OPERATIONAL AUDIT

Johnston County

For the period July 1, 2008 through June 30, 2012

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

JOHNSTON COUNTY OPERATIONAL AUDIT
FOR THE PERIOD JULY 1, 2008 THROUGH JUNE 30, 2012

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Oklahoma State Auditor & Inspector

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December 5, 2012

TO THE CITIZENS OF
JOHNSTON COUNTY, OKLAHOMA

Transmitted herewith is the audit report of Johnston County for the period July 1, 2008 through June 30, 2012.

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,

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

BACKGROUND

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, 1932 – 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; Scott Pet Products Inc; 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 – 10,468 (2009 est.)	
Farms – 706	Land in Farms – 333,944 Acres

Primary Source: Oklahoma Almanac 2011-2012

COUNTY OFFICIALS

Guyla Hart.......... County Assessor
Kathy Ross.......... County Clerk
Roy Wayne Blevins.......... County Commissioner District 1
Mike Thompson.......... County Commissioner District 2
Melvin Farmer.......... County Commissioner District 3
Tom Winkler.......... County Sheriff
Rana Gilpin.......... County Treasurer
Cassandra Slover.......... Court Clerk

Presentation of Apportionments, Disbursements, and Cash Balances of County Funds for FY 2012

	Beginning Cash Balance July 1, 2011	Receipts Apportioned	Disbursements	Ending Cash Balance June 30, 2012
Combining Information:				
County General Fund	$ 398,629	$ 1,981,097	$ 1,929,656	$ 450,070
County General Investment	1,127,751	4,412	-	1,132,163
T-Highway	734,989	1,847,224	1,811,310	770,903
T-Highway Investment	418,397	1,188	-	419,585
Resale Property	80,776	95,280	68,622	107,434
County Health	172,712	211,792	196,606	187,898
Sheriff Cash Fund	191,171	258,285	245,263	204,193
Emergency 911	239,197	172,657	84,326	327,528
Jail One-Cent Sales Tax	88,651	207,850	185,086	111,415
ETR	201,178	143,247	206,412	138,013
CBRI 105	248,577	239,485	118,569	369,493
CBRI Investment	1,068,332	3,628	-	1,071,960
Remaining Aggregate Funds	392,058	88,950	306,808	174,200
Combined Total - All County Funds	$ 5,362,418	$ 5,255,095	$ 5,152,658	$ 5,464,855

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

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.

The audit period covered was July 1, 2008 through June 30, 2012.

Sample methodologies can vary and are selected based on the audit objective and whether the total population of data was available. Random sampling is the preferred method; however, we may also use haphazard sampling (a methodology that produces a representative selection for non-statistical sampling), or judgmental selection when data limitation prevents the use of the other two methods. We selected our samples in such a way that whenever possible, the samples are representative of the populations and provide sufficient evidential matter. We identified specific attributes for testing each of the samples. When appropriate, we projected our results to that population.

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. 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.

Objective 1:	To determine the receipts apportioned, disbursements, and cash balances are accurately presented on the County Treasurer's monthly reports for FY 2012.

Conclusion: With respect to the items reconciled and reviewed, the receipts apportioned, disbursements, and cash balances appear to be accurately presented on the County Treasurer's monthly reports for FY 2012. However, internal controls within the Treasurer's office need to be strengthened.

Methodology: To accomplish our objective, we performed the following:

- Gained an understanding of internal controls related to the process of accurately presenting the receipts apportioned, disbursements, and cash balances on the County Treasurer's monthly reports through discussions with the County Treasurer, observation, and review of documents.

- Performed the following to ensure receipts apportioned, disbursements, and cash balances were accurately presented on the County Treasurer's monthly reports:
  - Reconciled Treasurer's receipts to amounts apportioned on the County Treasurer's monthly reports.
  - Reconciled the County Clerk's warrants issued to disbursements paid by the County Treasurer.
  - Re-performed the bank reconciliations at June 30, 2012, to determine that all reconciling items were valid, and ending balances on the General Ledger agreed to the ending balances reflected on the Treasurer's monthly reports.

