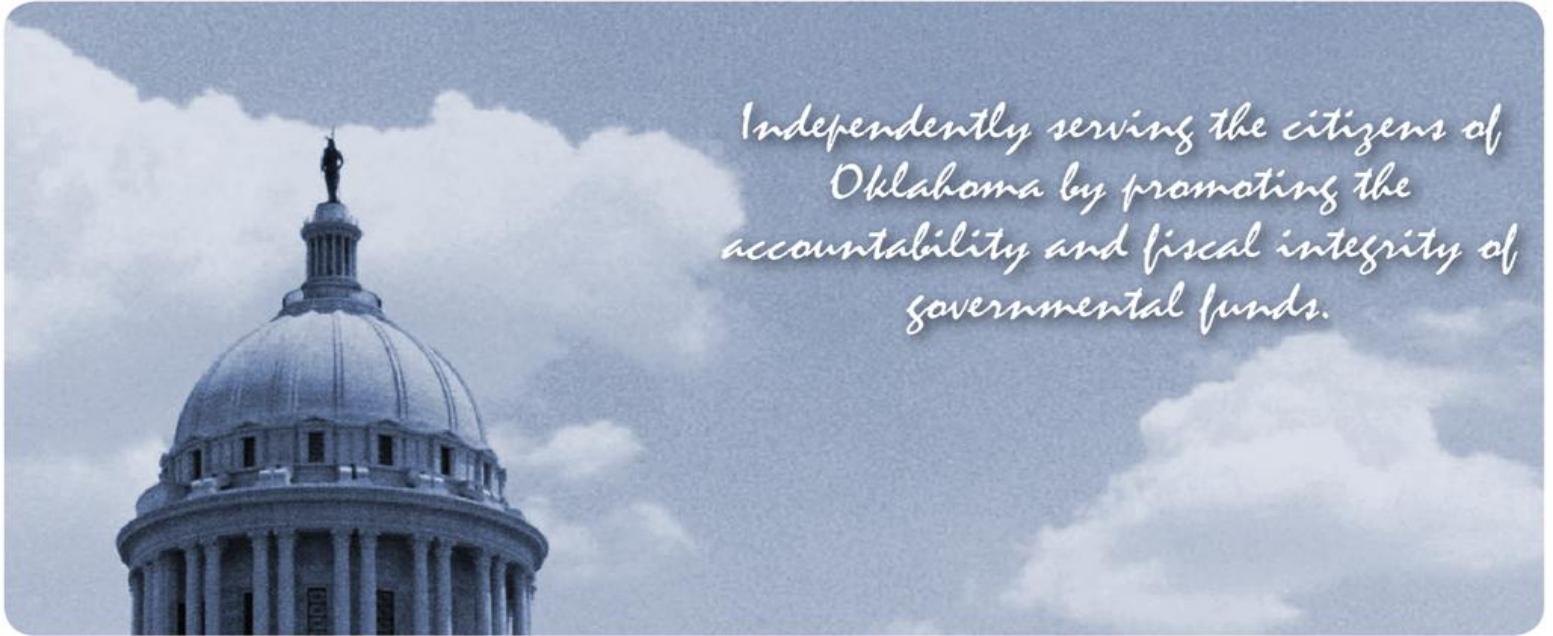


OPERATIONAL AUDIT

LOVE COUNTY

For the fiscal year ended June 30, 2015



*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

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

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Oklahoma State Auditor & Inspector

2300 N. Lincoln Blvd. • State Capitol, Room 100 • Oklahoma City, OK 73105 • Phone: 405.521.3495 • Fax: 405.521.3426

November 29, 2016

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

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

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

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

Sincerely,

A handwritten signature in blue ink that reads "Gary A. Jones". The signature is written in a cursive style.

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

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

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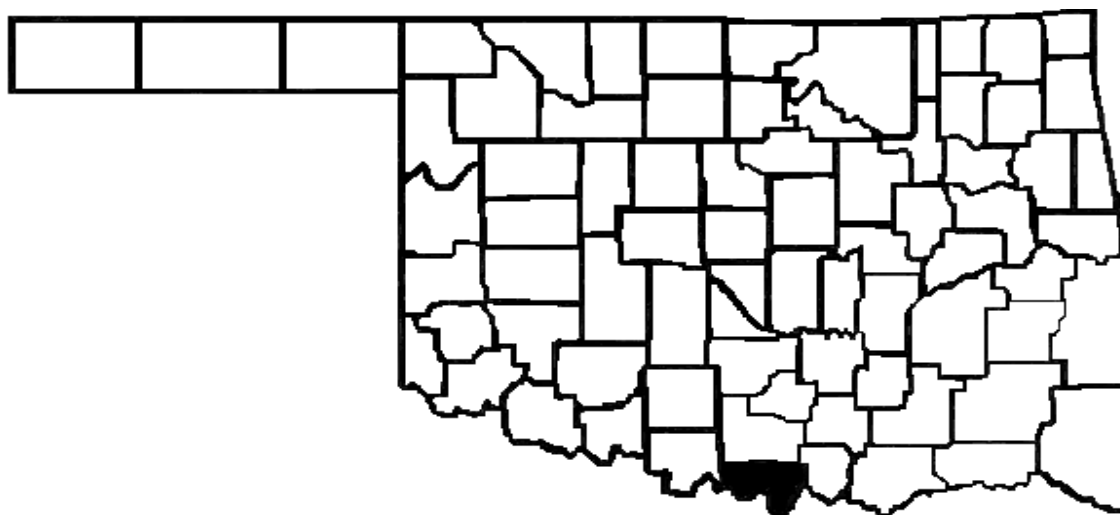
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**LOVE COUNTY, OKLAHOMA
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**



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, Dollar Tree, InnovationOne, and the Joe Brown Company. Texaco, Chevron, and Cimarron Transmission manufacture propane, butane, and natural gas. The Marietta Monitor, a weekly newspaper, has been owned and operated by the same family since 1896. Thackerville is home to the Windstar World Casino and Hotel, as well as the Windstar Golf Course.

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 information, call the county clerk's office at 580/276-3059.

County Seat – Marietta

Area – 531.94 Square Miles

County Population – 9,773
(2014 est.)

