OPERATIONAL AUDIT

Marshall County

For the period July 1, 2010 through June 30, 2011

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

MARSHALL COUNTY OPERATIONAL AUDIT
FOR THE PERIOD JULY 1, 2010 THROUGH JUNE 30, 2011

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Oklahoma State Auditor & Inspector

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December 13, 2012

TO THE CITIZENS OF
MARSHALL COUNTY, OKLAHOMA

Transmitted herewith is the audit report of Marshall County for the period July 1, 2010 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,

Gary A Jones

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

BACKGROUND

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 Manufacturing, 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

COUNTY OFFICIALS

Debbie Croasdale	County Assessor
Ann Hartin	County Clerk
Don "Salty" Melton	County Commissioner District 1
Wayne Scribner	County Commissioner District 2
Chris Duroy	County Commissioner District 3
Robert Wilder	County Sheriff
Loyce Eldridge	County Treasurer
Wanda Pearce	Court Clerk

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

	Beginning Cash Balance July 1, 2010	Receipts Apportioned	Disbursements	Ending Cash Balance June 30, 2011
Combining Information:				
County General Fund	$ 1,261,606	$ 1,707,494	$ 1,821,794	$ 1,147,306
T-Highway	760,338	1,607,358	1,752,833	614,863
County Health	215,255	263,278	146,509	332,024
Sheriff Prisoner	57,207	161,087	160,777	57,517
E911	75,637	186,930	195,794	66,773
Sheriff Sales Tax	131,593	720,541	715,035	137,099
INCA HOME Grant	2,000	178,465	178,565	1,900
County Bridge and Road	-	872,537	181,077	691,460
Resale Property	180,740	130,182	44,845	266,077
Community Sentencing	133,055	50,634	81,402	102,287
Remaining Aggregate Funds	815,515	570,411	467,844	918,082
Combined Total - All County Funds	$ 3,632,946	$ 6,448,917	$ 5,746,475	$ 4,335,388

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, 2010 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.

Objective 1:	To determine the receipts apportioned, disbursements, and cash balances are accurately presented on the County Treasurer's monthly reports for FY 2011.

Conclusion: With respect to items reconciled and reviewed, the receipts apportioned, disbursements, and cash balances were accurately presented on the County Treasurer's monthly reports. However, internal controls over financial reporting should be strengthened.

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

- Gained an understanding of the 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 the 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 on the Treasurer's monthly reports.

Finding: Inadequate Internal Controls over the County Treasurer's Monthly Reports

Condition: Upon inquiry of the reconciliation process of apportioned receipts, disbursements, and cash balances between the County Treasurer and the County Clerk, documentation of the reconciliation is not maintained by either of the officials.

Cause of Condition: Policies and procedures have not been designed regarding the reconciliation of receipts apportioned, disbursements, and cash balances.

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

Recommendation: OSAI recommends the County Treasurer implement a system of internal controls to provide reasonable assurance that receipts apportioned, disbursements, and cash balances are reconciled and evidence of reconciliation is maintained to assure the County Treasurer's monthly reports are accurately presented.

Management Response:
County Treasurer: We do reconcile with the County Clerk, but do not sign off with the County Clerk.

County Clerk: As of June 30, 2012, we are trying to balance with the Treasurer's office, but she does not show balances as we do. When a warrant is written, our balance shows money out, she waits until check clears bank before showing amount.

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

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

Conclusion: With respect to items tested, the County complied with 62 O.S. § 517.4, which requires county deposits with financial institutions be secured with collateral securities or instruments. However, internal controls over pledged collateral should be strengthened.

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

- Gained an understanding of the internal controls related to the pledged collateral through discussions with the County Treasurer, observation, and review of documents.

- Tested compliance of the significant law, which included the following:
    - Compared the largest balances per month, for the two banks the County has accounts with, to the amount of pledged collateral to determine that deposits were adequately secured.

