

OPERATIONAL AUDIT

McCLAIN COUNTY

For the period July 1, 2006 through June 30, 2011

A photograph of the Oklahoma State Capitol dome, showing its classical architecture with columns and a statue on top, set against a blue sky with white clouds.

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



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

**McCLAIN COUNTY OPERATIONAL AUDIT
FOR THE PERIOD JULY 1, 2006 THROUGH JUNE 30, 2011**

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Oklahoma State Auditor & Inspector

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May 3, 2012

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

Transmitted herewith is the audit report of McClain County for the period July 1, 2006 through June 30, 2011.

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

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

Sincerely,

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

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

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Background

McClain County, originally part of Curtis County in the proposed state of Sequoyah, was created at statehood. The county was named for Charles M. McClain, a member of the Oklahoma Constitutional Convention and an early resident of Purcell.

Forty-niners on their way to the gold fields of California passed through southern McClain County on the California Trail that paralleled present S.H. 59. To protect travelers going west, Camp Arbuckle was established by the U.S. Army in 1850, northwest of present-day Byars. For health reasons, the camp was abandoned after a year for a site thirty miles southwest in the Arbuckles.

In the 1870s large ranching operations north of the Washita River belonged either to those of Indian blood or those related to Indians by marriage. Black slaves formerly owned by Choctaw and Chickasaw families were also eligible to own land. Cotton gins in many small towns prepared raw cotton for the cotton press in Purcell, the county seat. Broom corn growing was also productive in the 1920s and 1930s.

The McClain County Historical Society has published a three-volume history of the area, and sponsored the Mormon microfilming of county records in 1998. For more information, call the county clerk's office at 405-527-3360, or the McClain County Museum at 405/527-5894 weekday afternoons.

County Seat – Purcell

Area – 580.13 Square Miles

County Population – 33,168 (2009 est.)

Farms – 1,318

Land in Farms – 336,852 Acres

Primary Source: Oklahoma Almanac 2011-2012

County Officials:

Benny McGowen.....	County Commissioner District 1
Wilson R. Lyles	County Commissioner District 2
Charles “Shorty” Foster.....	County Commissioner District 3
Pam Irwin.....	County Assessor
Phyllis Bennett.....	County Clerk
Teresa Jones.....	County Treasurer
Don Hewett	County Sheriff
Lynda Baker.....	Court Clerk

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

	Cash Balance July 1, 2010	Receipts Apportioned	Disbursements	Transfers In (Out)	Cash Balance June 30, 2011
Combining Information:					
County General Fund	\$ 1,226,661	\$ 2,802,708	\$ 2,789,948	\$ -	\$ 1,239,421
T-Highway	3,105,343	3,227,856	4,162,125		2,171,074
County Health	537,466	559,923	320,519		776,870
Sheriff's Cash Account	192,954	435,818	433,950		194,822
ETR		759,246	325,731		433,515
CBRI 105		501,989	266,769		235,220
1% Co. Sales Tax Gen Fund	773,623		60,209		713,414
Co. 1/2 Cent Sales Tax	1,248,870	43,737	352,559		940,048
2007 1/2 Cent Sales Tax	2,658,871	1,724,053	2,408,173		1,974,751
Remaining Aggregate Funds	735,319	675,301	484,461	4,624	930,783
Combined Total - All County Funds	\$ 10,479,107	\$ 10,730,631	\$ 11,604,444	\$ 4,624	\$ 9,609,918

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, 2006 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.
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Conclusion

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

Methodology

To accomplish our objective, we performed the following:

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

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

Observation

Inadequate Internal Controls Over the County Treasurer's Monthly Reports

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

Upon inquiry and observation of the recordkeeping process, the following was noted:

- There is no documentation to confirm that the County Treasurer has performed independent oversight of the accuracy of the County Treasurer's monthly reports.

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

Recommendation

OSAI recommends that the County Treasurer implement procedures to ensure there is visible documentation that the controls in place were performed. This could be accomplished by initialing and dating documents reviewed.

**Management
Response**

County Treasurer: The McClain County Treasurer's office will not only verify that all amounts on the monthly reports are correct, but will also initial and date the report certifying that the report is correct.

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

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

Methodology To accomplish our objective, we performed the following:

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

Observation Inadequate Segregation of Duties Over the Receipting Process

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

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

County Treasurer's Office: The Treasurer and all employees issue receipts and work out of the same cash drawer. The duties of issuing receipts, balancing the cash drawer, preparing the deposit, and performing bank reconciliations are sometimes performed by the same employee. For mail-in payments, all employees can open the mail and issue receipts.

County Clerk's Office: The County Clerk has three employees that work from the same cash drawer. One employee performs all of the duties regarding issuing walk-in and mail-in receipts, balancing the cash drawer, preparing the deposit, and delivering the deposit to the Treasurer's Office. Checks are not endorsed until the deposit is prepared.

County Assessor's Office: The Assessor and four employees work from the same cash drawer. One employee issues receipts, balances the cash drawer, prepares and delivers the deposit to the Treasurer's Office, and maintains the cash journal. Voided receipts were not maintained in the receipt book until September 2010. Deposits are made twice a month instead of daily. Receipts are kept in an unsecure location until the deposit is made.

