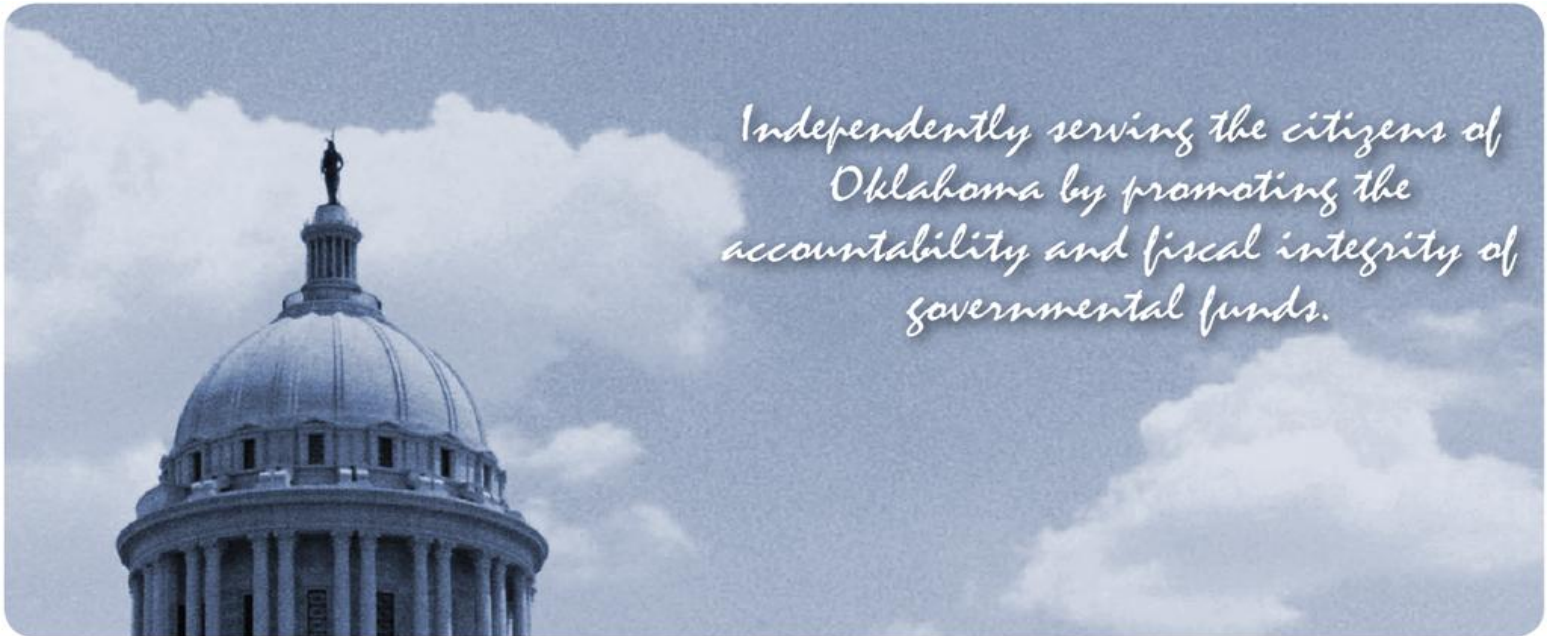


OPERATIONAL AUDIT

MARSHALL COUNTY

For the fiscal year ended June 30, 2012



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

**MARSHALL COUNTY OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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Oklahoma State Auditor & Inspector

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

November 2, 2015

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

Transmitted herewith is the audit report of Marshall County for the fiscal year ended June 30, 2012.

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

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

Sincerely,

A handwritten signature in blue ink, reading "Gary A. Jones".

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

**MARSHALL COUNTY, OKLAHOMA
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

TABLE OF CONTENTS

OPERATIONAL AUDIT REPORT

Introductory Section (Unaudited)

Statistical Information.....	ii
County Officials.....	iii
Ad Valorem Tax Distribution	iv
Sales Tax Distribution.....	v
Assessed Value of Property Trend Analysis.....	vi
County Payroll Expenditures Analysis	vii
County General Fund Analysis	viii
County Highway Fund Analysis	ix

Presentation of Apportionments, Disbursements, and Cash Balances of County Funds for Fiscal Year Ending June 30, 2012	1
--------------------------------------------------------------------------------------------------------------------------------	---

Description of County Funds	2
-----------------------------------	---

Comparative Schedule of Receipts, Expenditures, and Changes in Cash Balances—Budget and Actual—Budgetary Basis—General Fund	5
--------------------------------------------------------------------------------------------------------------------------------------	---

Comparative Schedule of Receipts, Expenditures, and Changes in Cash Balances—Budget and Actual—Budgetary Basis—County Health Department Fund.....	6
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Purpose, Scope, and Sample Methodology.....	7
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Objectives and Results of Operational Audit.....	8
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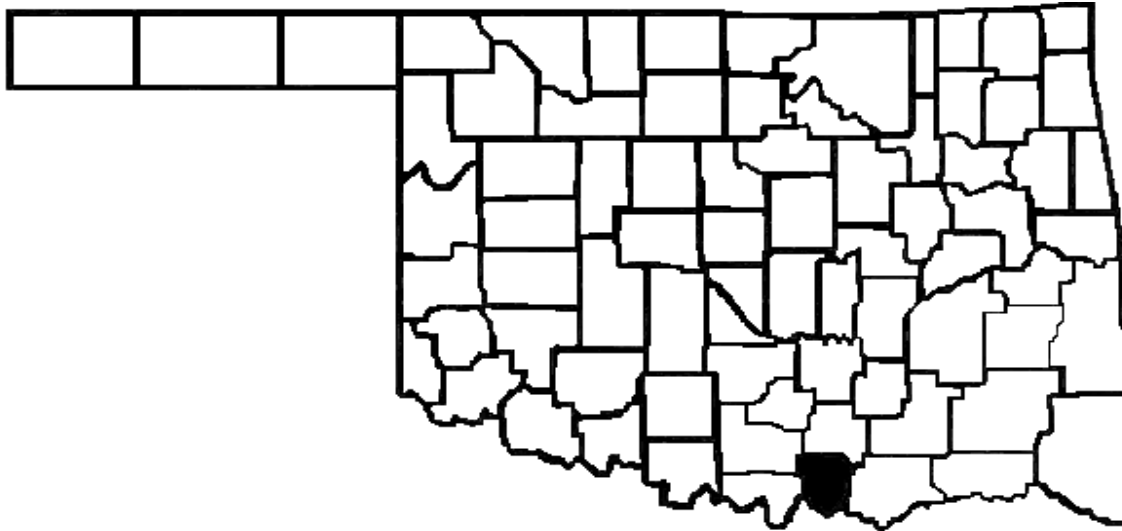
REPORT ON STATUTORY COMPLIANCE - OTHER MATTERS

