

OPERATIONAL AUDIT

# MAJOR COUNTY

For the period July 1, 2008 through June 30, 2011



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



Oklahoma State  
Auditor & Inspector  
Gary Jones, CPA, CFE

**MAJOR COUNTY OPERATIONAL AUDIT  
FOR THE PERIOD JULY 1, 2008 THROUGH JUNE 30, 2011**

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# Oklahoma State Auditor & Inspector

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February 7, 2012

## **TO MAJOR COUNTY**

Transmitted herewith is the audit report of Major County for the period July 1, 2008 through June 30, 2011.

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

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

Sincerely,

A handwritten signature in blue ink that reads "Gary A. Jones". The signature is fluid and cursive, with a long horizontal stroke at the end.

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

**MAJOR COUNTY  
OPERATIONAL AUDIT**

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**Background**

Major County was created at statehood from the southern portion of Woods County, Oklahoma Territory, and named for John C. Major, a member of the Oklahoma Constitutional Convention.

Fairview, the county seat, takes its name from its scenic location east of the Glass Mountains, a major tourist attraction in the county. Several companies manufacture products ranging from oil drilling equipment to industrial loaders and steel truck bodies.

The Major County Historical Society Museum, built to promote interest in the history of the area, is located just east of Fairview. *Glass Mountain Country* is a history book written about Major County.

Active civic organizations in the county include the Lion’s Club, Chamber of Commerce, Ambucs and Rotary Club. Annual events of interest include Fairview Follies in August, Wranglers Rodeo in July, National John Deere Two Cylinder Show also in July, Major County Fair in September, and an Old Time Threshing Bee also in September.

For more county information, call the County Clerk’s office at 580/227-4732.

County Seat – Fairview

Area – 580.13 Square Miles

County Population – 7189 (2009 est.)

Farms – 967

Land in Farms – 517,334 Acres

Primary Source: Oklahoma Almanac 2011-2012

**County Officials:**

Donise Rogers..... County Assessor  
 Kathy McClure .....County Clerk  
 John A. Haworth..... County Commissioner District 1  
 Kelly D. Wahl..... County Commissioner District 2  
 Travis Rohla..... County Commissioner District 3  
 Steven P. Randolph..... County Sheriff  
 Sandra K. Goss ..... County Treasurer  
 Shauna N. Hoffman ..... Court Clerk

**MAJOR COUNTY  
OPERATIONAL AUDIT**

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

|  | Beginning<br>Cash Balance<br><u>July 1, 2010</u> | Receipts<br>Apportioned | Disbursements       | Ending<br>Cash Balance<br><u>June 30, 2011</u> |
|--|--|-------------------------|---------------------|--|
| Combining Information:                   |  |                         |                     |  |
| County General Fund                      | \$ 304,725                                       | \$ 1,346,154            | \$ 1,270,113        | \$ 380,766                                     |
| T-Highway                                | 1,644,651  | 5,748,056               | 5,071,838           | 2,320,869                                      |
| County Health Department                 | 97,612   | 132,992                 | 124,395             | 106,209  |
| Resale Property                          | 60,342   | 20,439                  | 25,148              | 55,633   |
| Sheriff Service Fee                      | 111,110  | 86,393                  | 98,485              | 99,018   |
| County Clerk Lien Fee                    | 42,685   | 9,405                   | 8,826               | 43,264   |
| Contract Board of Prisoners              | 84,621   | 65,453                  | 86,248              | 63,826   |
| Courthouse Security                      | 36,206   | 15,075                  | 17,166              | 34,115   |
| County Clerk Record Preservation         | 23,954   | 14,590                  | 7,544               | 31,000   |
| Sales Tax Revolving                      | 264,767  | 198,550                 | 172,378             | 290,939  |
| Remaining Aggregate Funds                | 20,914   | 4,264                   | 6,929               | 18,249   |
| <b>Combined Total - All County Funds</b> | <u>\$ 2,691,587</u>                              | <u>\$ 7,641,371</u>     | <u>\$ 6,889,070</u> | <u>\$ 3,443,888</u>                            |

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

**Purpose, Scope, and  
Sample Methodology**

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

The audit period covered was July 1, 2008 through June 30, 2011.