Finding: Inadequate Internal Controls over Pledged Collateral

Condition: The County Treasurer does not monitor bank balances to pledged collateral amounts daily. Balances are monitored daily during high collection periods (tax season) and monitored weekly for the remainder of the year.

Cause of Condition: Procedures have not been designed, implemented, or documented to ensure that county funds are adequately secured with pledged collateral.

Effect of Condition: This condition could result in unsecured county funds and possible loss of county funds.

Recommendation: OSAI recommends the County Treasurer document the monitoring of the daily bank balances to the pledged collateral to provide reasonable assurance that assets are adequately safeguarded.

Management Response:
County Treasurer: I do not check daily, but do it once a month. We will start checking our pledged collateral daily to ensure that county funds are adequately secured.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. To help ensure that county funds are properly secured, the County Treasurer should maintain a ledger to monitor pledged securities on a daily basis to ensure that the County is in compliance with 62 O.S. § 517.4.

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

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

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

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

- Tested compliance of the significant law, which included the following:
  - Reviewed sales tax ballots to determine designation and purpose of sales tax collections.
  - Obtained confirmations from Oklahoma Tax Commission for sales tax payments made to the County and recalculated the amounts apportioned by the County Treasurer to ensure sales tax collections were apportioned to the proper funds.
  - Selected a random sample of 55 purchase orders from the Sheriff's Sales Tax Fund and determined that expenditures were made for the purposes designated on the sales tax ballot.

Finding: Inadequate Internal Controls over Sales Tax Apportionment.

Condition: Upon inquiry and observation of the recordkeeping process of apportioning sales tax collections, the following was noted:

- There is no independent oversight of the calculation of sales tax collections that is presented for appropriation by the County Treasurer to the County Clerk.

Cause of Condition: Procedures have not been designed and implemented to monitor the calculation of the sales tax distribution.

Effect of Condition: This condition resulted in the lack of documentation that controls were designed and operating effectively over the sales tax distribution process. Further, this condition could result in a miscalculation of sales tax revenue.

Recommendation: OSAI recommends an employee recalculate the apportionment of sales tax collections that is presented for appropriation by the Treasurer to the County Clerk. The documentation should provide evidence of who performed the recalculation and the date of the review.

Management Response:
County Treasurer:
The First Deputy calculates the sales tax apportionment. The Treasurer then checks the apportionment for accuracy. We will start initialing and dating the recalculation for documentation.

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

Conclusion: With respect to items tested, the County complied with 68 O.S. § 2923, which requires the ad valorem tax collections to be apportioned and distributed monthly among the different funds to which they belong. However, internal controls over the collection and distribution of ad valorem taxes should be strengthened.

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

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

- Tested compliance of the significant law, which included the following:
    - Compared the certified levies for the audit periods to the computer system to determine the County Treasurer applied the certified levies, as fixed by the Excise Board of the County, to the tax rolls.
    - Recalculated the apportionment of ad valorem tax collections to determine collections were accurately apportioned to the taxing entities.

Finding: Inadequate Internal Controls over Ad Valorem Tax Distribution

Condition: Upon inquiry of County personnel, observation, and review of documents, we determined that the ad valorem tax distribution process was not adequately monitored. The County Treasurer recalculates the ad valorem tax levy to assure that the levy is correct, however, no documentation including signature and date is retained to determine that controls are operating effectively.

Cause of Condition: Procedures have not been designed and implemented regarding the documentation of controls for ad valorem tax apportionment.

Effect of Condition: This condition resulted in the lack of documentation that controls were designed and operating effectively over the ad valorem tax apportionment process.

Recommendation: OSAI recommends the County Treasurer maintain documentation verifying that levies entered into the system, with the certified levy sheet, were reviewed for accuracy by initialing and dating the levy sheet to document that a review was performed.

Management Response:
County Treasurer:
When the Assessor brings over the certified copy of the levy sheets, we then enter it into the computer. Then we do all school districts to make sure levy was put in right. The Deputy puts in levy and County Treasurer checks to make sure levy was put in correctly. We will start initialing and dating the levy sheet for documentation.

