OPERATIONAL AUDIT

LOVE COUNTY

For the period July 1, 2007 through June 30, 2012

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

LOVE COUNTY OPERATIONAL AUDIT
FOR THE PERIOD JULY 1, 2007 THROUGH JUNE 30, 2012

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Oklahoma State Auditor & Inspector

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May 10, 2013

TO THE CITIZENS OF
LOVE COUNTY, OKLAHOMA

Transmitted herewith is the audit report of Love County for the period July 1, 2007 through June 30, 2012.

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

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

Sincerely,

Gary A Jones

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

BACKGROUND

Originally a part of Pickens County, Chickasaw Nation, Love County was named in honor of Overton Love, a prominent judge of the Chickasaws and landowner after the Civil War.

The county seat, according to some, was named Marietta by its first postmaster, Jerry C. Washington, for his wife, Mary, and his sister, Etta. Others contend the town was named for Marietta, Pennsylvania. The county courthouse, built in 1910, was the first courthouse built in Oklahoma after statehood.

Marietta is served by I-35, S.H. 32, and S.H. 77, and the Burlington Northern Santa Fe Railroad. Industries include Oktex Baking, Marietta Sportswear, Robertson Hams, Rapistan Systems, Earth Energy Systems, and the Joe Brown Company. Texaco, Chevron, and Cimarron Transmission manufacture propane, butane, and natural gas. Dollar Tree operates a distribution center in Marietta. The Marietta Monitor, a weekly newspaper, has been owned and operated by the same family since 1896.

Several famous horse ranches and cattle ranches are located in the county. The largest early-day ranch was operated by William E. Washington. Agricultural products include pecans, grains, hay, peanuts, and watermelons, while sheep and hogs are also raised.

Love County annually celebrates Frontier Days on the first Friday and Saturday of June. For more county information, call the county clerk's office at 580/276–3059 or the chamber of commerce at 580/276-3059.

County Seat – Marietta

Area – 531.94 Square Miles

County Population – 9,124
(2009 est.)

Farms – 696

Land in Farms – 261,875 Acres

Primary Source: Oklahoma Almanac 2011-2012

COUNTY OFFICIALS

Cathy Carlile .... County Assessor
Shelly K. Russell .... County Clerk
James Wade .... County Commissioner District 1
Michael E. White .... County Commissioner District 2
Herschel Bub Perry .... County Commissioner District 3
Joe Russell .... County Sheriff
Langdon D. Spivey .... County Treasurer
Kim Jackson .... Court Clerk

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

	Beginning Cash Balance July 1, 2011	Receipts Apportioned	Disbursements	Ending Cash Balance June 30, 2012
Combining Information:				
County General Fund	$ 364,634	$ 1,293,437	$ 1,350,662	$ 307,409
T-Highway	1,514,557	1,769,511	1,938,265	1,345,803
County Health	252,984	157,084	82,111	327,957
Resale Property	55,252	72,187	57,975	69,464
Sheriff Service Fee	48,704	144,161	182,325	10,540
Sales Tax Revolving	841,116	1,754,159	1,754,755	840,520
Love County Health Center Remittance (LCHC)	367,069	136,358	-	503,427
CBRIN 105 Highway	700,417	703,083	462,082	941,418
General Expenditures/Use Tax	104,749	88,192	102,363	90,578
Remaining Aggregate Funds	140,829	593,772	700,755	33,846
Combined Total - All County Funds	$ 4,390,311	$ 6,711,944	$ 6,631,293	$ 4,470,962

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, 2007 through June 30, 2012.

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

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

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

Conclusion: With respect to the items reconciled and reviewed; the receipts apportioned, disbursements, and cash balances are accurately presented on the County Treasurer's monthly reports. However, internal controls over the monthly reports and segregation of duties within the Treasurer's office should be strengthened.

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

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

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

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

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

- The County Treasurer's monthly reports are compiled from an information system in which the County Treasurer and the deputy perform daily transactions such as issuing receipts and posting disbursements.
- There is no independent oversight of the accuracy of the County Treasurer's monthly reports.

