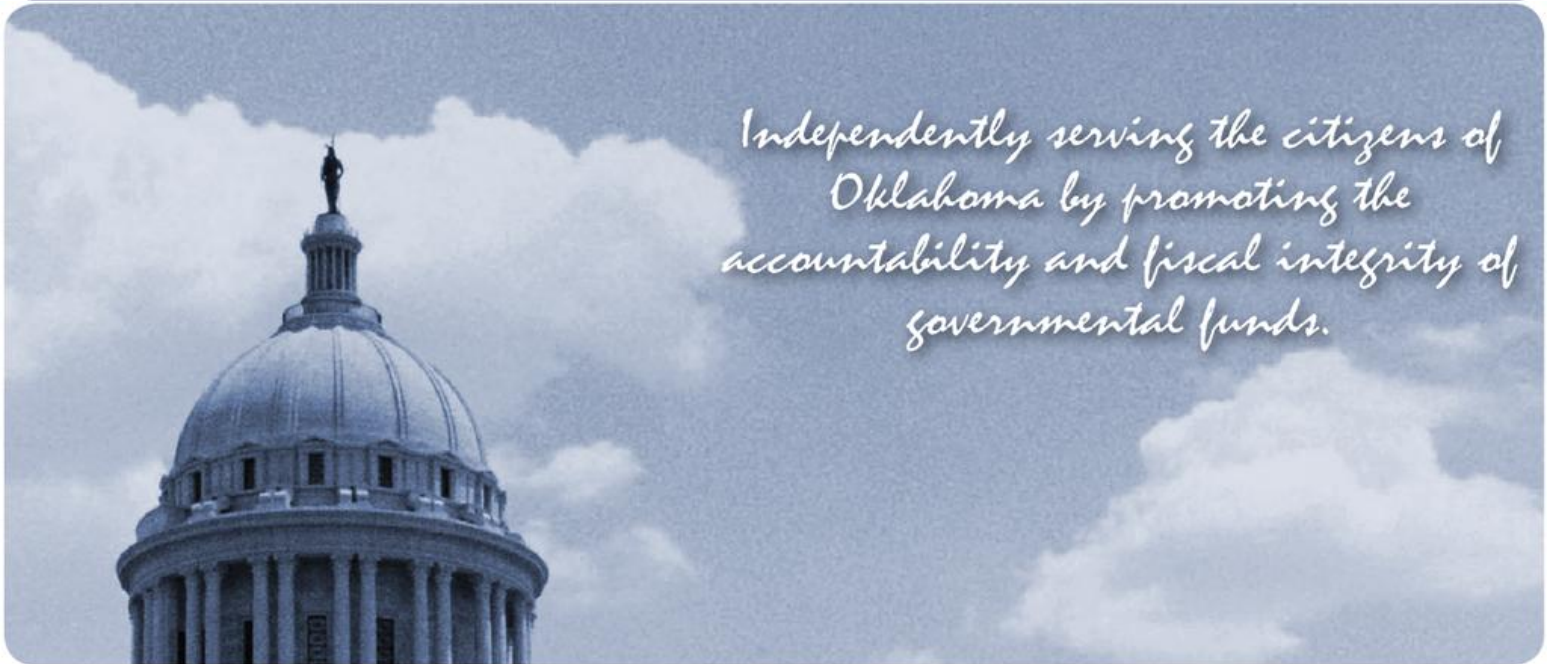


COUNTY AUDIT

MCCURTAIN COUNTY

For the fiscal year ended June 30, 2012



*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

**McCURTAIN COUNTY, OKLAHOMA
FINANCIAL STATEMENT
AND INDEPENDENT AUDITOR'S REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

This publication, issued by the Oklahoma State Auditor and Inspector's Office as authorized by 19 O.S. § 171, has not been printed, but is available on the agency's website (www.sai.ok.gov) and in the Oklahoma Department of Libraries Publications Clearinghouse Digital Collection, pursuant to 74 O.S. § 3105.B.



Oklahoma State Auditor & Inspector

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

September 29, 2015

TO THE CITIZENS OF
McCURTAIN COUNTY, OKLAHOMA

Transmitted herewith is the audit of McCurtain County, Oklahoma for the fiscal year ended June 30, 2012. The audit was conducted in accordance with 19 O.S. § 171.

A report of this type can be critical in nature. Failure to report commendable features in the accounting and operating procedures of the entity should not be interpreted to mean that they do not exist.

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

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

Sincerely,

A handwritten signature in blue ink that reads "Gary A. Jones". The signature is fluid and cursive, with the first name "Gary" being the most prominent.

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

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

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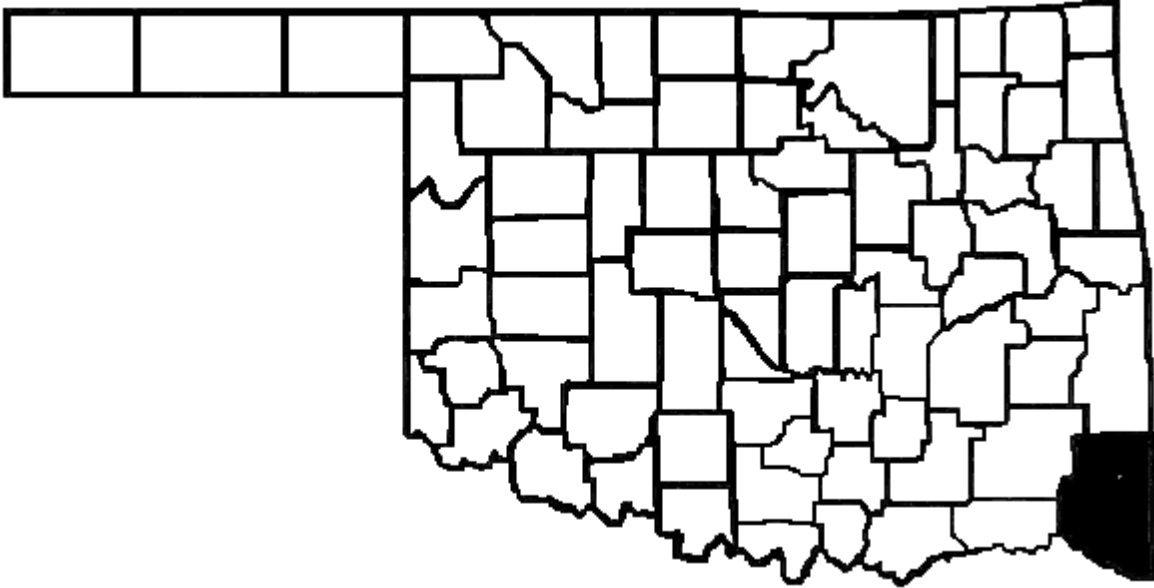
**McCURTAIN COUNTY, OKLAHOMA
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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

**McCURTAIN COUNTY, OKLAHOMA
STATISTICAL INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**



The topography of McCurtain County, in the southeastern corner of Oklahoma, varies from the rugged foothills of the Ouachita Mountains in the north to the fertile coastal plain in the south. The county has a unique heritage ranging from the Caddoan mound builders to the first white settlements in the early nineteenth century, including seventy-five years of Choctaw sovereignty, and finally statehood.

