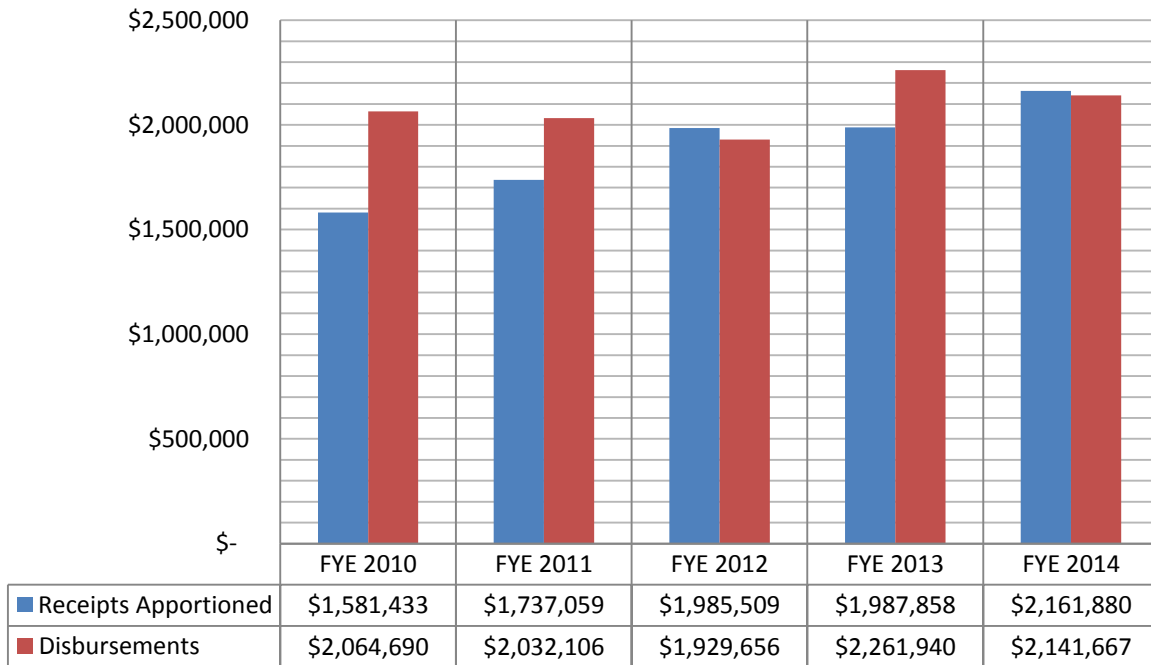
Payroll Expenditures by Department



**JOHNSTON COUNTY, OKLAHOMA
COUNTY GENERAL FUND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

County General Fund

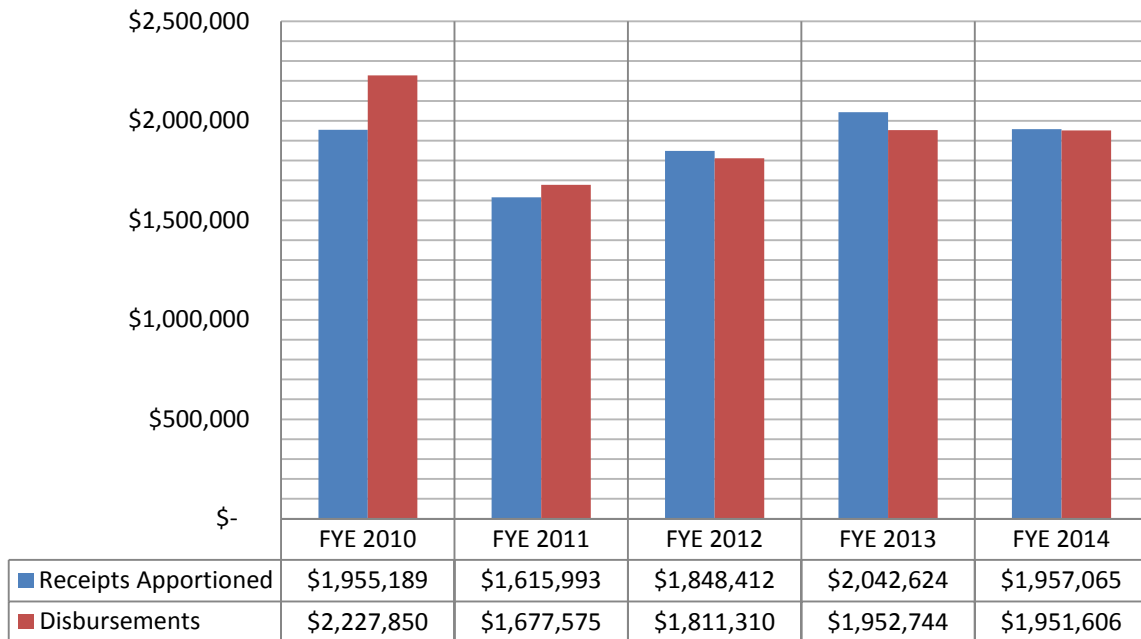
The Oklahoma Constitution and the Oklahoma Statutes authorize counties to create a County General Fund, which is the county's primary source of operating revenue. The County General Fund is typically used for county employees' salaries plus many expenses for county maintenance and operation. It also 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, 2014**