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

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

|                     |   |
|---------------------|---|
| <b>Objective 1:</b> | To determine the receipts apportioned, disbursements, and cash balances are accurately presented on the County Treasurer’s monthly reports. |
|---------------------|---|

**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.

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

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

- Performed the following to ensure receipts apportioned, disbursements, and cash balances were accurately presented on the County Treasurer's monthly reports:
  - Reconciled Treasurer's receipts to amounts apportioned on the County Treasurer's monthly reports.
  - Reconciled the County Clerk's warrants issued to disbursements paid by the County Treasurer.
  - Re-performed the bank reconciliations at June 30, 2011, to determine that all reconciling items were valid, and ending balances on the General Ledger agreed to the ending balances reflected on the Treasurer's monthly reports.

**Observation**

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

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.

- Upon inquiry and observation of the recordkeeping process, the following was noted:
  - The County Treasurer's monthly reports are compiled from an information system in which the County Treasurer and one deputy perform daily activity using the information system such as issuing receipts and posting disbursements.
- Upon inquiry of the reconciliation process of apportioned receipts, disbursements, and cash balances between the County Treasurer and County Clerk, supporting documentation of the reconciliation is not maintained by either of the officials.

These conditions 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 control to provide reasonable assurance that receipts apportioned, disbursements, and cash balances are accurately presented on the County Treasurer's monthly reports.

Further, OSAI recommends implementing compensating controls to mitigate the risks involved with a concentration of duties. Compensating controls would include separating key processes and/or critical functions of the office. Also,

having management review and approve of accounting functions would provide independent oversight of the accuracy of the County Treasurer's monthly reports.

**Management  
Response**

Reconciliation process of apportioned receipts, disbursements, and cash balances between the County Treasurer and County Clerk, supporting documentation of the reconciliation will be maintained by both the County Clerk and County Treasurer and provided on paper and initialed by both the County Clerk and County Treasurer.

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

**Conclusion**

The County's internal controls do not provide reasonable assurance that revenues were accurately reported in the accounting records.

**Methodology**

To accomplish our objective, we performed the following:

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

**Observation**

**Inadequate Internal Controls over the Receipting Process**

Accountability and stewardship are overall goals of management in the accounting of funds. To help ensure a proper accounting of funds, the duties of receiving, receipting, recording, depositing cash and checks, reconciliations, and transaction authorization should be separated.

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

**County Treasurer:** The County Treasurer, and one full-time deputy issue receipts, prepare deposit slips, deliver deposits to the financial institution, and perform month end reconciliations. The office maintains two cash drawers that are designated for official depository account deposits and general bank account deposits. Employees work from each of the cash drawers.

**County Clerk:** The County Clerk has two full-time deputies. One full-time deputy typically receipts all funds, unlocks the cash drawer every morning, prepares and delivers the daily deposit to the County Treasurer, and also performs the month end reconciliations.



**County Assessor:** The County Assessor has three full-time deputies. One deputy issues receipts, prepares the daily deposit, and takes the deposit to the County Treasurer. Cash and checks received during the day are kept in the deposit book in an unlocked filing cabinet.

**County Sheriff:** The County Sheriff has one full-time employee that performs the daily duties including issuing receipts, preparing the deposits for both the Inmate Trust and the Official Depository Account, and reconciling the accounts within the County Treasurer's office.

In the deputy's absence, funds collected are maintained in a locked box until her return. Further, that same employee is the only one authorized to make deposits; therefore, in her absence daily deposits are not made to the County Treasurer or to the bank for the Inmate Trust Account.

The County Sheriff's office maintains prepaid phone cards available for purchase by the inmates; however, there are no controls for monitoring the inventory of the unused prepaid phone cards.

