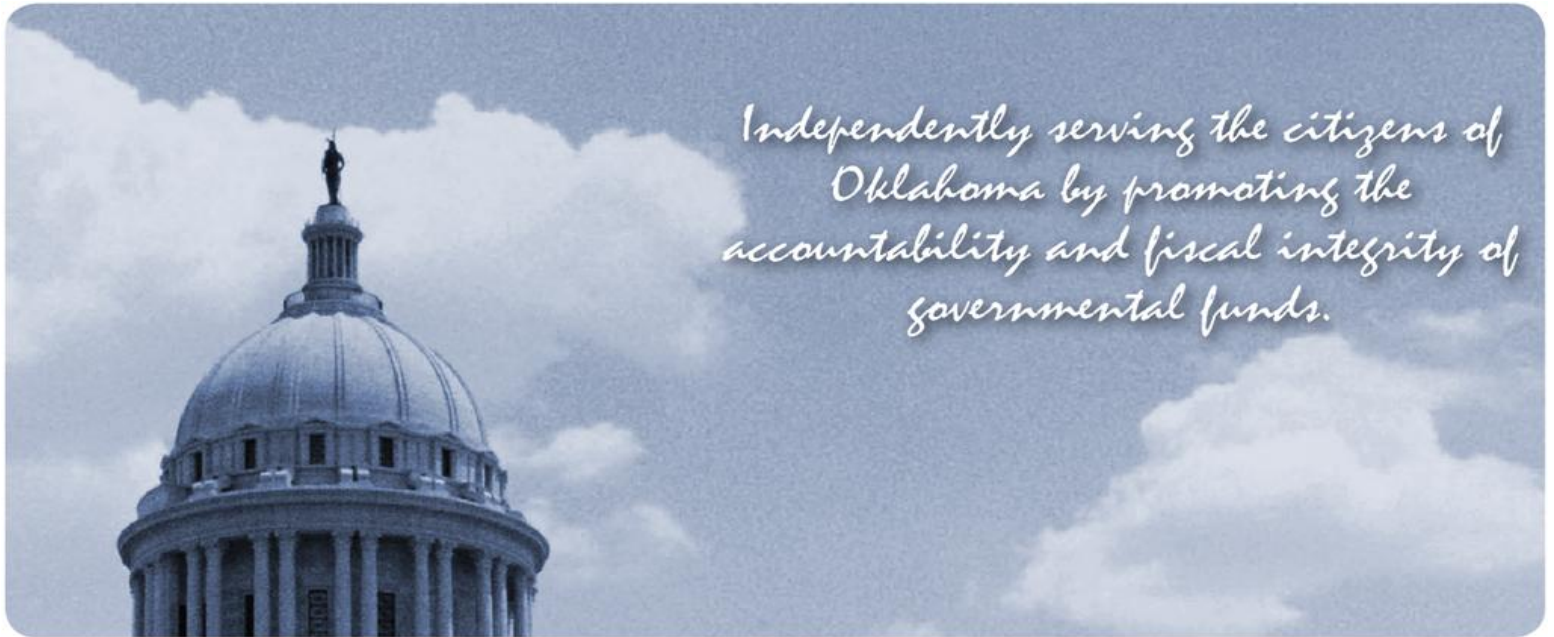


OPERATIONAL AUDIT

LATIMER COUNTY

For the fiscal year ended June 30, 2015



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

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

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 29, 2016

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

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

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

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

Sincerely,

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

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

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

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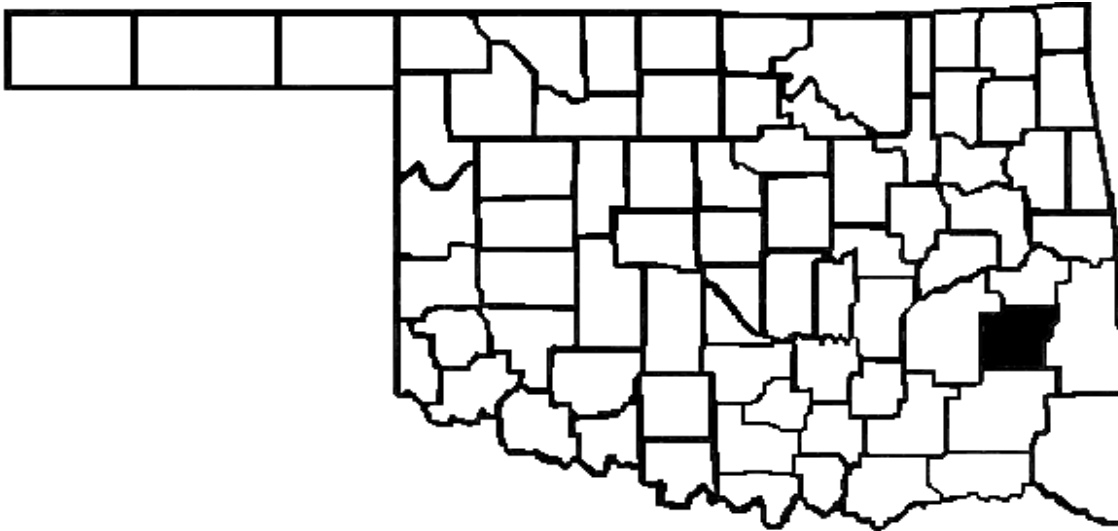
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**LATIMER COUNTY, OKLAHOMA
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**



Located in the mountains of southeastern Oklahoma, Latimer County was created at statehood and named for James S. Latimer, a member of the Oklahoma Constitutional Convention.

The Butterfield Overland Mail Route, extending from St. Louis to San Francisco, cut through the county at four stops which are now open to visitors. During the Civil War, outlaws roamed the area, and in 1875, Isaac Parker, a federal Judge at Fort Smith, Arkansas, became known as the “hanging judge,” because of his efforts to restore order.

A coal boom in 1870 brought a great influx of people, and by 1907 many people had settled in Wilburton. A tragic explosion in 1926 forced the mines to close and since that time cattle raising and agriculture have become the principle ways of life.

Wilburton, the county seat, is the home of industry as well as Eastern Oklahoma State College, begun in 1908 as the Oklahoma School of Mines. Latimer County has five reservoirs and is rich in minerals as well as forest, ranch land, and recreational opportunities.

For more county information, call the county clerk’s office at 918/465-3543 or the chamber of commerce at 918/465-2759.

County Seat – Wilburton

Area – 729.12 Square Miles

County Population – 10,693
(2014 est.)