Statutory Report.....	12
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Schedule of Findings and Responses	13
------------------------------------------	----

INTRODUCTORY SECTION
UNAUDITED INFORMATION ON PAGES ii - ix
PRESENTED FOR INFORMATIONAL PURPOSES ONLY

**MARSHALL COUNTY, OKLAHOMA
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**



Created at statehood from Pickens County in the Chickasaw Nation, Indian Territory, this smallest county in the state was settled by the Chickasaws beginning in 1837 with the removal from their eastern homes. A member of the Oklahoma Constitutional Convention, George A. Henshaw of Madill, succeeded in giving the county his mother's maiden name, Marshall. The county seat, Madill is named for George A. Madill of St. Louis, an attorney for the railroad.

Oil has played a colorful part in the county's history. Leases along the Red River led to the United States Supreme Court's final decision in the boundary dispute with Texas. Principal industries in the county are: Oklahoma Steel and Wire, W.W. Trailer, Clint Williams-Texoma Peanut Co., Madill Equipment, S & H Trailer, J & I Manufacturing and Contract Manufacturing. Also important are oil, agriculture, livestock, and tourism.

The Denison Dam, completed in 1944, created Lake Texoma with 91,200 acres of water. This lake attracts some 500,000 visitors annually and has made tourism a major industry in the county.

Native son, Raymond D. Gary of Madill, brought the spotlight of attention to the county when he became the fifteenth governor of Oklahoma during the years 1955-1959. For more county information, call the county clerk's office at 580/795-3220.

County Seat – Madill

Area – 426.95 Square Miles

County Population – 15,014
(2009 est.)

Farms – 545

Land in Farms – 157,754 Acres

Primary Source: Oklahoma Almanac 2011-2012

**MARSHALL COUNTY OFFICIALS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Board of County Commissioners

District 1 – Don “Salty” Melton
District 2 – Erin Lemons
District 3 – Chris Duroy

County Assessor

Debbie Croasdale

County Clerk

Ann Hartin

County Sheriff

Robert Wilder

County Treasurer

Loyce Eldridge

Court Clerk

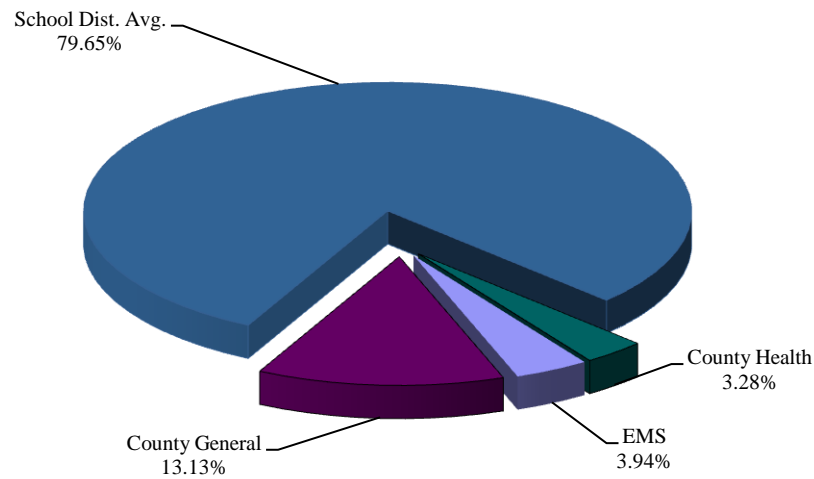
Wanda Pearce

District Attorney

Craig Ladd

**MARSHALL COUNTY, OKLAHOMA
AD VALOREM TAX DISTRIBUTION
SHARE OF THE AVERAGE MILLAGE
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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	Total
County General	10.33							
County Health	2.58	Madill	I-2	36.08	5.15	17.56	4.13	62.92
EMS	3.10	Kingston	I-35	36.26	5.18	16.83	4.13	62.40

**MARSHALL COUNTY, OKLAHOMA
SALES TAX DISTRIBUTION
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Sales Tax

Sales Tax on Lodging August 27, 2002

The voters of Marshall County approved a five percent (5%) sales tax on all lodging in the County to be collected for an unlimited duration. The proceeds from such tax shall be used for the promotion of tourism in Marshall County (20%) and the maintenance and operation of Marshall County (80%). These funds are accounted for in cash funds as reported on the County's financial statements as County General Revolving and Tourism Revolving funds.

