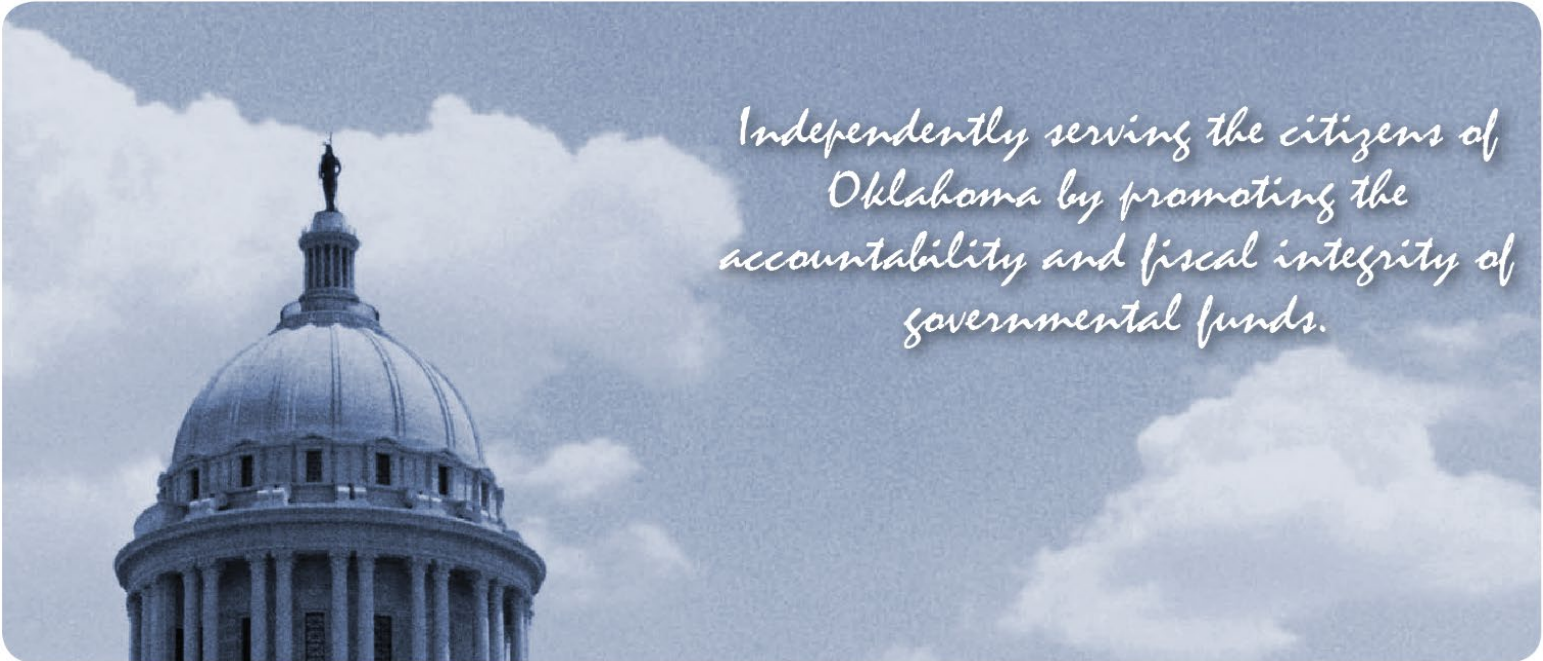


OPERATIONAL AUDIT

LOVE COUNTY

For the fiscal year ended June 30, 2016



*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, 2016**

This publication, issued by the Oklahoma State Auditor and Inspector's Office as authorized by 19 O.S. § 171, has not been printed, but is available on the agency's website (www.sai.ok.gov) and in the Oklahoma Department of Libraries Publications Clearinghouse Digital Prairie Collection (<http://digitalprairie.ok.gov/cdm/search/collection/audits/>) pursuant to 65 O.S. § 3-114.



Oklahoma State Auditor & Inspector

2300 N. Lincoln Blvd. • State Capitol, Room 123 • Oklahoma City, OK 73105 • Phone: 405.521.3495 • Fax: 405.521.3426

November 28, 2018

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

Transmitted herewith is the audit report of Love County for the fiscal year ended June 30, 2016.

