

OPERATIONAL AUDIT

LINCOLN COUNTY

For the period July 1, 2008 through June 30, 2010



*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

**LINCOLN COUNTY OPERATIONAL AUDIT
FOR THE PERIOD JULY 1, 2008 THROUGH JUNE 30, 2010**

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Oklahoma State Auditor & Inspector

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April 4, 2012

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

Transmitted herewith is the audit report of Lincoln County for the period July 1, 2008 through June 30, 2010.

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

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

Sincerely,

A handwritten signature in blue ink, appearing to read "Gary A. Jones", is written over a horizontal line.

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

**LINCOLN COUNTY
OPERATIONAL AUDIT**

Presentation of Apportionments, Disbursements, and Cash Balances of County Funds for FY 2010

	Beginning Cash Balance <u>July 1, 2009</u>	Receipts Apportioned <u></u>	Disbursements <u></u>	Ending Cash Balance <u>June 30, 2010</u>
Combining Information:				
County General Fund	\$ 476,517	\$ 2,081,345	\$ 2,112,117	\$ 445,745
Highway Cash	2,313,278	5,950,736	6,725,906	1,538,108
County Health	331,431	447,593	417,818	361,206
County Sales Tax	1,742,842	1,982,068	2,105,815	1,619,095
Sheriff Service Fee	166,540	327,420	373,962	119,998
Remaining Aggregate Funds	<u>1,272,075</u>	<u>1,006,059</u>	<u>851,981</u>	<u>1,426,153</u>
Combined Total - All County Funds	<u><u>\$ 6,302,683</u></u>	<u><u>\$11,795,221</u></u>	<u><u>\$12,587,599</u></u>	<u><u>\$ 5,510,305</u></u>

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

**Purpose, Scope, and
Sample Methodology**

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

The audit period covered was July 1, 2008 through June 30, 2010.

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

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. This report is a public document pursuant to the Oklahoma Open Records Act (51 O.S. § 24A.1 et seq.), and shall be open to any person for inspection and copying.

Objective 1:	To determine if the receipts apportioned, disbursements, and cash balances are accurately presented on the County Treasurer’s monthly reports for FY 2010.
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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.

- Tested controls which included reviewing 100% of the monthly reports for the following:
 - Ensuring that the monthly reports were reviewed and approved.
- Performed the following to ensure receipts apportioned, disbursements, and cash balances were accurately presented on the County Treasurer's monthly reports.
 - Reconciled County Treasurer's receipts to amounts apportioned on the General Ledger.
 - Reconciled the County Clerk's warrants issued to disbursements paid by the County Treasurer.
 - Re-performed the bank reconciliations at June 30, 2010, to determine that all reconciling items were valid, and ending balances on the General Ledger agreed to the ending balances reflected on the County Treasurer's monthly reports.

Objective 2: To determine if the County's internal controls provide reasonable assurance that revenues were accurately reported in the accounting records.

Conclusion The County's internal controls do not provide reasonable assurance that revenues 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 receipting process through discussions with County personnel, observation and review of documents.

Observation **Inadequate Segregation of Duties Over the Receipting Process**

Accountability and stewardship are overall goals of management in the accounting of funds. 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.

Based upon inquiry and observation of the receipting process for each office, the following was noted:

County Clerk's Office: The County Clerk maintains one cash drawer for all three employees.

County Sheriff's Office: The new Sheriff's administration took office in November 2010. We were unable to interview anyone with duties concerning Sheriff's Office receipts that were employed by the previous administration for FY 2009 and FY 2010. The complete records concerning receipts during the audit period FY 2009 and FY 2010 were not found.

Court Clerk's Office: The Court Clerk maintains one cash drawer for all six employees.

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

Recommendation

OSAI recommends management be aware of these conditions and determine 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's Office: One office employee is basically assigned to wait the counter. This rotation of duties is changed weekly. I do understand that sometimes more than one employee has to work the counter at one time. Most of the payments taken into my office are done by checks. With the small size of my office, I find it very hard to maintain more than one cash drawer. I have no problem with the cash drawer balancing daily.

County Sheriff's Office: The new administration came into office November 2010; since then this office has no cash drawers. The inmate prior to being put into jail deposits inmate money into a kiosk and a receipt is then printed for the inmate automatically by the kiosk. One employee deposits any checks received through the mail and writes a receipt. Another employee balances the books with the County Treasurer's office every month.

Court Clerk's Office: With respect to one cash drawer for six employees. On an average day only three employees take cash at the front counter. Our offices are very small in size so an oversight of transactions is observed at all times. To mitigate the risks, the deputies are instructed to have a second person count the money and initial the receipt. All employees are instructed on this procedure so every cash receipt is verified and signed off on by two deputies. This procedure is mandatory for all employees. Deposit reports showing cash receipts for each employee is ran every day and checked with receipts.