Farms – 621

Land in Farms – 219,480 Acres

Primary Source: Oklahoma Almanac 2015-2016

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

Board of County Commissioners

District 1 – Jerry McGill
District 2 – Linda Hyman
District 3 – Herschel Bub Perry

County Assessor

Cathy Carlile

County Clerk

Shelly K. Russell

County Sheriff

Joe Russell

County Treasurer

Lorry Stilley

Court Clerk

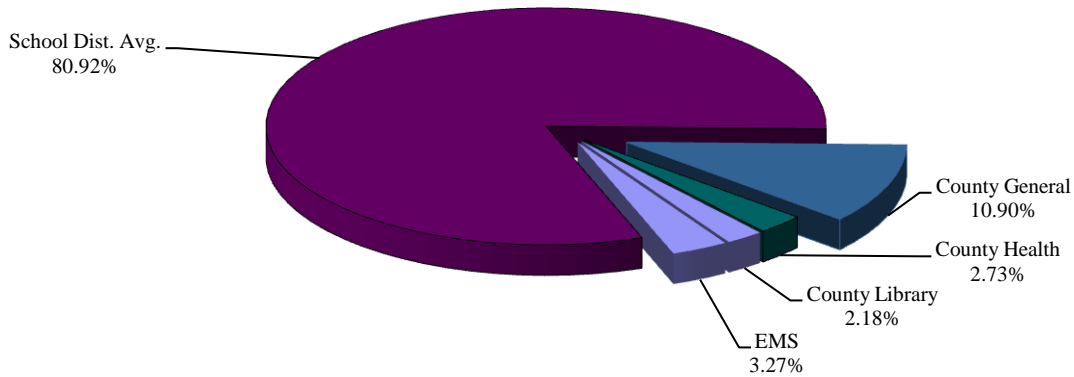
Kim Jackson

District Attorney

Craig Ladd

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

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



County-Wide Millages		School District Millages							
				Gen.	Bldg.	Skg.	Career Tech.	Common	Total
County General	10.35								
County Health	2.59	Greenville	D-3	36.31	5.19	5.34	14.84	4.14	65.82
County Library	2.07	Thackerville	I-4	36.22	5.17	14.39	14.84	4.14	74.76
EMS	3.11	Tumer	I-5	37.02	5.29	12.02	-	4.14	58.47
		Marietta	I-16	35.70	5.10	23.18	14.84	4.14	82.96
		Ringling	I-14	37.36	5.34	9.13	14.84	4.14	70.81
		Lone Grove	I-32	35.00	5.00	35.03	14.84	4.14	94.01
		Wilson	I-43	36.75	5.25	30.24	14.84	4.14	91.22

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

Sales Tax

Sales Tax of June 26, 2012

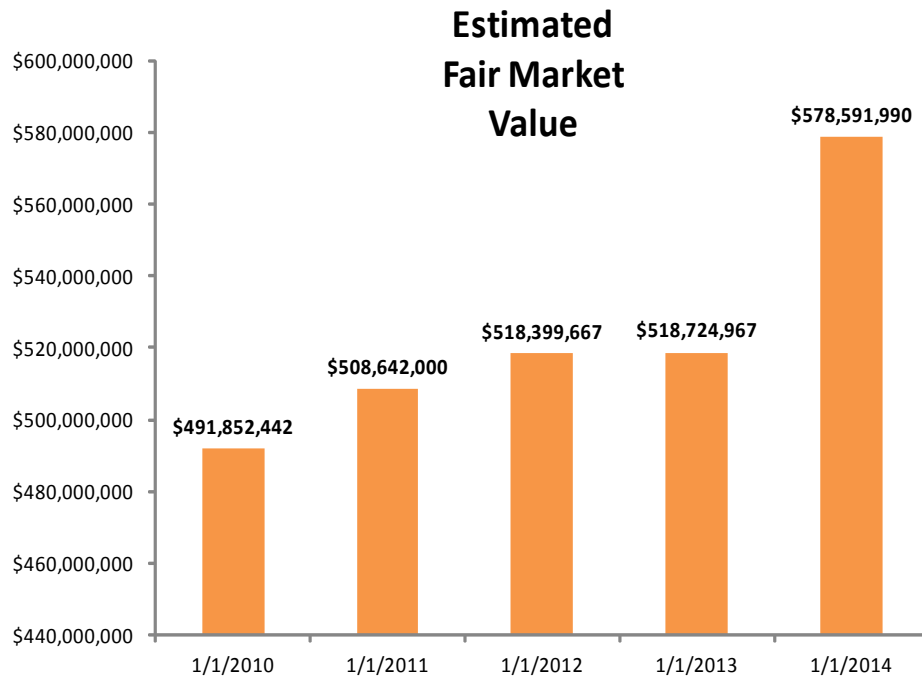
The voters of Love County approved a continuation of a one percent (1%) sales tax on June 26, 2012 for the duration of five years commencing on the first day of April 2013. The sales tax was established to provide revenue for the following: 50% for maintenance and operation of county-owned property and operating expenses; 10% for county fire protection; 5% for ambulance service; 5% for county senior citizens centers; 5% for County OSU Extension Office; 5% for the County Assessor; 5% for the County Clerk; 5% for the County Treasurer; 5% for the County Sheriff; and 5% for the County Court Clerk. These funds are accounted for in the Sales Tax Revolving fund.

Sales Tax of October 8, 2013

The voters of Love County also approved a continuation of a one percent (1%) sales tax on October 8, 2013 for the duration of ten years. This sales tax was established to provide revenue for the equipping, maintaining and operating of the Love County Health Center. These funds are accounted for in the Sales Tax Revolving fund.