Criteria: Effective internal controls include adequate documentation of recalculations and verifications be maintained.

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

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

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

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

- Tested compliance of the significant law, which included selecting a random sample of 55 purchase orders from county funds and determined the following:
  - Purchase orders were properly requisitioned as required by 19 O.S. § 1505C.
  - Purchase orders were properly encumbered as required by 19 O.S. § 1505C.
  - The receiving officer prepared and signed a receiving report as required by 19 O.S. § 1505E.

- The County Clerk or designee compared the purchase order to the invoice, receiving report, and delivery document as required by 19 O.S. § 1505E.
- Purchase orders were approved for payment by the Board of County Commissioners as required by 19 O.S. § 1505F.

Finding: Inadequate Internal Controls over Purchasing Procedures

Condition: Upon inquiry and observation, we noted that there is no segregation of duties over the cash disbursement process. The purchasing agent is performing the following duties:

- Issues purchase order number
- Reviews supporting documentation
- Certifies the purchase order is ready for payment
- Prints verification report
- Prints and issues warrants
- Prints warrant register
- Receives registered warrants from the Treasurer
- Inputs data into system
- Mails warrants to vendors
- Prints account summary

Cause of Condition: Procedures have not been implemented to provide adherence to the statutes and ensure internal controls are in place regarding segregation of duties.

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

Recommendation: OSAI recommends that management be aware and determine if duties can be segregated. In the event that segregation of duties is not possible due to limited personnel, OSAI recommends implementing compensating controls to mitigate the risks involved with a concentration of duties. Compensating controls include separating key process and/or critical functions of the office, and having management review and approval of the accounting functions.

Management Response:
County Clerk:
We are working on segregating the duties of the purchasing process; I have made some changes to where there is independent review of reports.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. An important aspect of internal controls is the safeguarding of assets. Internal controls over safeguarding of assets constitute a process, affected by an entity's governing body, management, and other personnel, designed to provide reasonable assurance regarding prevention or timely detection of unauthorized transactions and safeguarding assets from misappropriation. To help ensure a proper accounting of funds, the duties of encumbering funds and approving purchase orders should be segregated from the duties of printing and distribution of warrants.

Finding: Noncompliance over Purchasing Procedures

Condition: Our test of 55 purchase orders revealed the following noncompliance with statutes:

- Fifteen purchase orders were not encumbered prior to purchase.

Cause of Condition: Procedures have not been implemented to provide adherence to the statutes.

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

Recommendation: OSAI recommends the County implement procedures to ensure compliance with purchasing statutes.

Management Response:
County Clerk: I work to make sure that the officials know that they need to encumber prior to making a purchase.

District 1 Commissioner: This invoice was before I came into office, but it was owed and we took care of the bill.

District 2 Commissioner: I understand about the procedures of purchase orders and will correct on the timing and dates of the purchase order.

District 3 Commissioner: I will make certain that purchase orders are obtained before purchases and will start including mileage on travel purchase orders.

County Sheriff: Will correct acquiring purchase orders.

OSU Extension: In the future we will request purchase order on date of actual purchase for total amounts. This purchase order had multiple purchase dates on receipts used for reimbursement.

Health Department: The Health Department failed to follow purchasing procedures on Purchase Order 1467 – Allied Services, for repair of heating unit during December of 2010. Plan of Action: The Marshall County Health Department will strive to ensure that county purchasing procedures are followed as outlined in Oklahoma State Statutes. The Health Department now has two in-house purchasing agents, enabling purchase orders to be processed in the absence of one agent, ensuring proper purchasing procedures are followed.

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

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

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

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

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

- Tested internal controls by selecting 100% of the bids and determining the following:
  - Determined that the duties of soliciting and receiving bids were segregated from the duties of awarding bids to lowest or best bidder.
  - Reviewed documentation of the County Clerk dating and time stamping sealed bids prior to the bid deadline.
  - Reviewed Board of County Commissioner's minutes for documentation of controls which included sealed bids being opened in a public meeting and the majority of the board voting to award the bid to the lowest and/or best bidder.