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

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

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

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

Management Response:
County Treasurer: From this point forward, the monthly report will be approved and initialed by two people.

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.

Finding: Negative General Ledger Balances

Condition: There were instances throughout the audit period where the general ledger had negative balances, indicating warrants were issued and paid without cash being available in the respective funds.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure that adequate funds are available prior to registering warrants.

Effect of Condition: This condition could result in misstated financial reports, or create a liability for the County.

Recommendation: We strongly recommend the County Treasurer verify cash is available in the fund prior to the registration of any warrants.

Management Response:
County Treasurer: We will verify that cash is available before registering warrants.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. An important aspect of internal controls is the safeguarding of assets. Internal controls over safeguarding of assets constitute a process, affected by an entity's governing body, management, and other personnel, designed to provide reasonable assurance regarding prevention or timely detection of unauthorized transactions, and safeguarding assets from misappropriation.

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

Conclusion: 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 the internal controls related to pledged collateral through discussions with the County Treasurer, observation, and review of ledgers and documents.

- Selected the highest bank balance date for each month of the audit period from banks holding deposits of county funds to determine if bank balances were adequately collateralized.

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

Condition: Upon inquiry of County personnel, observation of pledged collateral documents, and tests of seventy days' deposits held at banks, we noted the following weaknesses:

- The County Treasurer did not document that pledged collateral was monitored on a daily basis to ensure that county deposits were secure.
- The County Treasurer relied on the bank personnel to determine that pledges and FDIC coverage were adequate to cover bank deposits.

Additionally, the County's General Bank Account was not adequately pledged as follows:

- December 31, 2007, in the amount of $464,738.55.
- December 28, 2008, in the amount of $4,637.60.
- January 23, 2009, in the amount of $505,623.57.
- February 2, 2009, in the amount of $217,282.07.
- December 31, 2009, in the amount of $849,458.39.
- January 5, 2010, in the amount of $1,107,721.97.
- September 30, 2010, in the amount of $110,329.31.
- October 14, 2010, in the amount of $497,714.88.
- December 31, 2010, in the amount of $1,584,371.80.
- January 4, 2011, in the amount of $1,863,642.99.
- December 30, 2011, in the amount of $1,013,958.93.

Additionally, the County's Official Depository Bank Account was not adequately pledged as follows:

- June 13, 2008, in the amount of $252,320.24.
- February 27, 2009, in the amount of $517,191.95.
- March 31, 2009, in the amount of $707,162.95.
- April 8, 2009, in the amount of $739,057.74.
- May 29, 2009, in the amount of $799,151.24.

- o June 30, 2009, in the amount of $746,860.75.
- o July 2, 2009, in the amount of $734,280.00.
- o August 31, 2009, in the amount of $333,148.52.
- o September 29, 2009, in the amount of $373,178.87.
- o October 2, 2009, in the amount of $357,125.14.
- o November 30, 2009, in the amount of $362,342.05.
- o December 31, 2009, in the amount of $529,332.39.
- o September 30, 2010, in the amount of $184,537.19.
- o October 4, 2010, in the amount of $188,962.13.
- o November 30, 2010, in the amount of $162,287.62.
- o December 30, 2010, in the amount of $36,867.32.
- o October 31, 2011, in the amount of $22,756.95.
- o December 30, 2011, in the amount of $19,383.82.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure proper collateralization of county bank balances.

Effect of Condition: Failure to monitor pledged collateral amounts could result in unsecured county funds and possible loss of county funds.

Recommendation: OSAI recommends that the County Treasurer implement a system of internal controls to provide reasonable assurance that county funds are adequately secured. Further, OSAI recommends the County Treasurer maintain a ledger of daily bank balances compared to the market value of pledged securities to ensure that county funds are adequately secured.

Management Response:
County Treasurer: We will begin checking the pledge balance against the bank balance daily to verify that we are adequately pledged.