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

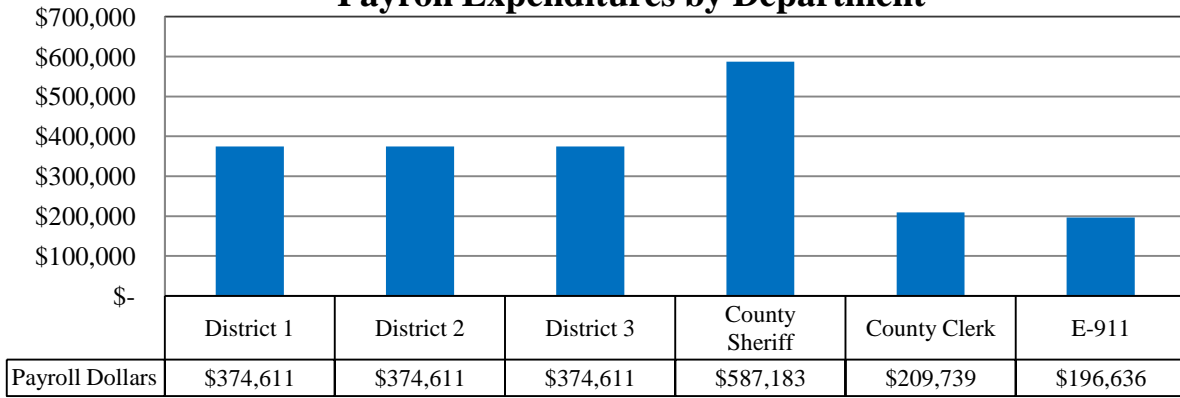
Valuation Date	Personal	Public Service	Real Estate	Homestead Exemption	Net Value	Estimated Fair Market Value
1/1/2014	\$19,473,013	\$6,173,045	\$57,772,360	\$2,643,579	\$80,774,839	\$578,591,990
1/1/2013	\$12,272,711	\$5,916,252	\$46,730,175	\$2,672,142	\$62,246,996	\$518,724,967
1/1/2012	\$10,143,565	\$6,627,477	\$48,072,309	\$2,635,391	\$62,207,960	\$518,399,667
1/1/2011	\$9,495,632	\$7,146,020	\$47,037,505	\$2,642,117	\$61,037,040	\$508,642,000
1/1/2010	\$9,518,980	\$6,874,257	\$45,253,208	\$2,624,152	\$59,022,293	\$491,852,442



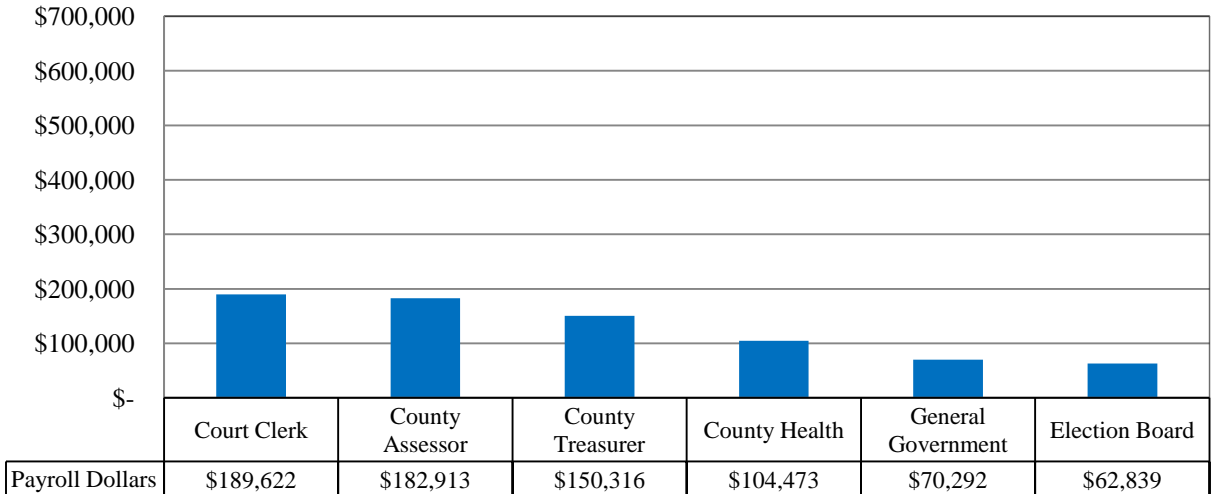
**LOVE COUNTY, OKLAHOMA
COUNTY PAYROLL EXPENDITURES ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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