Court Clerk's Office: Each employee works out of their own cash drawer (money bag), but one employee issues receipts, balances the cash drawers, prepares the deposit, reconciles with the County Treasurer, and prepares

vouchers at month end. The Court Clerk or in her absence the 1st or 2nd Deputy opens and distributes payments received by mail.

County Sheriff's Office: One employee issues receipts, posts to accounting records, prepares and delivers the deposit to the bank (Inmate Trust Account) or to the County Treasurer (Sheriff's official depository), reconciles the bank statement, reconciles with the County Treasurer, and prepares vouchers at month end to transfer collections to the cash accounts.

Election Board Office: One employee issues receipts, prepares and delivers the deposit to the County Treasurer, posts to accounting records, and reconciles with the County Treasurer. This employee also opens the mail and issues receipts for payments received through the mail.

County Expo Office: The Expo Office employee issues receipts that are not pre-numbered and delivers them to the County Clerk. Accounting records are not maintained and reconciled with the Treasurer's records.

Health Department: One employee opens the mail, issues receipts, prepares and delivers the deposit to the County Treasurer, and reconciles with the County Treasurer.

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

Recommendation

OSAI recommends management be aware of these conditions and determine 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, the following duties should be separated in the respective offices:

County Treasurer's Office: Employees should not all work from the same cash drawer. The duties of issuing receipts, balancing the cash drawer, preparing the deposit, and performing bank reconciliations should not be performed by the same employee. A daily log of mailed in receipts should be compiled.

County Clerk's Office: Employees should not all work from the same cash drawer. One employee should not be performing all of the duties regarding issuing receipts, balancing the cash drawer, preparing the deposit, and delivering

the deposit to the Treasurer's Office. Checks should be endorsed as they are received. A daily log of mailed in receipts should be compiled.

County Assessor's Office: Employees should not all work from the same cash drawer. One employee should not be performing all of the duties regarding issuing receipts, balancing the cash drawer, preparing the deposit, delivering the deposit to the Treasurer's Office, and maintaining the hand-written cash receipts journal. Deposits should be made daily. Receipts should be kept in a secure location until the deposit is made.

Court Clerk's Office: One employee should not be performing all of the duties regarding issuing receipts, balancing the cash drawers (money bags), preparing the deposit, reconciling with the Treasurer's records, and issuing vouchers to transfer collections to cash funds. A daily log of mailed in receipts should be compiled.

County Sheriff's Office: One employee should not be performing all of the duties regarding issuing receipts, posting to accounting records, preparing the deposit, delivering the deposit to the bank (Inmate Trust Account) or Treasurer (Sheriff's official depository), reconciling the bank statement, reconciling with the Treasurer, and issuing vouchers to transfer collections to cash funds.

Election Board Office: One employee should not be performing all of the duties regarding issuing receipts, preparing the deposit, delivering the deposit to the Treasurer's Office, posting to the accounting records, and reconciling with the Treasurer. A daily log of mailed in receipts should be compiled.

County Expo Office: One employee should not be performing all of the duties regarding issuing receipts and delivering receipts to the courthouse. Receipts should be pre-numbered and issued sequentially. Accounting records should be maintained and reconciled with the Treasurer.

Health Department: One employee should not be performing all of the duties regarding issuing receipts, preparing the deposit, delivering the deposit to the Treasurer's Office, and reconciling with the Treasurer. A daily log of mailed in receipts should be compiled.

**Management
Response**

County Treasurer: We do try to segregate duties. There are times due to vacations, sick leave and lunch hours this is impossible to accomplish. We have 3 deputies and myself in the office. Everyone in the office is cross trained so that at all times all duties of the Treasurer's office can be performed. We work in a very open and intimate office. There are no cubicles or any private type settings. Everyone knows what each other is working on. We will try to make a conscience effort to make sure we are segregating all duties. Only having one

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cash drawer has never been a problem in this office. We balance to the penny every day. If a problem with not balancing to the penny arises, I will make individual cash drawers for each deputy.

County Clerk: The McClain County Clerk's recording section does work out of one cash drawer. The office takes in very limited amount of cash. Checks and electronic deposit comprises more than 90% of total monies received.

All three employees work the counter and makes receipts and endorses each check when received and document recorded.

Employees are assigned on a weekly basis to perform mail duties. That particular person checks in the mail, and after verifying the documents received are proper documents for recording, then she verifies the check is the correct amount for the document(s) being filed. The check(s) are then endorsed. The checks, documents, reception record, and cash book are balanced. Copies of the checks are made and there is a copy of each receipt issued.

At the end of the day the monthly report, cash book, reception record and money amount is again balanced before taking to the Treasurer. These employees work very closely together assisting each other all day every day. Each employee is facing the center of the group of the three desks and can see what the other employees are doing.

