

OPERATIONAL AUDIT

# LATIMER COUNTY

For the period July 1, 2006 through June 30, 2011



*Independently serving the citizens of  
Oklahoma by promoting the  
accountability and fiscal integrity of  
governmental funds.*



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

**LATIMER COUNTY OPERATIONAL AUDIT  
FOR THE PERIOD JULY 1, 2006 THROUGH JUNE 30, 2011**

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# Oklahoma State Auditor & Inspector

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March 27, 2012

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

Transmitted herewith is the audit report of Latimer County for the period July 1, 2006 through June 30, 2011.

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 OPERATIONAL AUDIT

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### Background

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 forests, 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 – 10,621  
(2009 est.)

Farms – 760

Land in Farms – 213,411 Acres

Primary Source: Oklahoma Almanac 2011-2012

### County Officials:

Linda Jordan .....	County Assessor
Carolyn Taylor.....	County Clerk
Dennis Deela.....	County Commissioner District 1
John Medders.....	County Commissioner District 2
Roy Alford.....	County Commissioner District 3
Robert Brooks .....	County Sheriff
Sue Chester .....	County Treasurer
Melody Littlejohn .....	Court Clerk

**LATIMER COUNTY  
OPERATIONAL AUDIT**

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**Presentation of Apportionments, Disbursements, and Cash Balances of County Funds for FY 2011**

	Beginning Cash Balance <u>July 1, 2010</u>	Receipts Apportioned <u></u>	Disbursements <u></u>	Ending Cash Balance <u>June 30, 2011</u>
Combining Information:				
County General	\$ 808,877	\$ 1,114,199	\$ 1,320,618	\$ 602,458
Highway-T	3,927,069	3,903,727	4,951,048	2,879,748
County Health	158,159	167,259	126,390	199,028
Sheriff's Cash Account	79,736	116,544	97,699	98,581
Sales Tax Cash Account	1,516,386	1,396,277	1,909,670	1,002,993
Solid Waste Cash Account	671,997	420,213	528,684	563,526
E-911	99,705	168,436	200,121	68,020
County Sinking	10,220	5,454		15,674
Remaining Aggregate Funds	396,972	392,425	379,398	409,999
<b>Combined Total - All County Funds</b>	<b><u>\$ 7,669,121</u></b>	<b><u>\$ 7,684,534</u></b>	<b><u>\$ 9,513,628</u></b>	<b><u>\$ 5,840,027</u></b>

*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, 2006 through June 30, 2011.

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.

<b>Objective 1:</b>	To determine the receipts apportioned, disbursements, and cash balances are accurately presented on the County Treasurer's monthly reports for FY2011.
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**Conclusion**

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

**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 County Clerk's warrants issued to disbursements paid by the County Treasurer.
- Re-performed the bank reconciliations at June 30, 2011, to determine that all reconciling items were valid, that the reconciled balances agree to the General Ledger ending balances, and the General Ledger's ending balance total agreed to the total ending balance reflected on the County Treasurer's monthly reports.

**Inadequate Internal Controls Over the County Treasurer's Monthly Reports**

<b>Condition</b>	There are no procedures designed to ensure that receipts, disbursements, and cash balances are presented accurately on the Treasurer's monthly reports. One report was submitted without complete information to the State Auditor's Office.
<b>Cause of Condition</b>	Procedures have not been designed to review the monthly reports for accuracy prior to submission.
<b>Effect of Condition</b>	This condition could result in unrecorded transactions, undetected errors, or incorrect financial reports.
<b>Recommendation</b>	OSAI recommends that procedures be designed to perform a review of the Treasurer's monthly reports for accuracy.
<b>Management Response</b>	<b>Treasurer:</b> This error was corrected and since this time, we review the monthly reports very closely to make sure all balances match and the report is complete when it reaches the State Auditor's Office.
<b>Criteria</b>	Accountability and stewardship are overall goals of management in the accounting of funds. To help ensure the accuracy of the Treasurer's monthly reports, a review of the monthly reports should be performed and documented.