The county name is that of a prominent Choctaw family, several of whose members served as chiefs. The Choctaw period left such historic sites as the Wheelock Mission Church and Academy. The Dierks family developed large holdings beginning before the turn of the 20th century, and sold the land to Weyerhaeuser Company in 1969.

Weyerhaeuser is the largest employer and has a paper mill in Valliant. Other employers are Tyson Foods, Inc., a poultry processing plant; Georgia-Pacific, a saw mill; SETCO, a company that builds solid tires for heavy equipment and ships worldwide. Tourism is also a major industry with Beavers Bend State Resort, Museum of the Red River, hunting, fishing, and historic sites.

For more information, call the county clerk's office at 580 286-2370.

County Seat – Idabel

Area – 1,901.32 Square Miles

County Population – 33,370
(2009 est.)

Farms – 1,796

Land in Farms – 339,615 Acres

Primary Source: Oklahoma Almanac 2011-2012

Board of County Commissioners

District 1 – Jim Freeny
District 2 – Aubrey Thompson
District 3 – Jimmy Westbrook

County Assessor

Stan Lyles

County Clerk

Karen Bryan

County Sheriff

Johnny Tadlock

County Treasurer

Linda Laster

Court Clerk

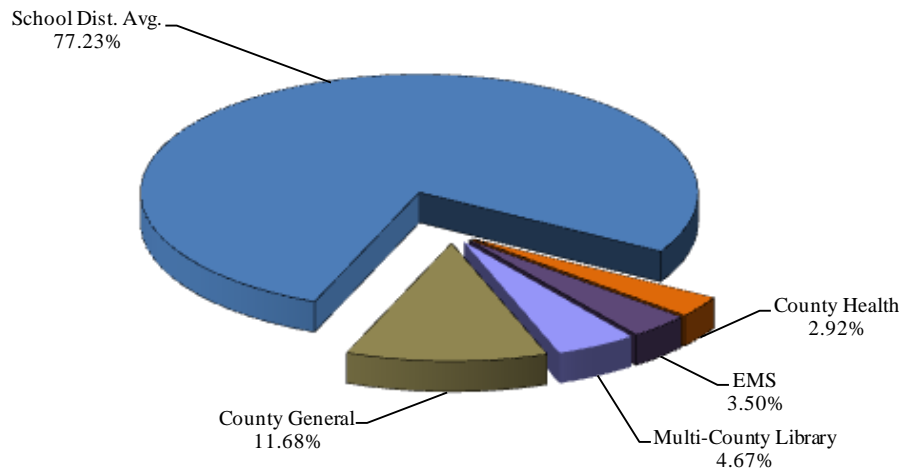
Vicki Justus

District Attorney

Mark Matloff

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

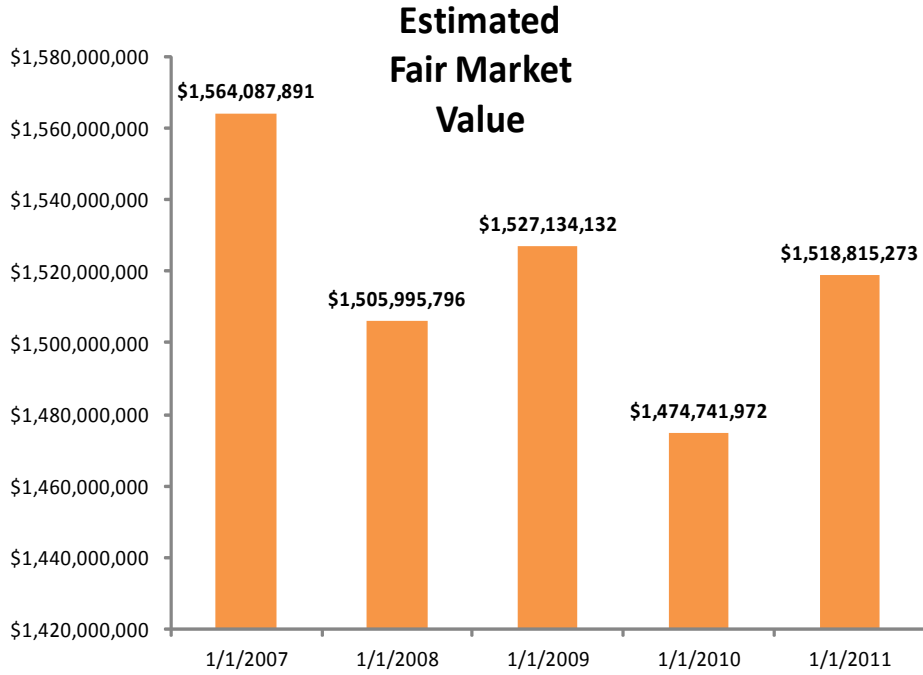
Property taxes are calculated by applying a millage rate to the assessed valuation of property. Millage rates are established by the Oklahoma Constitution. One mill equals one-thousandth of a dollar. For example, if the assessed value of a property is \$1,000.00 and the millage rate is 1.00, then the tax on that property is \$1.00. This chart shows the different entities of the County and their share of the various millages as authorized by the Constitution.



County-Wide Millages		School District Millages							
				Gen.	Bldg.	Skg.	Career Tech	Common	Total
County General	10.13								
County Health	2.53	Forest Grove	D-1	35.88	5.13	-	12.16	4.05	57.22
Multi-County Library	4.05	Idabel	I-5	35.63	5.09	25.72	12.16	4.05	82.65
EMS	3.04	Haworth	I-6	36.23	5.18	23.09	12.16	4.05	80.71
		Lukfata	D-9	35.70	5.10	8.15	12.16	4.05	65.16
		Valliant	I-11	35.14	5.02	-	12.16	4.05	56.37
		Eagletown	I-13	35.53	5.08	13.06	12.16	4.05	69.88
		Smithville	I-14	35.56	5.08	13.83	12.16	4.05	70.68
		Glover	D-23	35.88	5.13	19.24	12.16	4.05	76.46
		Denison	D-37	35.84	5.12	-	12.16	4.05	57.17
		Wright City	I-39	35.46	5.07	-	12.16	4.05	56.74
Battiest	I-71	35.67	5.10	-	12.16	4.05	56.98		
Holly Creek	D-72	36.51	5.22	13.41	12.16	4.05	71.35		
Broken Bow	I-74	35.46	5.07	12.91	12.16	4.05	69.65		