**Court Clerk:** The Court Clerk has four full-time deputies. All employees receipt money from the same cash drawer. One of the deputies balances the cash drawer, prepares the deposit, and takes the deposit to the County Treasurer.

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 properly segregate duties. OSAI further recommends implementing compensating controls to mitigate the risks involved with a concentration of duties. Compensating controls would include separating key processes and/or critical functions of the office, and having management review and approve the accounting functions.

Further, the following duties should be separated in the respective offices:

**County Treasurer:** Employees should not all work from the same cash drawer. The same individual issuing receipts should not prepare the deposits, deliver deposits to the financial institutions, or reconcile the bank statements.

**County Clerk:** Employees should not all work from the same cash drawer. The duties of issuing receipts, balancing the cash drawer, preparing the daily deposit, delivering the deposit to the County Treasurer's office, and reconciling the account to the County Treasurer should be performed by separate individuals.

**County Assessor:** The duties of issuing receipts, balancing the cash drawer, preparing the daily deposit, delivering the deposit to the County Treasurer's office, and reconciling the account to the County Treasurer should be performed by separate individuals.

**County Sheriff:** The duties of issuing receipts, balancing the cash drawer, preparing the daily deposit, delivering the deposit to the County Treasurer's office, and reconciling the account to the County Treasurer should be performed by separate individuals. The County Sheriff should implement controls to ensure deposits are made daily to the County Treasurer and to the Inmate Trust bank account.

Further, policies and procedures regarding internal controls over the monitoring of the sale of prepaid phone cards should be implemented

**Court Clerk:** Employees should not all work from the same cash drawer. One employee should not be performing duties regarding issuing receipts, balancing the cash drawer, preparing the deposit, and delivering the deposit to the County Treasurer.

**Management  
Response**

**Court Clerk:** The Major County Court Clerk believes there is adequate segregation of duties to ensure there is no risk of misappropriation of funds. All employees are allowed to print receipts, two deputies take turns preparing the daily deposit and the first deputy does the end of month procedures. The auditor suggested running a voided receipt report regularly for comparison and the Court Clerk will begin that process.

**County Clerk:** The Major County Clerk works to see that all employees perform the duties of issuing receipts, balancing the cash drawer, preparing the deposit and delivering deposit to the Treasurer, along with reconciling monthly end reports. Steps will be implemented to make sure that each employee performs these duties on a more regular basis.

**County Sheriff:** In the Sheriff's Office, I am having two employees make deposits every day with the County Treasurer. The phone cards are not numbered, but when we buy 100 phone cards, the checks and balances will show that there is \$1,000.00 put in the account. In my office, there are cameras for every move that is made and handling the money and such is caught on camera.

**County Treasurer:** Due to the lack of funds in Major County, it is impossible to have adequate segregation of duties in the County Treasurer's office. We have the County Treasurer and one full-time deputy. We will rotate our duties as much as possible and monitor each others' work in the future.

**County Assessor:** I have hired another full-time deputy as of October 31, 2011, who is not assisting in the daily duties of my office. When money is collected in our office, a receipt for the money collected is prepared by the person who collected it. This could be I or one of my four deputies. Additionally, to assure segregation of duties, the person making out the deposit slip does not take it to the Treasurer's office. A third deputy, or myself will deliver the deposit. By doing this, we can now have three separate persons involved in handling all monetary transactions.

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

**Conclusion** The County's internal controls do not provide reasonable assurance that expenditures were accurately reported in the accounting records.

Our review of the internal controls over Court Clerk Revolving Fund expenditures provides reasonable assurance that Court Clerk Revolving Fund expenditures were accurately reported in the accounting records.

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

- Gained an understanding of the internal controls related to the expenditure process through discussions with County personnel, observation and review of documents.
- Tested controls regarding the Court Clerk Revolving Fund which included review of 100% of the expenditures from the fund for the following:
  - Ensuring that claims were prepared by the Court Clerk's office.
  - Ensuring that claims reflected authorized signatures of the Governing Board of the Court Clerk Revolving Fund for the approval of payment.
  - Ensuring the County Clerk issued the cash vouchers and the County Treasurer registered the cash vouchers.