Finding: Inadequate Internal Controls over the County Treasurer's Monthly Reports and Lack of Segregation of Duties in the Treasurer's Office

Condition: Duties within the Treasurer's office are not adequately segregated and compensating controls are not in place:

- The County Treasurer's monthly reports are compiled from an information system in which the County Treasurer and the deputy perform daily transactions such as issuing receipts and posting disbursements.
- There is no independent oversight of the accuracy of the County Treasurer's monthly reports for much of the period under audit. However, during the audit period, the County Treasurer began to approve and sign off on the accuracy of the monthly reports.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure approval of accuracy of monthly reports.

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

Recommendation: OSAI recommends that the County Treasurer implement a system of internal control to provide reasonable assurance that receipts apportioned, disbursements, and cash balances are accurately presented on the County Treasurer's monthly reports.

Duties should be adequately segregated so that individuals issuing receipts should not prepare the deposits, deliver the deposits to the financial institutions, or reconcile the bank statements. Further, in the event that segregation of duties is not possible due to the limited personnel, OSAI recommends implementing compensating controls to mitigate the risks involved with a concentration of duties. Compensating controls would include separating key processes and/or critical functions of the office, and having management review and approval of accounting functions which would provide independent oversight of the accuracy of the County Treasurer's monthly reports.

Management Response: This has been corrected. The Treasurer maintains documentation of an independent review and approval.

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.

Objective 2:	To determine the County's financial operations complied with 62 O.S. § 517.4, which requires county deposits with financial institutions be secured with collateral securities or instruments.

Conclusion: The County's financial operations did not comply with 62 O.S. § 517.4, which requires county deposits with financial institutions be secured with collateral securities or instruments.

Methodology: To accomplish our objective, we performed the following:

- Gained an understanding of the internal controls related to pledged collateral through discussions with the County Treasurer, observation, and review of ledgers and documents.

- Tested compliance with 62 O.S. § 517.4, which included comparing the largest balance per month at all banks for the audit period to the amount of pledged collateral to determine deposits were adequately secured.

Finding: Inadequate Internal Controls over Pledged Collateral and Noncompliance with Statute

Condition: The County Treasurer compares the County's bank balances against pledged securities, but does not maintain a ledger to document that the County's deposits are secured on a daily basis.

Further, the County's bank account balances were inadequately pledged in the amount of $359,240 in December 2008; $106,563 in January 2009; $241,407 in May 2010; $210,163 in October 2010; $1,680,816 in December 2010; and $110,186 in December 2011.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure proper collateralization of the County's bank balances.

Effect of Condition: This condition resulted in the County's deposits with financial institutions being under-collateralized. Failure to monitor pledged collateral amounts could result in unsecured County funds and possible loss of County funds.

Recommendation: OSAI recommends the County Treasurer document the monitoring of the daily bank balances to the market value of the pledged collateral to provide reasonable assurance that assets are adequately safeguarded.

Management Response: This has been corrected. The Treasurer's office now maintains documentation that the daily bank balances are adequately secured.

Criteria: Effective internal controls require that monitoring pledged securities be adequately documented to allow for prevention and detection of errors and abuse, including using the market value for determination of adequate pledged collateral.

Objective 3:	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 financial operations 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.

Methodology: To accomplish our objective, we performed the following:

- Gained an understanding of the internal control process of receipting, apportioning, and disbursing sales tax collections through discussions with County personnel, observation, and review of documents.

- Tested compliance of the significant law, which included the following:
    - Reviewed sales tax ballots to determine designation and purpose of sales tax collections.
    - Obtained confirmations from the Oklahoma Tax Commission for sales tax payments made to the County and recalculated the amounts apportioned by the County Treasurer to ensure sales tax collections were apportioned to the proper funds.
    - Selected a random sample of 160 sales tax purchase orders (40 for each fiscal year) to determine expenditures were made for purposes designated on the sales tax ballot.

Finding: Inadequate Segregation of Duties over Sales Tax Apportionments and Appropriations

Condition: There was no independent verification of the calculation and apportionment of sales tax.

Cause of Condition: Lack of segregation of duties due to limited number of personnel.