A cash mail log is maintained and requires two deputy's initials. Anytime cash is received in the mail upon opening of same, it is immediately accounted for and logged in by two deputies.

Objective 3: To determine if the County's internal controls provide reasonable assurance that expenditures were accurately reported in the accounting records.

Conclusion The County's internal controls provide reasonable assurance that expenditures were accurately reported in the accounting records.

Our review of the internal controls over Court Fund and Court Clerk Revolving Fund expenditures did not provide reasonable assurance that expenditures were accurately reported in 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.
- Tested controls which included reviewing a random sample of 25 expenditures from each fiscal year for the following:
 - Ensuring that claims reflected the authorized signature of the requisitioning officer.
 - Ensuring that receiving reports were attached to the claims and reflected the authorized signature of the receiving officer verifying goods and/or services were received.
 - Ensuring that claims reflected authorized signatures of the Board of County Commissioners for the approval of payment.
 - Ensuring expenditures were recorded and encumbered by the County Clerk/Purchasing Agent or deputy.

Observation **Inadequate Segregation of Duties Over the Court Fund and Court Clerk Revolving Fund Expenditures Process**

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 transactions. To help ensure a proper accounting of funds, the duties of preparing a claim, writing a voucher, signing a voucher, and delivering the voucher to the County Treasurer for registration should be separated.

- Upon inquiry and observation of Court Fund expenditures, one individual prepares the claim, issues and signs the voucher, and delivers the voucher to the County Treasurer to be registered.
- Upon inquiry and observation of Court Clerk Revolving Fund expenditures; one individual prepares the claim, authorizes the claim, receives the signed cash voucher from the County Clerk, and delivers the cash voucher to the vendor.

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

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**

All claims are reviewed and signed off by one or both Judges and me and are documented on date of approval of claims and date vouchers are written. Because of the limited personnel and amount of time involved with the Court Fund and Court Fund Revolving Fund claims and the ultimate liability is on me. I handle the Court Fund and Court Fund Revolving Fund claims and expenditures myself and feel it is the best solution for my office at this time. The Judges monitor the claims very closely and I discuss the claims and expenditures with them on a routine basis.

Objective 4:

To determine if the County's internal controls provide reasonable assurance that payroll expenditures were accurately reported in the accounting records.

Conclusion

The County's internal controls do not provide reasonable assurance that payroll 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 payroll expenditure process through discussions with County personnel, observation and review of documents.

Observation

Inadequate Segregation of Duties Over Payroll Expenditures

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.

Based upon inquiry and observation of the payroll expenditure process, the following was noted.

- The Payroll Clerk enrolls new employees, maintains personnel files, prepares OPERS reports, prepares state and federal tax reports, posts payroll information into the system, prints and distributes payroll warrants.

Recommendation

OSAI recommends management be aware of these conditions and determine if duties can be 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, the duties of enrolling new employees, maintaining personnel files, preparing OPERS reports, preparing state and federal tax reports, posting payroll information into the system, printing payroll warrants, and distributing payroll warrants should not all be performed by the payroll clerk. These duties should be adequately segregated.

**Management
Response**

The Payroll Clerk's duties will be reviewed by the County Clerk or other employee assigned.

Objective 5:

To determine if the County's internal controls provide reasonable assurance that inventories were accurately reported in the accounting records.

Conclusion

The County's internal controls did not provide reasonable assurance that fixed assets and consumable inventories were accurately reported in the accounting records.

Our review of the internal controls over fixed assets for the County Sheriff's Office, Court Clerk's Office, County Clerk's Office, and Highway District 1 did

not provide reasonable assurance that fixed assets were accurately reported in the accounting records.

Our review of the internal controls over consumable inventories for the County Sheriff's Office, Highway District 1, and Highway District 2 did not provide reasonable assurance that 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.
- Tested controls which included reviewing a random sample of ten fixed asset items at District 2, District 3, County Treasurer, and County Assessor for the following:
 - Ensuring a visual inspection of fixed asset items are performed annually.
- Tested controls which included reviewing a random sample of six monthly fuel log reconciliations for consumable inventory items at District 2 and District 3 for the following:
 - Ensuring fuel logs are being maintained.
 - Ensuring proper review and approval of monthly fuel logs.

Observation

Inadequate Internal Controls Over Fixed Assets and Consumable Inventories

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 acquisition, use, or disposition of fixed assets and safeguard fixed assets from loss, damage, or misappropriation.

Upon inquiry and observation of the record keeping process regarding fixed assets and consumable inventories, the following was noted:

Fixed Assets:

- A complete fixed assets listing was not available from the following departments: County Sheriff's Office, Court Clerk's Office, and County Clerk's Office.

- Three fixed assets were not properly identified as County property at District 1.