Payroll Expenditures by Department



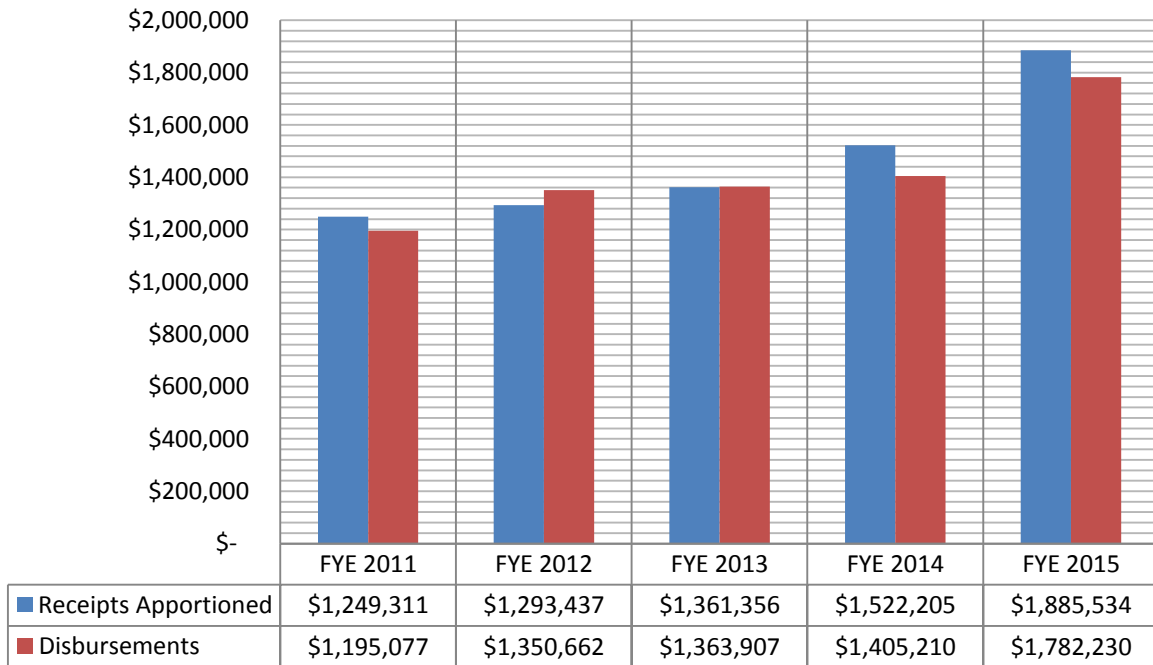
Payroll Expenditures by Department



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

County General Fund

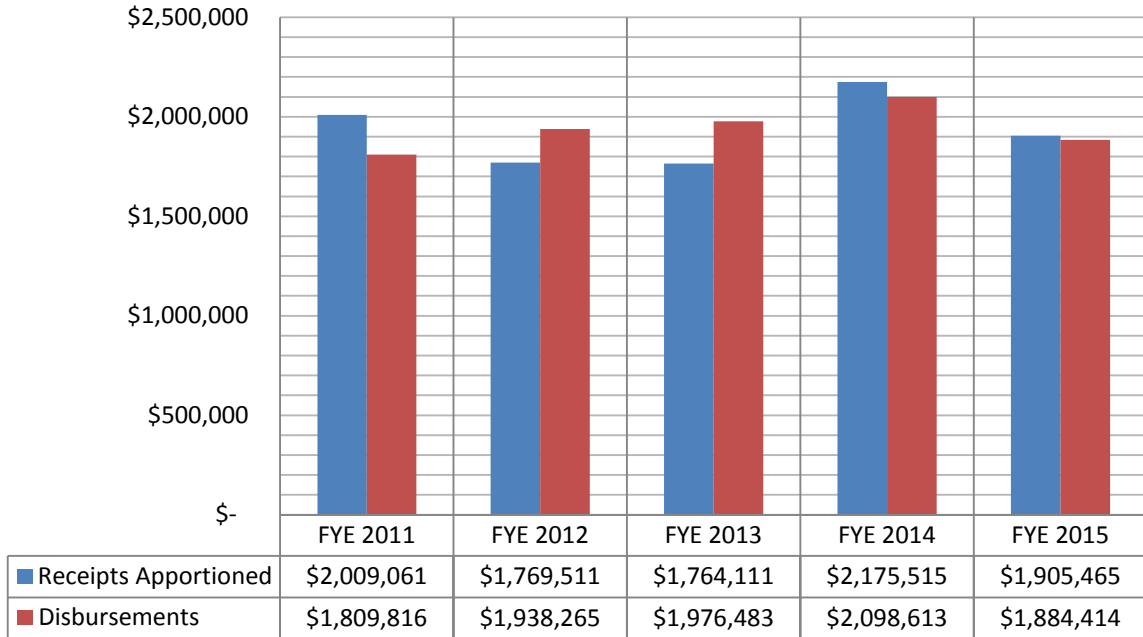
The Oklahoma Constitution and the Oklahoma Statutes authorize counties to create a County General Fund, which is the county's primary source of operating revenue. The County General Fund is typically used for county employees' salaries plus many expenses for county maintenance and operation. It also provides revenue for various budget accounts and accounts that support special services and programs. The Board of County Commissioners must review and approve all expenditures made from the County General Fund. The primary revenue source for the County General Fund is usually the county's ad valorem tax collected on real, personal (if applicable), and public service property. Smaller amounts of revenue can come from other sources such as fees, sales tax, use tax, state transfer payments, in-lieu taxes, and reimbursements. The chart below summarizes receipts and disbursements of the County's General Fund for the last five fiscal years.



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

County Highway Fund

The County receives major funding for roads and highways from a state imposed fuel tax. Taxes are collected by the Oklahoma Tax Commission. Taxes are imposed on all gasoline, diesel, and special fuel sales statewide. The County's share is determined on formulas based on the County population, road miles, and land area and is remitted to the County monthly. These funds are earmarked for roads and highways only and are accounted for in the County Highway Fund. The chart below summarizes receipts and disbursements of the County's Highway Fund for the last five fiscal years.



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

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

	Beginning Cash Balances July 1, 2014	Receipts Apportioned	Disbursements	Ending Cash Balances June 30, 2015
Combining Information:				
County Funds:				
County General Fund	\$ 421,853	\$ 1,885,534	\$ 1,782,230	\$ 525,157
Highway Cash Fund	1,210,333	1,905,465	1,884,414	1,231,384
County Health Department	384,406	209,101	144,406	449,101
Resale Property	113,516	102,704	40,519	175,701
Treasurer Mortgage Certification Fees	7,396	1,850	-	9,246
County Clerk Lien Fee	39,365	30,041	38,565	30,841
BDF Sheriff Drug Fund	3,538	900	-	4,438
Sheriff C.O.P.S. Grant	1,386	-	-	1,386
Sheriff DOC Reimbursement	3,201	-	360	2,841
Sheriff Computer Grant	8	-	-	8
Educational Building/Jail	1,246	-	-	1,246
Sheriff Service Fee	47,373	97,261	118,101	26,533
General Expenditures/Use Tax	474,555	414,636	212,555	676,636
Assessor Revolving	6,268	5,042	5,850	5,460
Election Board Cash Fund	2,728	-	-	2,728
County Clerk F.M.R.P.	25,601	26,739	13,425	38,915
Sales Tax Revolving	1,624,676	4,324,804	3,497,286	2,452,194
Child Abuse	269	-	-	269
Love County Health Center Remittance (LCHC)	422,612	153,754	-	576,366
Senior Citizens Nutrition Site	43	-	-	43
CDBG 2006	714	-	-	714
CBRIN 105 Highway	624,596	287,562	318,343	593,815
CREAP 10-109	3,515	-	-	3,515
Sheriff Donation	3,317	4,800	5,669	2,448
E-911 Wireless	74,763	45,287	81,314	38,736
E-911 Land Line	75,276	82,509	126,818	30,967
G-14 Noble Foundation	-	30,000	21,829	8,171
G-15 Show Arena Improvement	-	10,000	7,533	2,467
REAP Grant 2015	-	50,000	50,000	-
REAP Grant 2014	-	54,400	54,400	-
Combined Total - All County Funds	\$ 5,572,554	\$ 9,722,389	\$ 8,403,617	\$ 6,891,326

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

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

Description of County Funds

The County uses funds to report on receipts, disbursements, and changes in cash balances. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

Following are descriptions of the county funds within the Presentation of Apportionments, Disbursements, and Cash Balances of County Funds:

County General Fund – accounts for the general operations of the government.