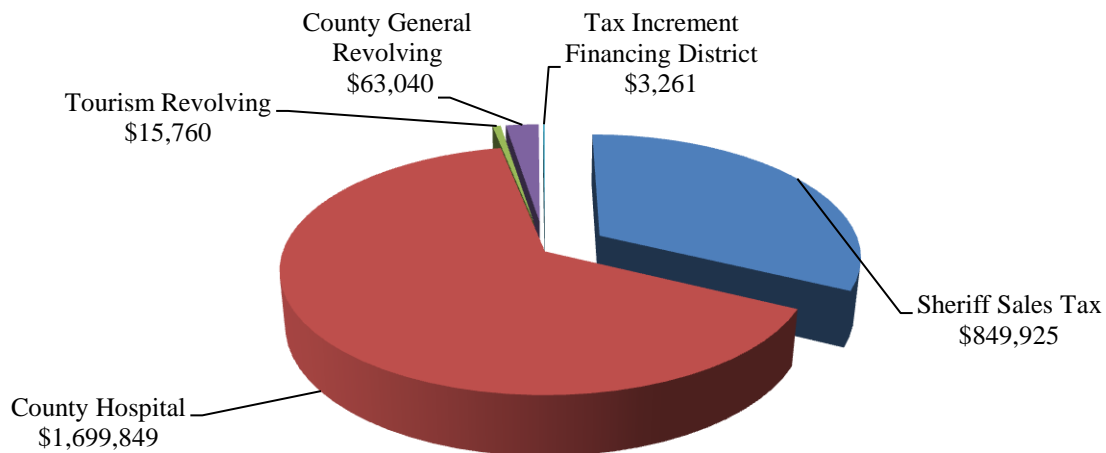
Sales Tax of November 2, 2004

The voters of Marshall County approved a continuation of a 1/2 percent (.50%) sales tax on November 2, 2004. This sales tax was established to provide revenue for the County Sheriff for the general operational expenses of the Marshall County Jail. These funds are accounted for in cash funds as reported on the County's financial statements as Sheriff Sales Tax fund.

Sales Tax of December 12, 2006

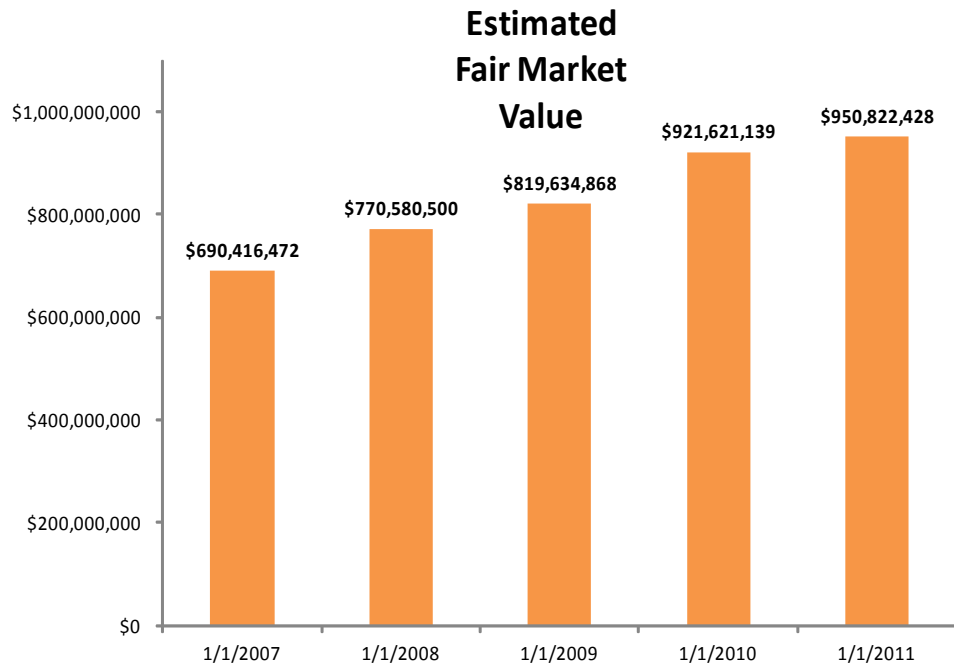
The voters of Marshall County also approved a one percent (1%) sales tax on December 12, 2006. This sales tax was established to provide revenue for the County Hospital for capital expenditures and indigent care. These funds are accounted for in the trust and agency fund, County Hospital.

During the fiscal year the County collected \$2,631,835 in total sales tax.



**MARSHALL COUNTY, OKLAHOMA
ASSESSED VALUE OF PROPERTY
TREND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

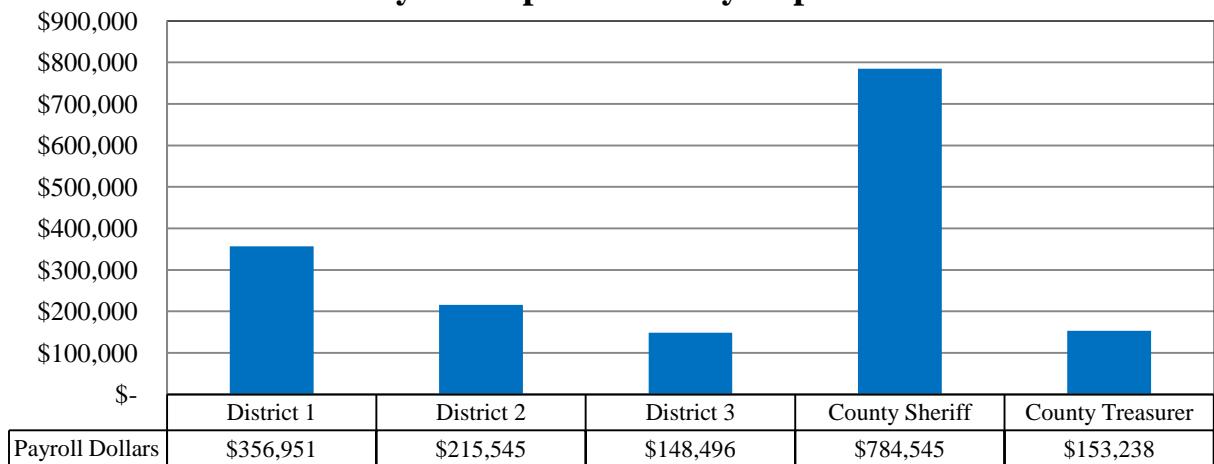
Valuation Date	Personal	Public Service	Real Estate	Homestead Exemption	Net Value	Estimated Fair Market Value
1/1/2011	\$21,975,316	\$8,201,022	\$79,786,068	\$4,067,017	\$105,895,389	\$950,822,428
1/1/2010	\$21,561,657	\$8,311,046	\$76,846,115	\$4,096,829	\$102,621,989	\$921,621,139
1/1/2009	\$17,842,791	\$6,316,602	\$70,436,940	\$3,932,180	\$90,664,153	\$819,634,868
1/1/2008	\$17,885,491	\$6,170,399	\$64,823,007	\$3,804,395	\$85,074,502	\$770,580,500
1/1/2007	\$13,970,374	\$6,548,662	\$59,908,800	\$3,800,212	\$76,627,624	\$690,416,472