County Assessor: The following is now the practice regarding the cash drawer in the Assessor's office: All employees must have access to the cash drawer. There are times when only one person is in the office. At the end of each day when cash receipts have been written, one person counts the cash and a second person totals the receipts. Both initial the receipt book verifying the deposit amount. One of these prepares the deposit slip and delivers it to the Treasurer's office. Voided receipts are kept in the receipt book. First Deputy maintains the hand-written cash receipts journal. The receipts are kept in a secure location.

Court Clerk: The Court Clerk is aware of findings by the State Auditor's Office and will research ways to try to correct current problems and maintain a mail log.

County Sheriff: We will immediately have two employees perform and share the responsibilities outlined in the report. One employee will do one part and the other employee will do the reconciliation for a checks and balance system. Periodically we will rotate the duties and responsibilities of each assigned task.

Election Board: As of January 18, 2012, the following policy changes have been adopted:

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Employee #2 will open mail, date stamp checks received, stamp back “for deposit only”, make a photocopy of the check to give to Official, record a log of payments received and deliver the check to Employee #1.

Employee #1 will write receipts and mail the original to the entity, make the depository ticket showing the corresponding receipt number, give the original depository ticket with check to Employee #2 for delivery to the Treasurer’s office, and finally, deliver a receipted copy of the depository ticket to Official.

County Expo Office: Pre-numbered receipts are being ordered in triplicate. One will be given to renter, one kept at Expo and one delivered to County Clerk’s office with money. The County Clerk and Treasurer will be balancing the account.

Health Department: The McClain County Health Department has an Administrative Programs Officer, an Administrative Technician III and a Patient Care Assistant in Purcell, and an Administrative Technician III in Blanchard. The McClain County Health Department will institute a policy that mail will be opened and a log will be compiled of all mailed payments by the Administrative Technician III, with the Patient Care Assistant or the other Administrative Technician as a back-up. The Administrative Technician III with the Patient Care Assistant as back-up will also issue receipts and enter these payments into the OSDH PHOCIS system. The Administrative Programs Officer will prepare the deposit and deliver the deposit to the Treasurer’s office. This duty will be performed by an Administrative Technician in the absence of the Administrative Programs Officer, but will be reviewed by the Administrative Programs Officer. Reconciliation with the Treasurer’s records will be prepared by the Administrative Programs Officer and reviewed by the McClain County Administrative Director. The reconciliation review will be conducted by the McClain County Administrative Director and will include the McClain County reconciliation with the McClain County Treasurer’s General Ledger, the Appropriations Ledger, The Worksheet to Balance Cash Balance, Outstanding Warrants, the McClain County Expenses by Account (from the PHOCIS system), the Local Expenditures Summary Report, and the County Appropriations Report.

Objective 3:	To determine if the County’s internal controls provide reasonable assurance that expenditures were accurately reported in the accounting records.
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Conclusion	The County’s internal controls do not provide reasonable assurance that expenditures were accurately reported in the accounting records.
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Methodology	To accomplish our objective, we performed the following:
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- Gained an understanding of internal controls related to the expenditure process through discussions with County personnel, observation and review of documents.
- We judgmentally selected twenty five purchase orders from each fiscal year in the audit period and tested the following controls identified in the walk-through:
 - Purchase order was requisitioned by a designated requisitioning officer prior to purchase being made.
 - The County Clerk or a designated deputy signed and certified that the encumbrance has been entered and is within the available balance.
 - Requisition was approved by an approved requisitioning officer.
 - A receiving report was completed and signed by a designated receiving officer.
 - The County Clerk certified that proper documentation (i.e. invoices, receiving reports, etc.) was attached to the purchase order prior to forwarding to the BOCC.
 - Payment of purchase order was approved by majority of the BOCC.
- We tested five cash vouchers from each fiscal year during the audit period to ensure: *(a sample size of five was chosen due to the low volume of cash vouchers issued during the audit period)*
 - Cash voucher claim was approved by designated official.
 - A receiving report was completed by receiving officer and attached to cash voucher.

Observation

Inadequate Internal Controls Over the Expenditures Process

Accountability and stewardship are overall goals of management in the accounting of funds. Internal controls should be designed to analyze and check accuracy, completeness, and authorization of purchasing transactions. To help ensure a proper accounting of funds, the duties of encumbering funds and reconciliations of ledgers should be segregated from the duties of printing and distribution of warrants.

Furthermore, 19 O.S. § 1501-1505 prescribes the procedures established for the requisition, purchase, lease-purchase, rentals, and receipt of supplies, materials, and equipment for maintenance, operation, and capital expenditures of county government.

We found that controls identified in the walk-through were not operating effectively and the following was noted:

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Purchase Orders

Eight purchase orders were not encumbered prior to purchase.

PO#	Warrant#	Fund	PO Date	Amount	Purpose
92	1	Assessor's Fee	7/6/2006	\$ 2,100.00	Lic/Maint Fee
465	164	General	8/9/2006	\$ 317.10	Legal Notice
740	280	General	9/5/2006	\$ 3,707.00	Contract Services
793	38	Health	9/8/2006	\$ 15.13	Travel
2401	999	General	2/4/2008	\$ 161.77	Detention
3448	1479	General	5/15/2008	\$ 200.00	Water Maint Agreement
105	1	County 1/2 Cent Sales Tax	7/6/2007	\$ 124,714.00	Insurance Premium
183	7	Byars RFD	7/9/2009	\$ 5,680.00	9 Ft Bed

Two purchase orders were not requisitioned by an approved officer.