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

Recommendation: OSAI recommends that the County Treasurer implement internal control procedures for the accurate reporting and apportioning of sales tax revenue, including an independent verification of the calculation of the sales tax apportionment.

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

Management Response: The County Treasurer's office performs an independent verification of the calculation and apportionment of sales tax, and will maintain documentation of this verification.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. Internal controls should be designed to analyze and check accuracy and completeness.

Finding: Sales Tax Appropriations

Condition: The County has not properly appropriated the excess sales tax collections. During the audit period July 1, 2008 through June 30, 2012, the County budgeted $2,862,994.61 for sales tax. The County actually collected $3,175,519.52. The excess collections of $312,524.91 were not appropriated in accordance with the sales tax ballot. The excess collections should have been appropriated to the following accounts:

Emergency Services

City and Rural Fire Protection	12%	$37,502.99
Ambulance Service	10%	$31,252.49
Civil Defense	1%	$ 3,125.25
Sheriff's Reserves	1%	$ 3,125.25
General Emergency Services	1%	$ 3,125.25
Total Emergency Services		$78,131.23

Community Services

Extension and 4-H	10%	$31,252.48
Counseling, Inc.	2%	$ 6,250.50
County Free Fair	2%	$ 6,250.50
Senior Citizens	4%	$12,501.00
General Community Services	2%	$ 6,250.50
Total Community Services		$62,504.98

General County Government

Courthouse Maintenance	11%	$ 34,377.74
Support of County Offices	37%	$115,634.22
General County Government	7%	$ 21,876.74
Total General County Government		$171,888.70

Cause of Condition: Procedures have not been designed to ensure compliance with 68 O.S. § 1370.E.

Effect of Condition: Sale tax was not appropriated in accordance with sales tax ballot.

Recommendation: OSAI recommends that the excess sales tax collections be appropriated in accordance with the sales tax ballot.

Management Response: 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 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.

Objective 4: To determine the County's financial operations complied with 68 O.S. § 2923, which requires the ad valorem tax collections to be apportioned and distributed monthly among the different funds to which they belong.

Conclusion: 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.

Methodology: To accomplish our objective, we performed the following:

- Gained an understanding of the internal controls related to the process of apportioning and distributing ad valorem tax collections, which included discussions with County personnel, observation, and review of documents.

- Tested internal controls which included:
  - Whether proper levies were used, and
  - If an independent verification of the accuracy of the levies entered in the system was performed.

- Tested compliance of the significant law, which included the following:
  - Compared the certified levies for the audit period to the computer system to determine the County Treasurer applied the certified levies, as fixed by the Excise Board of the County, to the tax rolls.
  - Recalculated the apportionment of ad valorem tax collections to determine collections were accurately apportioned to the taxing entities.

Objective 5:	To determine the County's financial operations complied with 19 O.S. § 1505C, 19 O.S. § 1505E, and 19 O.S. § 1505F, which outlines procedures for expending county funds.

Conclusion: The County's financial operations did not comply with 19 O.S. § 1505C, 19 O.S. § 1505E, and 19 O.S. § 1505F, which outlines procedures for expending county funds.

Methodology: To accomplish our objective, we performed the following:

- Gained an understanding of the internal controls related to the process of encumbering purchase orders, authorization of payment of purchase orders, and documenting goods and services received, which included discussions with County personnel, observation, and review of documents.

- Tested compliance of the significant law, which included the following:
  - Purchase orders were issued in sequential order.
  - Funds were timely encumbered.
  - Purchase orders were signed by purchasing agent and certified by County Clerk.
  - The receiving agent signed the receiving report.
  - The original invoice was attached to the purchase order.
  - The non-collusion affidavit for purchases of $25,000 or more was attached to the purchase order.
  - The BOCC approved and signed the purchase order.

Finding: Inadequate Internal Controls over Expending County Funds

Condition: The First Deputy solely performs key duties with no independent verification of accuracy. The First Deputy updates the KPO system, encumbers funds, verifies availability of encumbrance, prints the purchase order, verifies supporting documentation, initiates payments for claims, and prints the warrants.

Cause of Condition: Policies and procedures have not been designed to address segregation of duties over the expenditure process.