<b>Objective 2:</b>	To determine if the County's internal controls provide reasonable assurance that revenues were accurately reported in the accounting records.
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<b>Conclusion</b>	The County's internal controls do not provide reasonable assurance that revenues were accurately reported in the accounting records.
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<b>Methodology</b>	<p>To accomplish our objective, we performed the following:</p> <ul style="list-style-type: none"><li>• Gained an understanding of internal controls related to the receipting process through discussions with County personnel, observation and review of documents.</li></ul>
	<b>Inadequate Segregation of Duties Over the Revenue Process</b>
<b>Condition</b>	<p>The duties of receipting, depositing, and maintaining ledgers are not adequately segregated within each county office.</p> <p>Procedures are not designed in the Treasurer's Office to ensure that a review of the bank reconciliations of the General and Official Depository Accounts is being performed and documented.</p>
<b>Cause of Condition</b>	<p>Procedures have not been designed to separate key accounting functions.</p>
<b>Effect of Condition</b>	<p>A single person having responsibility for more than one area of recording, authorizing, custody of assets, and execution of transactions could result in unrecorded transactions, misstated financial reports, undetected errors, and misappropriation of funds.</p>
<b>Recommendation</b>	<p>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.</p> <p>OSAI also recommends that the Treasurer implement procedures to ensure that a review of the reconciliation of the General and Official Depository bank statement is being performed and documented.</p> <p>Further, the following duties should be separated in the respective offices:</p> <p><b>Treasurer's Office:</b> Employees should not all work from the same cash drawer. The Treasurer should not be opening the mail and also delivering the deposit to the bank. A daily log of mailed in receipts should be compiled.</p> <p><b>County Clerk's Office:</b> Employees should not all work from the same cash drawer. Employees should not be issuing receipts under another employee's login information. The First Deputy should not be performing all of the duties regarding opening mail, issuing receipts, preparing the deposit, and delivering the deposit to the Treasurer's Office.</p>

**Assessor's Office:** Employees should not all work from the same cash drawer. One employee should not be performing all of the duties regarding opening mail, issuing receipts, preparing the deposit, and delivering the deposit to the Treasurer's Office.

**Sheriff's Office:** Undeposited collections should be secured with limited access to a designated employee. One employee should not be performing all of the duties regarding opening mail, issuing receipts, preparing the deposit, delivering the deposit to the Treasurer's Office, posting to the ledger, and issuing vouchers to transfer collections to cash funds.

**Election Board Office:** One employee should not be performing all of the duties regarding opening mail, issuing receipts, preparing the deposits, and delivering the deposit to the Treasurer's Office. Also, in order to strengthen controls, the employee who opens the mail should prepare a log of all mailed in receipts prior to remitting them to be receipted.

**Solid Waste Office:** One employee should not be performing all of the duties regarding opening mail, issuing receipts, preparing the deposit, delivering the deposit to the Treasurer's Office, posting to the ledger, and issuing vouchers to transfer collections to cash funds. In addition, controls are not designed regarding collections at the transfer sites to ensure all funds collected are receipted and deposited.

**Management  
Response**

**Treasurer's Office:** The First Deputy normally balances the General account each week. I have started reviewing it to ensure it balances with the general ledger. I also sign and date these reconciliations for approval. Because of the limited number of personnel in my office, we are unable to fully segregate the duties in this office. I will perform periodic monitoring procedures to help mitigate these risks.

**County Clerk's Office:** I plan to implement procedures to segregate the duties of receipting, depositing, and maintaining ledgers. Also, the person maintaining ledgers will issue vouchers at the end of the month to transfer funds. I will be responsible for signing vouchers. I feel this will adequately segregate the receipting duties in my office.

**Assessor's Office:** We do not keep money in our office, being that the only money on hand is that which is received during the day for products from this office. Very seldom is money received by mail; in the event it is received, it is handled as it was a person to person transaction. The procedure I have in place for this office is, one person receipts the money, another person prepares the deposit, and another person delivers the deposit to the Treasurer's Office. When we receive a check in the mail, it is receipted and a copy is made and it is

deposited the same day. We perform the same procedures when we receive cash. The only time these procedures are not followed, is if number of staffing will not allow.

**Sheriff's Office:** Effective immediately the Latimer County Sheriff's Office will implement procedures to separate the duties of receipting, depositing, and maintaining ledgers. All receipt books will be monitored to ensure all collections are deposited.