- Selected 100% of purchases in excess of $10,000 and determined that the County followed statutes regarding public notice, handling of unopened bids, awarding bid to best bidder, recording appropriate information in the Board of County Commissioner's minutes, and notification to successful bidders.

Objective 7:	To determine the County's financial operations complied with 19 O.S. § 180.62 and 180.63 regarding amounts allowed for officers' salaries.

Conclusion: With respect to the salaries tested, the County complied with 19 O.S. § 180.74 and 180.75, which establish limitations on the amount of the county officer's salaries. However, internal controls over the payroll process should be strengthened.

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

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

- Tested compliance with 19 O.S. § 180.62 and 180.63 by performing the following:
  - Recalculated the maximum amount allowed for officers' salaries as set forth in 19 O.S. § 180.74 and 180.75.
  - Reviewed the salaries of Marshall County officials to ensure that amounts paid did not exceed statutory limits.

Finding: Concentration of Duties in the Payroll Process

Condition: Upon inquiry of the County's payroll process, it was determined that the Payroll Clerk performs most of the duties regarding the preparation of payroll.

Cause of Condition: In an effort to maximize efficiency and available resources, the County has relied upon one individual to perform the majority of the payroll process.

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

Recommendation: OSAI recommends the following key accounting functions of the payroll process be adequately segregated:

- Maintaining personnel files
- Reviewing and maintaining time records and preparing payroll
- Distributing payroll warrants to individuals

Management Response:
County Clerk: We are working on segregating the duties of the purchasing process; I have made some changes to where there is independent review of reports.

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

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

Conclusion: With respect to the items tested, the County did comply with 19 O.S. § 1504A, which requires the receiving officer to maintain a record of all supplies, materials, and equipment received, disbursed, stored, and consumed by his department.

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

- Gained an understanding of the internal controls related to the process of maintaining a record of all supplies, materials, equipment received, disbursed, stored, and consumed by a department which included discussions with County personnel, observation and review of documents.
- Tested compliance of the significant law by judgmentally selecting five consumable items, plus fuel and visually verified that the actual count on hand agrees to the consumable records.

Finding: Inadequate Internal Controls over Consumable Inventories

Condition: Inventories of consumable items are being performed; however, this count is being performed by the same person that is maintaining the consumable records. Also, District 3's barn was not secured by a fence on all sides.

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

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

Recommendation: OSAI recommends management implement internal controls to ensure compliance with 19 O.S. § 1504A. These procedures would include performing a periodic physical count of inventory. Additionally, the key functions of receiving duties and inventory control duties should be performed by separate employees in order to effectively segregate those duties.

Management Response:
District 1 Commissioner: Commissioner Don "Salty" Melton stated that he would make sure that an actual visual count of consumable items on hand is completed by someone other than the person maintaining the inventory records and that fuel discrepancies would be investigated.

District 2 Commissioner: The foreman and secretary will work together to double check each other.

District 3 Commissioner: We will make sure that all fuel is recorded for all equipment and checked by secretary. The secretary keeps the consumable cards and the foreman will periodically check consumable inventory and compare to consumable inventory cards.

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

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

Conclusion: With respect to the discussion held with County personnel and observance of documentation, the County did not comply with 19 O.S. § 178.1 which requires the maintenance of inventory records and periodic inventory verifications. The County did comply with 69 O.S. § 645, which requires that equipment be clearly and visibly marked "Property of" the County. However, internal controls over the safeguarding of fixed assets should be strengthened.

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

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

- Tested compliance of the significant law by judgmentally selecting fifteen items from inventory records and visually verified the items were on hand.