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

Recommendation: OSAI recommends the County develop a system of internal controls over the expenditure process. Such controls may include an independent verification of the accuracy of components necessary to initiate and authorize expenditures.

Management Response: The County Clerk's office is aware of this condition and will implement compensating controls to mitigate the risks involved with a concentration of duties.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. To help ensure a proper accounting of funds, the duties of updating the system, encumbering funds, verifying the availability of encumbrance, printing purchase order, verifying supporting documentation, initiating payments, and printing warrants should be segregated. 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, misappropriation of funds, or clerical errors that are not detected in a timely manner.

Finding: Noncompliance with Significant Statutes Concerning the County Expenditure Process

Condition: Of the 160 purchase orders tested, the following was noted:

For the fiscal year 2009:
- One (1) purchase order was not timely encumbered.
- One (1) purchase order was not certified by the County Clerk.
- Twelve (12) purchase orders did not have a signed receiving report attached.
- One (1) purchase order did not have an itemized invoice attached.

For the fiscal year 2010:
- One (1) purchase order was not certified by the County Clerk.
- Ten (10) purchase orders did not have a signed receiving report attached.
- One (1) purchase order did not have an itemized invoice attached and one (1) purchase order had a copy of the invoice attached.

For the fiscal year 2011:
- Eight (8) purchase orders did not have a signed receiving report attached.
- One (1) purchase order had only one approving signature by the Board of County Commissioners.

For the fiscal year 2012:
- One (1) purchase order was not timely encumbered.

- Five (5) purchase orders did not have initials certifying encumbrance by the purchasing agent.
- Fifteen (15) purchase orders did not have a receiving report attached.
- Three (3) purchase orders did not have an itemized invoice attached.
- Two (2) purchase orders had only one approving signature by the Board of County Commissioners.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure compliance with significant statutes over the County expenditure process.

Effect of Condition: Lack of compliance with significant statutes regarding the County expenditure process.

Recommendation: OSAI recommends that policies and procedures be implemented to ensure compliance with significant statutes over the County expenditure process.

Management Response: Management will ensure that all purchase orders are properly signed and dated, and have receiving reports and itemized invoices.

Criteria: Effective internal controls require that management properly implement procedures to ensure that purchases comply with 19 O.S. §1505C, 19 O.S. §1505E, and 19 O.S. §1505F.

Objective 6:	To determine the County's financial operations complied with 19 O.S. § 1505B, which requires county purchases in excess of $10,000 be competitively bid.

Conclusion: With respect to the items tested, the County complied with 19 O.S. § 1505B, which requires that purchases in excess of $10,000 be competitively bid. However, internal controls over the competitive bidding process need to be strengthened.

Methodology: To accomplish our objective, we performed the following:

- Gained an understanding of the internal controls related to the process of competitively bidding purchases in excess of $10,000, which included discussions with County personnel, observation, and review of documents.

- Selected a random sample of five purchases for each of the four fiscal years under audit (20 total) in excess of $10,000 to determine the County followed statutes regarding public notice, handling of unopened bids, awarding bid to best bidder, recording appropriate information in BOCC minutes, and notification to successful bidders.

Finding: Inadequate Internal Controls over the Competitive Bidding Process

Condition: The purchasing agent solely performs key duties with no independent verification of accuracy. The purchasing agent prepares the advertisement to be published, mails requests for bids, receives and holds bids until opening, and performs the process for payment.

Cause of Condition: Policies and procedures have not been designed and implemented by management to provide for appropriate segregation of duties over the competitive bidding process.

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

Recommendation: OSAI recommends the County develop a system of internal controls over the competitive bidding process. Such controls may include an independent verification of the accuracy of the individual components of the competitive bidding process.

Management Response: The County Clerk will implement compensating controls to mitigate the risks involved with a concentration of duties.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. To help ensure a proper accounting of funds, the duties of preparing the advertisement of bids, mailing requests for bids, receiving and holding bids for opening, and performing the process for bid payment should be segregated. 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, misappropriation of funds, or clerical errors that are not detected in a timely manner.