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

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

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

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

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

BDF Sheriff Drug Fund – accounts for the collections of the County Sheriff's percentage of drug forfeitures and disbursements as restricted by state statute.

Sheriff C.O.P.S Grant – accounts for grant monies received and disbursed as restricted by the grant agreement.

Sheriff DOC Reimbursement – accounts for monies received from the Oklahoma Department of Corrections for housing prisoners and disbursements as restricted by state statute.

Sheriff Computer Grant – accounts for grant monies received and disbursed as restricted by the grant agreement.

Educational Building/Jail – accounts for monies received from donations and disbursed for the construction and maintenance of the jail's multi-purpose room.

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

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

General Expenditures/Use Tax – accounts for use tax remitted to the County by the Oklahoma Tax Commission and disbursements are for the general operation of the County.

Assessor Revolving – accounts for the collection of fees for copies as restricted by state statute.

Election Board Cash Fund – accounts for reimbursement of elections and is disbursed for refunds of election fees and maintenance and operation of the office.

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

Sales Tax Revolving – accounts for the collection of sales tax revenue to be allocated in accordance with the sales tax resolution.

Child Abuse – accounts for monies received from jurors to aid in the prevention of child abuse.

Love County Health Center Remittance (LCHC) – accounts for monies collected from the state and county sales tax revenue and disbursed for the operation of the Love County Health Center.

Senior Citizens Nutrition Site – accounts for donations/memorials to the Senior Citizens Nutrition Site and disbursed according to the donation requests.

CDBG 2006 – accounts for grant funds received and disbursed for District 1 Wolf Hollow Road Repair, District 2 Bloomer Road Repair, and District 3 County Line Road Repair.

CBRIN 105 Highway – accounts for funds received and disbursed for road and bridge repair.

CREAP 10-109 – accounts for grant funds received and disbursed for 911 mapping and addressing.

Sheriff Donation – accounts for donations to the Sheriff and disbursed according to donation request.

E-911 Wireless – accounts for the collections of fees imposed on wireless users within the County and disbursed for the operations of the emergency 911 services.

E-911 Land Line – accounts for monies received from private telephone companies and disbursed for the operation of the emergency 911 services.

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

G-14 Noble Foundation – accounts for a grant received from the Noble Foundation for the Fair Board for purchase of hot water tank/bay/labor and supplies at show barn, as per grant agreement.

G-15 Show Arena Improvement – accounts for a grant received from the Day Foundation for the Fair Board Show Arena Improvement for the purchase of Port-A-Cool air conditioners for the show arena, as per grant agreement.

REAP Grant 2015 – accounts for a grant received for District 2 and disbursed for the interior completion of the new county barn, as per grant agreement.

REAP Grant 2014 – accounts for grant funds received and disbursed as restricted by the grant agreement.

LOVE COUNTY, OKLAHOMA
COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES—BUDGET AND ACTUAL—BUDGETARY BASIS—
COUNTY GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	General Fund		
	Budget	Actual	Variance
Beginning Cash Balances	\$ 421,854	\$ 421,853	\$ (1)
Less: Prior Year Outstanding Warrants	(24,251)	(24,251)	-
Less: Prior Year Encumbrances	(2,597)	(2,377)	220
Beginning Cash Balances, Budgetary Basis	<u>395,006</u>	<u>395,225</u>	<u>219</u>
Receipts:			
Ad Valorem Taxes	784,891	832,842	47,951
Charges for Services	92,929	92,558	(371)
Intergovernmental Revenues	705,364	937,498	232,134
Miscellaneous Revenues	15,117	22,636	7,519
Total Receipts, Budgetary Basis	<u>1,598,301</u>	<u>1,885,534</u>	<u>287,233</u>
Expenditures:			
District Attorney - State	13,500	13,293	207
County Sheriff	636,908	627,356	9,552
County Treasurer	117,468	117,468	-
County Commissioners	120,637	120,637	-
County Commissioners OSU Extension	100	-	100
County Clerk	151,297	148,826	2,471
Court Clerk	86,453	85,453	1,000
County Assessor	85,453	85,453	-
Revaluation of Real Property	175,048	168,761	6,287
General Government	126,272	98,178	28,094
Excise-Equalization Board	16,000	3,645	12,355
County Election Expense	67,870	65,130	2,740
Insurance - Benefits	170,607	53,740	116,867
Civil Defense	18,676	14,982	3,694
County Audit Budget Account	15,126	12,626	2,500
Free Fair Budget Account	8,368	7,406	962
Free Fair Improvement Account	10,000	9,702	298
E-911	172,524	159,903	12,621
Provision for Interest on Warrants	1,000	-	1,000
Total Expenditures, Budgetary Basis	<u>1,993,307</u>	<u>1,792,559</u>	<u>200,748</u>
Excess of Receipts and Beginning Cash			
Balances Over Expenditures, Budgetary Basis	<u>\$ -</u>	488,200	<u>\$ 488,200</u>
Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances			
Add: Current Year Outstanding Warrants		28,480	
Add: Current Year Encumbrances		8,477	
Ending Cash Balance		<u>\$ 525,157</u>	

Source: County Estimate of Needs (presented for informational purposes)

LOVE COUNTY, OKLAHOMA
COMPARATIVE SCHEDULE OF RECEIPTS, EXPENDITURES, AND
CHANGES IN CASH BALANCES—BUDGET AND ACTUAL—BUDGETARY BASIS—
COUNTY HEALTH DEPARTMENT FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	County Health Department Fund		
	Budget	Actual	Variance
Beginning Cash Balances	\$ 384,406	\$ 384,406	\$ -
Less: Prior Year Outstanding Warrants	(2,680)	(2,680)	-
Less: Prior Year Encumbrances	(181)	(115)	66
Beginning Cash Balances, Budgetary Basis	381,545	381,611	66
Receipts:			
Ad Valorem Taxes	196,412	208,407	11,995
Intergovernmental Revenues	-	216	216
Miscellaneous Revenues	-	478	478
Total Receipts, Budgetary Basis	196,412	209,101	12,689
Expenditures:			
County Health Budget Account	577,957	159,583	418,374
Total Expenditures, Budgetary Basis	577,957	159,583	418,374
Excess of Receipts and Beginning Cash Balances Over Expenditures, Budgetary Basis	\$ -	431,129	\$ 431,129
Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances			
Add: Current Year Encumbrances		11,592	
Add: Current Year Outstanding Warrants		6,380	
Ending Cash Balance		\$ 449,101	