Farms – 691

Land in Farms – 220,552 Acres

Primary Source: Oklahoma Almanac 2015-2016

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

Board of County Commissioners

District 1 – Jeremy Bullard
District 2 – John Medders
District 3 – Roy Alford

County Assessor

Chris Church

County Clerk

Erin Adams

County Sheriff

Jesse James

County Treasurer

DeLana Moon

Court Clerk

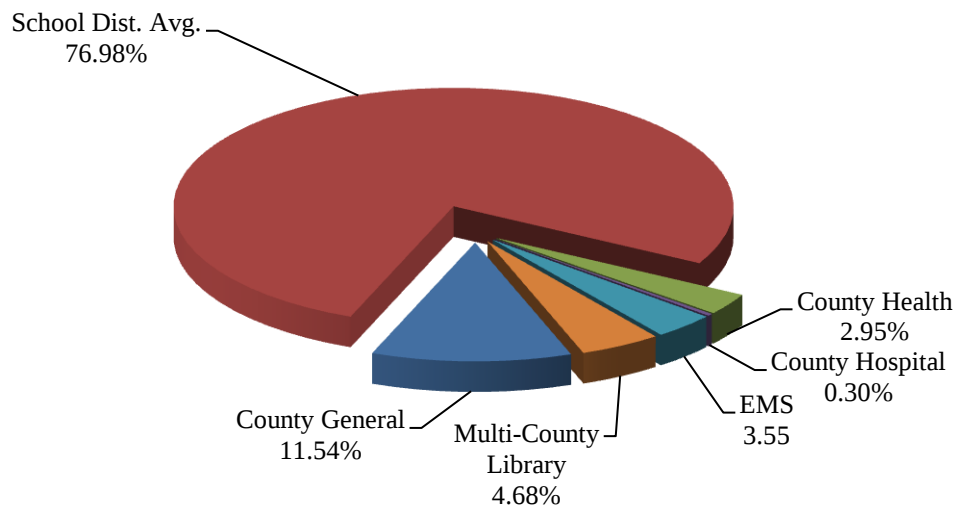
Melinda Brinlee

District Attorney

Jeffrey C. Smith

**LATIMER COUNTY, OKLAHOMA
AD VALOREM TAX DISTRIBUTION
SHARE OF THE AVERAGE MILLAGE
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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



County-Wide Millages		School District Millages							
				Gen.	Bldg.	Skg.	Career Tech	Common	Total
County General	9.96								
County Health	2.55	Wilburton	I-1	35.49	5.07	8.65	12.28	4.09	65.58
County Hospital	0.26	Red Oak - Latimer	I-2	35.65	5.09	11.92	12.28	4.09	69.03
EMS	3.06	Buffalo Valley	I-3	36.31	5.19	12.23	12.28	4.09	70.10
Multi-County Library	4.04	Panola	I-4	36.19	5.17	16.04	12.28	4.09	73.77
		LeFlore	J-16	36.87	5.27	18.76	12.28	4.09	77.27
		Fanshawe	J-39	39.86	5.69	7.71	12.28	4.09	69.63
		Talihina	J-52	36.10	6.10	-	12.28	4.09	58.57
		Albion	JD-2	37.57	5.37	11.63	12.28	4.09	70.94
		Tuskahoma	JD-4	35.04	5.01	-	12.28	4.09	56.42
		Hartshome	JI-1	36.71	5.24	-	12.28	4.09	58.32
		Crowder	JI-28	35.00	5.00	4.73	12.28	4.09	61.10

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

Sales Tax

Sales Tax of March 5, 2013

The voters of Latimer County approved the following continuation of existing sales tax on March 5, 2013:

- A continuation of sales tax of 1/2 cent for the sole benefit of general government for a period of five (5) years.
- A continuation of sales tax of 3/4 cent for the sole benefit of the Latimer County Hospital for a period of five (5) years.
- A continuation of sales tax of 1/4 cent for the sole benefit to continue the maintenance and operation of a solid waste system for a period of five (5) years.

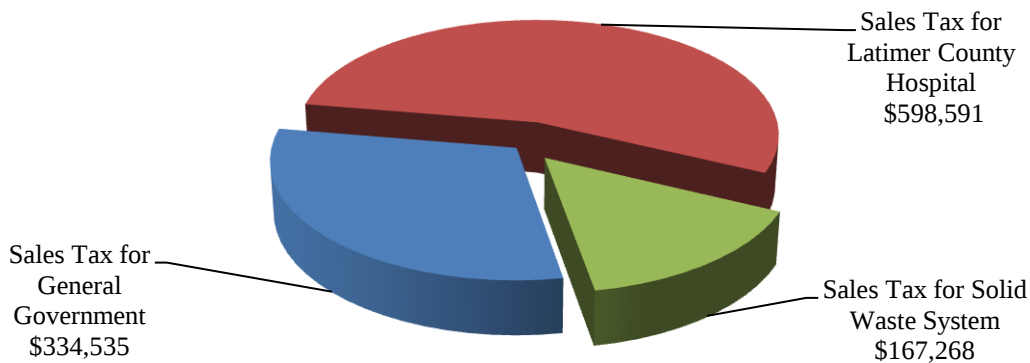
Sales Tax of June 24, 2014

The voters of Latimer County approved the following amendment of an existing sales tax on June 24, 2014:

- An amendment of sales tax order of said County which provides for the levy and collection of a one percent (1%) sales tax on certain sales providing that the purpose of said sales tax shall be to operate, maintain, equip, and improve the Latimer County Hospital and to retire indebtedness incurred for that purpose, to replace the present three-fourths percent (3/4%) sales tax for the said Hospital; providing that said one (1%) sales tax shall continue to be levied so long as the Latimer County Hospital Trust Authority remains in effect; fixing effective date; making provisions cumulative; and providing severability of provisions