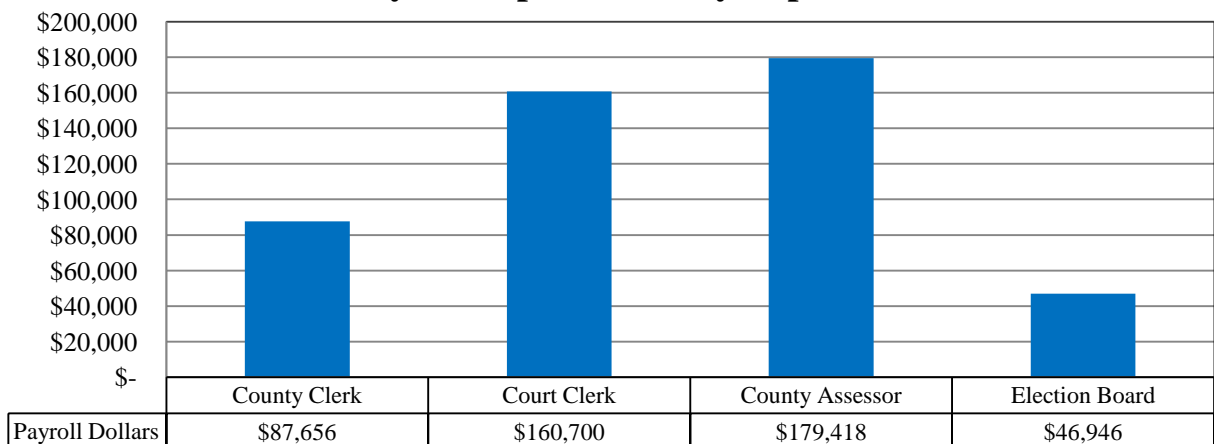
**MARSHALL COUNTY, OKLAHOMA
COUNTY PAYROLL EXPENDITURES ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

County officers' salaries are based upon the assessed valuation and population of the counties. State statutes provide guidelines for establishing elected officers' salaries. The Board of County Commissioners sets the salaries for all elected county officials within the limits set by the statutes. The designated deputy or assistant's salary cannot exceed the principal officer's salary. Salaries for other deputies or assistants cannot exceed the principal officer's salary. The information presented below is for the fiscal year ended June 30, 2012.