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.



**JOHNSTON COUNTY
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Presentation of Apportionments, Disbursements, and Cash Balances of County Funds for Fiscal Year Ending June 30, 2014

	Beginning Cash Balances July 1, 2013	Receipts Apportioned	Disbursements	Ending Cash Balances June 30, 2014
Combining Information:				
County Funds:				
County General Fund	\$ 1,341,535	\$ 2,161,880	\$ 2,141,667	\$ 1,361,748
T-Highway	1,280,368	1,957,065	1,951,606	1,285,827
Resale Property	108,430	69,760	76,984	101,206
County Health	248,720	260,778	333,798	175,700
Sheriff Cash Fund	159,194	313,356	306,315	166,235
Emergency 911	350,006	123,193	108,304	364,895
Jail One-Cent Sales Tax	93,003	233,411	226,568	99,846
Fire 1/4 Cent Sales Tax	25,929	233,428	30,193	229,164
Community Development Block Grant	-	225,750	225,750	-
Johnston County Public Facilities	7,841	94,706	89,730	12,817
Sinking Fund	131	613	-	744
Sheriff Unclaimed Property	2,395	-	-	2,395
Treasurer Mortgage Tax Certification Fee	1,925	1,430	91	3,264
County Clerk Fee Fund	10,566	9,458	14,866	5,158
Assessor Revolving	1,577	2,077	744	2,910
Sheriff Drug Fund	2,959	-	1,141	1,818
Waste Grant	4,405	-	-	4,405
Fair Barn Grant 2001	8,551	2	7,868	685
Reward Fund	500	-	-	500
County Clerk Preservation (RMP)	23,572	15,115	18,602	20,085
Sheriff BOJ Fund	4,617	5,107	3,798	5,926
Free Fair Cash Voucher Fund	466	-	-	466
Sheriff Commissary Cash Fund	20,120	22,622	27,225	15,517
County Bridge and Road Improvement 105	1,182,352	372,021	212,335	1,342,038
County Bridge and Road Improvement 103	21,355	10	-	21,365
JCIA Lodging Tax	838	12,745	12,123	1,460
Combined Total - All County Funds - As Restated	\$ 4,901,355	\$ 6,114,527	\$ 5,789,708	\$ 5,226,174

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

**JOHNSTON COUNTY
DESCRIPTION OF COUNTY FUNDS
OPERATIONAL AUDIT
FOR THE FISCAL YEAR JUNE 30, 2014**

Description of County Funds

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

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

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

T-Highway – accounts for 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 disposition of sale as restricted by state statute.

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

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

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

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.

**JOHNSTON COUNTY
DESCRIPTION OF COUNTY FUNDS
OPERATIONAL AUDIT
FOR THE FISCAL YEAR JUNE 30, 2014**

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 state statute.

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

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

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

Sheriff Drug Fund – accounts for the collection of monies of the Sheriff's percentage of drug forfeitures, and disbursements are used for drug prevention, education, and awareness.

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

Fair Barn Grant 2001 – accounts for state grant monies received and disbursed for the construction of a new fair barn.