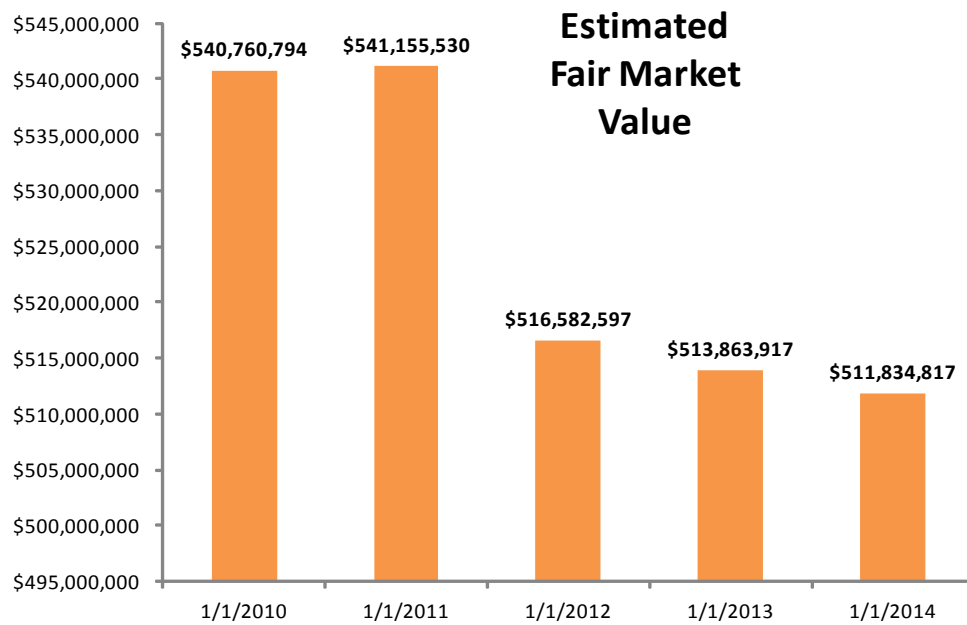
These funds are accounted for in the Presentation of Apportionments, Disbursements, and Cash Balances of County Funds in the Sales Tax Cash fund.

During the fiscal year the County collected \$1,100,394 in total sales tax.



**LATIMER COUNTY, OKLAHOMA
ASSESSED VALUE OF PROPERTY
TREND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

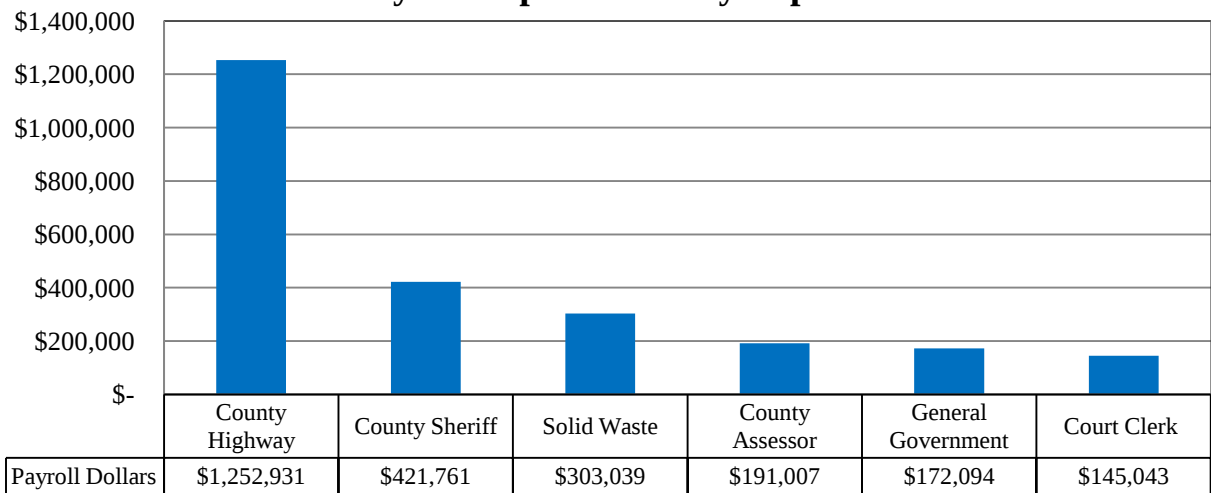
Valuation Date	Personal	Public Service	Real Estate	Homestead Exemption	Net Value	Estimated Fair Market Value
1/1/2014	\$23,682,220	\$12,265,062	\$24,789,654	\$2,685,382	\$58,051,554	\$511,834,817
1/1/2013	\$22,654,603	\$16,913,479	\$23,889,408	\$2,746,517	\$60,710,973	\$513,863,917
1/1/2012	\$23,818,476	\$16,863,532	\$22,914,844	\$2,765,593	\$60,831,259	\$516,582,597
1/1/2011	\$26,568,958	\$17,479,696	\$22,284,458	\$2,724,015	\$63,609,097	\$541,155,530
1/1/2010	\$26,669,710	\$18,902,203	\$21,430,159	\$2,707,246	\$64,294,826	\$540,760,794



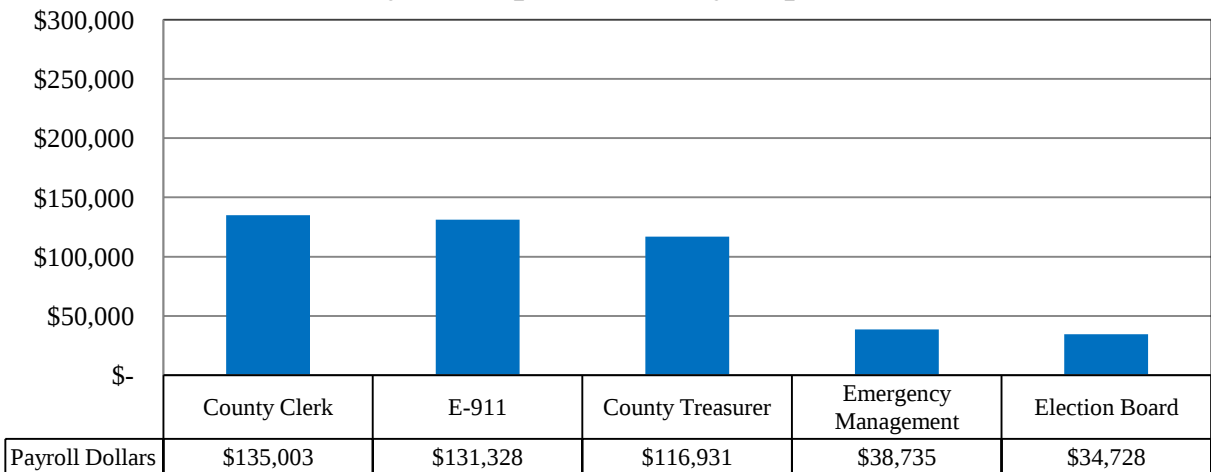
**LATIMER COUNTY, OKLAHOMA
COUNTY PAYROLL EXPENDITURES ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

County officers' salaries are based upon the assessed valuation and population of the counties. State statutes provide guidelines for establishing elected officers' salaries. The Board of County Commissioners sets the salaries for all elected county officials within the limits set by the statutes. The designated deputy or assistant's salary cannot exceed the principal officer's salary. Salaries for other deputies or assistants cannot exceed the principal officer's salary. The information presented below is for the fiscal year ended June 30, 2015.