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

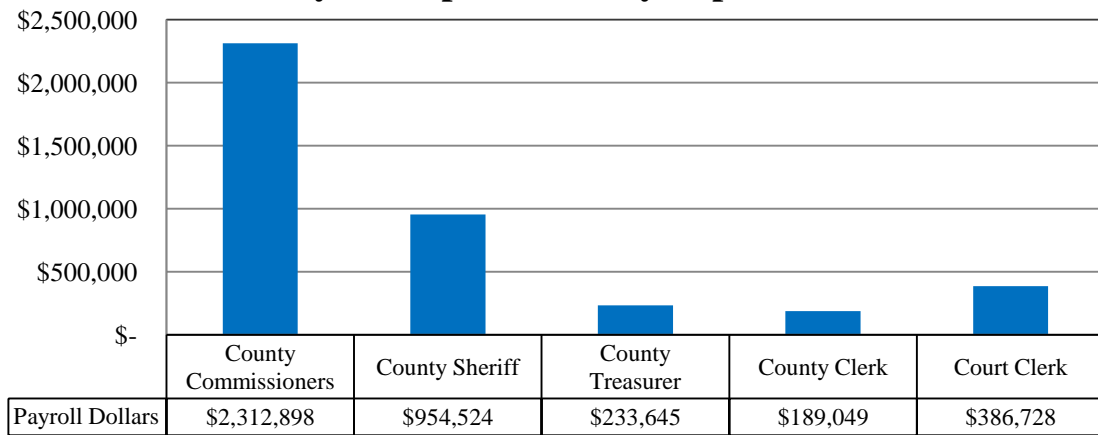
Valuation Date	Personal	Public Service	Real Estate	Homestead Exemption	Net Value	Estimated Fair Market Value
1/1/2011	\$54,647,833	\$23,853,858	\$100,494,918	\$8,489,349	\$170,507,260	\$1,518,815,273
1/1/2010	\$52,509,538	\$23,853,858	\$97,785,150	\$8,473,795	\$165,674,751	\$1,474,741,972
1/1/2009	\$61,942,021	\$23,988,943	\$94,048,262	\$8,543,629	\$171,435,597	\$1,527,134,132
1/1/2008	\$62,020,589	\$24,401,719	\$91,438,089	\$8,437,342	\$169,423,055	\$1,505,995,796
1/1/2007	\$70,488,358	\$26,694,076	\$88,214,272	\$8,443,617	\$176,953,089	\$1,564,087,891



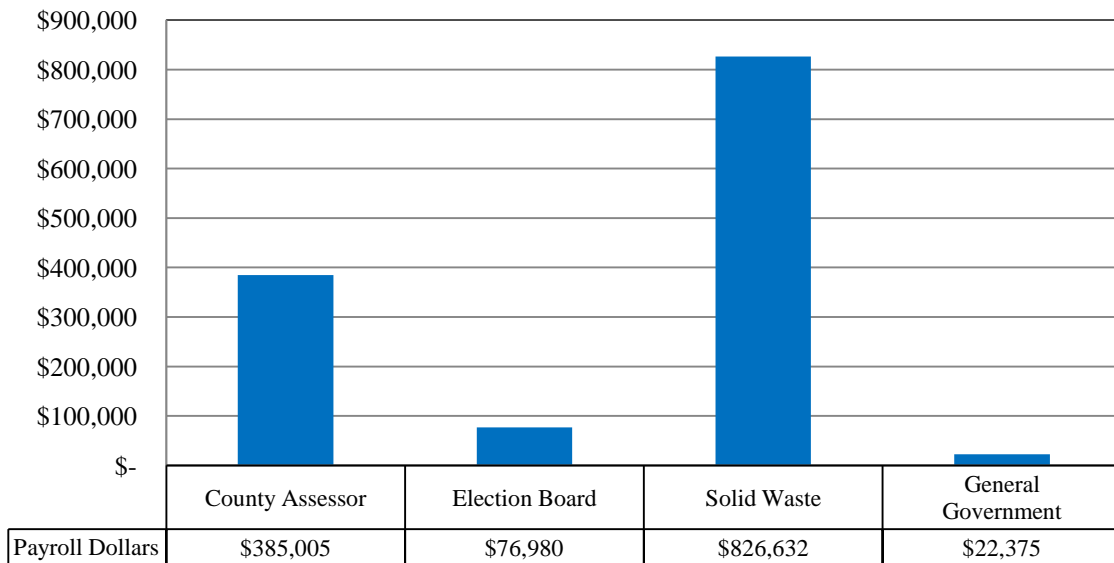
**McCURTAIN COUNTY, OKLAHOMA
COUNTY PAYROLL EXPENDITURES ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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