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

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

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

Free Fair Cash Voucher Fund – accounts for the collection of revenues 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.

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

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

**JOHNSTON COUNTY
DESCRIPTION OF COUNTY FUNDS
OPERATIONAL AUDIT
FOR THE FISCAL YEAR JUNE 30, 2014**

JCIA Lodging Tax – accounts for the collection of lodging tax revenue and the disbursement of funds as restricted by the sales tax ballot.

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, 2014

	County Health Department Fund		
	Budget	Actual	Variance
Beginning Cash Balances	\$ 248,720	\$ 248,720	\$ -
Less: Prior Year Outstanding Warrants	(70,677)	(70,615)	62
Beginning Cash Balances, Budgetary Basis	178,043	178,105	62
Receipts:			
Ad Valorem Taxes	165,839	180,214	14,375
Charges for Services	-	15,471	15,471
Contributions from other funds	-	3,639	3,639
Intergovernmental Revenues	-	3,312	3,312
Miscellaneous Revenues	-	58,142	58,142
Total Receipts, Budgetary Basis	165,839	260,778	94,939
Expenditures:			
County Health Budget Account	343,882	263,982	79,900
Total Expenditures, Budgetary Basis	343,882	263,982	79,900
Excess of Receipts and Beginning Cash Balances Over Expenditures, Budgetary Basis	\$ -	174,901	\$ 174,901
Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances			
Add: Current Year Outstanding Warrants		799	
Ending Cash Balance		\$ 175,700	

**JOHNSTON COUNTY
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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, 2014. 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, and
- Selecting representative samples to determine disbursements were made in accordance with state statutes, approved ballots, and county purchasing procedures.
- 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.

**JOHNSTON COUNTY
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Objective 1: To determine the receipts apportioned, disbursements, and cash balances are accurately presented on the County Treasurer's monthly reports for FY 2014.

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 2014-2 – Noncompliance Over Appropriation and Disbursement of County Sales Tax Collections

Condition: The sales tax accounts are budgeted within the County General Fund; however, the excess sales tax collections were not properly appropriated to the following accounts according to the sales tax ballot:

- 1 Cent 10 Courthouse
- 1 Cent 12 Courthouse
- 1 Cent 11 Benefits
- 1 Cent 3 General

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

Effect of Condition: This condition resulted in noncompliance with the state statute and Attorney General Opinions 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 sales tax collections be appropriated according to the sales tax ballot.

**JOHNSTON COUNTY
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Management Response:

BOCC Chairman and County Clerk: We have discussed this issue with the budget maker. This was an oversight and corrective measures will be taken.

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 7/13/2005 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, 1943 OK 245 ¶ 11, 33 P.2d 477, 479.

Finding 2014-3 – Inadequate Internal Controls and Noncompliance Over the Collection and Disbursement of County Lodging Sales Tax

Condition: Upon inquiry and observation of the recordkeeping process of collecting and expending county lodging tax, which was apportioned to the JCIA Lodging Tax fund, the following was noted:

- The County failed to notify the Oklahoma Tax Commission that the lodging tax had expired on December 31, 2008, and the County is still collecting the tax.
- The lodging tax was deposited into the JCIA Lodging Tax cash fund as specified by Title 68 O.S. § 1370E. However, these funds were directly disbursed by remittance warrant to the Johnston County Industrial Authority and therefore, specific expenditures made with the lodging tax by the Authority were not authorized by the Board of County Commissioners which resulted in these sales tax expenditures not being monitored to determine they are expended in accordance with the sales tax ballot.

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

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

Recommendation: OSAI recommends that the BOCC notify the Oklahoma Tax Commission that the lodging tax has expired, and that they maintain oversight of the disbursements of county lodging tax with regards to the Johnston County Industrial Authority. The lodging tax should be expended in such a manner to provide assurance that expenditures are in accordance to the purposes specified by the sales tax ballot as outlined by Title 68 O.S. § 1370E.

Management Response:

BOCC Chairman: The BOCC will implement changes with regards to how lodging tax is disbursed to the Johnston County Industrial Authority.

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

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

Conclusion: The County's internal controls do not provide reasonable assurance that expenditures, including payroll, were accurately reported in the accounting records.