**Election Board Office:** I realize that duties cannot be properly segregated with only two people in the office as is the case in the Election Board office. To mitigate these risks, I have implemented the following procedures:

- The chief clerk and I will both open the mail and the chief clerk will record all money received on a mail log. Following receipting of the money, the chief clerk will write the receipt number on the mail log.
- The chief clerk will sign the deposit forms and deliver the deposit to the Treasurer's office.
- I will write the receipt for the money received and the chief clerk will mail it and log it on a mail out log.
- We both will review the ledger at the end of the month, and both will sign and date it.
- We make a copy of all money (including cash) received and attach it to the deposit slip.
- When we write vouchers, we also print a voucher detail report to which the voucher number is written next to the computer voucher number.

We try our best to follow the rules but we hope that you understand that we are at a disadvantage with only two people in the office.

**Solid Waste:** The Secretary for Solid Waste does monitor the sequence of issued receipts at the transfer station. The Secretary also receipts collections at the courthouse. Due to a limited number of personnel, we are unable to adequately segregate the duties of this office.

**Criteria**

Accountability and stewardship are overall goals of management in the accounting of funds. The duties of receiving, receipting, recording, depositing cash and checks, reconciliations, and transaction authorization should be segregated.

<b>Objective 3:</b>	To determine if the County's internal controls provide reasonable assurance that expenditures were accurately reported in the accounting records.
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**Conclusion**                      The County's internal controls do not provide reasonable assurance that expenditures were accurately reported in the accounting records.

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

- Gained an understanding of internal controls related to the expenditure process through discussions with County personnel, observation and review of documents.

**Inadequate Segregation of Duties Over the Expenditure Process**

**Condition**                      Upon inquiry and observation of the County's purchasing process, the following was noted:

- The Purchasing Agent issues purchase orders at the request of employees other than those appointed as requisitioning officers. In some instances, the same person requisitions and receives for goods and services purchased.
- The Purchasing Agent does not properly encumber purchase orders as they are requested.
- One employee encumbers funds, posts to ledger, and prints and distributes payments.
- Signature stamps for District 1, 2, and 3 Commissioners and for the County Clerk are kept in the County Treasurer's office in a combination locked safe. (The Treasurer and all Treasurers' employees know the combination to the safe.)

**Cause of Condition**                      Procedures designed by 19 O.S. § 1501-1505 are not adequately implemented. Also, procedures have not been designed to adequately segregate key accounting functions regarding the expenditures process.

**Effect of Condition**                      A single person having responsibility for more than one area of recording, authorizing, custody of assets, and execution of transactions 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.

Further, only requisitioning officers should be given purchase order numbers to encumber funds. The Purchasing Agent should be properly encumbering funds in the computer system to ensure funds are available rather than writing purchase order numbers and vendor names on a notebook. When issuing purchase order numbers, the actual or estimated amount should be immediately encumbered and set aside for the purchase. The duties of encumbering funds and posting to the ledgers should be separated from the printing and distribution of warrants/checks. Further, the County Treasurer should not be in possession of the signature stamps for all three Commissioners and the County Clerk. Officials who utilize signature stamps should ensure that signature stamps are adequately safeguarded from unauthorized use. Signature stamps should not be used by anyone other than the owner of the signature stamp.

**Management  
Response**

**District 2 and 3:** Procedures have been implemented to have a complete physical inventory annually and retain documentation with signatures and dates on fixed assets.

**County Clerk:** I will implement procedures to ensure compliance with state statutes regarding the purchasing process. I plan to implement procedures to segregate the duties of encumbering funds, posting to ledgers, printing checks, and distributing checks. I will at all times keep my signature stamp in my possession and safeguarded against unauthorized use.

**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 purchasing transactions. To help ensure a proper accounting of funds, the duties of encumbering funds and reconciliations of ledgers should be segregated from the duties of printing and distribution of warrants.

Furthermore, 19 O.S. § 1501-1505 prescribes the procedures established for the requisition, purchase, lease-purchase, rental, and receipt of supplies, material, and equipment for maintenance, operation, and capital expenditures of county government.

**Inadequate Internal Controls Over Bids**

**Condition**

While reviewing board minutes, we noted that after the publication of bids in the local newspaper and prior to the opening of the bids, the District #3 County Commissioner contacted vendors by phone to change the specifications of the bid.

**Cause of Condition**

Management did not follow all aspects of the statutes regarding the bid process.