Finding: Inadequate Internal Controls over Fixed Asset Inventories

Condition: The following offices of the County did not have procedures in place to ensure that fixed asset inventory was maintained in accordance with 19 O.S. § 178.1:

- County Assessor
- County Treasurer
- County Clerk
- Court Clerk
- County Sheriff
- OSU Extension
- Election Board
- County Commissioner, District 1
- County Commissioner, District 2
- County Commissioner, District 3

Cause of Condition: Procedures have not been designed to implement internal controls over safeguarding of fixed assets by performing an annual physical inventory count.

Effect of Condition: Failure to maintain accurate records of fixed asset inventories and failure to perform a periodic physical inventory of fixed assets could result in inaccurate records, unauthorized use of fixed assets, or misappropriation of fixed assets.

Recommendation: OSAI recommends that management realize the importance of implementing internal controls over fixed assets. We also recommend that the County Assessor, County Treasurer, County Clerk, Court Clerk, County Sheriff, and County Commissioner District 1, 2, and 3 perform an annual physical inventory count and retain documentation to verify that physical inventory counts are performed. This inventory count should be performed by someone other than the receiving officer or inventory officer.

Management Response:
County Assessor: I will do a physical inventory every year.

County Treasurer: Will do this for 2011-2012, by June 30, 2012.

County Clerk: I have begun taking a documented and signed inventory at June 30, 2012.

Court Clerk: Wanda Pearce said that the Court Clerk’s office would make sure a yearly physical inventory of fixed assets is completed and documented.

County Sheriff: Currently I have inventory records on vehicles and weapons. We are currently working on an overall inventory system for the Sheriff’s office.

OSU Extension: No response.

County Election Board: No response.

District 1 Commissioner: Commissioner Don “Salty” Melton stated that he would make sure a yearly physical inventory of fixed assets is completed and documented.

District 2 Commissioner: Commissioner Wayne Scribner stated that he would make sure a yearly physical inventory of fixed assets is completed and documented.

District 3 Commissioner: Commissioner Chris Duroy stated that he would make sure a yearly physical inventory of fixed assets is completed and documented.

Criteria: 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 acquisition, use, or disposition of fixed assets and safeguarding fixed assets from loss, damage, or misappropriation.

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

Conclusion: With respect to the days tested the County Sheriff did not comply with 19 O.S. § 682. Further, the County's internal controls do not provide reasonable assurance that official depository receipts and deposits 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 process of officers depositing daily in the official depository all collections received under the color of office, which included discussions with County personnel, observation, and review of documents.

- Tested compliance with 19 O.S. § 682, which included reviewing a sample of receipts from officers' official depository accounts and verifying the following:
  - Official depository receipts are deposited daily.
  - Official depository receipts agree to the amounts recorded on the deposits.

Finding: Inadequate Segregation of Duties over Official Depository Receipts

Condition: Upon inquiry of County personnel and observation of documents with regards to the receipting process of official depository collections, we noted the duties of receipting and depositing have not been properly segregated for the following offices:

- County Assessor
- County Clerk
- Election Board
- Health Department
- County Sheriff
- County Treasurer
- Court Clerk

Cause of Condition: Due to the limited number of personnel in each office, one individual is often responsible for all of the key functions of the office.

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

Recommendation: OSAI recommends management be aware of these conditions and determine if duties can be properly segregated. In the event that segregation of duties is not possible due to limited personnel, OSAI recommends implementing compensating controls to mitigate the risks involved with a concentration of duties. Compensating controls would include separating key processes and/or critical functions of the office, and having management review and approval of accounting functions.

Management Response:
County Assessor: I will do segregation.

County Clerk: We are working to segregate these duties to the best of our abilities.

Election Board: The Marshall County Election Board is a two person office. We do not keep a money drawer for making change, and all money received is check or cashier's check. All money received is receipted in and deposited in a timely manner, the same day as received.

Health Department: The Health Department will strive to ensure no single person has responsibility over every step of the process. Plan of Action: One clerk will be responsible for receiving payments and issuing receipts to clients and closing cash bag at the end of that day. A second clerk will verify that cash bag amount and payments received, completing cash on hand log, documenting the deposit in health department program (PHOCIS/PAR) and making the deposit at the Treasurer's office. Administrative staff will verify cash on hand logs and PHOCIS/PAR deposit entries and will prepare voucher to transfer collections to cash fund at month's end.