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, 2016**

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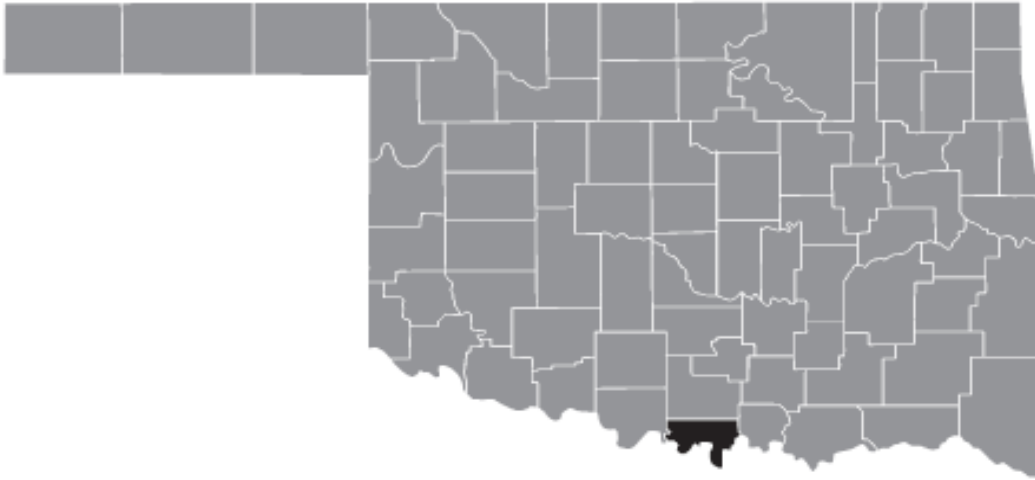
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**LOVE COUNTY, OKLAHOMA
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**



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 (2014 est.) – 9,773

Farms – 621

Land in Farms – 219,480 Acres

Primary Source: Oklahoma Almanac 2015-2016

Board of County Commissioners

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

County Assessor

Cathy Carlile

County Clerk

Shelly Russell

County Sheriff

Joe Russell

County Treasurer

Lorry Stilley

Court Clerk

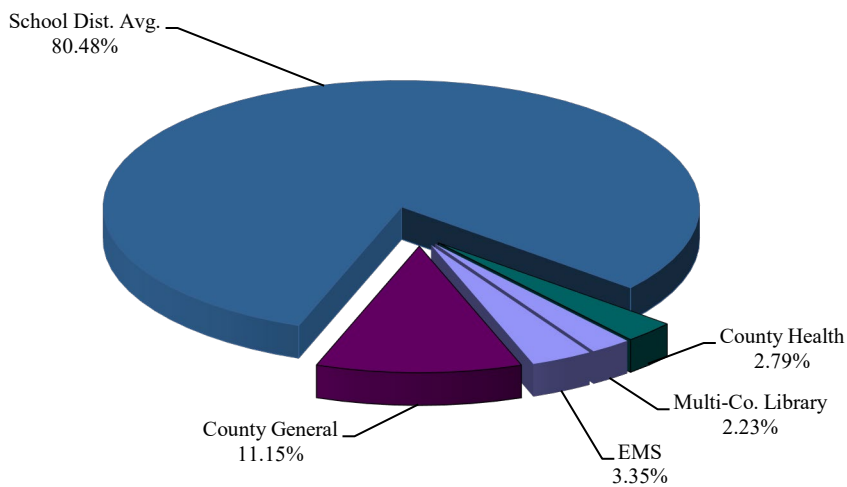
Kim Jackson

District Attorney

Craig Ladd

**LOVE COUNTY, OKLAHOMA
AD VALOREM TAX DISTRIBUTION
SHARE OF THE AVERAGE MILLAGE
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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.	Common	Career-Tech	Total
County General	10.35								
County Health	2.59	Greenville	D-3	36.31	5.19	5.37	4.14	14.77	65.78
Multi-Co Library	2.07	Thackerville	I-4	36.22	5.17	11.17	4.14	14.77	71.47
EMS	3.11	Turner	I-5	37.02	5.29	8.31	4.14	-	54.76
		Marietta	I-16	35.70	5.10	22.16	4.14	14.77	81.87
		Ringling	I-14	37.36	5.34	7.83	4.14	14.77	69.44
		Lone Grove	I-32	35.00	5.00	29.53	4.14	14.77	88.44
		Wilson	I-43	36.75	5.25	30.15	4.14	14.77	91.06

**LOVE COUNTY, OKLAHOMA
SALES TAX DISTRIBUTION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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 April 1, 2013 and ending April 1, 2018. 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 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. The Love County Health Center is a twenty-five bed, short-term, acute care, critical access hospital owned by Love County, Oklahoma, located in Marietta, Oklahoma. Management of the hospital is composed of a five-member board of control appointed by the Love County Board of County Commissioners. The hospital has entered into a Management Services Agreement with Mercy Memorial Health Center, Inc. Duration of the agreement is renewable annually. These funds are accounted for in the Sales Tax Revolving Fund.