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<b>Effect of Condition</b>	This condition could result in the County being in non-compliance with statutes, laws, regulations or legislative intent.
<b>Recommendation</b>	OSAI recommends that the County follow bidding procedures as outlined in 19 O.S. § 1505B. Once the specifications for an item required to be bid are published in the newspaper and sent to prospective bidders, the specifications are finalized and may not be changed. If it is determined that the current specifications are not adequate, the bids received should be rejected in an open meeting and the item should be re-bid. This will ensure all prospective vendors have equal opportunity to submit a second bid.
<b>Management Response</b>	<b>District 3:</b> Latimer District 3 will implement procedures to ensure we are in compliance with state statutes regarding the bid process. I overlooked the wet kit and I thought by calling all the vendors who I had sent bids to would be fair to all vendors and save the County the expense of going out for bids the second time.
<b>Criteria</b>	Title 19 O.S. § 1505B prescribes the requirements for purchases over \$10,000.

Objective 4:	To determine if the County's internal controls provide reasonable assurance that payroll expenditures were accurately reported in the accounting records.
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<b>Conclusion</b>	The County's internal controls do not provide reasonable assurance that payroll expenditures were accurately reported in the accounting records.
<b>Methodology</b>	<p>To accomplish our objective, we performed the following:</p> <ul style="list-style-type: none"><li>• Gained an understanding of internal controls related to the payroll process through discussions with County personnel, observation and review of documents.</li></ul>

**Inadequate Segregation of Duties Over the Payroll Expenditures**

<b>Condition</b>	There is a lack of segregation of duties in the county's payroll process. The Payroll Clerk enrolls new employees, checks timesheets and accumulated leave for accuracy, inputs payroll information into the system, maintains personnel files, and prepares the OPERS reports and state and federal tax reports. In addition, the Payroll Clerk processes payroll claims, prints and reviews payroll verification reports for errors, prints payroll warrants, and distributes payroll warrants.
<b>Cause of Condition</b>	Procedures have not been designed to adequately segregate the functions of the payroll process.

**Effect of Condition** A single person having responsibility for more than one area of recording, authorizing, custody of assets, and execution of transactions 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.

The following key accounting functions of the payroll process should be adequately segregated:

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

**Management  
Response**

**County Clerk:** I will work to properly segregate the duties of payroll with the limited number of employees in my office.

**Criteria** Accountability and stewardship are overall goals in evaluating management's 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.

<b>Objective 5:</b>	To determine if the County's internal controls provide reasonable assurance that inventories were accurately reported in the accounting records.
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**Conclusion** The County's internal controls do not provide reasonable assurance that fixed assets and consumable inventories were accurately reported in the accounting records.

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

- Gained an understanding of internal controls related to the inventory process through discussions with County personnel, observation and review of documents.

**Inadequate Internal Controls Over Fixed Assets**

<b>Condition</b>	<p>Procedures have not been implemented to ensure the accuracy of fixed asset inventory records.</p> <p><b>County Clerk and County Treasurer</b></p> <ul style="list-style-type: none"><li>• Inventory was not recorded on form 3512 (Biennial inventory form) or a similar form containing the same required information. (County Clerk did update inventory on the correct form in June 2011.)</li><li>• Records were not complete with all required data, including date acquired, serial numbers, and purchase amount.</li><li>• No documentation was retained to verify that a physical count was performed.</li></ul> <p><b>County Sheriff</b></p> <ul style="list-style-type: none"><li>• Inventory was not recorded on form 3512 (Biennial inventory form) or a similar form containing the same required information.</li><li>• Records were not up-to-date and were not complete with all required data, including date acquired, serial numbers, and purchase amount.</li><li>• No documentation was retained to verify that a physical count was performed.</li></ul> <p><b>Districts 1, 2, and 3</b></p> <ul style="list-style-type: none"><li>• No documentation was retained to verify that a physical count was performed.</li></ul>
<b>Cause of Condition</b>	<p>Procedures have not been designed for the accurate reporting of fixed assets. Procedures have not been designed to perform an annual physical count of fixed assets and to retain documentation of the physical count.</p>
<b>Effect of Condition</b>	<p>These conditions could result in inaccurate records, unauthorized uses of fixed assets, or loss of fixed assets.</p>
<b>Recommendation</b>	<p>OSAI recommends that the County implement controls for the safeguarding of fixed assets. OSAI also recommends that all offices perform an annual physical count of all inventories and retain documentation to verify that the physical count was performed.</p>
<b>Management Response</b>	<p><b>Districts 2 and 3:</b> Procedures will be implemented to have a complete physical inventory annually and retain documentation with signatures and dates on fixed asset listing.</p> <p><b>District 1:</b> All fixed assets are inventoried once a month and checked almost daily by two different people.</p>

**Sheriff's Office:** We will have an inventory completed and filed as soon as possible.

**County Clerk's Office:** Procedures will be implemented to perform an annual physical count of fixed assets with documentation including dates and initials.