**Observation** **Inadequate Segregation of Duties over the Expenditure Process**

Accountability and stewardship are overall goals of management in the accounting of funds. Internal controls should be designed to analyze and check accuracy, completeness, and authorization of expenditures. To help ensure a proper accounting of funds, the duties of encumbering the funds, printing the warrants, stamping/signing the warrants, and distributing the warrants should be separated.

**Expenditures by purchase orders:**

Upon inquiry and observation of the expenditure process, it was determined that the following observations negate a proper segregation of duties:

- County requisitioning officers are purchasing items/services, rather than allowing the Purchasing Agent to purchase items requisitioned.
- One employee at District 1, that is neither a requisitioning officer nor a receiving officer, is requisitioning and receiving goods/services for the District.
- One employee at District 2, who is not a requisitioning officer, is requisitioning goods/services for the District.

**Expenditures by court fund vouchers:**

Upon inquiry and observation of the expenditure process, it was determined that:

- One employee prepares the claim, prepares the vouchers, and signs the vouchers for court fund expenditures.

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 the duties of requisitioning and receiving be properly segregated. Further, the duties of preparing claims, issuing vouchers, and signing vouchers should not be concentrated in one individual. OSAI recommends management be aware of these conditions and determine how to properly separate duties. Compensating controls should be implemented to mitigate the risks involved with a concentration of duties. Compensating controls would include separating key processes and/or critical functions of the office, and having management review and approve the accounting functions.

**Management  
Response**

**Court Clerk:** The Major County Court Clerk disputes the findings regarding Court Fund Claims. The Court Clerk prepares the claims, the District Judge always signs the claims and the first deputy prints vouchers and distributes them to the appropriate recipient or vendor.

**County Clerk:** The Major County Clerk from this date forward will be returning purchase orders to appropriate County official, that are incorrect as to:

Receipt dated before the purchase order  
Invoice dated before the purchase order and receiving report  
Invoice and receiving dated before the purchase order  
Incorrect receiving agent  
No receiving report

If correction cannot be made, the purchase order will be delivered to the District Attorney for his opinion.

The Major County Clerk will not be signing off on an incorrect purchase from this time forward. Our office has been diligent in stamping purchase orders ordered prior to encumbrance, documenting information on the purchase order and it is always noted in the minutes if a purchase order goes over the encumbered amount. Each County official will be informed of these changes in writing and will sign off to the County Clerk, that they are aware that these changes are being made.

The Major County Clerk's Office also reviewed the purchase orders cited in the audit findings as incorrect and the County Clerk believes that the following purchase orders are correct and should not be in violation of the purchasing act.

New Requesting and Receiving Officers will also be added. Major County was not aware that there could be more than one requisitioning officer, so two will be requisitioning and at least two will be receiving.

**County Sheriff:** All or most invoices are made one day, but we do not get or receive it the same day. This cannot be fixed. All purchase orders will be acquired the same day if it is possible due to the fact that we are open 24 hours a day. If we order something at 5:00 p.m. Friday and get a purchase order on Monday the next week before 9:00 a.m., we will make sure all receiving reports are with a blanket purchase order.

**Objective 4:** To determine if the County's internal controls provide reasonable assurance that payroll expenditures were accurately reported in the accounting records.

**Conclusion** The County's internal controls do not provide reasonable assurance that payroll expenditures were accurately reported in the accounting records.

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

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

**Observation**

**Inadequate Segregation of Duties over Payroll Expenditures**

Accountability and stewardship are overall goals of management in the accounting of funds. Internal controls should be designed to analyze and check accuracy, completeness, and authorization of payroll calculations and/or transactions. To help ensure a proper accounting of funds, the duties of enrolling new personnel, processing payroll information and records, preparing OPERS reports and state and federal tax reports, printing and signing the payroll warrants, and maintaining personnel files should be separated.