Payroll Expenditures by Department



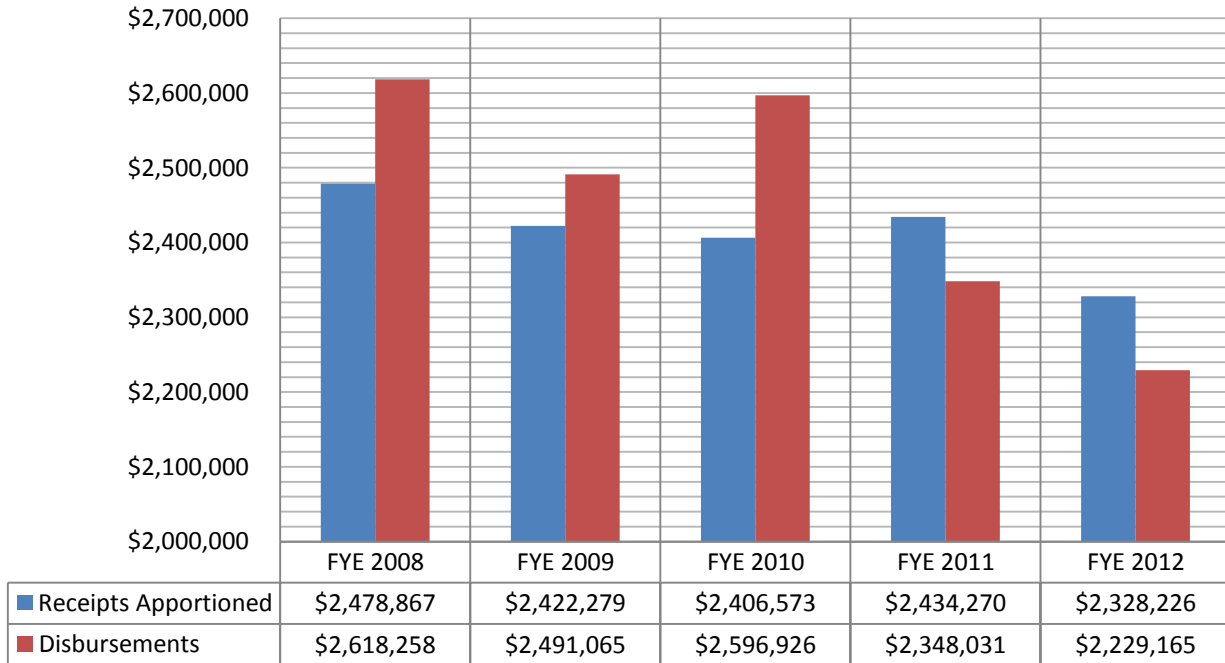
Payroll Expenditures by Department



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

County General Fund

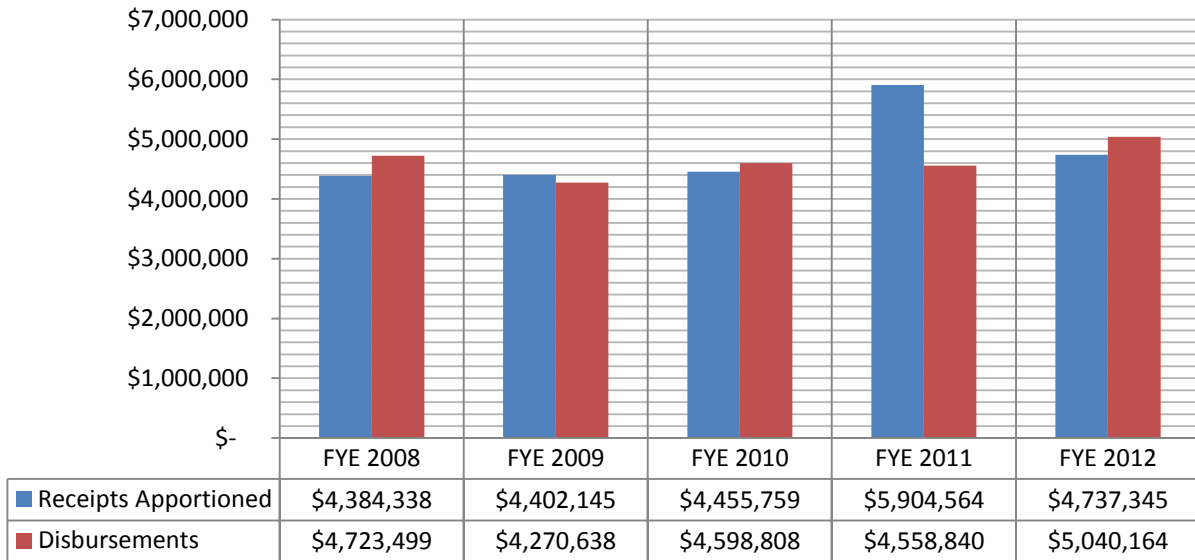
The Oklahoma Constitution and the Oklahoma Statutes authorize counties to create a County General Fund, which is the county's primary source of operating revenue. The County General Fund is typically used for county employees' salaries plus many expenses for county maintenance and operation. It also provides revenue for various budget accounts and accounts that support special services and programs. The Board of County Commissioners must review and approve all expenditures made from the County General Fund. The primary revenue source for the County General Fund is usually the county's ad valorem tax collected on real, personal (if applicable), and public service property. Smaller amounts of revenue can come from other sources such as fees, sales tax, use tax, state transfer payments, in-lieu taxes, and reimbursements. The chart below summarizes receipts and disbursements of the County's General Fund for the last five fiscal years.



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

County Highway Fund

The County receives major funding for roads and highways from a state imposed fuel tax. Taxes are collected by the Oklahoma Tax Commission. Taxes are imposed on all gasoline, diesel, and special fuel sales statewide. The County's share is determined on formulas based on the County population, road miles, and land area and is remitted to the County monthly. These funds are earmarked for roads and highways only and are accounted for in the County Highway Fund. The chart below summarizes receipts and disbursements of the County's Highway Fund for the last five fiscal years.



FINANCIAL SECTION



Oklahoma State Auditor & Inspector

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

Independent Auditor's Report

TO THE OFFICERS OF
McCURTAIN COUNTY, OKLAHOMA

We have audited the combined total—all county funds on the accompanying regulatory basis Statement of Receipts, Disbursements, and Changes in Cash Balances of McCurtain County, Oklahoma, as of and for the year ended June 30, 2012, listed in the table of contents as the financial statement. This financial statement is the responsibility of McCurtain County's management. Our responsibility is to express an opinion on the combined total—all county funds on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, this financial statement was prepared using accounting practices prescribed or permitted by Oklahoma state law, which practices differ from accounting principles generally accepted in the United States of America. The differences between this regulatory basis of accounting and accounting principles generally accepted in the United States of America are also described in Note 1.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of McCurtain County as of June 30, 2012, or changes in its financial position for the year then ended.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the combined total of receipts, disbursements, and changes in cash balances for all county funds of McCurtain County, for the year ended June 30, 2012, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2015, on our consideration of McCurtain County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the combined total of all county funds on the financial statement. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statement. The remaining Other Supplementary Information, as listed in the table of contents, is presented for purposes of additional analysis, and is not a required part of the financial statement. Such supplementary information has been subjected to the auditing procedures applied in the audit of the combined total—all county funds on the regulatory basis Statement of Receipts, Disbursements and Changes in Cash Balances and, in our opinion, is fairly stated, in all material respects, in relation to the combined total—all county funds. The information listed in the table of contents under Introductory Section has not been audited by us, and accordingly, we express no opinion on it.

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

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

September 24, 2015

REGULATORY BASIS FINANCIAL STATEMENT

McCURTAIN COUNTY, OKLAHOMA
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES—REGULATORY BASIS
(WITH COMBINING INFORMATION)—MAJOR FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Beginning Cash Balances July 1, 2011	Receipts Apportioned	Transfers In	Transfers Out	Disbursements	Ending Cash Balances June 30, 2012
Combining Information:						
Major Funds:						
County General Fund	\$ 158,629	\$ 2,328,226	\$ -	\$ -	\$ 2,229,165	\$ 257,690
Highway Cash	1,792,252	4,737,345	163,837	-	5,040,164	1,653,270
Federal Forest	127,885	870	-	-	-	128,755
County Health Department	588,163	554,020	-	-	500,361	641,822
McCurtain County Tourism Authority	389,027	427,491	-	-	306,223	510,295
McCurtain County Volunteer Fire Department	1,122,787	698,551	-	-	695,878	1,125,460
Solid Waste	220,457	1,429,341	-	-	1,491,278	158,520
Use Tax	278,680	286,119	-	-	202,558	362,241
McCurtain County Jail Trust	1,282,650	1,391,386	-	-	1,228,921	1,445,115
Remaining Aggregate Funds	566,860	1,446,487	-	163,837	1,423,615	425,895
Combined Total - All County Funds	\$ 6,527,390	\$ 13,299,836	\$ 163,837	\$ 163,837	\$ 13,118,163	\$ 6,709,063
As Restated						

The notes to the financial statement are an integral part of this statement.

**McCURTAIN COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

1. Summary of Significant Accounting Policies

A. Reporting Entity

McCurtain County is a subdivision of the State of Oklahoma created by the Oklahoma Constitution and regulated by Oklahoma Statutes.

The accompanying financial statement presents the receipts, disbursements, and changes in cash balances of the total of all funds under the control of the primary government. The general fund is the county's general operating fund, accounting for all financial resources except those required to be accounted for in another fund, where its use is restricted for a specified purpose. Other funds established by statute and under the control of the primary government are also presented.

The County Treasurer collects and remits material amounts of intergovernmental revenues and ad valorem tax revenue for other budgetary entities, including emergency medical districts, libraries, school districts, and cities and towns. The cash receipts and disbursements attributable to those other entities do not appear in funds on the County's financial statement; those funds play no part in the County's operations. Any trust or agency funds maintained by the County are not included in this presentation.