PO#	Warrant#	Fund	PO Date	Amount	Purpose
505	27	Expo	8/7/2008	\$ 2,854.00	Tables, table carts & delivery
1011	176	Cole RFD	9/19/2008	\$ 6,489.02	Blanket PO for pickup repair

Six purchase orders did not have a receiving report completed.

PO#	Warrant#	Fund	PO Date	Amount	Purpose
36	1	County Clerk	7/1/2008	\$ 12,835.00	License & Online services
1653	876	BOCC	11/17/2008	\$ 212,000.00	Engineering & mobilization of HVAC
3969	1611	Assessor	6/1/2009	\$ 110.00	Repair of Copier
2029	265	BOCC	12/10/2009	\$ 56,174.10	Architectural Fee
54	1	County Clerk	7/2/2010	\$ 14,416.20	Licensing & online service
1690	776	BOCC	11/2/2010	\$ 12,675.00	Roof Repair

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Two purchase orders did not have proper documentation attached.

PO#	Warrant#	Fund	PO Date	Amount	Purpose
740	280	General	9/5/2006	\$ 3,707.00	Contract Services
2882	250	Health	3/3/2009	\$ 4,500.00	Painting & Labor

Cash Voucher Claims

One cash voucher claim could not be located.

Account	Description	Voucher #	Voucher Date	Amount
Drug Buy	Drug Buy Money	3	9/26/2006	\$ 500.00

One cash voucher claim did not have an invoice attached.

Account	Description	Voucher #	Voucher Date	Amount
Resale	Postage	1426	4/29/2010	\$ 25,000.00

Five cash voucher claims did not have a receiving report attached.

Account	Description	Voucher #	Voucher Date	Amount
Crt Clk Rvl	Window/Door Lettering	34	4/4/2007	\$ 175.00
Resale	New Program	1027	11/9/2006	\$ 983.75
Resale	Legal Publication	1127	9/10/2007	\$ 4,583.00
Resale	Postage	1426	4/29/2010	\$ 25,000.00
Resale	Software service	1455	6/7/2010	\$ 168.75

Monthly Reconciliations

While re-performing the County Clerk's reconciliations for the audit period, the following reconciliations could not be located for some funds in the months noted below:

- October 2006 - 20 funds
- November 2006 - 1 fund
- September 2007 - 1 fund
- January 2009 - 1 fund
- May 2010 - 1 fund
- July 2010 - 1 fund

Receiving Reports

During the process of testing purchase orders, we noted that the County Clerk's office has pre-signed receiving reports for the Expo Center.

These conditions could result in inaccurate records, undetected errors 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 would include separating key process and/or critical functions of the office, and having management review and approval of the accounting functions.

Purchase Orders: OSAI recommends that purchase orders are encumbered prior to purchases being made, requisitioned by an approved requisitioning officer, supported by a receiving report that is completed by an approved receiving officer, and supported by proper documentation (i.e., invoices, bill of sale, etc.).

Cash Vouchers: OSAI recommends that cash voucher claims be completed for all expenditures, supported by proper documentation attached (i.e., invoices, bill of sale, etc.), and a completed receiving report. Also, the person reviewing the cash voucher claim should leave evidence of the review by initialing and dating the claim.

Reconciliations: OSAI recommends that the County Clerk implement procedures to ensure that all funds are reconciled with the County Treasurer on a monthly basis and that someone review the reconciliation for accuracy and leave evidence of the review with initials and dates.

Receiving Reports: OSAI recommends that the signing of receiving reports prior to their completion be strictly prohibited as this circumvents one of the controls over the expenditure process.

**Management
Response**

County Clerk:

Purchase Orders

Eight purchase orders were not encumbered prior to purchase:

#92, #740, #2401, #3448 and #105 - These vendors all have contracts with the County and we receive invoices that have been dated on the day it goes out of their office and we do not know to do the PO until we receive it in the mail which is a couple of days later. In our Purchasing Procedures for Counties Training Course we were advised that actual purchases were to be encumbered on or

before the date of the purchase, but on contracts, utilities, travel and publications of legal notices this was not required.

#465 and #793 – These are for publication of legal notice and travel.

#183 – This was our mistake. The invoice was dated before the PO.

Two purchase orders were not requisitioned by an approved officer:

#505 – This was our mistake. The PO was not requisitioned by an approved officer.

#1011 – Was unable to read or recognize the signature in order to determine if it was or was not the approved officer.

Six purchase orders did not have a receiving report completed:

#36, #1653, #2029 and #54 – These purchase orders were for professional services, nothing was received that could be counted or measured. In our Purchasing Procedures for Counties Training Course we were advised that a receiving report should be prepared for any and all items that are purchased and can be counted or measured.

#3969 and #1690 – This was our mistake. These did not have receiving reports.

Two purchase orders did not have proper documentation attached:

#740 – Have documents attached showing it has proper documentation.