Upon inquiry and observation it was determined that the payroll clerk enrolls new employees, processes payroll information and records, prepares the OPERS report and the state and federal tax reports, prints and signs the payroll warrants, and maintains the personnel files.

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 properly segregate the duties of the payroll process. OSAI recommends implementing compensating controls to mitigate the risks involved with a concentration of duties. Compensating controls would include separating key processes and/or critical functions of the office, and having management review and approve accounting functions.

Further, the duties of enrolling new employees, maintaining personnel files, preparing retirement reports and state and federal tax reports, and distributing payroll warrants should not all be performed by one individual. The duties of posting payroll information into the system, printing payroll claims, printing payroll warrants, and distributing payroll checks should be adequately segregated.

**Management  
Response**

**County Clerk:** The Major County Clerk will notify in writing to each office, that payroll time sheets will be due in the County Clerk's office on the 16<sup>th</sup> of every month, completed and signed by both, the employee and supervisor, no exceptions.

Commissioners from each District will be notified in writing that highway employees will not accumulate comp time and/or overtime wages for hours worked in a 40 hour week where vacation or sick leave hours were also claimed and the employees did not actually work 40 hours and are in violation of Fair Labor Standards Act.

**Objective 5:** To determine if the County’s internal controls provide reasonable assurance that inventories were accurately reported in the accounting records.

**Conclusion** The County’s internal controls do not provide reasonable assurance that fixed asset inventories and consumable inventories were accurately reported in the accounting records.

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

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

**Observation** **Inadequate Internal Controls over Fixed Assets**

An important aspect of internal controls is the safeguarding of assets which includes adequate segregation of duties. Internal controls over safeguarding of assets constitutes a process, affected by an entity’s governing body, management, and other personnel, designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of fixed assets and safeguard fixed assets from loss, damage, or misappropriation.

Upon inquiry and observation of the internal control process over fixed asset inventories, the following was noted:

**County Treasurer, County Clerk, and County Sheriff Offices:** These offices stated that annual inventory counts of fixed assets are performed, but documentation is not retained. Additionally, one employee is responsible for receiving inventory items, ensuring inventory numbers are attached to inventory items, and keeping track of the locations of inventory items.

**Court Clerk and County Assessor Offices:** These offices stated that formally scheduled inventory verification is not conducted on an annual basis. Additionally, one employee is responsible for receiving inventory items, ensuring inventory numbers are attached to inventory items, and keeping track of the locations of inventory items.

**County Commissioner District 1:** The District has inadequate segregation of duties over fixed asset inventory. One employee is responsible for receiving inventory items, ensuring inventory numbers are attached to inventory items, and keeping track of the locations of inventory items.

The District has not designed and implemented a formal annual inventory of physical verification of fixed assets.

Observation of the District inventories revealed that not all County owned/leased inventory is properly marked with "Property of Major County" or "Leased to Major County." Additionally, all fixed assets are not marked with inventory identification numbers.

**County Commissioner District 2:** The District has inadequate segregation of duties over fixed asset inventory. One employee is responsible for receiving inventory items, ensuring inventory numbers are attached to inventory items, and keeping track of the locations of inventory items.

The District has not designed and implemented a formal annual inventory of physical verification of fixed assets.

Observation of the District inventories revealed that not all County owned/leased inventory is properly marked with "Property of Major County" or "Leased to Major County." Additionally, all fixed assets are not marked with inventory identification numbers.

**County Commissioner District 3:** The District has inadequate segregation of duties over fixed asset inventory. One employee is responsible for receiving inventory items, ensuring inventory numbers are attached to inventory items, and keeping track of the locations of inventory items.

The District has not designed and implemented a formal annual inventory of physical verification of fixed assets.

Observation of the District inventories revealed that not all County owned/leased inventory is properly marked with "Property of Major County" or "Leased to Major County." Additionally, all fixed assets are not marked with inventory identification numbers.

Failure to maintain accurate records of fixed asset inventory, failure to adequately segregate the duties of receiving and maintaining a physical verification of fixed assets, and failure to perform an annual physical inventory count of fixed assets could result in inaccurate records, unauthorized use of fixed assets, or misappropriation of fixed assets.