Payroll Expenditures by Department



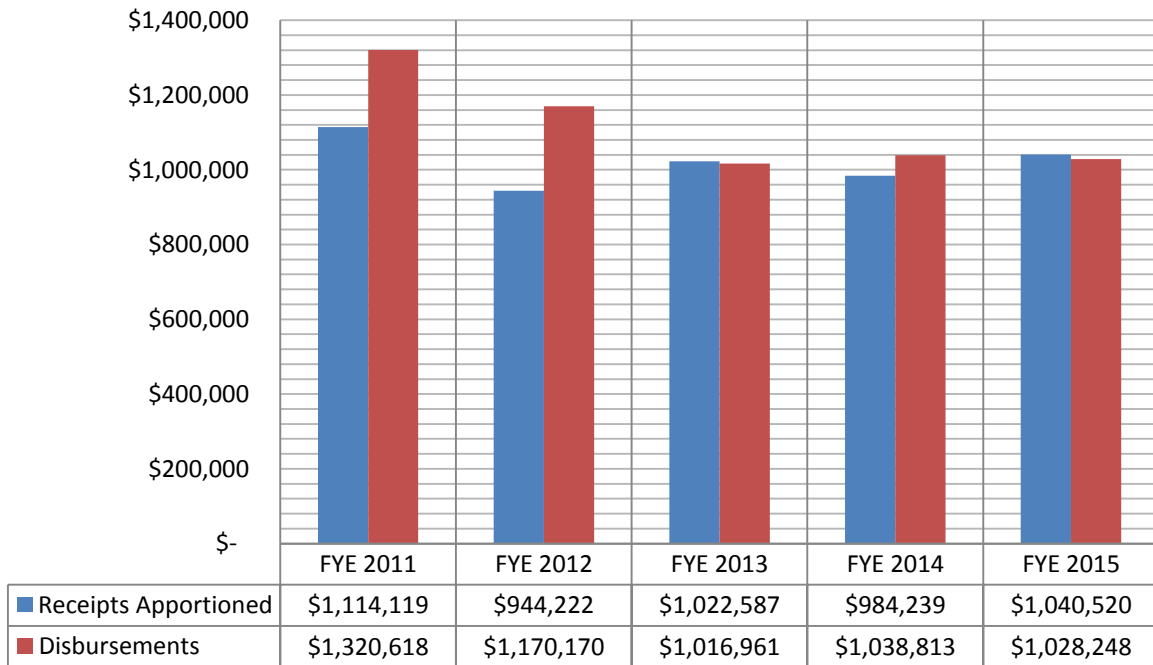
Payroll Expenditures by Department



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

County General Fund

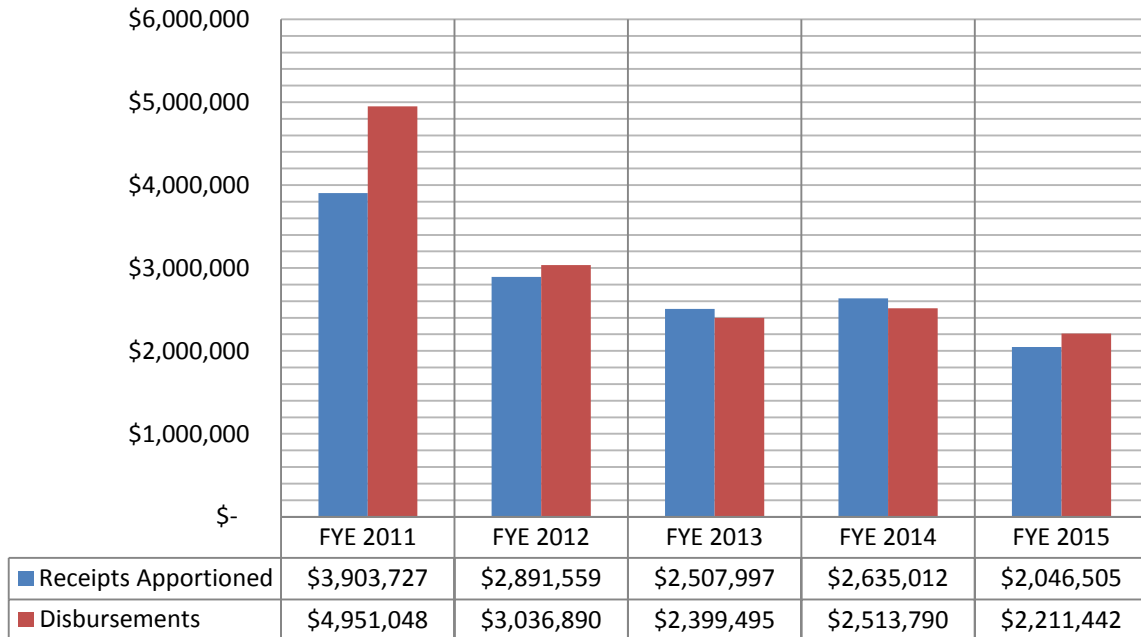
The Oklahoma Constitution and the Oklahoma Statutes authorize counties to create a County General Fund, which is the county's primary source of operating revenue. The County General Fund is typically used for county employees' salaries plus many expenses for county maintenance and operation. It also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



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

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.



**LATIMER COUNTY
OPERATIONAL AUDIT**

Presentation of Apportionments, Disbursements, and Cash Balances of County Funds for Fiscal Year Ending June 30, 2015

	Beginning Cash Balances July 1, 2014	Receipts Apportioned	Transfers In	Transfers Out	Disbursements	Ending Cash Balances June 30, 2015
Combining Information:						
County Funds:						
County General	\$ 345,419	\$ 1,040,520	\$ 2,411	\$ -	\$ 1,028,248	\$ 360,102
County Highway	2,964,263	2,046,505	-	-	2,211,442	2,799,326
County Health	177,927	154,882	-	-	172,873	159,936
Sheriff Cash	40,263	137,853	-	-	133,167	44,949
Sales Tax Cash	798,623	1,110,865	-	55	1,086,109	823,324
Solid Waste Cash	595,330	604,890	-	-	603,316	596,904
E-911 Cash	13,168	159,861	-	-	160,867	12,162
County Sinking	2,403	19	-	2,411	-	11
Civil Defense	3,860	32,200	55	-	36,014	101
County Clerk Cash	49,001	9,358	-	-	22,539	35,820
County Treasurer Cash	10,115	1,175	-	-	1,478	9,812
Department of Corrections Cash	29,952	1,944	-	-	17,256	14,640
Drug Buy Cash	-	500	-	-	20	480
County Assessor Cash	3,193	4,640	-	-	5,331	2,502
County Insurance	724	6,053	-	-	4,803	1,974
REAP Grant	-	141,805	-	-	141,805	-
County Treasurer Resale Property	73,814	47,154	-	-	39,464	81,504
RM&P Cash	73,845	13,023	-	-	12,397	74,471
Flood Plain Cash	6,723	200	-	-	580	6,343
OLETS Cash	159	2,885	-	-	2,450	594
Jail Bond Cash	6,158	11,892	-	-	10,333	7,717
Tourism Trust Authority	52,606	46,834	-	-	50,875	48,565
County Extension Agent Cash	9,795	7,376	-	-	5,427	11,744
Free Fair Cash Account	-	2,600	-	-	1,674	926
Court Clerk Payroll	9,453	91,554	-	-	81,160	19,847
Combined Total - All County Funds	\$ 5,266,794	\$ 5,676,588	\$ 2,466	\$ 2,466	\$ 5,829,628	\$ 5,113,754