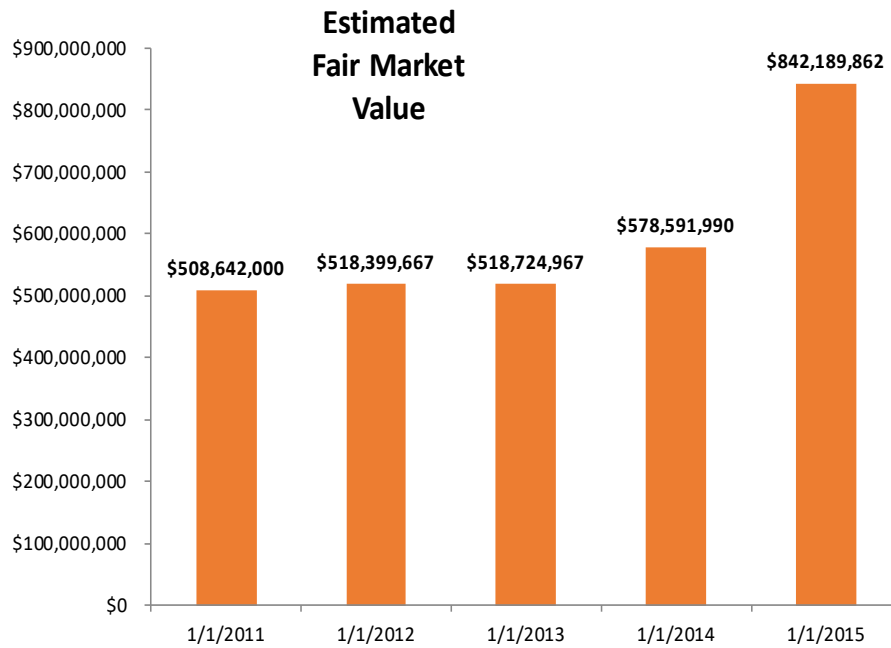
Sales Tax of November 10, 2015

The voters of Love County approved a one half (1/2) of one cent sales tax on November 10, 2015 for the design, construction, financing, furnishing and equipping, capital facilities and improvements, equipment, fixtures, site preparation, street improvements, and continuing maintenance and operation expenses for a new detention facility to be located in Love County, with one quarter (1/4) cent to terminate at fifteen years from the effective date of the tax or at the date of retirement of all debt related thereto, whichever occurs earlier; one quarter (1/4) of the one half cent to remain for an unlimited term for operations and maintenance of the new detention facility and any other lawful purpose relating to the same; authorizing the irrevocable pledging of said sales tax for payment of debt service and costs of issuance, fixing an effective date; making provisions severable; and declaring an emergency be approved. These funds are accounted for in the Sales Tax Revolving Fund.

During the fiscal year the County collected \$2,723,116 in total sales tax.