**Treasurer's Office:** Procedures will be implemented to perform an annual physical count of fixed assets with documentation including dates and initials.

**Criteria**

An important aspect of internal control 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 acquisition, use, or disposition of fixed assets and safeguard fixed assets from loss, damage, or misappropriation.

**Inadequate Internal Controls Over Consumable Inventory**

**Condition**

Procedures have not been designed to ensure the accuracy of consumable inventory records.

**District 1**

- Weekly warehouse summaries are not up-to-date.
- Consumable items (Fuel, tires, and grader blades) located at the barn, are not on the consumable inventory list or summary.
- No documentation was retained to verify that a physical inventory count was performed.
- Fuel is not properly safeguarded and fuel logs are not maintained.

**District 2**

- No documentation was retained to verify that a physical inventory count was performed.

**District 3**

- No documentation was retained to verify that a physical inventory count was performed.

**Cause of Condition**

Procedures have not been designed for the accurate reporting of consumable inventories. Procedures have not been designed to perform a monthly count of consumable inventories and to retain documentation of physical count.

**Effect of Condition**

These conditions could result in inaccurate records, unauthorized use of consumable inventories, or loss of consumable inventories.

**Recommendation**      OSAI recommends that District 1 maintain accurate and up-to-date weekly warehouse summaries for consumable items. A monthly physical count of consumable items should be performed and documentation retained to verify (monthly) physical count. District 1 should implement procedures to maintain a fuel log and adequately safeguard fuel from unauthorized use.

OSAI recommends that District 2 and District 3 perform a monthly physical count of all consumable inventories and retain proper documentation to verify a physical count was performed.

**Management  
Response**

**Districts 2 and 3:** Procedures will be implemented to conduct physical counts monthly on all consumables with initials and dates on each card.

**District 1:** As of January 1, 2012, I implemented these procedures:

- Weekly warehouse summaries are being kept up-to-date,
- All fuel, tires, grader blades, and oil are being kept on consumable inventory cards and put into weekly inventory records,
- Fuel tanks are locked after fueling of vehicles every day,
- Fuel logs are being maintained with information of fuel used, vehicle, and fuel tickets,
- There is a physical inventory count being performed once a month and signed by the person doing the inventory.

**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.

<b>Objective 6:</b>	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.
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**Conclusion**      With respect to the days tested, the County 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 internal controls related to pledged collateral through discussions with County personnel, observation and review of ledgers and documents.

- Tested compliance of the significant law which included the following:
  - Compared the largest bank balances per month for all banks holding county money to the amount of pledged collateral to determine that deposits were adequately secured.

**Inadequate Internal Controls Over Pledged Collateral**

<b>Condition</b>	The County's deposits were not adequately secured with collateral securities for 4 of the 120 days tested.
<b>Cause of Condition</b>	Procedures have not been designed to ensure daily bank deposits are adequately secured.
<b>Effect of Condition</b>	This condition could result in the potential loss of county funds.
<b>Recommendation</b>	OSAI recommends that the County design procedures to daily compare bank balances to the pledged collateral ledgers to ensure that county funds are adequately secured against loss by a financial institution. Documentation for this daily procedure should be maintained.
<b>Management Response</b>	<b>Treasurer:</b> I will implement procedures to ensure the deposits with all banks are adequately secured.
<b>Criteria</b>	Title 62 O.S. § 517.4 require collateral securities to secure the deposits of the county.

Furthermore, 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 7:	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.
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<b>Conclusion</b>	With respect to items tested, the County did not comply with 68 O.S. § 1370E, which requires the sales tax collections to be deposited in the general revenue or
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sales tax revolving fund of the County and be used only for the purpose for which such sales tax was designed.