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

**LATIMER COUNTY
DESCRIPTION OF COUNTY FUNDS
OPERATIONAL AUDIT
FOR THE FISCAL YEAR JUNE 30, 2015**

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 – accounts for ad valorem, officers’ fees, interest earnings, and miscellaneous collections of the County. Disbursements are for the general operations of the County.

County Highway – accounts for state, local, and miscellaneous receipts and disbursements for the purpose of constructing and maintaining county roads and bridges.

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

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

Sales Tax Cash – accounts for the collection of sales tax revenue and the disbursement of funds as restricted by the sales tax resolution, to be used for general government, hospital, and solid waste purposes.

Solid Waste Cash – accounts for the collection of fees for the services provided by solid waste and disbursed for operation of Latimer County Solid Waste.

E-911 Cash – accounts for monies received from private telephone companies to be used for the operations of emergency 911 services.

County Sinking – accounts for the debt service receipts derived generally from a special ad valorem tax levy and from interest earned on investments of cash not immediately required for debt service payments.

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

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

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

**LATIMER COUNTY
DESCRIPTION OF COUNTY FUNDS
OPERATIONAL AUDIT
FOR THE FISCAL YEAR JUNE 30, 2015**

Department of Corrections Cash – accounts for monies received from the State of Oklahoma for the boarding and feeding of Department of Corrections' prisoners. Disbursements of funds are for jail operating expenses.

Drug Buy Cash – accounts for the monies received from the District Attorney to enable the Sheriff to carry out undercover drug investigations.

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

County Insurance – accounts for monies received from insurance companies for damages to county property.

REAP Grant – accounts for state grant funds received for various projects.

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

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

Flood Plain Cash – accounts for the collection from the sale of permits and disbursed for maintenance and operation of the emergency management office.

OLETS Cash – accounts for fees charged to local law enforcement agencies for dispatch services. These funds are used to help offset monthly Oklahoma Law Enforcement Telecommunications System (OLETS) fees and the maintenance and operation of the Sheriff's office.

Jail Bond Cash – accounts for bond fees charged to inmates and is used for the operation of the Sheriff's office.

Tourism Trust Authority – accounts for the excise tax collected on lodging to be used for the promotion and development of tourism and recreational activities for Latimer County.

County Extension Agent Cash – accounts for the collection of donations and disbursed for the operations of the county extension office.

Free Fair Cash Account – accounts the collection of donations to be used for the maintenance and operation of the fair ground.

Court Clerk Payroll – accounts for funds deposited by the Court Clerk and disbursed for payroll for the Court Clerk's office.

PURPOSE, SCOPE, AND SAMPLE METHODOLOGY

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

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

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

- Inquiries of appropriate personnel,
- Inspections of documents and records,
- Observations of the County's operations,
- Reconciling total apportionments, disbursements, and balances presented on the County's Presentation of Apportionments, Disbursements, and Cash Balances of County Funds for the fiscal year to the County Treasurer's and County Clerk's financial ledgers,
- Confirming third party confirmations to the financial ledgers, 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.

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

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

FINDINGS AND RECOMMENDATIONS

Finding 2015-5 – Inadequate Internal Controls Over Monthly Reports and Lack of Segregation of Duties - County Treasurer (Repeat Finding)

Condition: Upon inquiry, observation, review of documentation, and testwork, the following was noted:

- Duties were not adequately segregated in the County Treasurer's office, due to all employees working from the same cash drawer.
- Monthly reports were not reviewed and approved by someone other than the preparer.
- Bank reconciliations were not reviewed and approved by someone other than the preparer.

Cause of Condition: Policies and procedures have not been designed to review apportionments, disbursements, and cash balances to verify that these amounts are accurately presented on the monthly reports. Additionally, policies and procedures have not been designed and implemented to ensure all bank accounts are reconciled and approved and that all reconciling items are documented and investigated. Further, duties regarding the collection process have not been adequately segregated.

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 controls to provide reasonable assurance that receipts apportioned, disbursements, and cash balances are accurately presented on the County Treasurer's monthly reports. To improve controls over the County Treasurer's monthly reports, we recommend the following:

- Monthly reports should be reviewed by someone other than the preparer.
- The funds presented on the County Clerk's appropriation ledger and the County Treasurer's general ledger should be reconciled monthly. Documentation of this reconciliation should be reviewed and approved by someone other than the preparer.
- Bank reconciliations should be reviewed by someone other than the preparer.
- Reconciling items should be documented with 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:

County Treasurer: Due to the lack of personnel during the high volume of tax season, I do not feel that separate cash drawers would be efficient to our work flow. I agree with the findings concerning the monthly reports and bank reconciliations. I have recently implemented a secondary review of the monthly reports and all bank reconciliations.

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. To help ensure a proper accounting of funds, the duties of receiving, receipting, recording, depositing cash and checks, reconciliations, and transaction authorization should be segregated.

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

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

FINDINGS AND RECOMMENDATIONS

Finding 2015-8 – Inadequate Internal Controls Over Apportionment of Sales Tax (Repeat Finding)

Condition: Upon inquiry and observation, and review of documentation regarding the process of apportioning sales tax collections and the disbursing of sales tax funds, the following was noted:

- The calculation of sales tax collections performed and apportioned by the County Treasurer is not reviewed or approved, by someone other than the preparer.

**LATIMER COUNTY
OPERATIONAL AUDIT**

Cause of Condition: Policies and procedures have not been designed and implemented to review the sales tax apportionment and ensure sales tax collections are accurately appropriated to designated funds.

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

Recommendation: OSAI recommends that procedures be designed to review the calculation of the sales tax apportionment and appropriation to ensure collections are distributed in accordance with the sales tax ballots.

Management Response:

Chairman Board of County Commissioners: We agree with OSAI recommendation; we will develop and implement a process to review the calculations of sales tax and ensure that the collections are disbursed according to the sales tax ballot.