**LOVE COUNTY, OKLAHOMA
 ASSESSED VALUE OF PROPERTY
 TREND ANALYSIS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

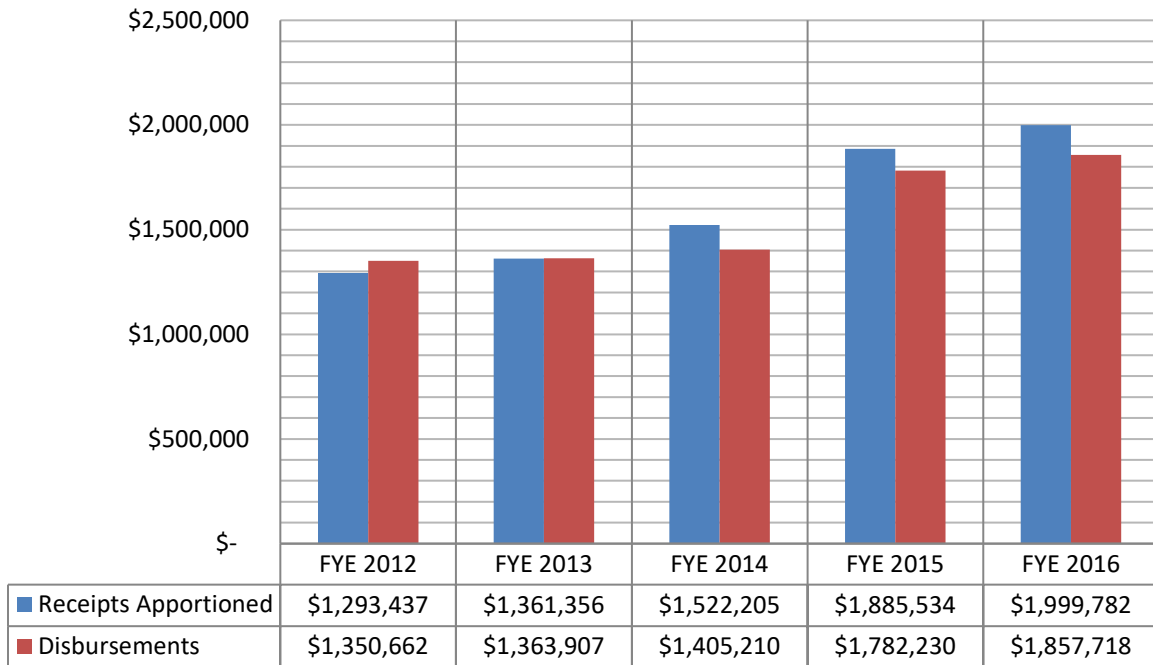
Valuation Date	Personal	Public Service	Real Estate	Homestead Exemption	Net Value	Estimated Fair Market Value
1/1/2015	\$26,659,490	\$6,239,456	\$71,126,555	\$2,674,527	\$101,350,974	\$842,189,862
1/1/2014	\$19,473,013	\$6,173,045	\$57,772,360	\$2,643,579	\$80,774,839	\$578,591,990
1/1/2013	\$12,272,711	\$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



**LOVE COUNTY, OKLAHOMA
COUNTY GENERAL FUND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

County General Fund

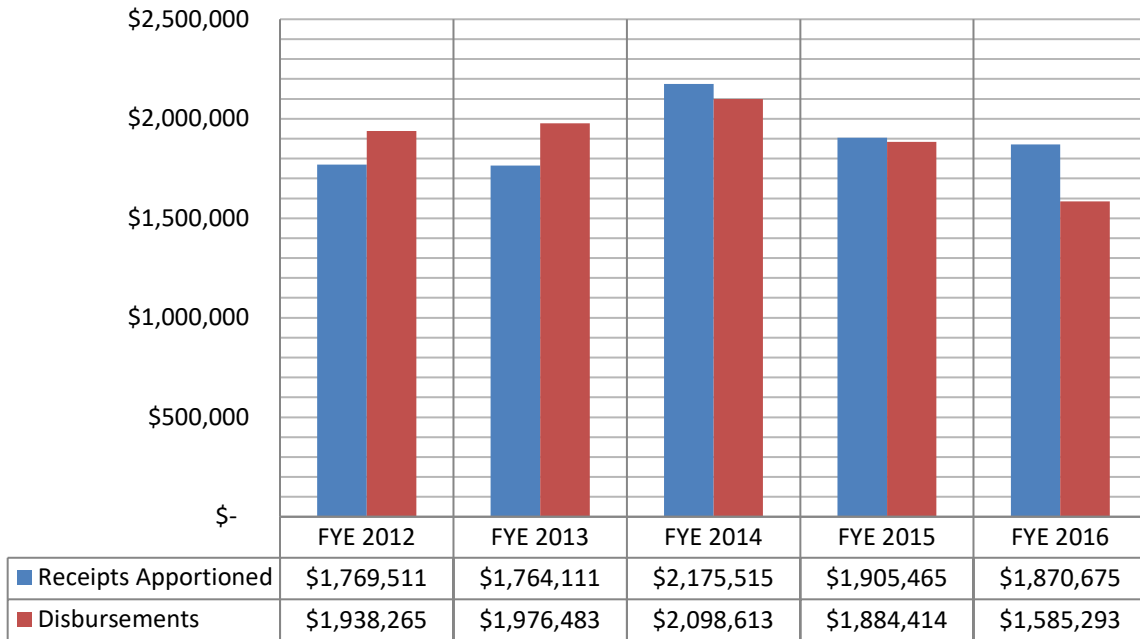
The Oklahoma Constitution and the Oklahoma Statutes authorize counties to create a County General Fund, which is the county’s primary source of operating revenue. The County General Fund is typically used for county employees’ salaries plus many expenses for county maintenance and operation. It also 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, 2016**