B. Fund Accounting

The County uses funds to report on receipts, disbursements, and changes in cash balances. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

Following are descriptions of the county funds included as combining information within the financial statement:

County General Fund – accounts for ad valorem, sales tax, officers' fees, interest earnings, and miscellaneous collections of the County. Disbursements are for the general operations of the County.

Highway Cash – accounts for state, local, and miscellaneous receipts and disbursements are for the purpose of constructing and maintaining county roads and bridges.

Federal Forest – accounts for Schools and Roads Program Title III funds held, a federal grant program for the purpose of performing activities under the Firewise Communities program and to reimburse for emergency services performed on national forests.

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

**McCURTAIN COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

McCurtain County Tourism Authority – accounts for the excise tax collected on lodging to be used for the promotion and development of tourism and recreational activities for McCurtain County.

McCurtain County Volunteer Fire Department – accounts for sales tax funds to be used for the operation of the McCurtain County Volunteer Fire Departments.

Solid Waste – accounts for the sales tax monies collected for the maintenance and operation of a solid waste system.

Use Tax – accounts for the use tax funds collected by the Oklahoma Tax Commission and remitted to the County. The BOCC has designated these funds to be used to help the County develop comprehensive emergency management and for the operation of the County.

McCurtain County Jail Trust – accounts for sales tax funds to be used for the operating, equipping, staffing, and maintaining the McCurtain County Jail.

C. Basis of Accounting

The financial statement is prepared on a basis of accounting wherein amounts are recognized when received or disbursed. This basis of accounting differs from accounting principles generally accepted in the United States of America, which require revenues to be recognized when they become available and measurable or when they are earned, and expenditures or expenses to be recognized when the related liabilities are incurred. This regulatory basis financial presentation is not a comprehensive measure of economic condition or changes therein.

Title 19 O.S. § 171 specifies the format and presentation for Oklahoma counties to present their financial statement in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) or on a regulatory basis. The County has elected to present their financial statement on a regulatory basis in conformity with Title 19 O.S. § 171. County governments (primary only) are required to present their financial statements on a fund basis format with, at a minimum, the general fund and all other county funds, which represent ten percent or greater of total county revenue. All other funds included in the audit shall be presented in the aggregate in a combining statement.

D. Budget

Under current Oklahoma Statutes, a general fund and a county health department fund are the only funds required to adopt a formal budget. On or before the first Monday in July of each year, each officer or department head submits an estimate of needs to the governing body. The budget is approved for the respective fund by office, or department and object. The County Board of Commissioners may approve changes of appropriations within the fund by office or department and object. To increase or decrease the budget by fund requires approval by the County Excise Board.

**McCURTAIN COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

E. Cash and Investments

For the purposes of financial reporting, "Ending Cash Balances, June 30" includes cash and cash equivalents and investments as allowed by statutes. The County pools the cash of its various funds in maintaining its bank accounts. However, cash applicable to a particular fund is readily identifiable on the County's books. The balance in the pooled cash accounts is available to meet current operating requirements.

State statutes require financial institutions with which the County maintains funds to deposit collateral securities to secure the County's deposits. The amount of collateral securities to be pledged is established by the County Treasurer; this amount must be at least the amount of the deposit to be secured, less the amount insured (by, for example, the FDIC).

The County Treasurer has been authorized by the County's governing board to make investments. Allowable investments are outlined in statutes 62 O.S. § 348.1 and § 348.3.

All investments must be backed by the full faith and credit of the United States Government, the Oklahoma State Government, fully collateralized, or fully insured. All investments as classified by state statute are nonnegotiable certificates of deposit. Nonnegotiable certificates of deposit are not subject to interest rate risk or credit risk.

2. Ad Valorem Tax

The County's property tax is levied each October 1 on the assessed value listed as of January 1 of the same year for all real and personal property located in the County, except certain exempt property. Assessed values are established by the County Assessor within the prescribed guidelines established by the Oklahoma Tax Commission and the State Equalization Board. Title 68 O.S. § 2820.A. states, ". . . Each assessor shall thereafter maintain an active and systematic program of visual inspection on a continuous basis and shall establish an inspection schedule which will result in the individual visual inspection of all taxable property within the county at least once each four (4) years."

Taxes are due on November 1 following the levy date, although they may be paid in two equal installments. If the first half is paid prior to January 15, the second half is not delinquent until April 1. Unpaid real property taxes become a lien upon said property on October 1 of each year.

3. Other Information

A. Pension Plan

Plan Description. The County contributes to the Oklahoma Public Employees Retirement Plan (the Plan), a cost-sharing, multiple-employer defined benefit pension plan administered by the

**McCURTAIN COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Oklahoma Public Employees Retirement System (OPERS). Benefit provisions are established and amended by the Oklahoma Legislature. The Plan provides retirement, disability, and death benefits to Plan members and beneficiaries. Title 74, Sections 901 through 943, as amended, establishes the provisions of the Plan. OPERS issues a publicly available financial report that includes financial statements and supplementary information. That report may be obtained by writing OPERS, P.O. Box 53007, Oklahoma City, Oklahoma 73105 or by calling 1-800-733-9008.

Funding Policy. The contribution rates for each member category are established by the Oklahoma Legislature and are based on an actuarial calculation which is performed to determine the adequacy of contribution rates.

B. Other Post Employment Benefits (OPEB)

In addition to the pension benefits described in the Pension Plan note, OPERS provides post-retirement health care benefits of up to \$105 each for retirees who are members of an eligible group plan. These benefits are funded on a pay-as-you-go basis as part of the overall retirement benefit. OPEB expenditure and participant information is available for the state as a whole; however, information specific to the County is not available nor can it be reasonably estimated.

C. Contingent Liabilities

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, primarily the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable fund. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time; although, the County expects such amounts, if any, to be immaterial.

As of the end of the fiscal year, there were no claims or judgments that would have a material adverse effect on the financial condition of the County; however, the outcome of any lawsuit would not be determinable.

D. Sales Tax

The voters of McCurtain County approved a permanent one-half percent (1/2%) sales tax effective August 27, 1991. This sales tax was established to provide revenue for the maintenance and operation of a solid waste system. These funds are accounted for in the Solid Waste fund.

On November 9, 1999, the voters of McCurtain County approved a permanent one-half percent (1/2%) sales tax effective January 1, 2000. This sales tax was established to provide revenue to operate, equip, staff, and maintain the McCurtain County Jail. These funds are accounted for in the McCurtain County Jail Trust fund.

**McCURTAIN COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

The voters of McCurtain County approved a permanent one-quarter percent (1/4%) sales tax effective January 1, 2000. This sales tax was established to provide revenue to staff and maintain the McCurtain County Sheriff's Department. These funds are accounted for in the McCurtain County Sheriff Office fund.

The voters of McCurtain County approved a three percent (3%) excise tax on public lodging receipts effective August 27, 2002, to be in effect for ten years. This excise tax was established to provide revenue for the promotion and development of tourism and recreational activities for McCurtain County Tourism Authority and to provide revenue for administrative costs for the County General Fund. These funds are accounted for in the McCurtain County Tourism Authority fund and the County General Fund.