County Treasurer: We agree with OSAI recommendation; we will develop and implement a process to review the calculations of sales tax and ensure that the collections are disbursed according to the sales tax ballot.

County Clerk: We agree with OSAI recommendation; we will develop and implement a process to review the calculations of sales tax and ensure that the collections are disbursed according to the sales tax ballot.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. To help ensure the proper appropriation of sales tax collections, a recalculation of the apportionment and appropriation should be performed and documented.

Further, 68 O.S. § 1370E requires sales tax collections to be deposited in the general revenue or sales tax revolving fund of the county and shall be expended only for the purpose for which such sales tax was designated.

Objective 3:	To determine the County's financial operations complied with 68 O.S. § 2923, which requires the ad valorem tax collections to be apportioned and distributed monthly among the different funds to which they belong.
---------------------	---

Conclusion: With respect to the items tested, the County complied with 68 O.S. § 2923, which requires ad valorem tax collections to be apportioned and distributed monthly among the different funds to which they belong; however, internal controls over the apportionment of ad valorem tax should be strengthened.

FINDINGS AND RECOMMENDATIONS

Finding 2015-9 – Inadequate Internal Controls Over Ad Valorem Tax Apportionments (Repeat Finding)

Condition: Upon inquiry and observation of the recordkeeping process of apportioning ad valorem collections, the following was noted:

- The County did not maintain documentation that certified levies were reviewed for accuracy when entered into the ad valorem tax system by the County Treasurer's office.

Cause of Condition: Policies and procedures have not been designed to document and retain evidence of procedures performed to ensure ad valorem tax levies are accurately entered into the ad valorem system.

Effect of Condition: This condition could result in ad valorem tax collections being incorrectly apportioned and remitted to the entities that receive ad valorem taxes.

Recommendation: OSAI recommends that the County Treasurer implement a system of internal controls to provide reasonable assurance that the tax levies are entered into the County Treasurer's system accurately to maintain evidence of these controls.

Management Response:

County Treasurer: Even though we have always reviewed the certified levies for accuracy, we did not document that we were. From now on, we will initial and date when the levies are reviewed for accuracy.

Criteria: Accountability and stewardship are overall goals in evaluating management's 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 ad valorem tax should be segregated or reviewed by an independent party.

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. However, the financial operations complied with significant laws and regulations.

FINDINGS AND RECOMMENDATIONS

Finding 2015-6 – Inadequate Segregation of Duties Over Payroll Process (Repeat Finding)

Condition: The Payroll Clerk enrolls new employees, inputs payroll information into the system, and prepares the state and federal tax reports. Before payroll is processed, the Payroll Clerk reviews the timesheets for accuracy and uses this information to start the payroll process with no secondary review. In addition, the Payroll Clerk processes the payroll claims, prints and reviews payroll verification reports for errors, and prints payroll warrants.

Cause of Condition: Policies and procedures have not been designed with regards to segregation of duties and/or compensating controls of the payroll process.

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

Recommendation: OSAI recommends management be aware of these conditions and determine if duties can be properly segregated. In the event that segregation of duties is not possible due to limited personnel, OSAI recommends implementing compensating controls to mitigate the risks involved with a concentration of duties. Compensating controls would include separating key processes and/or critical functions of the office, and having management review and approval of accounting functions.

Management Response:

County Clerk: I agree with the findings in the payroll disbursements regarding segregation of duties. Due to the budget in Latimer County, I am able to only have one payroll deputy and staff is very limited. I will, however, be verifying all timesheets upon the completion of calculating by the Payroll Clerk before payroll is entered, ran, and balanced.

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

Finding 2015-7 – Inadequate Segregation of Duties Over Disbursement Process (Repeat Finding)

Condition: Upon inquiry and observation of the County's purchasing process, it was noted that the Purchasing Deputy prepares purchase orders, encumbers purchase orders, prepares the warrants, maintains ledgers, and distributes checks.

Cause of Condition: Policies and procedures have not been designed and implemented with regard to segregation of duties and/or compensating controls of the purchasing process.

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

Recommendation: OSAI recommends management be aware of this condition and determine if duties can be properly segregated. In the event that segregation of duties is not possible due to limited personnel, OSAI recommends implementing compensating controls to mitigate the risk involved with a concentration of duties. Compensating controls would include separating key processes and/or critical functions of the office, and having management review and approve accounting functions.

Further, the duties of encumbering funds and posting to the ledgers should be separated from the printing and distribution of payments.

Management Response:

County Clerk: I agree with the findings in the purchasing department and will implement recommendations. Due to a limited budget within Latimer County, I am only able to have one purchasing deputy. We will segregate duties as best as possible with only three employees in the County Clerk's office.

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

Finding 2015-10 – Inadequate Internal Controls Over Signature Stamp – County Commissioners (Repeat Finding)

Condition: Upon inquiry, observation, and review of documents we noted the following control weaknesses with regard to purchasing procedures:

- The signature stamps for County Commissioners' District 1, 2, and 3 are retained in the County Treasurer's vault under the physical control of the County Treasurer and her deputies.

Cause of Condition: Policies and procedures have not been designed to safeguard the County Commissioners' signature stamps from unauthorized use.

Effect of Condition: This condition could result in unauthorized transactions or misappropriation of funds.

Recommendation: OSAI recommends that the County Commissioners utilizing the signature stamps should ensure that signature stamps are adequately safeguarded from unauthorized use and ensure signature stamps are used only by the official.

Management Response:

County Commissioner District 1: We will work to safeguard our signature stamps and the individual lock boxes that are kept in the County Treasurer's vault. However, each Commissioner will keep their own key.

County Commissioner District 2: At the time these stamps were received, this vault seemed to be the safest place. We will work on getting an individual safe place for the signature stamps.

County Commissioner District 3: I feel that my signature stamp is safer in the County Treasurer's vault than in a desk drawer. My signature stamp is checked out from the County Treasurer myself. All checks are printed and signed by the County Clerk. It would be that the County Clerk and the County Treasurer would have to work together to pay any unauthorized transactions.

Auditor Response: To be adequately safeguarded, signature stamps should be in the possession of and be used only by that official whose name is on the stamp.

Criteria: An 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.

All Objectives:

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

Finding 2015-1 – 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 to address risks of the County.

Effect of Condition: These conditions 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.

Management Response:

Chairman Board of County Commissioners: Latimer County Officials will begin meeting on a quarterly basis to implement the policies and procedures regarding the process related to all collections and disbursements within Latimer County.

County Clerk: Upon the recommendation from the Oklahoma State Auditor's office, Latimer County will strive to implement documentation for policies and procedures in our employee handbook regarding the process related to the collections and disbursements within the County.