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, 2016**

Presentation of Apportionments, Disbursements, and Cash Balances of County Funds for the Fiscal Year Ended June 30, 2016

	Beginning Cash Balances July 1, 2015	Receipts Apportioned	Disbursements	Ending Cash Balances June 30, 2016
Combining Information:				
County Funds:				
County General Fund	\$ 525,157	\$ 1,999,782	\$ 1,857,718	\$ 667,221
County Highway Fund	1,231,384	1,870,675	1,585,293	1,516,766
County Health Department	449,101	254,951	201,333	502,719
Resale Property	175,701	86,770	13,134	249,337
Treasurer Mortgage Certification Fee	9,246	1,710	-	10,956
County Clerk Lien Fee	30,841	12,354	18,217	24,978
BDF Sheriff Drug Fund	4,438	250	3,667	1,021
Sheriff C.O.P.S. Grant	1,386	-	-	1,386
Sheriff Department of Corrections Reimbursement	2,841	-	1,866	975
Sheriff Computer Grant	8	-	-	8
Educational Building/Jail	1,246	-	-	1,246
Sheriff Service Fee	26,533	95,588	123,750	(1,629)
General Expenditures/Use Tax	676,636	248,950	450,707	474,879
County Assessor Revolving	5,460	2,830	2,766	5,524
Election Board Cash Fund	2,728	6,000	6,000	2,728
County Clerk Records Management Preservation	38,915	21,399	20,231	40,083
Sales Tax Revolving Fund	2,452,194	3,170,784	3,123,037	2,499,941
Child Abuse	269	-	-	269
Love County Health Center Remittance	576,366	30,068	-	606,434
Senior Citizens Nutrition Site	43	-	-	43
Community Development Block Grant 2006	714	-	-	714
County Bridge Road Improvement 105 Highway	593,815	501,635	334,473	760,977
County Rural Economic Action Plan 10-109	3,515	-	-	3,515
Sheriff Donation	2,448	-	2,317	131
Emergency 911 Wireless	38,736	47,674	50,537	35,873
Emergency 911 Landline	30,967	66,616	95,500	2,083
G-14 Noble Foundation	8,171	-	8,133	38
G-15 Show Arena Improvement	2,467	-	2,467	-
Rural Economic Action Plan Grant 2016	-	12,885	12,885	-
Court Fund Payroll	2,710	101,731	100,408	4,033
Love County Emergency Management	-	32,016	6,803	25,213
Sheriff Chickasaw Nation Donation	-	6,000	3,995	2,005
Day Foundation Grant	-	2,500	-	2,500
Combined Total - All County Funds, as Restated	\$ 6,894,036	\$ 8,573,168	\$ 8,025,237	\$ 7,441,967

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, 2016**

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.

County Highway 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 Fee – 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 collection 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 grant agreement.

Sheriff Department of Corrections 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 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, 2016**

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 the use tax remitted to the County by the Oklahoma Tax Commission and disbursements are for the general operation of the County.

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 Records Management Preservation – 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 Fund – 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 – 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.

Community Development Block Grant 2006 – accounts for grant funds received and disbursed as restricted by grant agreement.

County Bridge and Road Improvement 105 Highway – accounts for funds received from the Oklahoma Department of Transportation and disbursements are restricted by state statutes for the purpose of constructing and maintaining county roads and bridges.

County Rural Economic Action Plan 10-109 – accounts for grant funds received and disbursed for 911 mapping and addressing.

Sheriff Donation – accounts for donations to the Sheriff's Department and to be disbursed specifically for which the donation was made.

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

**LOVE COUNTY
DESCRIPTION OF COUNTY FUNDS
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Emergency 911 Landline – accounts for the collection of fees from private telephone companies and disbursed for the operation of the emergency 911 services.

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

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

Rural Economic Action Plan Grant 2016 – accounts for money obtained through Southern Oklahoma Development Association for agencies receiving a Rural Economic Action Grant and disbursed in accordance with grant agreement.

Court Fund Payroll – accounts for payroll and unemployment for the office of the Court Clerk.

Love County Emergency Management – accounts for funds received from Love County Health Center for payroll for Emergency Management Director salary.

Sheriff Chickasaw Nation Donation – accounts for funds received from Chickasaw Nation Department of Commerce to be disbursed for operations of the County Sheriff.

Day Foundation Grant – accounts for grant money received to be disbursed for fairground improvement.