The voters of McCurtain County approved a permanent one-quarter percent (1/4%) sales tax effective January 1, 2007. This sales tax was established to provide revenue for the fire protection for the county fire departments located in Battiest, Bethel, Broken Bow, Eagletown, Garvin, Haworth, Hochatown, Holly Creek, Idabel, Millerton, Pickens, Pine Creek, Ringold, Rufe, Sherwood, Shinewell, Smithville, Tom, Valliant, Watson, and Wright City. These funds are accounted for in the McCurtain County Volunteer Fire Department fund.

E. Interfund Transfers

During the fiscal year, the County made the following transfers between cash funds.

- \$38,080 into Highway Cash fund from K-12041 Old Broken Bow Highway fund to reimburse Highway Cash fund for work performed on REAP grant K-12041 Old Broken Bow Highway.
- \$32,027 into Highway Cash fund from K-4037 N4680 Road fund to reimburse Highway Cash fund for work performed on REAP grant K-4037 N4680 Road.
- \$32,027 into Highway Cash fund from K-4036 Stamps fund to reimburse Highway Cash fund for work performed on REAP grant K-4036 Stamps Road.
- \$29,675 into Highway Cash fund from K-5034 E2260 Road fund to reimburse Highway Cash fund for work performed on REAP grant K-5034 E2260 Road.
- The County transferred \$32,028 into Highway Cash fund from K-4038 Tebo Jones Road fund to reimburse Highway Cash fund for work performed on REAP grant K-4038 Tebo Jones Road.

F. Restatement

Due to the reclassification of funds for fiscal year ending June 30, 2012, the beginning balance as reported is different than the June 30, 2011 ending balance. The difference is due

**McCURTAIN COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

to McCurtain County Jail Trust fund being reported as a trust and agency that should have been county funds resulting in an increase of \$1,282,650.

Prior year ending balance, as reported	\$5,244,740
Fund reclassified to County Funds	<u>1,282,650</u>
Prior year ending balance, as restated	<u>\$6,527,390</u>

Also, the County General Fund and K-3037 Civic Center fund balances at June 30, 2011 were inaccurately reported and corrected on the July 1, 2011 beginning balance. This increased the County General Fund beginning balance to \$158,629 and decreased the K-3037 Civic Center fund beginning balance to \$0.

OTHER SUPPLEMENTARY INFORMATION

McCURTAIN COUNTY, OKLAHOMA
COMPARATIVE SCHEDULE OF RECEIPTS, EXPENDITURES, AND
CHANGES IN CASH BALANCES—BUDGET AND ACTUAL—BUDGETARY BASIS—
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	General Fund		
	Budget	Actual	Variance
Beginning Cash Balances	\$ 158,629	\$ 158,629	\$ -
Less: Prior Year Outstanding Warrants	(39,134)	(39,134)	-
Less: Prior Year Encumbrances	(7,252)	(6,500)	752
Beginning Cash Balances, Budgetary Basis	<u>112,243</u>	<u>112,995</u>	<u>752</u>
Receipts:			
Ad Valorem Taxes	1,622,612	1,680,455	57,843
Charges for Services	85,870	102,861	16,991
Intergovernmental Revenues	530,910	498,281	(32,629)
Miscellaneous Revenues	23,269	46,629	23,360
Total Receipts, Budgetary Basis	<u>2,262,661</u>	<u>2,328,226</u>	<u>65,565</u>
Expenditures:			
District Attorney	7,500	7,470	30
County Sheriff	272,400	271,733	667
County Treasurer	164,508	164,393	115
County Commissioners	226,324	201,557	24,767
OSU Extension	101,941	101,900	41
County Clerk	202,638	201,937	701
Court Clerk	118,897	118,892	5
County Assessor	160,701	157,631	3,070
Revaluation of Real Property	265,125	259,608	5,517
Juvenile Shelter Bureau	21,663	18,250	3,413
General Government	163,464	155,486	7,978
Excise-Equalization Board	12,460	11,551	909
County Election Board	103,753	94,943	8,810
Insurance - Benefits	494,007	451,983	42,024
Charity	6,000	2,692	3,308
County Audit Budget Account	33,523	33,523	-
Free Fair Budget Account	15,000	14,997	3
Provision for Interest on Warrants	5,000	-	5,000
Total Expenditures, Budgetary Basis	<u>2,374,904</u>	<u>2,268,546</u>	<u>106,358</u>

Continued on next page

**McCURTAIN COUNTY, OKLAHOMA
 COMPARATIVE SCHEDULE OF RECEIPTS, EXPENDITURES, AND
 CHANGES IN CASH BALANCES—BUDGET AND ACTUAL—BUDGETARY BASIS—
 GENERAL FUND - CONTINUED
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	General Fund		
	Budget	Actual	Variance
Continued from previous page			
Excess of Receipts and Beginning Cash			
Balances Over Expenditures, Budgetary Basis	\$ -	172,675	\$ 172,675
Operating Transfers			
Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances			
Add: Cancelled Warrants		292	
Add: Current Year Outstanding Warrants		52,266	
Add: Current Year Encumbrances		52,457	
Ending Cash Balance		\$ 277,690	

McCURTAIN COUNTY, OKLAHOMA
COMPARATIVE SCHEDULE OF RECEIPTS, EXPENDITURES, AND
CHANGES IN CASH BALANCES—BUDGET AND ACTUAL—BUDGETARY BASIS—
COUNTY HEALTH DEPARTMENT FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	County Health Department Fund		
	Budget	Actual	Variance
Beginning Cash Balances	\$ 588,163	\$ 588,163	\$ -
Less: Prior Year Outstanding Warrants	(51,409)	(51,409)	-
Less: Prior Year Encumbrances	(29,546)	(21,389)	8,157
Beginning Cash Balances, Budgetary Basis	507,208	515,365	8,157
Receipts:			
Ad Valorem Taxes	390,315	419,696	29,381
Intergovernmental Revenue	103,761	134,324	30,563
Total Receipts, Budgetary Basis	494,076	554,020	59,944
Expenditures:			
Health and Welfare	1,001,284	503,547	497,737
Total Expenditures, Budgetary Basis	1,001,284	503,547	497,737
Excess of Receipts and Beginning Cash Balances Over Expenditures, Budgetary Basis	\$ -	565,838	\$ 565,838
Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances			
Add: Current Year Encumbrances		44,913	
Add: Current Year Outstanding Warrants		31,071	
Ending Cash Balance		\$ 641,822	