FINDINGS AND RECOMMENDATIONS

Finding 2014-4 – Inadequate Internal Controls and Noncompliance Over the Disbursement Process

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

- 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.
- Employee timesheets are not reviewed for accuracy or compared to the payroll claim.
- One employee was paid for 49 hours and actual hours worked, per timesheet, was 50 hours.
- One employee was paid for 81.5 hours and actual hours worked, per timesheet, was 73.5 hours.

Additionally, the audit of forty (40) purchase orders reflected the following noncompliance:

- Twelve (12) instances were noted in which goods and/or services were received prior to the encumbrance of funds.

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

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 that employee timesheets be reviewed for accuracy and compared to the payroll claim, and that the following key accounting functions over payroll disbursements be adequately segregated:

- Posting new hires and/or making payroll changes to the payroll system.
- Access to personnel files.
- Preparing state and federal tax reports.

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Further, OSAI recommends County funds be encumbered prior to the receipt of goods and/or services in accordance with 19 O.S. § 1505C.

Management Response:

BOCC Chairman: The Board of County Commissioners will emphasize to all departments and offices the importance of encumbering funds prior to the receipt of goods and/or services, and that timesheets be reviewed and compared to payroll claim.

County Clerk: The County Clerk is aware of the condition and will work toward the segregation of duties over payroll.

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

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

Further, Title 19 O.S. § 1505 prescribes the procedures 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 2014-5 - Inadequate County-Wide Controls (Repeat Finding)

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

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

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.

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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 will work towards assessing and identifying risks to design written policies and procedures regarding county-wide controls.

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

Finding 2014-6 – Written Disaster Recovery Plan

Condition: The offices of the County Clerk, Court Clerk, and the Board of County Commissioners do not have a written Disaster Recovery Plan.

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.

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Recommendation: OSAI recommends that each elected official develop a Disaster Recovery Plan that addresses how critical information and systems within their offices would be restored in the event of a disaster. The plan at a minimum should include the following:

- Current names, addresses, contact numbers of key county personnel and their roles and responsibilities of information services function.
- Listing of contracted service providers.
- Information on location of key resources, including back-up site for recovery operating system, application, data files, operating manuals and program/system/user documentation.
- Alternative work locations once IT resources are available.

Management Response:

BOCC Chairman: We will work with our officials to implement a plan to address how the County's critical information systems within each office would be restored in the event of a disaster.

County Clerk: I have approved a Disaster Recovery Plan as of September 21, 2015.

Court Clerk: We are currently working on a Disaster Recovery Plan.

Criteria: An important aspect of internal control 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. Disaster Recovery Plans are an integral part of county operations to ensure that business can be continued as usual in the event of a disaster. Each office or the county as a whole should have a current, detailed Disaster Recovery Plan on file and should be aware of its content.

According to the standards of the Information Systems Audit and Control Association (CobiT, Deleiver and Support 4), information services function management should ensure that a written Disaster Recovery Plan is documented and contains guidelines and instructions for the County to follow in the event of a disaster.

Other Item(s) Noted:

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

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Finding 2014-7 - Estimate of Needs

Condition: Upon review of the County's Estimate of Needs for the fiscal year ending June 30, 2014, we determined that the appropriations, warrants issued, reserves, and lapsed balances for the County General Fund do not agree to the County Clerk's appropriation ledger.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure the accuracy of the Estimate of Needs.

Effect of Condition: These conditions could result in unrecorded transactions, undetected errors, or misappropriation of funds. Further, these conditions could also result in the County officials not having the correct information for budgeting purposes, which could result in misappropriation and/or overspending of funds. This condition resulted in the Budget to Actual not being presented in this report.

Recommendation: OSAI recommends that the County review the Estimate of Needs prior to approval to ensure that all funds are accounted for and accurately presented.

Management Response:

BOCC Chairman: We will discuss this issue with our budget maker, and we will review the Estimate of Needs for completion prior to approval.

County Clerk: We will discuss this issue with our budget maker, and review the Estimate of Needs to determine that it is complete and correct prior to approval.