County Treasurer: To implement and comply with the recommendations of the Oklahoma State Auditor's office, I will submit monthly collection reports to the Board of County Commissioners for their review.

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.

Finding 2015-2 – Inadequate Internal Controls Over Information Technology – County Clerk and Treasurer (Repeat Finding)

Condition: Upon review of the computer systems within the County Clerk's office and County Treasurer's office, it was noted that there does not appear to be adequate controls in place to safeguard data from unauthorized modification, loss, or disclosure. The specifics of the condition has been sanitized to protect the County Pursuant to the provision of 51 O.S. § 24A.28.

Cause of Condition: Policies and procedures have not been designed and implemented to prevent unauthorized access to data.

Effect of Condition: This condition could result in compromised security for computers, computer programs, and data.

Recommendation: OSAI recommends the County comply with best practice presented in the criteria. The specifics of the recommendation has been sanitized to protect the County pursuant to the provision of 51 O.S. § 24A.28.

Management Response:

County Clerk: I agree with the finding.

County Treasurer: I will implement controls.

Criteria: According to the standards of the Information Systems Audit and Control Association (CobiT, Delivery and Support DS5), the need to maintain the integrity of information and protect IT assets requires a security management process. This process includes establishing and maintaining IT security roles and responsibilities, policies, standards, and procedures. Security management also includes performing security on monitoring and periodic testing and implementing corrective actions for indentified security weakness or incidents. Effective security management protects all IT assets to minimize the business impact of security vulnerabilities and incidents.

Finding 2015-4 – Lack of Disaster Recovery Plan – County Treasurer (Repeat Finding)

Condition: The County Treasurer’s office does not have a written Disaster Recovery Plan.

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

Effect of Condition: The failure to have a current formal Disaster Recovery Plan for all areas could result in the County being unable to function in the event of a disaster. The lack of a formal plan for each area could cause significant problems in ensuring that county business could continue uninterrupted.

Recommendation: OSAI recommends that the County Treasurer develop a Disaster Recovery Plan that addresses how critical information and systems within the office would be restored in the event of a disaster. The Disaster Recovery Plan 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.

In addition, OSAI recommends that all Disaster Recovery Plans be updated yearly and distributed to key personnel. To safeguard the document in times of disaster, a copy should be stored in a secure off-site location.

Management Response:

County Treasurer: I will implement a Disaster Recovery Plan according to the template provided by the Oklahoma State Auditor’s office.

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 Plan(s) are an integral part of county operations to ensure that business can continue 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, Deliver 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(s) should be communicated to management.

Finding 2015-11 – Inadequate Internal Controls and Noncompliance Over Estimate of Needs (Repeat Finding)

Condition: While reviewing the 2015-2016 Estimate of Needs and Financial Statement of the fiscal year 2014-2015, we noted that the information related to the General Fund and Health Fund cash receipts and disbursements were presented with inaccurate information and the related schedules were not completed to include all information.

Cause of Condition: Policies and procedures have not been designed to ensure the County's Estimate of Needs is accurate.

Effect of Condition: These conditions resulted in an incomplete and inaccurate Estimate of Needs being approved.

Recommendation: OSAI recommends the County review the Estimate of Needs prior to approval to ensure that financial information is accurately presented.

Management Response:

Chairman Board of County Commissioners: The Estimate of Needs will be reviewed more carefully by the County Officials prior to sending it for presentation to the State Auditor's office.

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 government's duty to be publicly accountable and should enable user's 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 in part, "...each board of county commissioners...shall prior to October 1 of each year, make, in writing, a financial statement, showing the true financial 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 statements 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..."

REPORT ON STATUTORY COMPLIANCE – OTHER MATTERS



Oklahoma State Auditor & Inspector

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Latimer County
Board of County Commissioners
Latimer County Courthouse
Wilburton, Oklahoma 74578

Dear Chairman:

For the purpose of complying with 19 O.S. § 171 and 20 O.S. § 1312, we have performed statutory procedures regarding the following offices and departments for the fiscal year ended June 30, 2015:

- All County Offices - Fixed Assets procedures (19 O.S. § 178.1 and 69 O.S. § 645).
- All County Offices - Consumable Inventories procedures (19 O.S. § 1502 and 19 O.S. § 1504).
- Court Clerk procedures (20 O.S. § 1304 and 19 O.S. § 220).
- 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 Latimer 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 25, 2016

**LATIMER COUNTY, OKLAHOMA
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SCHEDULE OF FINDINGS AND RESPONSES

Finding 2015-17 – Inadequate Internal Controls and Noncompliance Over Fixed Assets Records(Repeat Finding)

Condition: While gaining an understanding of controls over fixed assets, and testing compliance with state statutes over fixed assets, we noted the following:

- The County has not set forth procedures to perform and document an annual physical inventory to ensure compliance with 19 O.S. § 178.1.
- The following departments did not file an annual physical inventory with the County Clerk's office: County Sheriff, County Election Board, County Health Department, and Solid Waste.

Cause of Condition: Policies and procedures have not been designed and implemented with regard to effective internal controls over safeguarding of fixed assets by performing an annual physical inventory count, and maintaining the fixed asset inventory records with the County Clerk.

Effect of Condition: This condition resulted in noncompliance with state statutes and could result in inaccurate, incorrect information or loss of assets.

Recommendation: OSAI recommends the County implement internal controls to ensure compliance with 19 O.S. § 178.1 regarding fixed assets inventory records. These controls would include that all offices:

- Retain documentation to verify the physical inventory counts were performed.
- Inventory counts should be performed by someone other than the receiving officer or inventory officer.
- Complete and up to date inventory records should be on file with the County Clerk.

Management Response:

County Sheriff: We are in the process of getting inventory records up to date, at which time we will file in the County Clerk's office. Also, we will perform a physical count and retain documentation.

Solid Waste: We are currently working on inventory records and when they are complete, we will file with the County Clerk.

Election Board: In the future we will retain documentation to verify a physical count of inventory was performed.

County Health Department: We will retain documentation that verifies that a physical count of inventory was performed.

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Criteria: Internal Controls over safeguarding of assets constitute a process, affected by an entity's governing body, management, and other personnel designed to provide reasonable assurance regarding prevention or timely detection of unauthorized transactions and safeguarding assets from misappropriation. Effective internal controls include management design procedures to ensure that all fixed assets records be maintained to comply with 19 O.S. § 178.2 and 19 O.S. § 178.1.