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. Further, good internal controls include procedures to ensure compliance with 62 O.S. § 517.4 which requires county funds to be adequately safeguarded against loss.

Objective 3:	To determine the County's financial operations complied with 68 O.S. § 1370E, which requires the sales tax collections to be deposited in the general revenue or Sales Tax Revolving Fund of the County and be used only for the purpose for which such sales tax was designated.

Conclusion: With respect to the items tested, the County 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 should be strengthened regarding the apportionment of sales tax.

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

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

- Tested compliance of the significant law, which included the following:
    - Reviewed sales tax ballots to determine designation and purpose of sales tax collections.
    - Obtained confirmations from the Oklahoma Tax Commission for sales tax payments made to the County and recalculated the amounts apportioned by the County Treasurer to ensure sales tax collections were apportioned to the proper funds.
    - Selected a random sample of 200 purchase orders (40 per year) from the Sales Tax Revolving Fund and determined that expenditures were made for purposes designated on the sales tax ballot.

Finding: Inadequate Internal Controls over Sales Tax Apportionments and Appropriations

Condition: Upon inquiry and observation of the recordkeeping process of apportioning sales tax collections, it was noted that there is no independent oversight of the calculation of sales tax collections that is presented for appropriation by the County Treasurer to the County Clerk.

Cause of Condition: Procedures have not been designed to review the calculation of sales tax apportionments.

Effect of Condition: This condition could result in sales tax funds being incorrectly calculated and apportioned to incorrect funds and not expended in accordance with sales tax ballot.

Recommendation: OSAI recommends that the Treasurer implement internal control procedures for the accurate reporting and apportioning of sales tax revenue. There should be an independent verification of the calculation of the sales tax verification.

Management Response:
County Treasurer: When preparing sales tax appropriations, someone independent of the preparer will verify that calculations are correct.

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 sales tax should be segregated or reviewed by an independent party.

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

Conclusion: 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. However, internal controls should be strengthened regarding the application of certified levies to the tax rolls and the apportionment and distribution of ad valorem tax collections.

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

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

- Tested 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 the County, to the tax rolls.
    - Recalculated the apportionment of ad valorem tax collections to determine collections were accurately apportioned to the taxing entities.

Finding: Inadequate Internal Controls over Ad Valorem Distribution

Condition: The County did not maintain documentation that certified levies were reviewed for accuracy when entered into the ad valorem system by the Treasurer.

Cause of Condition: 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 undetected errors, misappropriation of funds, and loss of revenues.

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

Management Response:
County Treasurer: When new ad valorem taxes are entered into the computer someone else will initial the certified levies.

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

Conclusion: With respect to the items tested, the County's financial operations complied with 19 O.S. § 1505F. However, the County's financial operations did not comply with 19 O.S. § 1505C, and 19 O.S. § 1505E, which outlines procedures for expending county funds.

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

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

- Tested compliance of the significant law, which included the following:
  - Purchase orders were properly requisitioned as required by 19 O.S. § 1505C.
  - Purchase orders were properly encumbered as required by 19 O.S. § 1505C.
  - The receiving officer prepared and signed a receiving report as required by 19 O.S. § 1505E.
  - The County Clerk or designee compared the purchase order to the invoice, receiving report, and delivery document as required by 19 O.S. § 1505E.
  - Purchase orders were approved for payment by the Board of County Commissioners as required by 19 O.S. § 1505F.

Finding: Inadequate Internal Controls over Purchasing Procedures and Noncompliance with Statutes

Condition: Upon inquiry and observation of the expenditure process, it was noted that the purchasing agent reviews the supporting documentation and the purchase order for accuracy and completion, makes any adjustment needed, prints warrants, and mails the signed warrants to the vendors.

Also, of the 200 purchase orders tested, the following was noted:

- Seventy-four (74) purchase orders were not timely encumbered.
- Forty-three (43) purchase orders did not have a signed receiving report attached.
- Thirteen (13) purchase orders did not have an original invoice attached.
- One (1) purchase order could not be located.