Restatement of Fund Balance

During the fiscal year, the County had a reclassification of funds. Court Fund Payroll was reclassified as a county fund and represents payroll expenditures of County employees.

Prior year ending balance, as reported	\$6,891,326
Add: Reclassified to County Funds (to account for funds classified as Trust and Agency Fund in the prior year) Court Fund Payroll	2,710
Prior year ending balance, as restated	<u>\$6,894,036</u>

LOVE COUNTY, OKLAHOMA
COMBINING SCHEDULE OF RECEIPTS, EXPENDITURES, AND
CHANGES IN CASH BALANCES—BUDGET AND ACTUAL—BUDGETARY BASIS—
COUNTY GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	General Fund		
	Budget	Actual	Variance
Beginning Cash Balances	\$ 525,158	\$ 525,157	\$ (1)
Less: Prior Year Outstanding Warrants	(28,480)	(28,480)	-
Less: Prior Year Encumbrances	(8,477)	(7,679)	798
Beginning Cash Balances, Budgetary Basis	<u>488,201</u>	<u>488,998</u>	<u>797</u>
Receipts:			
Ad Valorem Taxes	953,621	994,970	41,349
Charges for Services	83,302	61,503	(21,799)
Intergovernmental Revenues	491,795	932,657	440,862
Miscellaneous Revenues	4,055	10,652	6,597
Total Receipts, Budgetary Basis	<u>1,532,773</u>	<u>1,999,782</u>	<u>467,009</u>
Expenditures:			
District Attorney - State	13,500	13,208	292
County Sheriff	763,713	762,371	1,342
County Treasurer	117,869	117,868	1
County Commissioners	150,638	150,637	1
OSU Extension	100	-	100
County Clerk	151,696	151,696	-
Court Clerk	85,852	85,852	-
County Assessor	85,852	85,852	-
Revaluation of Real Property	114,548	101,058	13,490
General Government	146,890	96,859	50,031
Excise-Equalization Board	16,000	3,450	12,550
County Election Board	70,707	65,789	4,918
Insurance - Benefits	79,831	47,796	32,035
Fire Fighting Service	9,000	7,652	1,348
Civil Defense	9,700	4,703	4,997
County Audit Budget Account	11,554	9,392	2,162
Free Fair Budget Account	7,158	7,129	29
Free Fair Improvement Account	12,842	12,842	-
E-911	172,524	171,619	905
Provision for Interest on Warrants	1,000	-	1,000
Total Expenditures, Budgetary Basis	<u>2,020,974</u>	<u>1,895,773</u>	<u>125,201</u>
Excess of Receipts and Beginning Cash Balances Over Expenditures, Budgetary Basis	<u>\$ -</u>	<u>593,007</u>	<u>\$ 593,007</u>
Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances			
Add: Stopped Warrants		1,469	
Add: Current Year Outstanding Warrants		40,823	
Add: Current Year Encumbrances		31,922	
Ending Cash Balance		<u>\$ 667,221</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, 2016**

	County Health Department Fund		
	Budget	Actual	Variance
Beginning Cash Balances	\$ 449,102	\$ 449,101	\$ 1
Less: Prior Year Outstanding Warrants	(6,380)	(6,380)	-
Less: Prior Year Encumbrances	(11,592)	(11,311)	(281)
Beginning Cash Balances, Budgetary Basis	431,130	431,410	(280)
Receipts:			
Ad Valorem Taxes	238,635	248,983	10,348
Intergovernmental Revenues	-	5,674	5,674
Miscellaneous Revenues	294	294	-
Total Receipts, Budgetary Basis	238,929	254,951	16,022
Expenditures:			
Health and Welfare	670,059	222,342	447,717
Total Expenditures, Budgetary Basis	670,059	222,342	447,717
Excess of Receipts and Beginning Cash Balances Over Expenditures, Budgetary Basis	\$ -	464,019	\$ 463,459
Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances			
Add: Current Year Encumbrances		37,584	
Add: Current Year Outstanding Warrants		1,116	
Ending Cash Balance		\$ 502,719	

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

**LOVE COUNTY
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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, 2016. 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 2016.

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 2016-004 – Inadequate Internal Controls Over the Reconciliation of Appropriation Ledger to General Ledger

Condition: The County Clerk does not reconcile the appropriation ledger to the County Treasurer's general ledger.

Cause of Condition: Policies and procedures have not been designed and implemented regarding a monthly reconciliation of the County Clerk's appropriation ledger to the County Treasurer's general ledger.