Source: County Estimate of Needs (presented for informational purposes)

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

PURPOSE, SCOPE, AND SAMPLE METHODOLOGY

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

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

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

- Inquiries of appropriate personnel,
- Inspections of documents and records,
- Observations of the County's operations,
- Reconciling total apportionments, disbursements, and balances presented on the County's Presentation of Apportionments, Disbursements, and Cash Balances of County Funds for the fiscal year to the County Treasurer's and County Clerk's financial ledgers,
- Confirming third party confirmations to the financial ledgers,
- Selecting representative samples to determine disbursements were made in accordance with state statutes, approved ballots, and county purchasing procedures, and
- Gaining an understanding of the County's internal controls as it relates to each audit objective.

To ensure the samples were representative of the population and provided sufficient, appropriate evidence, both random sample and judgmental sample methodologies were used. We identified specific attributes for testing each of the samples and when appropriate, we projected our results to the population.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, errors or fraud may occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

This report is a public document pursuant to the Oklahoma Open Records Act (51 O.S. § 24A.1 et seq.), and shall be open to any person for inspection and copying.

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

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

FINDINGS AND RECOMMENDATIONS

Finding 2015-1 – Inadequate Internal Controls Over the Bank Reconciliations and Monthly Reports

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

- The bank reconciliations are not reviewed and approved by someone other than the preparer.
- The Official Account reconciliation reflected an outstanding voucher for \$5.99. However, the voucher was only issued for \$5.94, which resulted in an unexplained variance of .05 cents.
- The General Fund Account reconciliation had the following unexplained variances: \$22.89 – July 2014; \$2,241.50 – December 2014; \$1,238.00 – January 2015 and \$2,751.03 – January 2015.
- The Official Depository Account reconciliation had the following unexplained variances: \$43.00 – December 2014; \$43.00 - January 2015; \$637.00 – March 2015; \$43.00 – March 2015 and \$99.00 – March 2015.
- The County Treasurer's monthly reports did not reconcile to the bank statements for two months. The month of December 2014 was due to cancelled vouchers in the amount of \$547.00 and the month of April 2015 was due to a \$50.00 journal entry to the Sheriff's Service Fees fund.

Cause of Condition: Policies and procedures have not been designed and implemented with regard to reconciling bank statements and monthly reports.

Effect of Condition: These conditions could result in unrecorded transactions, misstated financial reports, clerical errors, or misappropriation of funds not being detected in a timely manner.

Recommendation: The Oklahoma State Auditor's Office (OSAI) recommends that bank reconciliations be signed and approved by someone other than the preparer. It is also recommended that support documentation for reconciling items be maintained and all variances be investigated and corrected to provide assurance that bank reconciliations and monthly reports are accurate.

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

Management Response:

County Treasurer: Most of these errors were carried over from the previous Treasurer. These errors have since been corrected, though not in the time frame of this audit. From this point forward, all other discrepancies will be addressed.

Criteria: Accountability and stewardship are overall goals of management in accounting of funds. To help ensure a proper accounting of funds, bank reconciliations, and monthly reports should be segregated. Further, all bank accounts should be reconciled in a timely manner and bank reconciliations and monthly reports should be reviewed by someone other than the preparer.

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

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

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

Conclusion: With respect to the items tested, the County complied with 68 O.S. § 2923, which requires the ad valorem tax collections to be apportioned and distributed monthly among the different funds to which they belong. However, we noted weaknesses regarding internal controls over ad valorem tax collections, apportionments, and distributions.

FINDINGS AND RECOMMENDATIONS

Finding 2015-2 – Inadequate Internal Controls Over Ad Valorem Taxes

Condition: Upon inquiry of the County Treasurer, observation, and review of documents, the following deficiency in internal controls was noted:

- There is no evidence of an independent review of the levies entered into the computer system.

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Cause of Condition: Policies and procedures have not been designed and implemented to ensure ad valorem tax levies are correctly entered into the computer system.

Effect of Condition: This condition could result in ad valorem tax levies being entered incorrectly into the computer system which could result in unrecorded transactions, misstated financial reports, undetected errors, or misappropriation of funds.

Recommendation: OSAI recommends that the County Treasurer implement a system of internal controls to provide reasonable assurance that certified ad valorem tax levies are reviewed by someone independent of the process.

Management Response:

County Treasurer: I have properly signed off on all years, but unfortunately 2014 was skipped or missed or not filed in the correct folder. I will make sure each year thereafter is signed and checked.

Criteria: Safeguarding controls are an important aspect of internal control. Safeguarding controls relate to the prevention or timely detection of unauthorized transactions and unauthorized access to assets. Failure to perform tasks that are part of internal controls, such as levies being approved by someone other than the preparer are deficiencies of internal control.

Objective 4: To determine whether the County's internal controls provide reasonable assurance that expenditures (including payroll) were accurately reported in the accounting records and financial operations complied with significant laws and regulations.

Conclusion: With respect to the items tested, the County's internal controls did not provide reasonable assurance that expenditures (including payroll) were accurately reported in the accounting records and financial operations did not comply with significant laws and regulations.

FINDINGS AND RECOMMENDATIONS

Finding 2014-3 – Inadequate Internal Controls and Noncompliance Over the Disbursement and Payroll Processes (Repeat Finding)

Condition: The test of forty (40) purchase orders reflected the following weaknesses:

- Fifteen (15) purchase orders were not timely encumbered.
- One (1) purchase order did not include a receiving report.

The test of five (5) payroll claims reflected the following weaknesses:

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- Fourteen (14) payroll timesheets were not accurately completed.
- Three (3) payroll timesheets were not signed by the supervisor.

Cause of Condition: Policies and procedures have not been designed and implemented over the disbursement and payroll processes to strengthen internal controls and ensure compliance with state statutes.