Cause of Condition: Procedures have not been designed to adequately segregate key accounting functions regarding the expenditure process to ensure compliance with purchasing statutes.

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

Recommendation: OSAI recommends the County implement a system of internal controls over the expenditure process. Such controls may include an independent verification of the accuracy of components necessary to initiate and authorize expenditure. OSAI also recommends management implement procedures to ensure compliance with purchasing statutes.

Management Response:
County Clerk:

- Purchase orders which are not timely encumbered are marked by the purchasing agent with a red stamp stating: day purchase order was encumbered, day of invoice and date on receiving report. County Clerk's office repeatedly advises requisitioning officers the need to have purchase orders timely encumbered.
- All purchase orders, excluding payroll and travel claims, will have a signed receiving report attached.
- There are some cases Xerox copies of invoices are necessary: examples: Courthouse telephone is divided ten ways, the original telephone bill is kept in the County Clerk's office. From this day forward all copies of phone bill will reflect the location of the original phone bill. Second, multiple billings on one statement. Staples and Lowe's send a monthly statement which lists purchases by different county entities on it. County Clerk makes a copy of the statement for each billed entity with a note stating: the original invoice is attached to the purchase order which was encumbered first.
- In 2008, one purchase order was unable to be found in storage area, this was an isolated incident.

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

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

Conclusion: With respect to the items tested, the County generally complied with 19 O.S. § 1505B, which requires that purchases in excess of $10,000 be competitively bid.

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

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

- Selected a random sample of twenty-five purchases in excess of $10,000 and determined that the County followed statutes regarding public notice, handling of unopened bids, awarding bid to best bidder, recording appropriate information in BOCC minutes, and notification to successful bidders.

Finding: Inadequate Internal Controls and Noncompliance over the bidding process and Noncompliance with Statute

Condition: Controls over the bidding process have not been properly implemented and as a result, the following discrepancies have occurred:

- Three of the twenty-five bids tested did not have the notification letter to the successful bidder included in the bid files.
- Documentation of date and time of bids received for three bidders was not maintained on one of the twenty-five bids tested.
- The County Clerk does review the encumbrances for the items requiring bids and reviews the bid packets prior to being mailed to vendors to ensure all documents are included in the packets, however, there is no independent verification by initialing and dating the documents by the County Clerk to verify that this process is being performed.

Cause of Condition: Procedures have not been developed and designed to document compliance with state statute and provide assurance that controls are in place.

Effect of Condition: These conditions could result in noncompliance with state statute.

Recommendation: OSAI recommends the County implement procedures to ensure bidding is properly performed. These procedures should include:

- Documentation of notification of successful bidder maintained in the bid file.
- Documentation of the bid date and time stamped on the bid package.
- Documenting that six month bids were reviewed prior to approving encumbrance.

Management Response:
County Clerk: I have created a checklist for each bid folder to ensure that proper procedures and adequate internal controls are followed in the bidding process. The checklist includes a vendor mailing list, proof of mailing, date mailed, proof of publication, bid opening date, bid due date, award notification, and the purchase order number. This checklist is attached to the bid file. Additionally, when the lowest bid is not accepted, a copy of the minutes from the Commissioners' meeting will be included in the bid folder.

County Commissioners: We will work together with the County Clerk to ensure compliance with state statute.

Criteria: Effective internal controls include procedures that ensure county purchases are in compliance with 19 O.S. § 1505B.

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

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

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

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

- Tested compliance of the significant law, which included the following:
    - Recalculated the maximum amount allowed for officers' salaries as set forth in 19 O.S. § 180.74 and § 180.75.
    - Reviewed the salaries of County officials to ensure that amounts paid did not exceed statutory limits.

Finding Inadequate Internal Controls over Compliance with Salary Limitations

Condition: It was determined through discussions with County personnel, observation, and review of documents that the County does not have procedures in place to ensure that salaries are calculated in accordance with state statutes.