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

Recommendation: The Oklahoma State Auditor & Inspector's Office (OSAI) recommends that the County Clerk's appropriation ledger be reconciled to the County Treasurer's general ledger on a monthly basis. The reconciliation should be reviewed and approved by someone other than the preparer with review being evidenced by initials and date, and documentation of the reconciliation should be maintained.

Management Response:

County Treasurer: The County Clerk and I are working to balance between the general ledger and the appropriation ledger. Discrepancies will be investigated, and corrections will be made.

County Clerk: The County Treasurer and I are working to balance between the appropriation ledger and the general ledger. Discrepancies will be investigated and corrected.

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 reconciliations not prepared or not timely prepared, are deficiencies in internal control. Further, reconciliations should be performed on a monthly basis and document evidence of a review by someone other than the preparer.

LOVE COUNTY
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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.

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

Conclusion: The County's internal controls did not provide reasonable assurance that expenditures (including payroll) were accurately reported in the accounting records.

The County's financial operations did not comply with 19 O.S. § 1505, which requires funds be encumbered prior to receipt of goods and/or services.

FINDINGS AND RECOMMENDATIONS

Finding 2016-003 – Inadequate Internal Controls and Noncompliance Over the Disbursement Process (Repeat Finding)

Condition: The test of forty (40) disbursements reflected twelve (12) instances in which goods and/or services were received prior to the encumbrance of funds.

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

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

Recommendation: OSAI recommends encumbrances be made prior to the receipt of goods and/or services in accordance with 19 O.S. § 1505(C)(3).

Management Response:

County Clerk: My office was given permission to encumber the funds after the goods and services were received by the District Attorney. We are working to ensure all offices properly encumber funds.

Chairman, Board of County Commissioners: We are working to ensure all offices encumber funds prior to the receiving of goods and services.

County Sheriff: My office will ensure funds are encumbered prior to the receiving of goods and services.

County Assessor: My office will ensure funds are encumbered prior to the receiving of goods and services.

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

FINDINGS AND RECOMMENDATIONS

Finding 2016-005 – Inadequate County-Wide Controls and Disaster Recovery Plan (Repeat Finding)

Condition: When assessing the county-wide controls the following weaknesses were noted:

- County management has not designed and implemented internal controls regarding Risk Assessment, Information and Communication, and Monitoring.
- The Commissioners, Court Clerk, Assessor and Sheriff have not designed a Disaster Recovery Plan over information systems operating within the office.

Cause of Condition: Policies and procedures have not been designed to address risks of the County. Furthermore, policies and procedures have not been designed to develop and implement a Disaster Recovery Plan for individual County offices.

Effect of Condition: This condition could result in unrecorded transactions, undetected errors, or misappropriation of funds. This condition could also result in the loss of data, the unreliability of data, and increase the risk that the County may not recover from an emergency situation and/or disaster. The lack of a formal plan could cause significant problems in ensuring county business could continue uninterrupted.

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.

Further, a Disaster Recovery Plan should be designed and implemented for each office that addresses how critical information and systems within the office would be restored in the event of an emergency and/or disaster. The plan should include current names, addresses, contact numbers of key county personnel and their roles and responsibilities of the information services function, a listing of contracted service providers, information on location of key resources, including back-up site for recovery operation system, application, data files, operating manuals, and program/system/user documentation, and alternative work locations once IT resources are available.

Management Response:

Chairman, 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. Further, the Board is working to establish a Disaster Recovery Plan.

County Sheriff: My office is working to establish a Disaster Recovery Plan.

Court Clerk: My office is working to establish a Disaster Recovery Plan.

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County Assessor: A Disaster Recovery Plan has been established for my office.

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

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.

Information and communication is a component of internal control which should run and control county operations, it must have relevant, reliable information, both financial and nonfinancial. That information should be recorded and communicated to management and others within the district who need it and in a form and within a time frame that enables them to carry out their internal control and operational responsibilities. In addition, the district/county needs to make sure that the forms of communications are broad-based and that information technology management assures useful, reliable, and continuous communications.

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.

Disaster Recovery Plans are an integral part of county operations to ensure that business can continue in the event of an emergency and/or disaster. Each office or the county as a whole should have a current, detailed Disaster Recovery Plan on file and should be aware of its content. According to the standards of the Information Systems Audit and Control Association (CobiT, Deliver and Support 4), information services function management should ensure that a written Disaster Recovery Plan is documented and contains guidelines and instructions for the County to follow in the event of a disaster.