#2882 – This was our mistake. The purchase order has an invoice but no proposal to explain invoice.

Cash Vouchers

The County Clerk agrees with the Auditor in all items. However, the County Clerk will now attach receiving reports.

Reconciliations

We agree with the Auditor that they were not in file. The present staff is unaware as to why they are not.

Receiving Reports

There are no pre-signed receiving reports in the County Clerk's office now.

Objective 4:	To determine if the County's internal controls provide reasonable assurance that payroll expenditures were accurately reported in the accounting records.
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Conclusion	The County's internal controls do not provide reasonable assurance that payroll expenditures were accurately reported in the accounting records.
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Methodology	To accomplish our objective, we performed the following:
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- Gained an understanding of internal controls related to the payroll expenditure process through discussions with County personnel, observation and review of documents.

Observation

Inadequate Segregation of Duties Over the Payroll Expenditures

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

- The payroll clerk enrolls new employees into the payroll system, makes payroll changes for current employees, receives monthly payroll sheets and makes payroll adjustments accordingly, balances payroll and runs payroll.

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.

The following key accounting functions of the payroll process should be adequately segregated:

- Enrolling new employees and maintaining personnel files.
- Reviewing time records and preparing payroll.
- Distributing payroll warrants to individual.

**Management
Response**

County Clerk: One employee, whom we will refer to as the Insurance Clerk in this correspondence, handles all new enrollees. Once she has received the paperwork and checked it for accuracy, it is given to the Payroll Clerk who enters it in the computer. The Insurance Clerk handles any new payroll changes made by the employees and all insurance and retirement changes. The changes are then given to the Payroll Clerk to enter in the computer for payroll. The Payroll Clerk does receive monthly payroll sheets and makes the necessary changes. A verification of payroll is run and the Insurance Clerk checks it with Insurance and

OPERS changes and enters into the Retirement and Health Programs. The Insurance Clerk and the Payroll Clerk make sure everything balances before the final payroll is run.

Observation

Compensatory Time Not Calculated Correctly

The McClain County Employee Personnel Policy Handbook states the following regarding overtime and compensatory time:

“McClain County’s overtime policy conforms to overtime provisions of the Federal Fair Labor Standards Act and applicable Oklahoma laws. Exemptions from these provisions will be claimed only when the necessary basis is established.

McClain County employees who are not exempt shall be entitled to overtime payment at the rate of 1 ½ times their regular rate of pay for all hours worked in a work week in excess of 40 hours.

McClain County has adopted as its policy, practice and procedure, a method of compensating employees for overtime whereby employees are required to utilize compensatory time in lieu of cash overtime payments. As an exception to this policy, and at the sole discretion of the elected official, the elected official may decide to make cash overtime payments. Compensatory time off will be granted to an employee at the rate of 1 ½ hours for each hour of overtime worked.”

During the audit period, part-time employees in the County Clerk’s office received compensatory time at a rate of 1 ½ hours for each hour worked over their regular work week of 20 hours.

Recommendation

OSAI recommends McClain County employees be granted compensatory time at the rate of 1 ½ hours for each hour worked in excess of 40 hours in accordance with the policy set forth in the McClain County Employee Personnel Policy Handbook. Part-time employees working over their normal work week of 20 hours may be granted compensatory time at a rate of 1 hour for each hour worked over 20 and a rate of 1 ½ hours for each hour worked over 40. In addition, we recommend the compensatory time balances of the employees affected by this observation be adjusted to reflect this policy.

**Management
Response**

County Clerk and BOCC Chairman: The present officials were unaware the policy of granting time and a half for each hour worked in excess of 20 hours for part-time employee(s) was being followed. This has now been adjusted to reflect for each hour worked, an hour of compensatory time is given on employee affected.

The past part-time person's accumulated hours have been taken, therefore is no longer reflected.

All full-time employees receive for each hour worked an hour of compensatory time until an excess of 40 hours has been reached. At that time, the employee receives one and one-half hour for each hour as per our personnel handbook.

The employees affected was/is a County Commissioners' Secretary and therefore, this response is presented by the County Clerk and the Chairman of the Board of County Commissioners.

Objective 5:	To determine if the County's internal controls provide reasonable assurance that inventories were accurately reported in the accounting records.
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Conclusion	The County's internal controls do not provide reasonable assurance that inventories were accurately reported in the accounting records.
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Methodology	<p>To accomplish our objective, we performed the following:</p> <ul style="list-style-type: none">▪ Gained an understanding of internal controls related to the inventory process through discussions with County personnel, observation and review of documents.
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Observation	Inadequate Internal Controls Over Fixed Assets and Consumable Inventories
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An important aspect of internal controls is the safeguarding of assets which includes adequate segregation of duties. 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 safeguard fixed assets from loss, damage, or misappropriation.