**Methodology**

To accomplish our objective, we performed the following:

- Gained an understanding of internal controls related to the process of apportioning sales tax collections through discussions with County personnel, observation and review of ledgers and 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 randomly selected three months each fiscal year and recalculated the amount of sales tax collections apportioned by the County Treasurer to ensure sales tax collections were apportioned to the proper funds.
  - Reviewed 100% of expenditures from the Solid Waste Sales Tax Fund to determine funds were expended for the purpose of which such sales tax was designed.
  - Determined sales tax collections designated for benefit of the general government were approved by the Excise Board and appropriated to the proper fund.

**Inadequate Internal Controls Over the Apportionment of Sales Tax and Non-compliance to Maintenance of Sales Tax Funds**

**Condition**

Procedures have not been designed to ensure that sales tax collections are appropriated correctly and according to the sales tax ballot. Sales tax collections designated for the hospital are not being maintained in a county cash fund as required by 68 O.S. §1370E. These funds are remitted directly to the hospital.

**Cause of Condition**

Procedures have not been designed to review the sales tax apportionment and ensure sales tax collections are accurately appropriated to designated funds. Also, procedures have not been designed to ensure sales tax collections and expenditures for the hospital are administered in accordance with state statutes.

**Effect of Condition**

These conditions could result in unrecorded transactions, misstated financial reports, undetected errors, misappropriation of funds, and non-compliance with statutes.

**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. Further, the sales tax collections for the hospital should be maintained in a county revolving fund and expended from the fund upon proper approval by the Board of County Commissioners.

**Management  
Response**

**County Treasurer:** I will implement procedures to have the sales tax apportionment reviewed for accuracy. Initials and dates for the review will be recorded with the reconciliation.

**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 8:**

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

**Conclusion**

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

**Methodology**

To accomplish our objective, we performed the following:

- Gained an understanding of internal controls related to the process of apportioning and distributing ad valorem tax collections through discussions with County personnel, observation and review of ledgers and documents.
- Tested internal controls which included determining that the Treasurer used the levies as certified by the Excise Board and filed with the County Clerk to input levies into the tax system.
- Tested compliance of the significant law which included the following:
  - Compared the certified levies for the audit periods to the computer system to determine the Treasurer applied the certified levies, as fixed by the Excise Board of Latimer County, to the tax rolls.
  - Recalculated the apportionment of ad valorem tax collections to determine collections were accurately apportioned to the taxing entities.

All Objectives:

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

**Lack of County-Wide Controls Regarding Risk Management**

<b>Condition</b>	The County has not designed procedures regarding county-wide risk management.
<b>Cause of Condition</b>	Procedures have not been designed to identify and address risks.
<b>Effect of Condition</b>	This condition could result in unrecorded transactions, undetected errors, or misappropriation of funds.
<b>Recommendation</b>	OSAI recommends that the County design procedures to identify and address risks. These procedures should be written policies and could be included in the County's policies and procedures handbook.

Examples of risks and procedures to address risk management:

<b>Risks</b>	<b>Procedures</b>
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

**Management  
Response**

**Districts 2 and 3:** The County will strive to have each office segregate duties as far as practical with staffing. Each office will implement their own plan. The County in general encourages everyone to attend all classes and workshops as possible with the limitation of funds. The Board will start working on a disaster recovery plan for natural disasters and will put a completion date of December 31, 2012, on it.

**District 1:** I will work with the other elected officials to design procedures for risk management and develop a disaster recovery plan.

**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 County Environment, Risk Assessment, Information and Communication, 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 objective.

#### **Disaster Recovery Plan**

<b>Condition</b>	The offices of County Treasurer, County Clerk, and County Assessor do not have a written Disaster Recovery Plan.
<b>Cause of Condition</b>	Management has not designed policies and procedures regarding the County's contingency plan in the event of a disaster.
<b>Effect of Condition</b>	The failure to have a formal Disaster Recovery Plan could result in the County being unable to function in the event of a disaster. The lack of a formal plan could cause significant problems in ensuring county business could continue uninterrupted.
<b>Recommendation</b>	OSAI recommends the County develop a Disaster Recovery Plan addressing how critical information and or systems would be restored in the event of a disaster.
<b>Management Response</b>	<b>County Clerk:</b> I have obtained a copy of a disaster recovery plan. I plan to implement a written disaster recovery plan to be in place for the county clerk's office.
<b>Criteria</b>	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.

According to the standards of the Information Systems Audit and Control Association (CobiT Delivery and Support 4), information services function

management should ensure that a written disaster recovery plan is documented and contains the following:

- 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.



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