Payroll Expenditures by Department



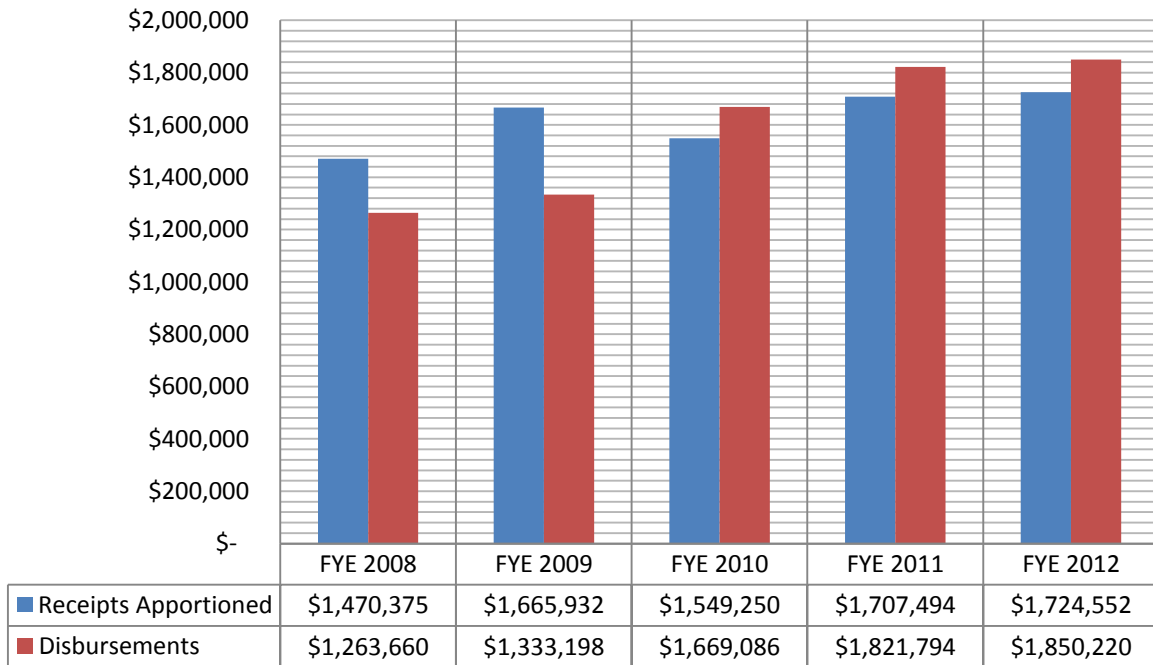
Payroll Expenditures by Department



**MARSHALL COUNTY, OKLAHOMA
COUNTY GENERAL FUND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

County General Fund

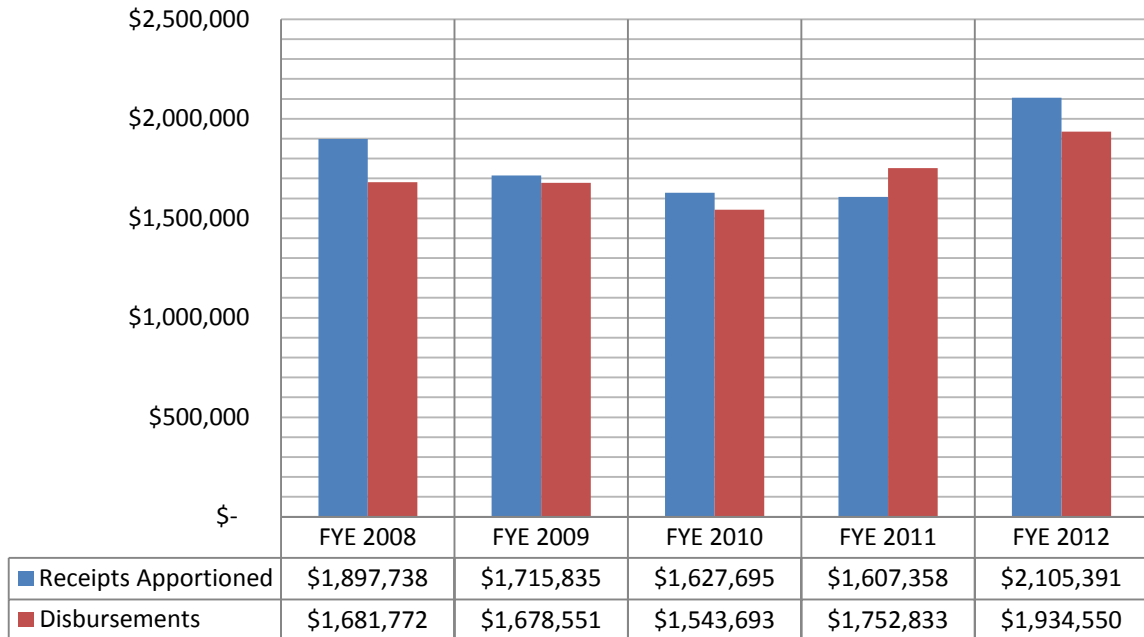
The Oklahoma Constitution and the Oklahoma Statutes authorize counties to create a County General Fund, which is the county's primary source of operating revenue. The County General Fund is typically used for county employees' salaries plus many expenses for county maintenance and operation. It also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



**MARSHALL COUNTY, OKLAHOMA
COUNTY HIGHWAY FUND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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.



**MARSHALL COUNTY
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Presentation of Apportionments, Disbursements, and Cash Balances of County Funds for Fiscal Year Ending June 30, 2012

	Beginning Cash Balances July 1, 2011	Receipts Apportioned	Transfers In	Transfers Out	Disbursements	Ending Cash Balances June 30, 2012
Combining Information:						
County Funds:						
County General Fund	\$ 1,147,306	\$ 1,724,552	\$ -	\$ -	\$ 1,850,220	\$ 1,021,638
County Highway Fund	614,863	2,105,391	-	-	1,934,550	785,704
Sheriff Prisoner Fund	57,517	204,796	-	-	170,327	91,986
County Health Fund	332,024	264,980	-	-	256,219	340,785
Resale Property	266,077	107,183	10,828	-	42,773	341,315
Sheriff Service Fee	49,176	80,347	-	-	84,697	44,826
Community Service	192	-	-	-	-	192
Illegal Dumping Reward	10,000	-	-	-	-	10,000
Emergency 911	66,773	192,107	-	-	176,628	82,252
County Clerk Lien Fee	63,467	22,971	-	-	4,242	82,196
Treasurer Mortgage Tax Certification Fee	15,057	2,750	-	-	4,479	13,328
County Clerk Preservation Fund	25,426	34,157	-	-	30,018	29,565
County Assessor Visual Inspection	61,687	5,830	-	-	13,459	54,058
Lake Texoma Law	5,620	27,840	-	-	21,682	11,778
Flood Plain	2,947	-	-	-	-	2,947
Juvenile Attendant	140	-	-	-	-	140
Law Enforcement Grant	1,607	-	-	-	-	1,607
Tourism Revolving	20,815	15,760	-	-	18,183	18,392
County General Revolving	435,304	63,040	-	-	-	498,344
Sheriff Dispatch Grant	14	-	-	-	-	14
Sheriff Commissary Fund	11,361	31,064	-	-	33,512	8,913
Sheriff Jail Fund	2,456	12,759	-	-	6,251	8,964
Community Sentencing	102,287	58,108	-	-	69,531	90,864
Sheriff Sales Tax	137,099	849,925	-	-	797,666	189,358
Cardinal Cove Volunteer Fire Department Grant	9	-	-	-	-	9
Enos Volunteer Fire Department Grant	25	-	-	-	-	25
Fair Board Center	11,767	1,277	-	-	11,294	1,750
Hauani Creek Volunteer Fire Department Grant	5	-	-	-	-	5
Tri City Volunteer Fire Department Grant	5	-	-	-	-	5
Soldier/Caney Creek	5	-	-	-	-	5
Lebanon Fire Department	5	-	-	-	-	5
12606 Community Development Block Grant/Rural Economic Action Plan	13,000	-	-	-	13,000	-
Marshall County Expo	21,720	25,574	-	-	42,994	4,300
14133 Community Development Block Grant Expo	-	85,994	-	-	79,518	6,476
County Bridge and Road Improvement Fund	691,460	310,731	-	-	58,862	943,329
B-Sheriff City Reimbursement	27,697	97,500	-	-	60,828	64,369
INCA Home Grant	1,900	81,191	-	-	80,916	2,175
B-Soda Grant	45,452	-	-	-	45,182	270
Combined Total - All County Funds, As Restated	\$ 4,242,265	\$ 6,405,827	\$ 10,828	\$ -	\$ 5,907,031	\$ 4,751,889

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

**MARSHALL COUNTY
DESCRIPTION OF COUNTY FUNDS
OPERATIONAL AUDIT
FOR THE FISCAL YEAR JUNE 30, 2012**

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 included as combining information within the financial statement:

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.

Sheriff Prisoner Fund – accounts for funds from contracts received for housing inmates.

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

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

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

Community Service – accounts for collection of funding through the State Department of Corrections for administrative expenses and supervision of offenders.

Illegal Dumping Reward – accounts for monies received from donations and expended for information that leads to the capture of those illegally dumping trash.

Emergency 911 – accounts for monies received from private telephone companies for the operations of emergency 911 services.

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

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

County Clerk Preservation Fund – accounts for fees collected for instruments filed in the County Clerk's office as restricted by statute for preservation of records.