Upon inquiry and observation of the recordkeeping process regarding fixed assets and consumable inventories, the following was noted:

Fixed Assets:

- The following offices do not perform a yearly physical inventory of fixed assets:
 - County Assessor
 - County Treasurer
 - Court Clerk
 - County Sheriff

- County Commissioner District 1
- County Commissioner District 2
- Annual physical counts could not be verified due to the following County offices not maintaining supporting documentation:
 - Health Department
 - County Commissioner District 3

Election Board

- The Election Board's inventory record does not accurately reflect all fixed assets on hand.
 - One fixed asset purchased with a cost of over \$500 was visually verified but it was not listed on the Officer's or County Clerk's inventory records.
 - One fixed asset on the Officer's and County Clerk's inventory records could not be visually verified because it had been transferred to District 1 and had not been removed from the inventory records.

County Clerk

- The County Clerk's inventory record does not accurately reflect all fixed assets on hand.
 - One fixed asset purchased with a cost of over \$500 was visually verified but it was not listed on the County Clerk's inventory records.

OSU Extension Center

- OSU Extension Center's inventory record does not accurately reflect all fixed assets on hand.
 - One fixed asset purchased with a cost of over \$500 was visually verified but it was not listed on the OSU Extension Center's or County Clerk's inventory records.
 - One fixed asset on the County Clerk's inventory records for the OSU Extension Center could not be visually verified because it had been disposed of and was not removed from the County Clerk's inventory records.

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.

Consumable Inventories:

County Commissioner District 1

- Of the five consumable items plus fuel tested, we noted that the consumable items stock card for 20" x 8" x 42' I-beam showed a balance of four pieces and the actual amount on hand was nine pieces. Also, the actual fuel tank balances for unleaded gasoline and diesel were 158 and 417 gallons, respectively, less than the gallons shown on the fuel logs.

- The outside perimeter of the property at the District 1 barn was not secured by a fence on all sides.

County Commissioner District 2

- Consumable inventories item stock cards are being maintained, however, a physical verification of the actual items on hand is not performed or documented.

County Commissioner District 3

- Consumable inventories item stock cards are being maintained, however, a physical verification of the actual items on hand is not performed or documented.

Failure to maintain accurate records of consumable inventories and failure to perform a periodic physical inventory of consumable inventories could result in inaccurate records, unauthorized use of consumable inventories, or misappropriation of consumable inventories.

Recommendation

Fixed Asset Inventories:

OSAI recommends that each County office implement procedures to accurately maintain fixed asset records, add new purchases to the fixed asset records, and an annual verification of fixed assets be performed and documented with initials and dates to properly account for fixed assets. Officers should prepare a resolution when disposing or transferring fixed assets and submit it to the Board of County Commissioners for approval.

Consumable Inventories:

OSAI recommends that the district barns maintain an accurate inventory of consumable items, perform a monthly physical count of consumable items by someone other than the person keeping the inventory records, and maintain documentation the physical count was performed. In addition, the County's assets should be protected from unauthorized acquisition or use.

**Management
Response**

Fixed Assets:

County Assessor: The Assessor's office will start performing a yearly physical inventory of fixed assets.

County Clerk: My office will update our inventory records to accurately reflect the current inventory on hand.

Court Clerk: The Court Clerk's office will start performing a yearly physical inventory of fixed assets.

Health Department: The Health Department will start keeping documentation of our yearly physical inventory.

County Sheriff: The Sheriff's office will start performing a yearly physical inventory of fixed assets.

County Treasurer: The Treasurer's office will start performing a yearly physical inventory of fixed assets.

OSU Extension Office: The OSU Extension office's fixed asset inventory will be brought up to date.

County Commissioner District 1: A yearly physical inventory of fixed assets will be completed and documented.

County Commissioner District 2: A yearly physical inventory of fixed assets will be completed and documented.

County Commissioner District 3: A yearly physical inventory of fixed assets will be completed and documented.

Election Board Secretary: We have corrected our inventory records.

Consumable Inventory:

County Commissioner District 1: Consumable records at District 1 will be updated to accurately reflect the current inventory on hand and any discrepancies will be investigated. The landowner adjoining the county barn is in the process of installing a fence. The variance of 5 pieces is due to items from a bridge that was tore down being returned to the barn. The fuel has been off for some time and we have been in contact with vendors to investigate the readings on our fuel gauges.

County Commissioner District 2: An actual visual count of consumable items on hand will be completed by someone other than the person maintaining the inventory record.

County Commissioner District 3: An actual visual count of consumable items on hand will be completed by someone other than the person maintaining the inventory record.

Objective 6:	To determine the County's financial operations complied with 62 O.S. §517.4, which requires county deposits with financial institutions be secured with collateral securities or instruments.
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Conclusion	With respect to the days tested, the County complied with 62 O.S. § 517.4, which requires county deposits with financial institutions be secured with collateral securities or instruments.
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Methodology	<p>To accomplish our objective, we performed the following:</p> <ul style="list-style-type: none">• Gained an understanding of internal controls related to pledged collateral through discussions with the County Treasurer, observation and review of ledgers and documents.• Tested compliance of the significant law which included the following:<ul style="list-style-type: none">○ Compared the largest balances per month for the four banks to the amount of pledged collateral to determine that deposits were adequately secured.
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Observation:	<p>Inadequate Internal Controls Over Pledged Collateral</p> <p>Title 62 O.S. § 517.4 requires collateral securities to secure the deposits of the county. Furthermore, 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.</p>
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The Treasurer does not monitor daily bank balances to pledged collateral amounts.