Cause of Condition: Procedures have not been designed to ensure compliance with these statutes.

Effect of Condition: This condition could result in noncompliance with salary limitations; particularly in the event of fluctuations in the ad valorem tax revenue and population of the County that determines salary limitations.

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

Management Response:
County Commissioners: Beginning at start of fiscal year 2013-14 and each new fiscal year, as per state statutes, Love County will calculate the maximum allowable salaries of county officers; these will be recorded and kept in the Office of Love County Clerk.

Criteria: Effective internal controls include management design and implement procedures to comply with 19 O.S. § 184.74 and § 180.75.

Finding: Concentration of Duties in the Payroll Process

Condition: It was determined through discussions with County personnel, observation, and review of documents that the payroll process was not adequately segregated. The County Clerk does review the payroll information entered and prepared by the payroll clerk; however, no documentation of an independent review was maintained.

Cause of Condition: In an effort to maximize efficiency and available resources, the County has relied upon one individual to perform the majority of the payroll process without documentation of review.

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

Recommendation: OSAI recommends that key accounting functions of the payroll process be adequately segregated and that documentation of the independent review be maintained. Payroll processes should be adequately segregated as follows:

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

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

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

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

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

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

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

- Tested a random sample of twelve consumable records, (four at each District barn), to determine that the District barns are maintaining accurate records and that they agree to a physical count of records.

Finding: Inadequate Internal Controls over Consumable Inventories

Condition: Upon inquiry of District personnel and observation of consumable inventory records, the following weaknesses were noted:

- **District 1:**
  - The consumable inventory process is not adequately segregated. One individual is verifying the goods received, recording the items on the inventory cards, and performing a visual verification of the items on hand.
- **District 2:**
  - The consumable inventory process is not adequately segregated. One individual is verifying the goods received, recording the items on the inventory cards, and performing a visual verification of the items on hand.
- **District 3:**
  - The consumable inventory process is not adequately segregated. One individual is verifying the goods received, recording the items on the inventory cards, and performing a visual verification of the items on hand.

Cause of Condition: Procedures have not been designed and implemented with regard to effective internal controls over safeguarding consumable inventories.

Effect of Condition: Opportunities for loss and misappropriation of county assets may be more likely to occur when the County does not have procedures in place to account for consumable inventories.

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

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

Criteria: An important aspect of internal controls is the safeguarding of assets. Internal controls 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 consumable inventory items, and safeguarding consumable inventory items from loss, damage, or misappropriation. Effective internal controls include designing and implementing procedures to ensure compliance with 19 O.S. § 1504A.

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

Conclusion: With respect to the items tested, the County did not comply with 19 O.S. § 178.1, which requires the maintenance of inventory records, and periodic inventory verifications. With respect to the items tested, the County did comply with 69 O.S. § 645, which requires that equipment be clearly and visibly marked "Property of" the County.

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

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

- Tested a random sample of sixty-four (64) fixed assets and verified the items were marked properly with county identification numbers and "Property of Love County" as required by 69 O.S. § 645.

Finding: Inadequate Internal Controls over Fixed Assets and Noncompliance with Statute

Condition: Upon inquiry of County personnel, observation, and review of documents, regarding fixed assets, the following weaknesses were noted:

- Periodic physical inventories were not performed for the following offices:
  - County Sheriff
  - County Treasurer
  - District 1
  - District 2
  - District 3

- Periodic physical inventories were not documented for the following offices:
  - County Assessor
  - County Clerk
  - Court Clerk

When visually verifying inventory items, the following was noted:

- No county identification numbers are assigned to fixed asset items for the County Sheriff's office.

Cause of Condition: Procedures have not been implemented for the accurate reporting of fixed assets.

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

Recommendation: OSAI recommends that management implement internal controls to ensure compliance with state statute 19 O.S. § 178.1. These controls would include that all offices:

- Perform an annual inventory count.
- Retain documentation to verify the physical inventory counts are performed.
- Inventory count should be performed by someone other than the receiving officer or inventory officer.