**MARSHALL COUNTY
DESCRIPTION OF COUNTY FUNDS
OPERATIONAL AUDIT
FOR THE FISCAL YEAR JUNE 30, 2012**

County Assessor Visual Inspection – accounts for the receipt and disbursement of funds by the County Assessor as restricted by state statute for the visual inspection program.

Lake Texoma Law – accounts for monies received from the Corps of Engineers for patrolling services.

Flood Plain – accounts for monies received from the U.S. Department of Defense for flood plain management.

Juvenile Attendant – accounts for all grants to support the programs and services provided at the juvenile detention facility.

Law Enforcement Grant – accounts for grant monies received from the U.S. Department of Justice Local Law Enforcement Block Grant Program used for the County Sheriff's office.

Tourism Revolving – accounts for 20% of the lodging sales tax to be used for the promotion of tourism in Marshall County.

County General Revolving – accounts for 80% of the lodging sales tax to be used for the maintenance and operation of Marshall County.

Sheriff Dispatch Grant – accounts for state funds to be used for the incorporation of 911 dispatch for Marshall County.

Sheriff Commissary Fund – accounts for the collection of the sale of items to inmates and disbursements to purchase commissary goods from the vendor. Excess funds are used for maintenance and operations of the County Sheriff's department.

Sheriff Jail Fund – accounts for the receipt of state reimbursements and disbursements are for the operation of the jail.

Community Sentencing – accounts for the collection of funding through the State Department of Corrections for administrative expenses and supervision of offenders.

Sheriff Sales Tax – accounts for sales tax collections designated for the maintenance and operation of the Marshall County Jail.

Cardinal Cove Volunteer Fire Department Grant – accounts for state grant funds received for fire equipment.

Enos Volunteer Fire Department Grant – accounts for state grant funds received for fire equipment.

**MARSHALL COUNTY
DESCRIPTION OF COUNTY FUNDS
OPERATIONAL AUDIT
FOR THE FISCAL YEAR JUNE 30, 2012**

Fair Board Center – accounts for the donations (and fund raising activities) to be used toward the purchase of furniture, fixtures, supplies, etc. for the new Marshall County Expo facility.

Hauani Creek Volunteer Fire Department Grant – accounts for state grant funds received for fire equipment.

Tri City Volunteer Fire Department Grant – accounts for state grant funds received for fire equipment.

Soldier/Caney Creek – accounts for state grant funds received for fire equipment.

Lebanon Fire Department – accounts for state grant funds received for fire equipment.

12606 Community Development Block Grant/Rural Economic Action Plan – accounts for state grant funds received for machinery.

Marshall County Expo – accounts for state grant funds received for construction of the expo building.

14133 Community Development Block Grant Expo – accounts for state grant funds received for construction on the expo building.

County Bridge and Road Improvement Fund – accounts for state, local, and miscellaneous receipts and disbursements for the purpose of constructing and maintaining county roads and bridges.

B-Sheriff City Reimbursement – accounts for collections from the cities of Madill and Kingston for housing city prisoners.

INCA Home Grant – accounts for collection of funding through the State Department of Commerce for the construction of homes.

B-Soda Grant – accounts for state grant funds received for repair of jail roof.

MARSHALL COUNTY, OKLAHOMA
COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES—BUDGET AND ACTUAL—BUDGETARY BASIS—
COUNTY GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	General Fund		
	Budget	Actual	Variance
Beginning Cash Balances	\$ 1,118,218	\$ 1,147,306	\$ 29,088
Less: Prior Years Outstanding Warrants	(72,951)	(72,951)	-
Less: Prior Year Reserves	(111,996)	(111,996)	-
Beginning Cash Balances, Budgetary Basis	933,271	962,359	29,088
Receipt:			
Ad Valorem Taxes	978,714	1,054,145	75,431
Charges for Services	96,814	118,204	21,390
Intergovernmental Revenues	500,857	542,848	41,991
Miscellaneous Revenues	14,038	9,355	(4,683)
Total Receipts, Budgetary Basis	1,590,423	1,724,552	134,129
Expenditures:			
General Government	1,239,786	562,963	676,823
District Attorney	12,000	10,536	1,464
County Sheriff	170,909	159,267	11,642
County Treasurer	167,937	166,297	1,640
County Commissioners	320,629	317,075	3,554
County Clerk	138,936	138,567	369
County Assessor	97,358	97,335	23
Revaluation	125,791	125,019	772
Court Clerk	113,898	90,788	23,110
Election Board	64,582	55,290	9,292
Excise Board	4,000	2,852	1,148
Extension Agent	23,855	23,751	104
County Fair	6,826	6,823	3
State Auditor	37,187	37,187	-
Total Expenditures, Budgetary Basis	2,523,694	1,793,750	729,944
Excess of Receipts and Beginning Cash			
Balances Over Expenditures, Budgetary Basis	\$ -	893,161	\$ 893,161
Reconciliation to Statement of Receipts			
Disbursements, and Changes in Cash Balances			
Add: Current Year Reserves		56,093	
Add: Current Year Outstanding Warrants		72,384	
Ending Cash Balance		\$ 1,021,638	

MARSHALL 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, 2012

	County Health Department Fund		
	Budget	Actual	Variance
Beginning Cash Balances	\$ 332,932	\$ 332,024	\$ (908)
Less: Prior Years Outstanding Warrants	(507)	(507)	-
Less: Prior Year Reserves	(63,045)	(63,045)	-
Beginning Cash Balances, Budgetary Basis	269,380	268,472	(908)
Receipts:			
Ad Valorem Taxes	244,146	262,949	18,803
Charges for Services	2,625	2,031	(594)
Total Receipts, Budgetary Basis	246,771	264,980	18,209
Expenditures:			
Health and Welfare	516,151	251,359	264,792
Total Expenditures, Budgetary Basis	516,151	251,359	264,792
Excess of Receipts and Beginning Cash Balances Over Disbursements, Budgetary Basis	\$ -	282,093	\$ 282,093
Reconciliation to Statement of Receipts Disbursements and Changes in Cash Balances:			
Add: Current Year Reserves		58,207	
Add: Current Year Outstanding Warrants		485	
Ending Cash Balance		\$ 340,785	

**MARSHALL COUNTY
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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, 2012. 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, and
- Selecting representative samples to determine disbursements were made in accordance with state statutes, approved ballots, and county purchasing procedures.
- 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.