However, the Treasurer does monitor general ledger balances to the monthly pledge report received from the bank. After receiving the report the pledge amounts are verified to her records and then entered into the general ledger program. The program shows a variance between the general ledger balances and the amount pledged. The general ledger is reviewed daily by the Treasurer or one of the deputies to confirm balances are adequately secured.

Based on interviews with the Treasurer, it appears that controls have been designed to ensure the general ledger balances are adequately secured by pledged collateral. However, because there was no evidence of the controls to review, we could not determine that controls were operating effectively. Further, because the

Treasurer is monitoring general ledger balances rather than bank balances, there is a risk of loss of county deposits.

This condition could result in the potential loss of county funds.

Recommendation OSAI recommends that the County design procedures to daily compare bank balances to the pledged collateral ledgers to ensure that county funds are adequately secured against loss by a financial institution. Documentation for this daily procedure should be maintained.

**Management
Response**

Treasurer: We will work on a solution to correct this problem.

Objective 7: To determine the County's financial operations complied with 68 O.S. §1370E, which requires the sales tax collections to be deposited in the general revenue or sales tax revolving fund of the County and be used only for the purpose for which such sales tax was designated.

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

Methodology To accomplish our objective, we performed the following:

- Gained an understanding of internal controls related to the process of apportioning sales tax collections through discussions with County personnel, observation and review of documents.
- Reviewed the sales tax ballots to determine designation and purpose of sales tax collections.
- Randomly selected fifteen months and recalculated the appropriation according to the sales tax ballot/resolution and compared this to the County Clerk's cash fund sheets (form 308) and to the appropriation ledger to determine collections were designated as required by 68 O.S. § 1370E.

Observation Inadequate Internal Controls over the Apportionment of Sales Tax

Accountability and stewardship are overall goals of management in the accounting of funds. An important aspect of internal controls is the safeguarding of assets. Internal controls over safeguarding of assets constitute a process,

affected by the 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.

Based on observation and inquiry the County Clerk receives a copy of the miscellaneous receipt for sales tax received. After receiving the sales tax amount the Clerk or Deputy calculates the distribution by entering the amount in an Excel worksheet containing formulas which calculates the percentage of distribution. The Clerk or Deputy manually re-calculates the amounts on the worksheet to ensure accuracy and then enters amounts onto the cash fund sheets (Form 308).

Based on interviews with the County Clerk, it appears that controls have been designed to ensure sales tax revenues are properly apportioned. Because evidence of controls was not retained, we could not determine that controls were operating effectively.

This condition resulted in the lack of documentation that controls were designed and operating effectively over the sales tax distribution process.

Recommendation OSAI recommends the County Clerk initial and date the sales tax calculation worksheets to document that controls have been performed.

Management Response **County Clerk:** The County Clerk or Deputy who prepares the sales tax collection and apportionment will initial the completed form and the Deputy or County Clerk who verifies it as being correct will also initial. This will also be done on all Cash Fund Estimate of Needs and Request for Appropriations if it is SA&I's recommendation.

Observation **Sales Tax Interest Not Apportioned Correctly**

Oklahoma Attorney General Opinion No. 1993 OK AG 32 states, "...Article X, Section 19 of the Oklahoma Constitution mandates that income earned on investment of dedicated taxes must be deposited with the principal..."

Interest earned on sales tax monies held in general ledger special revenue funds titled *1% Co. Sales Tax Gen. Fund* (one cent sales tax proposition dated October 13, 1992) and *Co. ½ Cent Sales Tax* (one-half cent sales tax proposition dated May 9, 2000) is being apportioned to the General Fund rather than back to the appropriate sales tax accounts. The total amount apportioned to the General Fund during the audit period was approximately \$282,136.55. The following schedule documents, by sales tax fund, interest earned and apportioned to the General Fund.

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Fiscal Year	1% County Sales Tax General fund	County ½ Cent Sales Tax
2007	\$32,517.76	\$89,905.99
2008	25,183.76	55,832.67
2009	15,240.89	28,397.00
2010	9,186.83	15,126.27
2011	4,301.32	6,444.52
Total	\$86,430.56	\$195,705.99

On July 25, 2006, the citizens of McClain County voted and approved a one-half cent sales tax for a period of five years effective October 1, 2006. The proceeds from the sales tax are appropriated to a special revenue fund, 2007 ½ Cent Sales Tax. The interest earned on this account was appropriated back to the account.

Also, on April 5, 2011, the citizens of McClain County voted and approved a one-half cent sales tax for a period of eight years effective January 1, 2012.

Recommendation

OSAI recommends the County establish and implement procedures to ensure income earned on investment of dedicated taxes is properly appropriated in accordance with State Statutes and Attorney General's Opinions. Additionally, OSAI recommends the County consult with their District Attorney to determine any additional action necessary.