Objective 7:	To determine the County's financial operations complied with 19 O.S. § 180.74 and § 180.75 regarding amounts allowed for officers' salaries.

Conclusion: With respect to the salaries tested, the County's financial operations complied with 19 O.S. § 180.74 and 180.75, regarding amounts allowed for officers' salaries. However, internal controls over the payroll process need to be strengthened.

Methodology: To accomplish our objective, we performed the following:

- Gained an understanding of the internal controls through discussions with County personnel, observation, and review of documents related to:
    - The process of determining the amounts allowed for officers' salaries.
    - The process for the payment and recording of salaries and related payroll expenses.

- Tested compliance of the significant law, which included the following:
    - Reviewed the salaries paid to officers to determine the salaries are not in excess of the amount allowed by statute.

Finding: Inadequate Internal Controls over County Officers' Salaries

Condition: The County does not have procedures in place to ensure that salaries are calculated in accordance with state statutes.

Cause of Condition: Policies and procedures to ensure compliance with this statute have not been designed and implemented due to the County officials being unaware of a need for such procedures.

Effect of Condition: This condition could result in noncompliance with salary limitations, particularly in the event of fluctuations in the ad valorem tax revenue and county population, both of which affect the determination of salary limitations.

Recommendation: OSAI recommends the County implement procedures to ensure that the amounts paid to the County officers do not exceed the amounts allowed. These procedures should include calculating the maximum amount allowable and having an independent review of those calculations.

Management Response: The Board of County Commissioners will maintain documentation that the officers' salaries were reviewed and are in compliance with state statutes.

Criteria: Effective internal controls include procedures designed by management to ensure officers' salaries comply with 19 O.S. § 180.74 and § 180.75.

Finding: Concentration of Payroll Duties

Condition: The key functions within the payroll process are not adequately segregated.

- The payroll clerk enters new employees into the system, inputs payroll information into the system, maintains personnel files, and prepares the OPERS reports and state and federal tax reports.

Cause of Condition: In an effort to maximize efficiency and available resources, the County has relied upon one individual to perform the majority of the payroll process.

Effect of Condition: Because of the condition mentioned above, an opportunity for errors and misappropriation of County assets exists.

Recommendation: OSAI recommends the following key accounting functions of the payroll process be adequately segregated:

- Enrolling new employees and maintaining personnel files.
- Reviewing time records and preparing payroll.
- Distributing payroll warrants to individuals.

Management Response: The County Clerk's office is aware of this condition and will implement compensating controls to mitigate the risks involved with a concentration of duties.

Criteria: Effective internal controls include key functions within a process be adequately segregated to allow for prevention and detection of errors and abuse.

Objective 8:	To determine the County's financial operations complied with 19 O.S. § 1504A, which requires the receiving officer to maintain a record of all supplies, materials, and equipment received, disbursed, stored and consumed by his department.

Conclusion: With respect to the items tested, the County's financial operations complied with 19 O.S. § 1504A, which requires the receiving officer to maintain a record of all supplies, materials, and equipment received, disbursed, stored, and consumed by his department. However, internal controls within the inventory process need to be strengthened.

Methodology: To accomplish our objective, we performed the following:

- Gained an understanding of the internal controls related to the process of maintaining a record of all supplies, materials, and equipment received, disbursed, stored, and consumed by a department, which included discussions with County personnel, observation, and review of documents.

- Tested a sample of consumable records to determine that the district barns (or other office if applicable) are maintaining accurate records and that they agree to a physical count of records.

Finding: Inadequate Controls over Consumable Inventories

Condition: One person at each District performs key duties with no independent verification of accuracy. The same person maintains, updates, and verifies the accuracy of the consumable inventory records.

Cause of Condition: Policies and procedures have not been designed and implemented by management to provide appropriate internal control over consumable inventory.

Effect of Condition: This condition could result in inaccurate or incomplete consumable inventory records, or misappropriation of consumable inventory.

Recommendation: OSAI recommends the County adopt policies and procedures to implement a system of internal controls over the consumable inventory records. Such controls may include an independent verification of the inventory counts and a separation of duties between maintaining, updating, and verifying the accuracy of records.