**MARSHALL COUNTY
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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

Conclusion: With respect to the items reconciled and reviewed; the receipts apportioned, disbursements, and cash balances are accurately presented on the County Treasurer's monthly reports.

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 did not comply 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 do 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 that disbursements be properly supported and charged to the appropriate fund and account and encumbered prior to the receipt of goods and/or services.

FINDINGS AND RECOMMENDATIONS

Finding 2012-9 – Inadequate Segregation of Duties Over the Payroll Process (Repeat Finding)

Condition: Through inquiry and observation it was noted, the duties of enrolling new hires, making payroll changes, running payroll affidavit forms, preparing state and federal wage reports, printing payroll checks, distributing payroll checks, and maintaining personnel files are not formally segregated.

Cause of Condition: Policies and procedures have not been designed and implemented over the disbursement process to strengthen internal controls and properly segregate duties.

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

Recommendation: OSAI recommends the following key accounting functions over payroll disbursements be adequately segregated:

- Posting new hires and/or making payroll changes to the payroll system.
- Running payroll affidavit forms.
- Access to and maintaining personnel files.
- Preparing state and federal tax reports.
- Distributing payroll checks.

Management Response:

County Clerk: We have started a review process on payroll and will work to correct these issues.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. Internal controls should be designed to analyze and check accuracy, completeness, and authorization of payroll calculations and/or transactions. To help ensure a proper accounting of funds, the duties of processing, authorizing, and payroll distribution should be segregated. Also, internal controls should be designed to analyze and check accuracy, completeness, and authorization of disbursement calculations and/or transactions.

Finding 2012-10 – Inadequate Internal Controls and Noncompliance Over the Disbursement Process (Repeat Finding)

Condition: Through inquiry and observation it was noted that the County Clerk does not reconcile the appropriation ledger and warrants registered to the County Treasurer's general ledger on a monthly basis.

Additionally, while testing forty (40) disbursements, the following weaknesses were noted:

- One (1) purchase order did not have adequate supporting documentation (i.e., receiving reports).

**MARSHALL COUNTY
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

- Thirteen (13) purchase orders were not encumbered before the goods or services were received.

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: These conditions resulted in noncompliance with state statute, laws, or regulations, and could result in inaccurate records, incomplete information, or misappropriation of assets.

Recommendation: OSAI recommends the County implement a system of internal controls over the disbursement process. Such controls should include reconciling the appropriation ledger to the County Treasurer's general ledger on a monthly basis.

Additionally, OSAI recommends the following in accordance with 19 O.S. § 1505C and § 1505E:

- County funds should be encumbered prior to the receipt of goods and/or services.
- Disbursements of county funds should be supported with invoices and receiving reports.

Management Response:

County Clerk: I am aware of these conditions and we will emphasize the need for proper documentation to support the expenditure and the proper encumbrance of funds to all officials/departments as well as red stamp those purchase orders that are incorrect. We will reconcile the appropriation ledger to the County Treasurer's general ledger each month and maintain the documentation.

Chairman of the Board: The Board of County Commissioners will express to fellow County Officials the importance of County funds being encumbered prior to the receipt of goods and/or services and that invoices and receiving reports are to be attached to purchase orders to support disbursements in accordance with Oklahoma Statutes.

County Sheriff: We will work to correct these issues and make sure that funds are encumbered prior to receiving the goods or services.

Criteria: An important aspect of internal controls is the safeguarding of assets. Internal controls constitute a process affected by an entity's governing body, management and other personnel, designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of fixed assets, and safeguarding consumable items from loss, damage, or misappropriation.

Further, Title 19 O.S. § 1505 prescribes the procedures for requisition, purchase, and receipt of supplies, material, and equipment.

**MARSHALL COUNTY
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

All Objectives:

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

Finding 2012- 1 – Inadequate County-Wide Controls (Repeat Finding)

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

Cause of Condition: Policies and procedures have not been designed and implemented to address risks of the County.

Effect of Condition: Without an adequate system of county-wide internal controls, there is risk of a breakdown in control activities which could result in unrecorded transactions, undetected errors, or misappropriation of funds.

Recommendation: The Oklahoma State Auditor & Inspector's Office (OSAI) recommends that the County design and implement 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.

Management Response:

Board of County Commissioners Chairman, County Clerk, and County Treasurer: We are aware of the condition and will work toward assessing and identifying risks to design written county-wide controls. We will set up quarterly meetings, with all elected officials to discuss and take action regarding risk management and monitoring.

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.

**MARSHALL COUNTY
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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.

REPORT ON STATUTORY COMPLIANCE – OTHER MATTERS



Oklahoma State Auditor & Inspector

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Marshall County
Board of County Commissioners
Marshall County Courthouse
Madill, Oklahoma 73446

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, 2012:

- All County Offices - Fixed Assets procedures (19 O.S. § 178.1 and 69 O.S. § 645).
- All County Offices - Consumable Inventories procedures (19 O.S. § 1502 and 19 O.S. § 1504).
- Court Clerk procedures (19 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 performed 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 Marshall 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, reading "Gary A. Jones", is positioned above the printed name.

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

October 27, 2015

**MARSHALL COUNTY, OKLAHOMA
STATUTORY REPORT
FOR THE FISCAL YEAR ENDING JUNE 30, 2012**

SCHEDULE OF FINDINGS AND RESPONSES

Finding 2012-12 – Inadequate Internal Controls and Noncompliance Over the Inmate Trust Fund Checking Account and Sheriff Commissary Fund (Repeat Finding)

Condition: The duties regarding the Inmate Trust Fund Checking Account are not adequately segregated. The same person empties the cash from the kiosk, prepares the deposit, and takes the deposit to the bank with no independent review. Also, during the fiscal year, the following exceptions were noted:

- The inmate ledger balances were not reconciled to the bank statement on a monthly basis.
- The County Sheriff's office did not make daily deposits.
- The County Sheriff's office did not file an annual report for the Sheriff Commissary Fund with the Board of County Commissioners by January 15th of each year.