**Management
Response**

Board of County Commissioner's Chairman: Upon being advised to have interest from existing sales tax initiatives be deposited with principle, the county took steps to alter the procedure. McClain County has on the 2007 One-Half Cent Sales Tax deposited interest with principle consistently and intend to remain in compliance of any and all areas in the future. The county will monitor and document its handling of these accounts on an appropriately regular basis. SA&I audited the sales tax accounts without comment until this audit period, which went back to 2006/2007 fiscal year and concluded with 2010/2011 fiscal year. By this time, SA&I had changed its forces from a financial statement audit to one more appropriately focusing on internal controls.

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

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

Methodology

To accomplish our objective, we performed the following:

- Gained an understanding of internal controls related to the process of apportioning and distributing ad valorem tax collections through discussions with County personnel, observation and review of documents.
- Tested compliance of the significant law which included the following:
 - Compared the certified levies for the audit periods to the computer system to determine the Treasurer applied the certified levies, as fixed by the Excise Board of McClain County, to the tax rolls.
 - Recalculated the apportionment of ad valorem tax collections to determine collections were accurately apportioned to the taxing entities.

Observation

Inadequate Internal Controls over Ad Valorem Tax Apportioned and Distributed

Accountability and stewardship are overall goals of management in the accounting of funds. Internal controls should be designed to analyze and check accuracy and completeness. To help ensure proper accounting of funds, the duties of allocation and apportioning ad valorem tax should be segregated or reviewed by an independent party.

The County Treasurer enters the levies from the Certified Levy Sheet into the computer system at which time they are reviewed by the County Clerk and one other employee before final submission. However, no documentation was retained to determine that controls were operating effectively.

This condition resulted in the lack of documentation that controls were designed and operating effectively over the ad valorem distribution process.

Recommendation

OSAI recommends the Treasurer maintain documentation the levies entered into the system with the Certified Levy Sheet were reviewed for accuracy by initialing and dating the levy sheet to document the review was performed.

**Management
Response**

County Treasurer: We will initial and date the levy sheet to document that a review was performed to check for accuracy.

All Objectives:

Observation

Inadequate County-Wide Controls

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

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

Monitoring is a component of internal control which should assess the quality of performance over time and ensure that the findings of audits and other reviews are promptly resolved. Ongoing monitoring occurs during normal operations and includes regular management and supervisory activities, comparisons, reconciliations, and other actions people take in performing their duties. It includes ensuring that management know their responsibilities for internal control and the need for control monitoring as part of their regular operating process. Proper monitoring will ensure that controls continue to be adequate and to function properly.

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

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

Recommendation

OSAI recommends that the County 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

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policies and procedures and could be included in the County's policies and procedures handbook.

Examples of risks 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
Schedule of Expenditures of Federal Awards (SEFA)	Review the SEFA of the County for accuracy and to determine all federal awards are presented
Audit findings	Determine audit findings are corrected
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 Commissioner's Chairman, County Treasurer, and County Clerk: The Board of McClain County Commissioners and all elected officials will set a meeting to discuss work on methods to provide reasonable assurance that the objectives of effectiveness and efficiency of operations, reliability of financial reporting and compliance with laws and regulations. This will include plans, methods and procedures to meet this goal.

Risk assessment will be determined and analyzed. McClain County will determine the plans currently in place to determine if they are adequate for involved risks and if not to develop additional controls.

McClain County will also develop monitoring of internal control methods. Responsibility for internal control will be discussed to develop methods for control monitoring during normal operations and to educate management and employees. This would include supervisory activities, comparisons, reconciliations and other actions people take in performing their duties.

After the initial meeting, regular meetings will be set to continue internal control, risk assessment and monitoring.

Observation

Disaster Recovery Plan

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 guidelines and instructions for the County to follow in the event of a disaster.

According to the standards of the Information Systems Audit and Control Association (CobiT, Delivery and Support) DS11.6 Security Requirements for Data Management, management should define and implement policies and procedures to identify and apply security requirements applicable to the receipt, processing, storage and output of data to meet business objectives, the organization's security policy and regulatory requirements.

The County Treasurer and the County Clerk do not have a Disaster Recovery Plan in place that addresses how critical information and systems would be restored in the event of a disaster.

The failure to have a current Disaster Recovery Plan could result in the County being unable to function in the event of a disaster. The lack of a procedure addressing how critical information and or systems would be restored could cause significant problems in ensuring that County business could continue uninterrupted.

Recommendation

OSAI recommends the County Treasurer and the County Clerk 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 Treasurer: The McClain County Clerk and myself, Teresa Jones, McClain County Treasurer, will be scheduling a meeting to discuss making and

putting into place a Disaster Recovery Plan. We will be basing our plan on information received from the OSU County Training Program “Disaster Recovery for Counties.” This will include making a Pocket Response Plan (PReP) for everyone. We will then schedule meetings as necessary.

County Clerk: County Treasurer Teresa Jones and County Clerk Phyllis Bennett have agreed to schedule a meeting to discuss making and putting into place a Disaster Recovery Plan. We will be using the plan on information received from the OSU County Training Program “Disaster Recovery for Counties.” This will include making a Pocket Response Plan (PReP) for everyone. Meetings will then be scheduled as needed.



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