Management Response: The Board of County Commissioners will work to implement a system of internal controls over the consumable inventory records and will implement compensating controls to mitigate the risks involved with a concentration of duties.

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, effected 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.

Objective 9:	To determine the County's financial operations complied with 19 O.S. § 178.1 and 69 O.S. § 645, which requires the maintenance of inventory records, periodic inventory verifications, and that equipment be clearly and visibly marked "Property of" the County.

Conclusion: The County's financial operations did not comply with 19 O.S. § 645, which requires the maintenance of inventory records, periodic inventory verifications, and that equipment be clearly and visibly marked "Property of" the County.

Methodology: To accomplish our objective, we performed the following:

- Gained an understanding of the internal controls related to the process of maintaining inventory records, verifying inventory, and marking equipment "Property of" the County, which included discussions with County personnel, observation, and review of documents.

- Tested compliance of the significant law, which included the following:
    - Randomly selected 64 fixed assets to determine the items were properly marked with County identification numbers and "Property of County" as required by 69 O.S. § 645.

Finding: Inadequate Internal Controls over Fixed Asset Inventories

Condition: One person within each office performs key duties with no independent verification of accuracy. The same person maintains, updates, and verifies the accuracy of the fixed asset inventory records.

Cause of Condition: Policies and procedures have not been designed and implemented by management to provide appropriate internal controls over fixed asset inventories.

Effect of Condition: This condition could result in inaccurate or incomplete inventory records.

Recommendation: OSAI recommends the County adopt policies and procedures to implement a system of internal controls over the fixed asset inventory records. Such controls may include an independent verification of the inventory counts and a separation of duties between maintaining, updating, and verifying the accuracy of records.

Management Response: County officials will maintain documentation of an independent verification of the inventory counts and work to segregate the duties between maintaining, updating, and verifying the accuracy of records.

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, effected 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: Equipment Not Visibly Marked "Property of" the County

Condition: Two of the 64 inventory items tested were not visibly marked 'Property of' the County:

358.3	Chipper	District 2
332.8	Backhoe	District 2

Cause of Condition: Policies and procedures have not been designed and implemented by management to provide appropriate internal control over fixed asset inventories.

Effect of Condition: This condition could result in inaccurate or incomplete inventory records.

Recommendation: OSAI recommends the County comply with 69 O.S. § 645 and visibly mark each county-owned automobile, truck, road machinery and equipment "Property of Johnston County."

Management Response:
District 2 County Commissioner: The two items noted will be visibly marked "Property of Johnston County."

Criteria: Title 69 O.S. § 645 states, "…County-owned automobiles, trucks, road machinery and equipment shall be conspicuously and legibly marked PROPERTY OF (name of county) COUNTY, and leased automobiles, trucks, road machinery and equipment shall be conspicuously legibly marked LEASED BY (name of county) COUNTY, on each side in upper case letters, on a background of sharply contrasting color.

Objective 10:	To determine the County's financial operations complied with 19 O.S. § 682, which requires officers to deposit daily in the official depository all collections received under the color of office.

Conclusion: With respect to the items tested, the County's financial operations complied with 19 O.S. § 682, which requires officers to deposit daily in the official depository all collections received under the color of office. However, internal controls over the deposit process need to be strengthened.

Methodology: To accomplish our objective, we performed the following:

- Gained an understanding of the internal controls related to the process of officers depositing daily in the official depository all collections received under the color of office, which included discussions with County personnel, observation, and review of documents.

- Tested officers' deposits in each office to determine collections received under color of office are being deposited in compliance with significant laws.

Finding: Inadequate Internal Controls over Officers' Deposits

Condition:

- **County Court 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.

- **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.

- **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

- **County Treasurer:** The Treasurer and all employees issue receipts and balance their own cash drawer.

- **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.

- **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.

Cause of Condition: Policies and procedures have not been designed and implemented by management to provide for appropriate segregation of duties over the officers' depository process or appropriate internal controls over cash drawers.