**Recommendation**

OSAI recommends that each County office implement procedures to accurately account for fixed asset records and segregate the duties over fixed assets. Records should be maintained in such a manner that assets can be identified by serial number, date of acquisition, and purchase price. Rolling stock should be marked with "Property of Major County" and should be identified with an



identification number that is clearly visible. Further, an annual verification of fixed asset items should be performed and documented to properly account for fixed assets.

**Management  
Response**

**Court Clerk, County Clerk:** Inventory within the Court Clerk's office will be checked annually by a different employee each year and that inventory checklist will be signed and dated.

**County Sheriff:** When our insurance is due each year we will do an inventory of all property in the Sheriff's office, including all vehicles, guns and office supplies over \$500.00. One person each year will be given the opportunity to do this inventory.

**County Assessor:** My first deputy will be assigning all inventory numbers and maintaining the inventory records. A second deputy will place the labels on the inventory items and a third deputy will be doing a physical inventory count annually to assure all inventory is in place and accounted for.

**County Treasurer:** Inventory within the County Treasurer's office will be checked annually by a different employee each year and the inventory checklist will be signed and dated.

**County Commissioner District 3:** The office has implemented procedures to segregate duties of taking inventory by using an employee that is not an officer. The inventory of our fixed assets will be taken at the time our insurance is due. At this time all fixed assets will be checked for inventory identification numbers. Upon receiving new equipment, the secretary will assign a number and a non-officer will number the new equipment.

**County Commissioner District 2:** District 2 will select an employee who is neither a receiving nor requisitioning officer to do the inventory of both fixed assets and consumable items. That individual will sign the report along with the District 2 Commissioner.

**County Commissioner District 1:** We are appointing an employee to be over the fixed assets to help keep track of inventory items. All vehicles will be properly marked with numbers and owned/leased by Major County stickers.

**Observation**

**Inadequate Internal Controls over Consumable Inventories**

An important aspect of internal controls is the safeguarding of assets, which includes adequate segregation of duties. Internal controls over safeguarding of assets constitutes a process, affected by an entity's governing body, management, and other personnel, designed to provide reasonable assurance regarding

prevention or timely detection of unauthorized acquisition, use, or disposition of consumable assets and safeguard consumable assets from loss, damage, or misappropriation.

Upon inquiry and observation of the internal control process over consumable inventories, the following was noted:

**County Commissioner District 1:** One employee receives consumable inventory items, maintains consumable inventory records, and performs the physical count of the consumable inventory items. The District does not file consumable inventory reports with the County Clerk on a monthly basis.

**County Commissioner District 2:** One employee receives consumable inventory items, maintains consumable inventory records, and performs the physical count of the consumable inventory items.

**County Commissioner District 3:** One employee receives consumable inventory items, maintains consumable inventory records, and performs the physical counts of the consumable inventory items. The District does not file consumable inventory reports with the County Clerk on a monthly basis. The District 3 County Commissioner prepares a monthly summary of fuel usage, but no other consumable inventory is reported.

Failure to maintain accurate records of consumable inventory, failure to adequately segregate the duties of receiving, maintaining a physical verification of consumable inventory and failure to perform a periodic physical inventory count of consumable items could result in inaccurate records, unauthorized use of fixed assets, or misappropriation of consumable inventories.

**Recommendation**

OSAI recommends that each County office implement procedures to accurately maintain consumable inventory records and segregate the duties over consumable inventories. The individual assigned to maintain records of consumable inventories should not be responsible for the physical custody of consumable inventories. Records should be maintained in such a manner that reflects consumable inventory by category, amount and current balances. Further a monthly physical verification of consumable inventories should be performed and reconciled to inventory records and filed with the County Clerk.

**Management  
Response**

**County Clerk:** District's 1 and 3 have been made aware that their consumable inventory will need to be on file in the County Clerk's office.