Management Response:
County Assessor: We will maintain documentation of the physical inventory in the future.

County Clerk: We will maintain documentation of the physical inventory in the future.

County Sheriff: We will perform an annual inventory count and retain documentation. We will also work to ensure that all items are properly marked with county identification numbers.

County Treasurer: We will perform an annual inventory count and retain documentation.

Court Clerk: We will maintain documentation of the physical inventory in the future.

District 1 County Commissioner: We will perform an annual inventory count and retain documentation.

District 2 County Commissioner: We will perform an annual inventory count and retain documentation.

District 3 County Commissioner: We will perform an annual inventory count and retain documentation.

Criteria: Effective internal controls include management design procedures to ensure that all inventory records are maintained, periodic inventory verifications are performed, and that equipment be clearly and visibly marked "Property of" the County to comply with 19 O.S. § 178.1 and 69 O.S. § 645.

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

Conclusion: With respect to the days tested and items reconciled, the County Sheriff and the County Assessor did not comply with state statute 19 O.S. § 682, which requires officers to deposit daily in the official depository all collections received under the color of office. However, internal controls regarding the collections and depositing process should be strengthened in all county offices.

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

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

- Tested compliance with 19 O.S. § 682, which included reviewing a sample of receipts from each Officer's depository account and verifying that officers deposit daily all collections received under color of office.

Finding: Inadequate Controls over Official Depository Receipts and Deposits and Noncompliance with Statute

Condition: Upon inquiry and review of the receipting and depositing process in each office, we noted the following weaknesses with regard to receipting and depositing official depository collections:

> **County Assessor:** The employee who issues receipts also reconciles the cash drawer, prepares the deposit, and reconciles the official depository account to the Treasurer. One cash drawer is used.
>
> **County Clerk:** The employee who reconciles the cash drawer also prepares the deposit and reconciles the official depository account to the Treasurer. Only one cash drawer is used.
>
> **County Sheriff:** The employee who reconciles the cash drawer also prepares the deposit. The official depository account is not reconciled to the Treasurer.
>
> **County Treasurer:** All employees issue receipts and also reconcile their cash drawers with no independent verification of this process.
>
> **Court Clerk:** The employee who issues receipts also reconciles the cash drawer, and prepares the deposit.

Additionally, our test of receipts issued for one hundred and seventy-five (175) deposits revealed the following noncompliance with regard to the Sheriff's and Assessor's official depository accounts:

- The Sheriff's office is not depositing daily into the official depository.
- The Sheriff's office does not issue receipts for his Fees account #15 and DOC account #16.
- The Assessor is not depositing daily into the official depository.

Cause of Condition: Policies and procedures have not been designed and implemented to address the lack of segregation of duties over the officers' depository process, to ensure that receipts are issued for all collections received, or to ensure that all collections are deposited daily.

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

Recommendation: OSAI recommends that 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 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 approval of accounting functions.

Management Response:
County Assessor: We will implement compensating controls to mitigate the risks involved with a concentration of duties. This will include maintaining documentation where receipts are reconciled to deposits, and an independent verification of all reconciliations.

County Clerk: From this day forward, the employee who reconciles the cash drawer and prepares daily deposit will not take the deposit to the Treasurer.

County Sheriff: We will implement compensating controls to mitigate the risks involved with a concentration of duties. This will include issuing receipts for all monies collected under color of office, making daily deposits, maintaining documentation where receipts are reconciled to deposits, and an independent verification of all reconciliations.

County Treasurer: From this point forward I will start reviewing and approving that each individual's cash drawer balances.

Court Clerk: We will maintain documentation of an independent verification of all reconciliations. We will implement compensating controls to mitigate the risks involved with a concentration of duties.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. To help ensure a proper accounting of funds, the duties of receipting, reconciling cash drawer, preparing and making deposits, and reconciling account balance should be segregated. Effective internal controls include designing and implementing procedures to ensure compliance with 19 O.S. § 682.