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, 2016:

- All County Offices - Fixed Assets procedures (19 O.S. § 178.1, 19 O.S. § 178.2, and 69 O.S. § 645).
- All County Offices - Consumable Inventories procedures (19 O.S. § 1502 and 19 O.S. § 1504).
- Court Clerk procedures (20 O.S. § 1304 and 19 O.S. § 220).
- Inmate Trust Fund procedures (19 O.S. § 531 and 19 O.S. § 180.43).

Our statutory compliance engagement was limited to the procedures related to the statutes above and was less in scope than an audit performed in accordance with generally accepted auditing standards. Accordingly, we do not express an opinion on any basic financial statement of 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". The signature is fluid and cursive, with the first name "Gary" being the most prominent.

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

November 26, 2018

SCHEDULE OF FINDINGS AND RESPONSES

Finding 2016-020 – Inadequate Internal Controls and Noncompliance Over Inmate Trust Fund Checking Account and Sheriff Commissary Fund

During review of the Inmate Trust Fund Checking Account and Sheriff Commissary Fund, it was noted that inmate money is not deposited into an Inmate Trust Fund Checking Account but was retained in the Sheriff's vault. When an inmate purchased commissary items, the funds were removed from the vault and deposited into an outside bank account. Checks were then being issued from this outside bank account to pay the vendor for commissary items and the profits to the Sheriff's Commissary Fund with the County Treasurer.

Cause of Condition: Policies and procedures have not been designed and implemented regarding the establishment of an Inmate Trust Fund Checking Account and Sheriff Commissary Fund.

Effect of Condition: This condition resulted in noncompliance with state statute and could result in unrecorded transactions, misstated, financial reports, undetected errors, or misappropriation of funds.

Recommendation: OSAI recommends the County Sheriff comply with 19 O.S. § 531(A) and establish an Inmate Trust Fund Checking Account to hold inmate money until commissary items are purchased and then remit the funds to the Sheriff Commissary Fund established with the County Treasurer.

Management Response:

County Sheriff: We are working to correct this condition. An Inmate Trust Fund Checking Account has been opened and commissary proceeds will be directly paid to the Sheriff Commissary Fund which has been established with the County Treasurer.

Criteria: Title 19 O.S. § 531(A) states, "Notwithstanding any other provisions of law, the county sheriff may establish a checking account, to be designated the "Inmate Trust Fund Checking Account", to be managed by the county sheriff and maintained separately from regular county funds. The checking account shall be subject to audit by the State Auditor and Inspector. The county sheriff shall deposit all monies collected from inmates incarcerated in the county jail into this checking account and may write checks to the Sheriff's Commissary Account for purchases made by the inmate during his or her incarceration and to the inmate from unencumbered balances due the inmate upon his or her discharge."

Finding 2016-006 – Inadequate Internal Controls 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

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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.

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.

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

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.

Management Response:

Court Clerk: I do prepare Court Fund and Revolving Fund vouchers and reports. One of my Judges signs off on all claims. Case load and time does not allow segregation of all duties in this office.

Auditor Response: OSAI 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 procedures to ensure proper internal controls over the Court Fund expenditure process.

Criteria: Accountability and stewardship are overall goals in the accounting of funds. To help ensure a proper accounting of funds, the duties of preparing the claim, attaching and agreeing supporting documentation, certifying receipt of goods/services, signing the claim, and preparing and signing the checks should be segregated.

Finding 2016-007 – Inadequate Internal Controls and Noncompliance Over Fixed Assets and Consumable Inventories (Repeat Finding)

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 count was not available for the following offices:
 - Court Clerk
 - County Sheriff

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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 regarding the receiving 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.

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 and consumable inventories.

Recommendation: OSAI recommends the County Officers implement internal controls to ensure compliance with 19 O.S. § 178.1, 19 O.S. § 178.2, and 19 O.S. § 1502(A)(1) with regards to fixed assets and consumable inventories.

These controls would include that all offices:

- Retain documentation to verify the physical inventory counts were performed.
- Inventory counts should be performed by someone other than the inventory officer.
- File inventory records with the County Clerk.
- Retain documentation to verify monthly consumable inventory count.

Management Response:

Court Clerk: The Court Clerk will work to implement a system of internal controls to ensure an annual physical inventory count is 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.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. An important aspect of internal controls is a 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.

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. § 178.2 requires each elected county official to create and maintain inventory records of said office. Such inventory shall be filed with the county clerk.

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



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