**County Commissioner District 3:** The officers will assign an employee to check consumable inventories at the first of every month, and an officer will sign off. After completion, the checklist will be on file in the County Clerk's office.

**County Commissioner District 2:** District 2 will select an employee who is neither a receiving nor requisitioning officer to do the inventory of both fixed assets and consumable items. That individual will sign the report along with the District 2 Commissioner.

**County Commissioner District 1:** We do file a copy of our consumable inventory at the County Clerk's office and keep a copy filed at the District 1 office as well.

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

**Conclusion** With respect to the days tested, the County complied with 62 O.S. § 517.4, which requires county deposits with financial institutions be secured with collateral securities or instruments.

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

- Gained an understanding of the internal controls related to pledged collateral through discussions with the County Treasurer, observation and review of ledgers and documents.
- Tested compliance of the significant law which included the following:
  - Compared the largest balances per month for all the banks holding County money to the amount of pledged collateral to determine that deposits were adequately secured.

**Observation** **Inadequate Internal Controls over Pledged Collateral**

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.

The County Treasurer has not properly designed and implemented internal controls related to pledged collateral due to the following:

- The County Treasurer does not maintain evidence to ensure that the daily bank balance is monitored to determine that it is adequately secured.
- Of the 36 months tested, the Cleo State Bank/Meno Guaranty branch of Cleo State Bank did not provide a pledge report for 29 months to the County Treasurer. The amount reported as pledged was not monitored during these months.
- On 8 separate occasions, the amount listed on the County Treasurer's General Ledger for Fairview Savings and Loan was from the previous month's pledge report, although current pledge reports had been received.
- For the month of June 2011, the County Treasurer used Book Value rather than Market Value for pledged collateral on the General Ledger.

Failure to monitor pledged collateral amounts could result in unsecured County funds and possible loss of County funds.

**Recommendation**

OSAI recommends that the County Treasurer implement a system of internal controls to provide reasonable assurance that County funds are adequately secured. The County Treasurer should design and implement internal controls to monitor pledged collateral amounts to bank balances on a daily basis.

Further, OSAI recommends the County Treasurer maintain evidence of monitoring pledged collateral amounts to bank balances on a daily basis, to ensure that County funds are adequately secured.

**Management  
Response**

**County Treasurer:** The bank will begin sending monthly reports to the County Treasurer beginning September 2011. We no longer require pledged securities from Fairview Savings & Loan Assoc. as these funds are now minimal and FDIC insured.

With regard to using book value rather than market value, this happened once in June 2011. It was an innocent error.

**Objective 7:**

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

**Conclusion**

With respect to the items tested, the County complied with 68 O.S. § 1370E, which requires the sales tax collections to be deposited in the general revenue or

sales tax revolving fund of the County and be used only for the purpose for which such sales tax was designated.

**Methodology**

To accomplish our objective, we performed the following:

- Gained an understanding of the internal control process of receipting and apportioning sales tax collections through discussions with County personnel, observation and review of documents.
- Tested compliance of the significant law which included the following:
  - Reviewed sales tax ballots to determine designation and purpose of sales tax collections.
  - Obtained confirmations from the Oklahoma Tax Commission for sales tax payments made to the County and recalculated the amounts apportioned by the County Treasurer to ensure sales tax collections were apportioned to the proper funds.

**Observation**

**Inadequate Internal Controls over the Apportionment of Sales Tax**

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.

The County Clerk is responsible for appropriating sales tax on a monthly basis to the proper funds.

- Based on test work performed, the amount appropriated by the County Clerk was \$500.00 more than the County Treasurer's miscellaneous receipt reflected as apportioned for sales tax collections in October 2009.
- There is no record of a monthly reconciliation between the County Clerk and the County Treasurer.

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

**Recommendation**

OSAI recommends that the County implement a system of internal controls to provide reasonable assurance that County sales tax funds are appropriated correctly. The County Treasurer and County Clerk should design and implement

internal controls to accurately apportion and appropriate the sales tax amounts on a monthly basis to the correct fund.