County Sheriff: I have limited manpower, but will look at procedures and adjust how we handle collections and deposits.

County Treasurer: We have now designated a person to prepare the deposit, then the Treasurer and First Deputy checks the deposit and initials and dates that it is correct.

Court Clerk: I am going to get separate cash drawers for employees and the cash drawers will be stored at the County Clerk's office, in her vault, at night.

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 receipting, depositing cash and checks, maintaining ledgers/reconciliations, and transaction authorization should be segregated.

Finding: Collections were not Deposited Daily - County Sheriff

Condition: We performed cash compositions on the County Sheriff's official depository accounts and the following was noted:

- Receipts are not issued in sequential order.
- Deposits are not made daily, cash bond collections are made weekly, and all other collections are made monthly.
- One receipt could not be located.

Cause of Condition: Policies and procedures have not been designed regarding the duties and/or compensating controls for the County Sheriff official depository accounts.

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

Recommendation: OSAI recommends that the County Sheriff comply with 19 O.S. § 682, which states that all monies collected under color of office be deposited daily.

Management Response:
County Sheriff: No response.

Criteria: 19 O.S. § 682 requires officers to deposit daily in their official depository account monies received or collected by virtue or under color of office.

Objective 11:	To determine the County Court Clerk's financial operations complied with 19 O.S. § 220 and 20 O.S. § 1304, which outlines procedures for court clerk revolving fund monies and expending court fund monies.

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

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

- Gained an understanding of the internal controls related to expending Court Clerk Revolving Fund monies and Court Fund monies.

- Tested compliance with 19 O.S. § 220 for the Court Clerk Revolving Fund, which included the following:
  - Selected 100% of vouchers issued (three vouchers were issued for the fiscal year) and verified the following:
    - Expenditures were made for the lawful operation of the court.
    - Claims were approved by the Court Clerk and either the District Judge or Associate District Judge.

- Tested compliance with 20 O.S § 1304 for the Court Fund, which included the following:
  - Randomly selected 26 Court Fund claims and verified the following:
    - Expenditures were made for the lawful operation of the office.
    - The claim was properly authorized for payment.

Finding: Inadequate Internal Controls over Court Fund Duties

Condition: Upon inquiry of the Court Clerk's personnel and observation of the Court Fund claims, we determined that the following weakness in adequate controls exists:

- The Court Clerk prepares the claim, approves the claim, and signs the voucher.

Cause of Condition: Procedures have not been designed and implemented regarding segregation of duties and/or compensating controls for the Court Fund expenditure process.

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

Recommendation: OSAI recommends management be aware of these conditions and determine if duties can be properly segregated. In the event that segregation of duties is not possible due to limited personnel, OSAI recommends implementing compensating controls to mitigate the risks involved with a concentration of duties. Compensating controls would include separating key processes and/or critical functions of the office, and having management review and approval of accounting functions.

Management Response:
Court Clerk:
My First Deputy now prepares the claim and voucher; I then approve the claim and voucher.

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 receipting, depositing cash and checks, maintaining ledgers/reconciliations, and transaction authorization should be segregated.

Objective 12:	To determine the County Sheriff's Inmate Trust Fund financial operations complied with 19 O.S. § 531A, which requires these funds only be expended to refund monies to inmates or to transfer funds to the Sheriff's Commissary Fund for inmate expenditures.

Conclusion: With respect to the County Sheriff's Inmate Trust Fund, the Sheriff did not comply with 19 O.S. § 531A, which requires these funds only be expended to refund monies to inmates or to transfer funds to the Sheriff Commissary for inmate expenditures.

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

- Gained an understanding of the internal controls related to expending funds from the Sheriff's Inmate Trust Funds, which included discussions with County personnel, observation, and review of documents.