Failure to account for and safeguard fixed asset items and failure to perform periodic physical inventory of fixed assets could result in inaccurate records, unauthorized use of fixed assets, or misappropriation of fixed assets.

Consumable Inventories:

County Sheriff's Office:

- A listing of consumable inventory items was not available.

District 1:

- A fuel log is not maintained to track fuel consumption for unleaded and diesel.

District 2:

- A fuel log is not accurately maintained to track fuel consumption for unleaded.

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, and/or misappropriation of consumable inventories.

Recommendation

Fixed Assets:

OSAI recommends that each county office/department implement a system of internal controls to provide reasonable assurance that fixed assets are adequately accounted for and safeguarded. Records should be maintained in such a manner that assets can be identified by serial number, date of acquisition, and purchase price.

Further, annual verifications of fixed asset items should be performed to properly account for fixed assets and supporting documentation of the verification should be maintained.

Consumable Inventory:

OSAI recommends that each district/office implement a system of internal controls to provide reasonable assurance that consumable inventories are accurately reported, including adequately segregating duties. Records should be maintained for all consumable inventory items in an accurate manner that reflects consumable inventory by category and reflects current balances.

Further, a periodic physical verification of consumable inventories should be performed, reconciled to inventory records, and supporting documentation of the physical count should be maintained.

**Management
Response**

Fixed Assets:

County Sheriff's Office: A fixed asset list is being compiled and will be audited.

Court Clerk's Office: Since the audit was performed, a complete fixed asset listing has been prepared and all assets are properly labeled.

County Clerk's Office: County Clerk's office fixed this during the audit. The auditors approved.

District 1: The three fixed assets mentioned as not being properly identified were new items our district had acquired just before the audit team arrived. All fixed assets have now been properly labeled and numbered with corresponding numbers on the fixed asset list.

Consumable Inventory:

County Sheriff's Office: The new administration came into office November 2010, since then this office has implemented an inventory control. Fuel logs maintained, cars inventoried, weapons inventoried, and any equipment assigned to an employee is inventoried and put in their personnel file.

District 1:

- The question raised about the fuel log not being maintained to track fuel consumption for unleaded and diesel fuel has been resolved. District 1 has always maintained a fuel log for the large diesel and unleaded tanks in the yard in Stroud, and the log sheet is checked and information entered in the computer software system by the office secretary. The tanks are stuck regularly by an employee and the levels of fuel recorded on a board in the office. All of this information is used to monitor fuel use and determine when telephone quotes are obtained to order more fuel.
- Regarding the outlying tanks at the grader parking spots throughout the district, we are now implementing a recording system to monitor the amount of fuel pumped from the tanks to the graders on a regular basis. We already keep a detailed written record of all fuel delivered to the outlying tanks when it is ordered and delivered by the vendor. And, we are now keeping the outlying tanks secured by locks, as recommended by the field auditor when he was here.

District 2: Lincoln County District 2 has purchased a thousand gallon fuel tank that has the proper meter that allows an accurate fuel reading. We have required the fuel dealer to measure the tank before and after filling the tank. A daily log is kept of fuel consumptions; who pumped the fuel, total gallons, and what vehicle the fuel was put in.

Objective 6: To determine the County's financial operations complied with 62 O.S. §517.4, which requires county deposits with financial institutions be secured with collateral securities or instruments.

Conclusion With respect to the days tested, the County did comply with 62 O.S. § 517.4, which requires the 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 the County Treasurer, observation and review of ledgers and documents.
- Tested controls which included reviewing a random sample of 50 days for the following:
 - Ensuring there was evidence reflecting the approval and proper adjustments made to collateral if needed.
- Tested compliance of the significant law which included a random sample of 50 days for the following:
 - Compared the days bank balance to the amount of pledged collateral to determine that deposits were adequately secured.

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.

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 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 documents.
- Tested controls which included reviewing 100% of sales tax revenue received for the following:
 - Reconciliations were performed to ensure the proper amount was received, recorded and apportioned to the proper funds.
- Tested compliance of the significant law which included the following:
 - Obtained confirmations from the Oklahoma Tax Commission for sales tax payments made to the County and recalculated the amounts apportioned by the County Treasurer to ensure sales tax collections were apportioned to the proper funds.
 - Reviewed 100% of the expenditures from the County Sales Tax Fund to determine funds were expended for the purpose of 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 documents.
- Tested controls which included the following:
 - County Assessor verified the certified levy sheet agreed to the amounts issued by the County Excise Board.
 - Monthly reconciliations of revenues were performed and reviewed by the County Treasurer ensuring the collections were apportioned to the taxing entities.

- 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 County Treasurer applied the certified levies, as fixed by the Excise Board of Lincoln County, to the tax rolls.
 - Recalculated the apportionment of ad valorem tax collections to determine collections were accurately apportioned to the taxing entities.



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