Additionally, while testing 100% of the Inmate Trust Fund Checking Account disbursements, the following was noted:

- Twenty-five (25) instances were noted where expenditures were made for purposes other than those allowed by statute.

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

Effect of Condition: These conditions resulted in noncompliance with state statutes, laws, or regulations. Further, without proper accounting and safeguarding of the Inmate Trust Fund Checking Account, there is an increased risk of misappropriation of funds.

Recommendation: OSAI recommends the following:

- Key duties and responsibilities should be segregated among different individuals to reduce the risk of error or fraud. No one individual should have the ability to authorize transactions, have physical custody of assets, and record transactions.
- All receipts should be issued in numerical order.
- All collections should be deposited daily.
- All checks from the Inmate Trust Fund Checking Account should have two authorized signatures.
- Inmate Trust Fund Checking Account monies should be maintained in a manner that reflects all Inmate Trust deposits, disbursements, and account balances. The Inmate Trust Fund Checking Account balances should be reconciled to the bank statements each month.
- Inmate Trust Fund Checking Account expenditures should only be made for purposes as allowed by 19 O.S. §531(A).
- The County Sheriff should file a report of the commissary with the Board of County Commissioners by January 15th of each year in accordance with 19 O.S. §180.43(D).

**MARSHALL COUNTY, OKLAHOMA
STATUTORY REPORT
FOR THE FISCAL YEAR ENDING JUNE 30, 2012**

Management Response:

County Sheriff: We are now aware of these issues and we will work towards correcting them.

Criteria: The overall goal of effective internal controls is to demonstrate accountability and stewardship. To help ensure a proper accounting of funds, no one individual should have the ability to authorize transactions, have physical custody of assets, and record transactions. All collections should be receipted in sequential order and deposited daily, two authorized signatures should be required on all Inmate Trust account checks, bank reconciliations should be performed each month, and contracts should be approved by the Board of County Commissioners, contain all pertinent information, and be on file with the County.

Title 19 O.S. § 180.43(D) states in part, “Any funds received pursuant to said operations shall be the funds of the county where the persons are incarcerated and shall be deposited in the Sheriff’s Commissary Account. The sheriff shall be permitted to expend the funds to improve or provide jail services. The sheriff shall be permitted to expend any surplus in the Sheriff’s Commissary Account for administering expenses for training equipment, travel, or for capital expenditures. The claims for expenses shall be filed with and allowed by the board of county commissioners in the same manner as other claims. The Sheriff shall receive no compensation for the operation of said commissary. The sheriff shall file an annual report on any said commissary under his or her operation no later than January 15 of each year.”

Title 19 O.S. § 531(A) states in part, “The county sheriff may establish a checking account, to be designated the “Inmate Trust Checking Account.” 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 2012-13 – Inadequate Internal Controls and Noncompliance Over Fixed Assets and Consumable Inventories (Repeat Finding)

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

- **District 1, 2, and 3:** The consumable inventory process is not adequately segregated. One individual verifies the goods received, records the items on the inventory cards, and performs a visual verification of the items on hand.
- **District 3:** Security measures are not in place for consumable items. The District had a pile of rock, located at the District barn, which was deemed unusable and was not recorded on inventory records. However, the Commissioner stated that the citizens of the County were allowed to take piles of rock to fix their driveways.

**MARSHALL COUNTY, OKLAHOMA
STATUTORY REPORT
FOR THE FISCAL YEAR ENDING JUNE 30, 2012**

Additionally, our inquiry and observation of fixed assets reflected the following weaknesses:

- **District 1** – Fixed assets are not visibly marked with county identification numbers.
- **District 2** – Fixed assets are not visibly marked with “Property of Marshall County.”
- **County Assessor** – Fixed assets are not visibly marked with county identification numbers.
- **Court Clerk** – Fixed assets are not visibly marked with county identification numbers.
- **County Treasurer** – Fixed assets are not visibly marked with county identification numbers.
- **County Sheriff** – Although the Sheriff maintains a fixed assets inventory list, there is no documentation of a yearly review and fixed assets are not visibly marked with county identification numbers.

Cause of Condition: Policies and procedures have not been designed and implemented by county officers for the accurate reporting of fixed assets and consumable inventory items as well as procedures to ensure the proper marking of equipment.

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 comply with 19 O.S. § 1502 and 19 O.S. § 1504, by administering an inventory system for all supplies and materials of a county purchased in lots of \$500 or more and maintaining a record of all items received, disbursed, stored and consumed by the department. Additionally, OSAI recommends the County comply with 19 O.S. § 178.1 by maintaining inventory records and properly marking assets with county identification numbers, and performing and documenting a periodic inventory of fixed assets. The verification should be performed by an individual independent of the fixed asset recordkeeping process. OSAI further recommends the County comply with 69 O.S. § 645 by designing procedures to ensure that all equipment is properly marked with county identification numbers and “Property of Marshall County.”

Management Response:

District 1: We will work to ensure that all items are properly marked with county identification numbers and “Property of Marshall County.”

District 2: We will place “Property of Marshall County” stickers on our fixed assets.

District 3: We will work towards implementing a fence and place the unusable rock on inventory.

County Assessor: We will work to ensure that all items are properly marked with county identification numbers.

Court Clerk: We will work to ensure that all items are properly marked with county identification numbers.

County Treasurer: We will work to ensure that all items are properly marked with county identification numbers.

County Sheriff: We are aware of this condition and we will work towards issuing county identification numbers to county property as well as printing and documenting our annual review.

**MARSHALL COUNTY, OKLAHOMA
STATUTORY REPORT
FOR THE FISCAL YEAR ENDING JUNE 30, 2012**

Criteria: An important aspect of internal controls is the safeguarding of assets. Internal controls constitute a process affected by an entity's governing body, management and other personnel, designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of fixed assets, and safeguarding consumable items from loss, damage, or misappropriation.



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