Further, OSAI recommends that the County Clerk correct the \$500.00 error and complete a monthly reconciliation with the County Treasurer. In addition, the County Clerk should maintain evidence of the physical reconciliation documenting signatures and dates of the reconciliation.

**Management  
Response**

**County Clerk:** As an act for the record the Major County Excise Board on October 24, 2011, will amend the Cash Fund Appropriation and reduce the \$500.00 for the 2009-2010 Sales Tax Revolving Cash Fund dated October 26, 2009. The funds in question were never over expended and the actual cash available was forwarded to the next fiscal year 2010-2011. The excess funds, which were appropriated, were not expended and therefore, the cash balances were not affected. A copy of this action will be provided to SA&I after it has been signed by the Excise Board on October 24, 2011.

Objective 8: To determine the County's financial operations complied with 68 O.S. § 2923, which requires the ad valorem tax collections to be apportioned and distributed monthly among the different funds to which they belong.

**Conclusion**

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

**Methodology**

To accomplish our objective, we performed the following:

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

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

Other Items Noted:

Although not considered significant to the audit objectives, we feel the following issues should be communicated to management.

**Observation                      Inadequate County-Wide Controls**

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

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

Information and Communication is a component of internal control which should provide for a county to run and control its operations. A county must have relevant, reliable information, both financial and nonfinancial. That information should be recorded and communicated to management and others within the county 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 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, comparison, 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.

County-wide controls regarding Risk Assessment, Information and Communication, and Monitoring have not been designed.

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

**Recommendation**

OSAI recommends that the County implement a system of internal controls to provide reasonable assurance regarding the achievement of goals and objectives.

**Management  
Response**

**County Treasurer, Assessor, Court Clerk, County Clerk:** Major County elected officials will sit down and discuss how to assess risks, identify and analyze as well as discuss how to prevent fraud within County government and work to implement a system of internal controls to provide reasonable assurance regarding the achievement of goals and objectives for Major County at a bi-annual meeting held during a regular scheduled Commissioners meeting in January and July of each year. A file will be kept of this discussion.

**County Sheriff:** Major County elected officials will sit down and discuss how to prevent misappropriated funds, unrecorded transactions and undetected errors. This will be a bi-annual meeting, starting in January 2012. We will do this in a regular business meeting of the County Commissioners. Also, we will state who is going to do our inventory in each office.

**Board of County Commissioners:** The Major County officers will meet bi-annually to discuss and implement the steps that are needed to insure adequate controls. These meetings will be held during the regular County Commissioners open meetings and will be noted in the minutes.

**Observation**

**Disaster Recovery Plan**

Disaster Recovery Plan(s) are an integral part of county operations to ensure that business can be continued as usual in the event of a 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 Delivery and Support 4), information services management



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

- All pertinent County officers with emergency contact information.
- Minimum of two locations for temporary relocation of County offices and contact information for the relocation process.
- List of all numbers to contact to continue operations (computer vendor, internet provider, etc.)

Upon inquiry, the following offices do not have a written Disaster Recovery Plan:

- County Sheriff
- County Assessor
- Court Clerk

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

**Recommendation**

OSAI recommends that management work together to create a Disaster Recovery Plan with the above listed requirements.

**Management  
Response**

**County Assessor:** As requested, I have prepared a Disaster Recovery Plan as of October 1, 2011, and it has been submitted to the County Clerk for filing.

**County Treasurer, Court Clerk, and County Clerk:** The Major County elected officials will begin to work on updating the Disaster Recovery Plan immediately and provide the State Auditor and Inspector's Office with a copy when it is completed.

**County Sheriff:** The Sheriff's Office will relocate at a District Shop or Fairgrounds. All computers in our office are backed up off sight; Tiger Commissary, BOSS, and Inmate accounts. All prisoners will be transported to the Garfield County Detention Center.

**County Commissioner District 1, 2, 3:** All Districts have completed a Disaster Recovery Plan for the barn, and it will be on file with the County Clerk.



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