McCURTAIN COUNTY, OKLAHOMA
COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES—REGULATORY BASIS—
REMAINING AGGREGATE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Beginning Cash Balances July 1, 2011	Receipts Apportioned	Transfers In	Transfers Out	Disbursements	Ending Cash Balances June 30, 2012
Remaining Aggregate Funds:						
Assessor Revolving	\$ 1,334	\$ 1,503	\$ -	\$ -	\$ 1,871	\$ 966
Assessor Visual Inspection	369	-	-	-	-	369
County Clerk Lien Fee	4,940	12,179	-	-	1,797	15,322
County Clerk Preservation	18,304	27,675	-	-	20,213	25,766
County Sinking	16	-	-	-	-	16
Federal Highway Fund	312	1	-	-	-	313
Hospital Authority	60,356	352	-	-	38,303	22,405
Sheriff Confiscated Drug Fund	1,756	-	-	-	-	1,756
McCurtain County Sheriff Office	82,763	691,994	-	-	696,796	77,961
Pine Creek Patrol	5,235	14,043	-	-	13,843	5,435
Sheriff Service Fee	138,267	294,397	-	-	310,871	121,793
Treasurer Mortgage Tax Certification Fee	13,483	6,355	-	-	2,687	17,151
Resale Property	157,089	144,470	-	-	222,740	78,819
Resale Payroll	12,075	120,000	-	-	74,252	57,823
K-12041 Old Broken Bow Highway	38,080	-	-	38,080	-	-
K-4037 N4680 Road	32,027	-	-	32,027	-	-
K-4038 Tebo Jones Road	454	31,574	-	32,028	-	-
K-5029 Ringold VFD	-	10,743	-	-	10,743	-
K-5034 E2260 Road	-	29,675	-	29,675	-	-
K-5030 RWD 8	-	29,499	-	-	29,499	-
K-4036 Stamps	-	32,027	-	32,027	-	-
Combined Total - Remaining Aggregate Funds	\$ 566,860	\$ 1,446,487	\$ -	\$ 163,837	\$ 1,423,615	\$ 425,895

**McCURTAIN COUNTY, OKLAHOMA
NOTES TO OTHER SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

1. Budgetary Schedules

The Comparative Schedules of Receipts, Expenditures, and Changes in Cash Balances—Budget and Actual—Budgetary Basis for the General Fund and the County Health Department Fund present comparisons of the legally adopted budget with actual data. The "actual" data, as presented in the comparison of budget and actual, will differ from the data as presented in the Combined Statement of Receipts, Disbursements, and Changes in Cash Balances with Combining Information because of adopting certain aspects of the budgetary basis of accounting and the adjusting of encumbrances and outstanding warrants to their related budget year.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in these funds. At the end of the year unencumbered appropriations lapse.

2. Remaining County Funds

Remaining aggregate funds as presented on the financial statement are as follows:

Assessor Revolving – accounts for the collection of fees for copies as restricted by state statute.

Assessor Visual Inspection – accounts for the collection and expenditure of monies by the Assessor as restricted by state statute for the visual inspection program.

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

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

County Sinking – accounts for the payment of interest and principal on the matured portion of long-term bonded indebtedness and civil judgments. Debt service receipts are derived generally from a special ad valorem tax levy and from interest earned on investments of cash not immediately required for debt service payments; there is currently no long-term debt.

Federal Highway Fund – accounts for federal funds received from the Department of Transportation for debris removal.

Hospital Authority – accounts for collection of sales tax to be used for the purchase of equipment and to maintain the property of McCurtain County Hospital Authority.

Sheriff Confiscated Drug Fund – accounts for proceeds from forfeited drug cases. These funds are used for the intervention and prevention of narcotics use.

**McCURTAIN COUNTY, OKLAHOMA
NOTES TO OTHER SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

McCurtain County Sheriff Office – accounts for sales tax monies received for the operation of the McCurtain County Sheriff’s Office.

Pine Creek Patrol – accounts for monies received from the Corps of Engineers for patrolling services.

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

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

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

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

K-12041 Old Broken Bow Highway – accounts for state funds to be expended to oil and chip two miles of Old Broken Bow Highway.

K-4037 N4680 Road – accounts for state funds to be expended on asphaltting one mile of N4680 Road.

K-4038 Tebo Jones Road – accounts for state funds to be expended to oil and chip one mile of Tebo Jones Road.

K-5029 Ringold VFD – accounts for state funds to be used for the renovation of the original fire department.

K-5034 E2260 Road – accounts for state funds to be expended for the oil and chip patching of E2260 Road.

K-5030 RWD 8 – accounts for state funds to be expended on the construction of a new water line addition for RWD 8.

K-4036 Stamps – accounts for state funds to be expended for the oil and chip patching of one mile of Stamps Road.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**McCURTAIN COUNTY, OKLAHOMA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
Passed Through Oklahoma State Treasurer:			
Schools and Roads - Grants to States	10.665		\$ 324,737
Total U.S. Department of Agriculture			<u>324,737</u>
U.S. DEPARTMENT OF INTERIOR			
Direct Grant:			
Payments in Lieu of Taxes	15.226		120,709
Total U.S. Department of Interior			<u>120,709</u>
U.S. DEPARTMENT OF JUSTICE			
Passed Through Oklahoma State District Attorneys Council:			
Violence Against Women Formula Grants	16.588	V10-020	32,845
Violence Against Women Formula Grants	16.588	V11-021	37,989
Total U.S. Department of Justice			<u>70,834</u>
Total Expenditures of Federal Awards			<u><u>\$ 516,280</u></u>

**McCURTAIN COUNTY, OKLAHOMA
NOTE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Basis of Presentation

The schedule of expenditures of federal awards includes the federal grant activity of McCurtain County, and is presented on the *cash basis of accounting*. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

INTERNAL CONTROL AND COMPLIANCE SECTION



Oklahoma State Auditor & Inspector

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

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

TO THE OFFICERS OF
McCURTAIN COUNTY, OKLAHOMA

We have audited the combined totals—all funds of the accompanying Combined Statement of Receipts, Disbursements, and Changes in Cash Balances of McCurtain County, Oklahoma, as of and for the year ended June 30, 2012, which comprises McCurtain County's basic financial statement, prepared using accounting practices prescribed or permitted by Oklahoma state law, and have issued our report thereon dated September 24, 2015. Our report on the basic financial statement was adverse because the statement is not a presentation in conformity with accounting principles generally accepted in the United States of America. However, our report also included our opinion that the financial statement does present fairly, in all material respects, the receipts, disbursements, and changes in cash balances – regulatory basis of the County for the year ended June 30, 2012, on the basis of accounting prescribed by Oklahoma state law, described in Note 1. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered McCurtain County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of McCurtain County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned cost, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in internal control described in the accompanying schedule of findings and questioned costs to be material weaknesses in internal control over financial reporting. 2012-1, 2012-3, 2012-4, 2012-5, 2012-6, 2012-7, 2012-9, and 2012-12.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting, 2012-2, 2012-8, and 2012-14.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether McCurtain County's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2012-12.

We noted certain matters regarding statutory compliance that we reported to the management of McCurtain County, which are included in Section 4 of the schedule of findings and questioned costs contained in this report.

McCurtain County's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned cost. We did not audit McCurtain County's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, those charged with governance, and others within the entity and is not intended to be and should not be used by anyone other than the specified parties. This report is also 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.