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

Recommendation: OSAI recommends establishing a system of controls to adequately protect the collections of each office, which include, but are not limited, to the following:

- The person preparing the deposit should not issue receipts or reconcile the account to the Treasurer's monthly report.
- Each office should establish separate cash drawers for all employees receiving cash.
- Each office should have a process of documenting the review of voided receipts.
- Passwords should be changed at least every ninety days.

Management Response:
County Court 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 Court Clerk will implement compensating controls to mitigate the risks involved with a concentration of duties.

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

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

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 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.

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

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. To help ensure a proper accounting of funds, the duties of receipting, reconciling cash drawer, preparing and making deposits, and reconciling account balance should be segregated. 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, misappropriation of funds, or clerical errors that are not detected in a timely manner.

Objective 11:	To determine the County Court Clerk's financial operations complied with 19 O.S. § 220 and 20 O.S. § 1304, which outlines procedures for expending court clerk revolving fund monies and court fund monies, respectively.

Conclusion: With respect to items tested, the County Court Clerk's financial operations complied with 19 O.S. § 220 and 20 O.S. § 1304, which outlines procedures for expending Court Clerk Revolving Fund monies and Court Fund monies, respectively. However, internal controls over the expenditure process should be strengthened.

Methodology: To accomplish our objective, we performed the following:

- Gained an understanding of the internal controls related to expending Court Fund monies and Court Clerk Revolving Fund monies, which included discussions with County personnel, observation, and review of documents.

- Tested compliance with 19 O.S. § 220 for the Court Clerk Revolving Fund, which included the following:
  - Randomly selected 10 claims from the Court Clerk Revolving Fund to determine the following:
    - Expenditures were made for the lawful operation of the court.
    - Claims were approved by the District Judge and either the Court clerk or the local Associate District Judge.

- Tested compliance with 20 O.S. § 1304 for the Court Fund, which included the following:
  - Randomly selected 25 Court Fund claims to determine the following:
    - Expenditures were made for the lawful operation of the court.
    - Claims were approved by the District Judge and either the Court Clerk or the local Associate District Judge.

Finding: Inadequate Internal Controls over the Court Clerk Revolving Fund and Court Fund Expenditure Process

Condition: The Court Clerk solely performs key duties with no independent verification of accuracy. The Court Clerk initiates and prepares the claim, attaches and verifies supporting documentation to claim, certifies that goods/services were received, signs the claim along with the District Judge, and prepares and signs checks.

Cause of Condition: Policies and procedures have not been designed by management to adequately segregate the duties regarding expenditures of the Court Clerk Revolving Fund and Court Fund.

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

Recommendation: OSAI recommends a system of internal controls be designed regarding the expenditure process. Such controls should include a segregation of the duties involved in the Court Clerk Revolving Fund and Court Fund expenditure process, or an independent verification of the accuracy of components necessary to initiate and authorize expenditures.

Management Response: We are a small county, but I will work towards implementing a way my first deputy will acknowledge receiving goods.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. To help ensure a proper accounting of funds, the duties of preparing the claim, attaching and agreeing supporting documentation, certifying receipt of goods/services, signing the claim, and preparing and signing the checks should be segregated.

Objective 12:	To determine the County Sheriff's Inmate Trust Fund financial operations complied with 19 O.S. § 531A, which requires these funds only be expended to refund monies to inmates or to transfer funds to the Sheriff's Commissary Fund for inmate expenditures.

Conclusion: The County Sheriff's Inmate Trust Fund financial operations did not comply with 19 O.S. § 531A, which requires these funds only be expended to refund monies to inmates or to transfer funds to the Sheriff's Commissary Fund for inmate expenditures.

Methodology: To accomplish our objective, we performed the following:

- Gained an understanding of the internal controls related to expending funds from the Sheriff's Inmate Trust Fund, which included discussions with County personnel, observation, and review of documents.

- Tested compliance with the significant law by selecting 100% of Inmate Trust Fund checks issued to determine the purpose of the expenditure was made only for transferring funds to the Sheriff's Commissary Fund or refunding money to inmates.

Finding: Inadequate Internal Control and Noncompliance over the County Sheriff Inmate Trust Fund Expenditure Process

Condition:

- The County Sheriff's secretary solely performs key duties such as initiating, preparing, and signing checks with no independent verification.