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

Recommendation: OSAI recommends the following with regards to disbursement and payroll processes:

- Disbursements should be encumbered prior to the receipt of goods and/or services in accordance with 19 O.S. § 1505(C)(3).
- Disbursements of County funds should be supported with invoices and receiving reports in accordance with 19 O.S. § 1505(E).
- Timesheets should be reviewed to ensure that they are accurately completed and signed by the employee and supervisor.

Management Response:

County Clerk: We will be more diligent in placing “Red Stamp” or computer generated “Not Timely Encumbered” notice on purchase orders. Purchase orders will be double checked for all signatures and dates.

Timesheets will be double checked for accuracy before they are processed by the payroll clerk. Timesheets will be returned to officials for corrections to be made. Timesheets will also be brought to date with accurate vacation time.

Board of County Commissioners Chairman: We will emphasize to all offices about the importance of timely encumbering funds and ensuring that timesheets are signed by the employee and the supervisor.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. Internal controls should be designated to analyze and check accuracy, completeness, and authorization of payroll calculations and/or transactions.

An important aspect of internal control is the safeguarding of assets. Internal controls over safeguarding of assets constitute a process, affected by the entity’s governing body, management, and other personnel, designed to provide reasonable assurance regarding prevention or untimely detection of unauthorized acquisition, use, or disposition of the entity’s assets and safeguarding assets from loss, damage, or misappropriation.

Further, Title 19 O.S. § 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.

All Objectives:

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

Finding 2014-5 - Inadequate County-Wide Internal Controls (Repeat Finding)

Condition: When assessing the county-wide controls the following weakness was noted:

- County management has not designed and implemented internal controls regarding Risk Assessment and Monitoring.

Cause of Condition: Policies and procedures have not been designed to address risks of the County, implement proper internal controls, or monitor potential impacts on the operations and reporting of the County.

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

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

Management Response:

Board of County Commissioners: The Board of County Commissioners will work towards assessing and identifying risks to design written policies and procedures regarding county-wide controls.

Criteria: Internal control is an integral component of an organization's management that provides reasonable assurance that the objectives of effectiveness and efficiency of operations, reliability of financial reporting and compliance with laws and regulations are being met. Internal control comprises the plans, methods, and procedures used to meet missions, goals, and objectives. Internal control also serves as the first line of defense in safeguarding assets and preventing and detecting errors and fraud.

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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 2015-8 – Inadequate Internal Controls Over Information Technology – County Treasurer and County Clerk

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

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

Effect of Condition: These conditions could result in compromised security for the computers, computer programs, and data.

Recommendation: OSAI recommends the County comply with best practices presented in the criteria. In addition, OSAI recommends software updates be implemented upon availability. The specifics of the recommendation has been sanitized to protect the County pursuant to the provision of 51 O.S. § 24A.28.

Management Response:

County Treasurer: The County Treasurer’s office will address these issues.

County Clerk: The issues have been addressed.

Criteria: According to the standards of the Information Systems Audit and Control Association (CobiT, Deliver and Support Ds5), the need to maintain the integrity of information and protect IT assets requires a security management process. This process includes establishing and maintaining IT security roles and responsibilities, policies, standards, and procedures. Security management also includes performing

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security monitoring and periodic testing and implementing corrective actions for identified security weaknesses or incidents. Effective security management protects all IT assets to minimize the business impact of security vulnerabilities and incidents.

Other Item(s) Noted:

Finding 2015-5 - Estimate of Needs (Repeat Finding)

Condition: Upon review of the County's Estimate of Needs for the fiscal year ending June 30, 2015, we determined the following six Special Revenue Funds were omitted from the Estimate of Needs:

- LCHC Remittance
- REAP Grant 2012
- CBRIN 105 Highway
- E-911 Wireless
- E-911 Land Line
- REAP Grant 2014

Cause of Condition: Policies and procedures have not been designed and implemented to ensure that all funds are included on the Estimate of Needs.

Effect of Condition: This condition could result in unrecorded transactions, undetected errors, or misappropriation of funds. This condition could also result in the County Officials not having the correct information for budgeting purposes, which could result in overspending of funds.

Recommendation: OSAI recommends the County review the Estimate of Needs prior to approval to ensure that all funds are accounted for and accurately presented.

Management Response:

Board of County Commissioners Chairman: We will ensure that all funds are included on the Estimate of Needs.

County Clerk: We will make the budget maker aware that the above listed Special Revenue funds need to be added to the Estimate of Needs.

Criteria: Title 68 O.S. § 3002.A states, "Notwithstanding the provisions of the School District Budget Act, each board of County Commissioners and the board of education of each school district, shall, prior to October 1 of each year, make, in writing, a financial statement, showing the true fiscal condition of their respective political subdivisions as of the close of the previous fiscal year ended June 30th, and shall make a written itemized

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statement of estimated needs and probable income from all sources including ad valorem tax for the current fiscal year. Such financial statement shall be supported by schedules or exhibits showing, by classes, the amount of all receipts and disbursements, and shall be sworn to as being true and correct. The statement of estimated needs shall be itemized so as to show, by classes: first, the several amounts necessary for the current expenses of the political subdivision and each officer and department thereof as submitted in compliance with the provisions of Section 3004 of this title; second, the amount required by law to be provided for sinking fund purposes; third, the probable income that will be received from all sources, including interest income and ad valorem taxes; and shall be detailed in form and amount so as to disclose the several items for which the excise board is authorized and required, by the article, to approve estimates and make appropriations.”

REPORT ON STATUTORY COMPLIANCE – OTHER MATTERS



Oklahoma State Auditor & Inspector

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Love County
Board of County Commissioners
Love County Courthouse
Marietta, Oklahoma 73448

Dear Chairman:

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

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

Our statutory compliance engagement was limited to the procedures related to the statutes above and was less in scope than an audit performed in accordance with generally accepted auditing standards. Accordingly, we do not express an opinion on any basic financial statement of Love County.

Based on our procedures performed, we have presented our findings in the accompanying schedule.

This report is intended for the information and use of the management of the County. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

A handwritten signature in blue ink that reads "Gary A. Jones".