- Tested compliance with 19 O.S § 531A for the County Sheriff's Inmate Trust Fund, which included reviewing 100% of expenditures and determining that expenditures made from the Inmate Trust Fund were used for:
    - Transfers to the Sheriff Commissary Account for purchases made by the inmate during his or her incarceration.
    - Refunds to inmates upon release for unexpended balances.

Finding: Inadequate Internal Controls over the Inmate Trust Fund and Lack of Segregation of Duties

Condition: Upon observation and inquiry, we noted there is not adequate segregation of duties over the Inmate Trust Fund. The same person performs the following duties:

- Reconciles receipts to money received
- Prepares deposits
- Takes deposits to the bank
- Reconciles bank statements
- Posts to inmate accounts
- Issues checks
- Reconciles inmate accounts

Additionally, during our review of the Inmate Trust Fund, the following was noted:

- Inmate Trust checks do not always have two authorized signatures.
- Profits from the sale of commissary items are not transferred to the Sheriff Commissary Account.
- Expenditures are being made for purposes other than refunds to inmates or transfers to the Sheriff's Commissary Fund as allowed by statute.
- Daily deposits of Inmate Trust receipts are not being made.

Cause of Condition: Procedures have not been designed and implemented regarding segregation of duties and procedures have not been designed to ensure disbursements are in accordance with state statute.

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

Recommendation: OSAI recommends management be aware of these conditions and determine if duties can be properly segregated. In the event that segregation of duties is not possible due to limited personnel, OSAI recommends implementing compensating controls to mitigate the risks involved with a concentration of duties. Compensating controls would include separating key processes and/or critical functions of the office, and having management review and approval of accounting functions.

Further, OSAI recommends that the Sheriff's office design procedures to review expenditures from the Inmate Trust Fund and determine that they are made in accordance with state statutes.

Management Response:
County Sheriff:
Will develop a program of segregation of duties and implement system to correct these deficiencies.

Criteria: Effective internal controls require that management properly implement procedures to ensure compliance with 19 O.S. § 531A with regards to Inmate Trust Fund.

All Objectives:

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

Finding: Inadequate County-Wide Controls:

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

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

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

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

Examples of risk and procedures to address risk management:

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

Examples of activities and procedures to address monitoring:

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

Management Response:
Board of County Commissioners:
We are working on implementing policies and procedures to address county-wide controls.

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

County management is responsible for designing a county-wide internal control system comprised of Risk Assessment and Monitoring for the achievement of these goals.

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

Monitoring is a component of internal control which would assess the quality of performance over time and ensure that the findings of the 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 the regular operating process.

Finding: Disaster Recovery Plans

Condition: Upon inquiry of County personnel, it was determined that the following offices do not have a written Disaster Recovery Plan:

- County Assessor
- Court Clerk
- County Sheriff
- County Commissioner, District 1
- County Commissioner, District 2
- County Commissioner, District 3

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

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

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

Management Response:
County Assessor: OSU backs up my computer, but I don’t have a written plan.

Court Clerk: I plan to have a written Disaster Plan for next year.

District 1 Commissioner: We will put together a plan for off sight storage of all inventories and consumables.

District 2 Commissioner: We will adopt a Disaster Recovery Plan such as a storage fire box for back up of computer information and inventory.

District 3 Commissioner: We will put together a plan for off sight storage for backups on the computer for inventory and daily worksheets.

County Sheriff: A written Disaster Plan will be prepared for the Sheriff's office that will cover information relating to inventory, inmates, emergency contacts, and will be backed up at a secure facility away from the Sheriff's office.

Criteria: An important aspect of internal controls is the safeguarding of assets which includes adequate Disaster Recovery Plans. Internal controls over safeguarding of assets constitute a process, affected by an entity's governing body, management, and other personnel, designed to provide reasonable assurance regarding prevention in a County being unable to function in the event of a disaster.

According to the standards of the Information Systems Audit and Control Association (CobiT Delivery and Support 4), information services function management should ensure that a written disaster recovery plan is documented and contains the following:

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

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