Finding 2015-18 – Inadequate Internal Controls and Noncompliance Over Consumable Inventories (Repeat Finding)

Condition: The following was noted, while gaining an understanding of internal controls over consumable inventory and testing compliance with state statutes over consumable inventory:

- County Commissioner District 2
 - Documentation was not retained to ensure a review of consumable inventory was performed.
 - Fuel logs are not reconciled to actual fuel on hand.
- County Commissioner District 3
 - Fuel logs are not reconciled to actual fuel on hand.

Cause of Condition: Policies and procedures have not been designed and implemented with regard to effective internal controls over safeguarding of consumable inventory by performing physical inventory counts, maintaining of the consumable inventory records, and performing reconciliations between fuel records and the actual fuel on hand.

Effect of Condition: Failure to maintain accurate records of consumable inventories and failure to perform a periodic physical inventory of consumable inventories could result in inaccurate records, unauthorized use of consumable inventories, or misappropriation of consumable inventories.

Recommendation: OSAI recommends that District 2 and 3 County Commissioners maintain a fuel record with a balance and reconciliations to the actual fuel on hand be performed and documented. In addition, OSAI recommends that District 2 perform a monthly physical count of all consumable inventories and retain proper documentation to verify a physical count was performed.

Management Response:

County Commissioner District 2: Our policy is to measure tanks once a week, but will measure more often to try to maintain a more accurate fuel count.

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County Commissioner District 3: We try to keep fuel reconciled with the pump reading on main meter reading. We also stick our tanks weekly. We keep gallons pumped, record truck or equipment number and mileage or hr. meter reading. Since the audit we have stuck our tanks daily and are still having problems. This week, I personally stuck the diesel tank several times in a row and got different readings. I found that our tanks has a small bend or something that allows us to have ½(0.5)” different reading. I called vendor and tanks are being re-calibrated as soon as possible.

Criteria: An important aspect of internal control is the safeguarding of assets. Internal Controls over safeguarding of assets constitute a process affected by an entities governing body, management, and other personnel, designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the entities consumable inventory and safeguard consumable inventory from loss, damage, or misappropriation.

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

Finding 2015-14 – Inadequate Segregation of Duties for Court Clerk (Repeat Finding)

Condition: Upon inquiry and observation of the receipt and expenditure process, the following was noted:

- The Court Clerk performs all of the duties pertaining to District Court Fund including the following:
 - Issues receipts.
 - Prepares deposit.
 - Opens mail.
 - Prepares reconciliation with County Treasurer.
 - Prepares reports without review or approval of someone other than preparer.
- The Court Clerk performs all of the duties pertaining to Court Clerk Court Fund and Court Clerk Revolving Fund expenditures including the following:
 - Requisitions.
 - Prepares claims.
 - Verifies goods/services were received.
 - Approves claims for payment.
 - Registers vouchers with County Treasurer.
 - Disburses voucher to vendor.
 - Prepares reconciliation with Treasurer.
 - Prepares reports without review or approval of someone other than preparer.

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

Effect of Condition: This condition could result in unrecorded transactions, undeleted errors, misstated financial statements, or misappropriations of funds.

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

Management Response:

Court Clerk: I have reviewed OSAI recommendations regarding segregation of duties for future implementation.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. Effective internal controls require that key functions within a process be adequately segregated to allow for prevention and detection of errors and possible misappropriation of funds. To help ensure a proper accounting of funds, the duties of issuing receipts, preparing deposits, preparing claims, approving claims, preparing vouchers, signing vouchers, and reconciliation of the accounts should be segregated.

Finding 2015-15 – Inadequate Internal Controls and Noncompliance Over Inmate Trust Fund Checking Account (Repeat Finding)

Condition Upon inquiry and observation it was noted that the County Sheriff is maintaining a checking account that is used as a holding account for inmates' personal property. The balance held in the account could not be reconciled to the inmates' balance. At June 30, 2015 the balance held in the account was \$4,527.41.

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

Effect of Condition: These conditions resulted in noncompliance with state statutes, laws, regulations or legislative intent. In addition, without proper accounting and safeguarding of the inmate's personal property, there is an increased risk of misappropriation of funds.

Recommendation: The County Sheriff should establish an Inmate Trust Fund Checking Account for all monies collected from inmates incarcerated in the county jail in accordance with state statute. Additionally, OSAI recommends the County Sheriff determine ownership of monies deposited and return it to the owner.

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Management Response:

County Sheriff: Our office is currently working to determine a listing of inmates' money that was deposited into the account, so it can be returned. The account was opened by prior administration. The account will no longer be used and will be closed pending instructions from the District Attorney.

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 tasks that are part of internal controls, such as reconciliations not performed or not timely prepared, are deficiencies in internal control. Further, reconciliations should be performed on a monthly basis.

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

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

Finding 2015-16 – Inadequate Internal Controls and Noncompliance Over Telephone Cards – County Sheriff (Repeat Finding)

Condition: Upon inquiry and observation it was noted that the County Sheriff's office is issuing telephone cards to inmates. They are available for family and friends to purchase at the County Sheriff's office or online from the telephone service provider website. The following exceptions were noted:

- Monies received for telephone cards are not deposited daily.
- Telephone cards are not retained in a secure location.
- Documentation of a reconciliation of disbursed telephone cards disbursed is not maintained or approved by the County Sheriff's office.

Cause of Condition: Policies and procedures have not been designed and implemented regarding the jail telephone cards.

Effect of Condition: These conditions resulted in noncompliance with state statutes. In addition, without proper accounting and safeguarding of the jail telephone cards, there is an increased risk of misappropriation of assets.

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Recommendation: OSAI recommends telephone cards be held and maintained in a manner that adequately safeguards property from unauthorized access and monies received from telephone cards should be deposited in a timely manner. In addition, the County Sheriff's office should document the reconciliation of telephone cards issued to monies deposited.

Management Response:

County Sheriff: Policies and procedures will be made in accordance with the Auditor's office and jail standards.

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

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

Title 19 O.S. § 531 E. states, " Each county sheriff may operate, or contract the operation of, a telephone system for the benefit of persons lawfully confined in the county jail under the custody of the county sheriff. Any funds received pursuant to said operations shall be the funds of the county where the persons are incarcerated and shall be deposited in the Sheriff's Service Fee Account. Such funds may be expended according to the guidelines previously established for expenditures from the general fund. The claims for expenses shall be filed with and allowed by the board of county commissioners in the same manner as other claims."

Title 19 O.S. § 682 E. states, "It shall be the duty of each and every county officer, county board, county commission and all members and employees of either thereof, to deposit daily in the official depository designated in Section 681 of this title, all monies, checks, drafts, orders, vouchers, funds, rentals, penalties, costs, proceeds of sale of property, fees, fines, forfeitures and public charges of every kind received or collected by virtue or under color of office,..."



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