- For fiscal year 2009, eight checks were issued to a pharmacy on behalf of an inmate to cover medication. For fiscal years 2010, 2011, and 2012, fourteen checks were issued that did not have two signatures.

Cause of Condition: Policy and procedures have not been designed and implemented by management to ensure expenditures from the Inmate Trust Fund are made only for the specific purposes outlined in 19 O.S. § 531A.

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

Recommendation: OSAI recommends the County implement procedures to ensure checks are made payable to either the Sheriff's Commissary Account or paid directly to the inmate. Further, internal control procedures should be designed and implemented to ensure compliance with state statutes.

Management Response: Corrective measures have been taken. All checks now require two signatures, and Inmate Trust Fund checks are only issued to the Sheriff's Commissary Fund or to the inmate upon release.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. To help ensure a proper accounting of funds, the duties of preparing the claim, attaching and agreeing supporting documentation, certifying receipt of goods/services, signing the claim, and preparing and signing the checks should be segregated.

Title 19 O.S. § 531A states in part, "The county sheriff…may write checks to the Sheriff's Commissary Account…and to the inmate from unencumbered balances due the inmate upon his or her discharge."

All Objectives:

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

Finding: Inadequate County-Wide Controls

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

Cause of Condition: County management has not designed and implemented policy and procedures to address risks of the County.

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

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

Examples of risks and procedures to address risk management:

Risks	Procedures
Fraudulent activity	Segregation of duties
Information lost to computer crashes	Daily backups of information
Noncompliance with laws	Attend workshops
Natural disasters	Written disaster recovery plans
New employee errors	Training, attending workshops, monitoring

Examples of activities and procedures to address monitoring:

Monitoring	Procedures
Communication between officers	Periodic meetings to address items that should be included in the handbook and to determine if the County is meeting its goals and objectives.
Annual Financial Statement	Review the financial statement of the County for accuracy and completeness.
Schedule of Expenditures of Federal Awards (SEFA)	Review the SEFA of the County for accuracy and to determine all federal awards are presented.
Audit findings	Determine audit findings are corrected.
Financial status	Periodically review budgeted amounts to actual amounts and resolve unexplained variances.
Policies and procedures	Ensure employees understand expectations in meeting the goals of the County.
Following up on complaints	Determine source of complaint and course of action for resolution.
Estimate of needs	Work together to ensure this financial document is accurate and complete.

Management Response: The Board of County Commissioners 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.

Finding: Disaster Recovery Plan

Condition: The following offices do not have a written Disaster Recovery Plan:

- County Sheriff
- County Court Clerk
- County Assessor
- County Clerk
- District 1 Commissioner
- District 2 Commissioner
- District 3 Commissioner

The County Treasurer does have a Disaster Recovery Plan.

Cause of Condition: County management has not developed a formal Disaster Recovery Plan.

Effect of Condition: The failure to have a current Disaster Recovery Plan could result in the County being unable to function in the event of a disaster. The lack of a procedure addressing how critical information and/or systems would be restored could cause significant problems in ensuring that county business could continue uninterrupted.

Recommendation: OSAI recommends that each county 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.

Management Response:
County Sheriff: A Disaster Recovery Plan will be completed and filed with the County Clerk.

Court Clerk: I will complete a Disaster Recovery Plan and file it with the County Clerk.

County Assessor: This will be corrected. I will complete a Disaster Recovery Plan.

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 Commissioners: Each District will complete and have their own Recovery Plan.

Criteria: 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, Delivery and Support) DS 11.6 Security Requirements for Data Management, management should define and implement policies and procedures to identify and apply security requirements applicable to the receipt, processing, storage and output of data to meet business objectives, the organization's security policy and regulatory requirements.

According to the standards of the Information Systems Audit and Control Association (COBIT Delivery and Support 4), information services management should ensure that a written Disaster Recovery Plan is documented and contains the following:

- All pertinent county officers with emergency contact information.
- Minimum of two locations for temporary relocation of county offices and contact information for the relocation process.
- List of all numbers to contact to continue operations (computer vendor, internet provider, etc.).

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