Objective 11:	To determine the County Court Clerk’s financial operations complied with 19 O.S. § 220 and 20 O.S. § 1304, which outlines procedures for expending Court Clerk Revolving Fund monies and Court Fund monies, respectively.

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

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

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

- Tested compliance with 19 O.S. § 220 for the Court Clerk Revolving Fund, which included the following:

    - Randomly selected ten claims from the Court Clerk Revolving Fund claims and verified the following:
        - Expenditures were made for the operation of the court.
        - Claims were approved by the Court Clerk and either the District or the Associate District Judge.

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

Finding: Inadequate Segregation of Duties exists over Expending Court Clerk Revolving Fund and Court Fund monies

Condition: Upon inquiry and observation of the Court Clerk Revolving Fund and the Court Fund expenditure process, it was noted that the Court Clerk solely performs key duties with no independent verification of accuracy. The Court Clerk initiates and prepares the claim, attaches and verifies supporting documentation to claim, certifies that goods/services were received, signs the claim along with the District Judge, and prepares and signs checks.

Cause of Condition: Policies and procedures have not been designed and implemented to address the lack of segregation of duties over expending Court Clerk Revolving Fund and Court Fund monies.

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

Recommendation: OSAI recommends that 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 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 approval of accounting functions.

Management Response:
Court Clerk: We will implement compensating controls to mitigate the risks involved with a concentration of duties. I will have the First Deputy verify the claims and have the Treasurer sign and date the end of the month report.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. To help ensure a proper accounting of funds, the duties of receipting, reconciling cash drawer, preparing and making deposits, and reconciling account balance should be segregated.

All Objectives:

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

Finding: Inadequate County-Wide Controls

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

Cause of Condition: Procedures have not been designed to address risks of the County.

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

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

Examples of risks and procedures to address risk management:

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

Examples of activities and procedures to address monitoring:

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

Management Response: The Board of County Commissioners will work together with all county officials to develop a plan to monitor the County's internal controls to ensure that audit findings and other reviews are properly resolved.

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

Risk Assessment is a component of internal control which should provide for an assessment of the risks the County faces from both internal and external sources. Once risks have been identified, they should be analyzed for their possible effect. Management then has to formulate an approach for risk management and decide upon the internal control activities required to mitigate those risks and achieve the internal control objectives.

Monitoring is a component of internal control which should assess the quality of performance over time and ensure that the findings of audits and other reviews are promptly resolved. Ongoing monitoring occurs during normal operations and includes regular management and supervisory activities, comparisons, reconciliations, and other actions people take in performing their duties. It includes ensuring that management know their responsibilities for internal control and the need to make control monitoring part of their regular operating process.

Finding: Disaster Recovery Plan

Condition: It was noted that the County Treasurer's office did not have a written Disaster Recovery Plan.

Cause of Condition: Procedures have not been designed and implemented to require all offices to prepare a formal Disaster Recovery Plan.

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

Recommendation: OSAI recommends the county officials develop a Disaster Recovery Plan that addresses how critical information and systems within their offices would be restored in the event of a disaster.

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

Criteria: An important aspect of internal controls 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:

- Guidelines on how to use the recovery plan;
- Emergency procedures to ensure the safety of all affected staff members;
- Roles and responsibilities of information services function, vendors providing recovery services, users of services and support administrative personnel;
- Listing of systems requiring alternatives (hardware, peripherals, software);
- Listing of highest to lowest priority applications, required recovery times and expected performance norms;
- Various recovery scenarios from minor to loss of total capability and response to each in sufficient detail for step-by-step execution;
- Training and/or awareness of individual and group roles in continuing plan;
- Listing of contracted service providers;
- Logistical information on location of key resources, including back-up site for recovery operating system, applications, data files, operating manuals and program/system/user documentation;

- Current names, addresses, telephone/pager numbers of key personnel;
- Business resumption alternatives for all users for establishing alternative work locations once
- IT resources are available.

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