Criteria: The adopted budget is an expression of public policy and financial intent and is a method of providing controls over that intent. Effective internal controls as they relate to government entities financial reporting should assist in fulfilling the government's duty to be publicly accountable and should enable users' access to that accountability by demonstrating whether resources were obtained and used in accordance with the entity's adopted budget.

Title 68 O.S. § 3002(A) states, Notwithstanding the provisions of the School District Budget Act, each board of county commissioners and the board of education of each school district, shall, prior to October 1 of each year, make, in writing, a financial statement, showing the true fiscal condition of their respective political subdivisions as of the close of the previous fiscal year ended June 30th, and shall make a written itemized statement of estimated needs and probable income from all sources including ad valorem tax for the current fiscal year. Such financial statement shall be supported by schedules or exhibits showing, by classes, the amount of all receipts and disbursements, and shall be sworn to as being true and correct. The statement of estimated needs shall be itemized so as to show, by classes: first, the several amounts necessary for the current expenses of the political subdivision and each officer and department thereof as submitted in compliance with the provisions of Section 3004 of this title; second, the amount required by law to be provided for sinking fund purposes; third, the probable income that will be received from all sources, including interest income and ad valorem taxes; and shall be detailed in form

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and amount so as to disclose the several items for which the excise board is authorized and required, by this article, to approve estimates and make appropriations.

REPORT ON STATUTORY COMPLIANCE – OTHER MATTERS



Oklahoma State Auditor & Inspector

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Johnston County
Board of County Commissioners
Johnston County Courthouse
Tishomingo, Oklahoma 73460

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, 2014:

- All County Offices - Fixed Assets procedures (19 O.S. § 178.1 and 69 O.S. § 645).
- All County Offices - Consumable Inventories procedures (19 O.S. § 1502 and 19 O.S. § 1504).
- Court Clerk procedures (20 O.S. § 1304 and 19 O.S. § 220).
- Inmate Trust Fund procedures (19 O.S. § 531 and 19 O.S. § 180.43).

Our statutory compliance engagement was limited to the procedures related to the statutes above and was less in scope than an audit performed in accordance with generally accepted auditing standards. Accordingly, we do not express an opinion on any basic financial statement of Johnston 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

February 22, 2016

**JOHNSTON COUNTY, OKLAHOMA
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SCHEDULE OF FINDINGS AND RESPONSES

Finding 2014-8 – Inadequate Segregation of Duties Over the Court Clerk Revolving Fund and Court Fund Collection Processes

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

- All employees work out of one cash drawer.
- The balancing of the cash drawer is not reviewed or approved.
- 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.
- There is no independent review of the Court Clerk Revolving Fund quarterly reports.
- There is no independent review of the Court Fund quarterly report and annual report.
- All employees can open the mail and no mail log is maintained.

Cause of Condition: Policies and procedures have not been designed and implemented to adequately segregate the duties regarding the Court Clerk Revolving Fund and Court Fund collection processes.

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 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 recommends management provide segregation of duties so that one employee is unable to perform all accounting functions. In the event that segregation of duties is not possible due to limited personnel, OSAI recommends implementing compensating procedures to mitigate the risks involved with a concentration of duties. Compensating procedures would include separating key processes and/or critical functions of the office, and having management review and approve accounting functions. OSAI further 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: The office maintains a log of the denomination of all bills/change we start within the cash drawer daily. If we receive a large amount of money, two employees will count the monies. We initial the

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deposit daily stating what is on the deposit is the correct deposit. We write any cash we receive on the receipt and we write any cash (change) that is given back. We will work to implement policies and procedures to adequately segregate the duties.

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.

Finding 2014-9 – Inadequate Internal Controls Over the Inmate Trust Fund Checking Account

Condition: Upon inquiry and observation of financial activity within the Inmate Trust Fund Checking Account and review of all checks issued during the period, the following weakness was noted:

- The monthly reconciliation of the Inmate Trust Fund Checking Account to the bank statement is not being performed.

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

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

Recommendation: OSAI recommends the Inmate Trust Fund Checking Account be reconciled to the bank statements each month.

Management Response:

County Sheriff: The County Sheriff will establish procedures to perform monthly reconciliation of the Inmate Trust Fund Checking Account to the bank statement.

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



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