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

November 21, 2016

SCHEDULE OF FINDINGS AND RESPONSES

Finding 2015-6 - Inadequate Internal Controls and Noncompliance Over the Court Clerk Revolving Fund and Court Fund Expenditure Processes (Repeat Finding)

Condition: Upon inquiry and observation of the Court Clerk's Revolving Fund and Court Fund expenditure processes, 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 or Associate District Judge, prepares and signs the checks, prepares the Court Clerk Revolving Fund Quarterly Reports and the Court Fund Quarterly Reports.

With regard to the test of twenty-five (25) Court Fund claims, the following exceptions were noted:

- Four (4) Court Fund claims did not have invoice/supporting documentation attached.
- Two (2) Court Fund claims were not itemized with sufficient description.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure proper segregation of duties over the Court Clerk Revolving Fund and the Court Fund expenditure processes and compliance with the state statute.

Effect of Condition: These conditions resulted in noncompliance with state statute. Further, lack of internal controls and 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 how to implement controls over the expenditure process to safeguard assets and to properly segregate duties. OSAI further recommends implementing compensating procedures to mitigate the risks involved with a concentration of duties. Compensating procedures would include separating key processes and/or critical functions of the office, and having management review and approve the accounting functions. OSAI recommends the Court Clerk design and implement policies and procedures to ensure proper internal controls over the Court Fund expenditure process in compliance with 20 O.S. § 1304.

Management Response:

Court Clerk: We will be more diligent in making sure claims include all supporting documentation and that all claims have sufficient description. We will work to segregate duties where possible.

Criteria: Accountability and stewardship are overall goals of management in accounting of funds. Internal controls over safeguarding of assets constitute a process, affected by the entity's governing body, management, and other personnel, designed to provide reasonable assurance regarding the prevention and detection of error and/or fraud and to safeguard an entity's assets from loss, damage, or misappropriation.

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Title 20 O.S. § 1304 provides guidance with regard to the expenditure process for the Court Fund.

Finding 2015-7 – Inadequate Internal Controls and Noncompliance Over Fixed Assets and Consumable Inventories

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

- Documentation of an annual physical inventory was not available for the following offices:
 - Court Clerk
 - County Sheriff
 - District 2
- Current and accurate inventory records were not maintained for the following offices:
 - Court Clerk
 - County Sheriff
- The following inventory items were not disposed of in accordance with statute:
 - | | |
|-----------------|-----------------------|
| <u>District</u> | <u>Inventory Item</u> |
| District 1 | D218-002 Computer |
| District 1 | D220-002 Monitor |
- The following items were not properly marked as “Property of Love County”:
 - | | |
|-----------------|--------------------------|
| <u>District</u> | <u>Inventory Item</u> |
| District 1 | D312-0009 Rubber Tire Lo |
| District 3 | D401-0002 Brush Chipper |
- The following inventory item was listed incorrectly on the inventory list:
 - | | |
|-----------------|-------------------------|
| <u>District</u> | <u>Inventory Item</u> |
| District 1 | D301-0003 Brush Chipper |
- The following item could not be located:
 - | | |
|-----------------|-----------------------|
| <u>District</u> | <u>Inventory Item</u> |
| County Assessor | H 227-6 File Cabinet |

Upon inquiry and observation of consumable inventory items, we noted the following:

- Fuel reconciliations were not performed by the County Sheriff’s office; therefore, monitoring with regard to the receiving of and/or use of fuel was not present.

Cause of Condition: Policies and procedures have not been designed and implemented by county offices/departments to ensure the accurate reporting of fixed assets and consumable inventory items, as well as adequate procedures to ensure equipment is properly identified in accordance with state statutes.

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Effect of Condition: These conditions resulted in noncompliance with state statutes. 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 fixed assets. Additionally, when consumable inventory items are not adequately documented and inadequate segregation of duties exist, the opportunity for the misappropriation and undetected errors could result.

Recommendation: OSAI recommends management implement internal controls to ensure compliance with 19 O.S. § 178.1, 19 O.S. § 421.1, 19 O.S. § 1502(A)(1), 19 O.S. § 1502(B)(1), and 69 O.S. § 645 by maintaining inventory records and marking assets with county identification numbers and “Property of.” OSAI recommends the performing and documenting a periodic inventory of fixed assets. Additionally, the key functions of receiving duties and inventory control duties should be performed by separate employees in order to effectively segregate those duties.

OSAI also recommends the performing and documenting of a monthly consumable inventory count. Counts should be initialed and dated by the employee performing the physical count and retained to show the design and implementation of internal controls by the County Sheriff. Additionally, the key functions of receiving duties and consumable inventory control duties should be performed by separate employees in order to effectively segregate those duties.

Management Response:

Court Clerk: The Court Clerk will work to implement a system of internal controls to ensure fixed assets are properly identified and documentation of an annual physical inventory physical inventory performed and available for review.

County Sheriff: The Sheriff’s Office will work to implement a system of internal controls to ensure fixed assets are properly identified and that fuel reconciliations are performed.

County Commissioner District 1: I will make sure all fixed assets are properly identified and marked. I will obtain approval from our District Attorney prior to throwing junked items in the trash.

County Commissioner District 2: I will begin to document an annual physical inventory count.

County Commissioner District 3: I will make sure all assets are marked “Property of Love County”.

County Assessor: The County Assessor will work to implement a system of internal controls to ensure fixed assets are properly identified and will maintain record of annual inventory counts. Conditions that were noted are in the process of being corrected.

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.

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Title 19 O.S. § 178.1 requires the board of county commissioners in each county of this state to take or cause to be taken, an inventory of all working tools, apparatus, machinery and equipment.

Title 19 O.S. § 421.1 requires that the county only dispose of equipment through sealed bids, public auction, and/or through the Circuit Engineering District auction.

Title 19 O.S. § 1502(A)(1), which requires a prescribed uniform identification system for all supplies, materials, and equipment of a county used for maintenance for roads and bridges.

Title 19 O.S. § 1502(B)(1) requires a prescribed uniform identification system for all supplies, materials, and equipment of a county not used in the construction and maintenance for roads and bridges.

Title 69 O.S. § 645 requires that county-owned rented, or leased road machinery or equipment be clearly and visibly marked "Property Of."



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