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

September 24, 2015



Oklahoma State Auditor & Inspector

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

Independent Auditor's Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133

TO THE OFFICERS OF
McCURTAIN COUNTY, OKLAHOMA

Compliance

We have audited the compliance of McCurtain County, Oklahoma, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on McCurtain County's major federal program for the year ended June 30, 2012. McCurtain County's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of McCurtain County's management. Our responsibility is to express an opinion on McCurtain County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about McCurtain County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of McCurtain County's compliance with those requirements.

In our opinion, McCurtain County, complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2012.

Internal Control Over Compliance

Management of McCurtain County is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered McCurtain County's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of McCurtain County's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2012-29 and 2012-30 to be material weaknesses.

McCurtain County's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit McCurtain County's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, those charged with governance, others within the entity, and is not intended to be and should not be used by anyone other than the specified parties. This report is also a public document pursuant to the Oklahoma Open Records Act (51 O.S., section 24A.1 et seq.), and shall be open to any person for inspection and copying.

A handwritten signature in blue ink, appearing to read "Gary A. Jones".

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

September 24, 2015

**McCURTAIN COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

SECTION 1—Summary of Auditor’s Results

Financial Statements

Type of auditor's report issued:.....Adverse as to GAAP; unqualified as to statutory presentation

Internal control over financial reporting:

- Material weakness(es) identified?..... Yes
- Significant deficiency(ies) identified? Yes

Noncompliance material to financial statements noted?..... Yes

Federal Awards

Internal control over major programs:

- Material weakness(es) identified?..... Yes
- Significant deficiency(ies) identified? None reported

Type of auditor's report issued on
compliance for major program: Unqualified

Any audit findings disclosed that are required to be reported
in accordance with section 510(a) of Circular A-133?..... Yes

Identification of Major Programs

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.665	Schools and Roads - Grants to States

Dollar threshold used to distinguish between
Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee?..... No

**McCURTAIN COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

SECTION 2—Findings related to the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

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

Condition: County-wide controls regarding the Control Environment, Risk Assessment, Information and Communication, and Monitoring have not been designed.

Cause of Condition: Policies and procedures have not been designed to address the Control Environment, Risk Assessment, Information and Communication, and Monitoring of the County. The County was not fully aware of the benefits gained by the implementation of procedures regarding the Control Environment, Risk Assessment, Information and Communication, and Monitoring as it relates to the strengthening of its internal control structure.

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

Recommendation: The Oklahoma State Auditor & Inspector's Office (OSAI) recommends that the County design procedures to establish internal controls, identify and address risk, and to ensure that information is communicated effectively. OSAI also recommends that the County design monitoring procedures to assess the quality of performance over time. These procedures should be written policies and procedures and could be included in the County's policies and procedures handbook.

Management Response:

Chairman of the Board of County Commissioner: We plan to implement procedures to monitor, identify, and address risks.

County Treasurer: I will work with my office and the other offices to establish and implement internal controls.

County Clerk: I will work with other management to establish and implement internal 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 met. Internal control comprises the plans, methods, and procedures used to meet missions, goals, and objectives. Internal control also serves as the first line of defense in safeguarding assets and preventing and detecting errors and fraud. County management is responsible for designing a county-wide internal control system comprised of Control Environment, Risk Assessment, Information and Communication, and Monitoring for the achievement of these goals.

**McCURTAIN COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Control Environment is a component of internal control which should establish and maintain an environment throughout the organization that sets a positive and supportive attitude toward internal control and conscientious management.

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

Information and Communication is a component of internal control in which information should be recorded and communicated to management and others within the County who need it and in a form and within a time frame that enables them to carry out their internal control and other responsibilities. For a County to run and control its operations, it must have relevant, reliable, and timely communications relating to internal as well as external events. Information is needed throughout the County to achieve all of its 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 to make control monitoring part of their regular operating process.

Finding 2012-2 – Lack of Disaster Recovery Plan (Repeat Finding)

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

- County Commissioners
- County Treasurer
- County Clerk
- County Assessor

Cause of Condition: Policies and 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 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.

**McCURTAIN COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Management Response:

Chairman of the Board of County Commissioner: We plan to develop and implement a Disaster Recovery Plan to allow us to restore important county information stored in our systems in the event of a disaster.

County Treasurer: I am drafting a Disaster Recovery Plan and will work toward completing the plan.

County Clerk: I am currently drafting a Disaster Recovery Plan for my office.

County Assessor: We currently have in place a remote backup for our data off-site with County Computer Assistance Program (CCAP) in Stillwater. I will get with them and get a plan in writing that details procedures to get the Assessor's office back online and working in the event of a disaster and put it on file with the County Clerk'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.

**McCURTAIN COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Finding 2012-3 – Inadequate Internal Controls Over Information Technology (Repeat Finding)

Condition: Upon review of the computer systems within the office of the County Assessor, County Clerk, and the County Treasurer, it was noted that there does not appear to be adequate controls in place to safeguard data from unauthorized modification, loss, or disclosure. The following was noted:

- The County Treasurer’s office has a lack of segregation of duties through user roles in their computer software system. The Security Officer also performs the duties of a cashier.
- The County Treasurer, County Clerk, and County Assessor offices have not designed policies and procedures to address the expectations and responsibilities of county employees in the IT function.
- The County Treasurer, County Clerk, and County Assessor office computers and software systems do not require the employee to use a password of at least eight characters in length and to change passwords every ninety days.
- The County Treasurer’s software server is not in a controlled environment, with limited access.
- The County Treasurer’s office rarely performs a review of the security log.

Cause of Condition: Policies and procedures have not been designed and implemented to prevent unauthorized access to data.

Effect of Condition: These conditions could result in compromised security for computers, computer programs, and data. Further, these conditions increase the risk of damage, loss of data, interruption of office operations, non-approved access attempts, non-detection of fraud, and identification of errors.

Recommendation: OSAI recommends the County work with IT personnel or in conjunction with software vendors to setup password requirements for length, character, and an expiration of a minimum of at least every ninety days. In addition, OSAI recommends passwords not be shared and access to servers be limited. OSAI recommends that the security log be reviewed on a regular basis to verify that errors have not occurred, that unauthorized personnel have not gained access to critical information, and verify that fraud has not occurred. OSAI recommends that the Security Officer’s duties be segregated from performed reconciliatory or cashier duties. This decreases the risk fraud and of unauthorized deletion errors and/or journal entries.

Management Response:

County Treasurer: The County Handbook now addresses Information Technology polices, and our software now requires passwords to be changed every ninety days. I will review the security log and the Security Officer’s activities. At this time, it is not feasible to relocate the server but we may do so in the future.

County Clerk: Information Technology expectation and responsibilities are in the newly adopted County Handbook. I will contact the software provider regarding passwords.

County Assessor: The Assessor’s office will get in contact with the Information Technology staff at CCAP and with the Oklahoma Tax Commission (OTC) to establish a more secure environment for

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computer software and servers. I have disabled all former employees' access to our systems and deleted passwords, etc. The only people that can access our programs are:

1. Current employees
2. OTC field personnel
3. CCAP personnel

Criteria: According to the standards of the Information Systems Audit and Control Association (CobiT, Delivery and Support DS5), the need to maintain the integrity of information and protect IT assets requires a security management process. This process includes establishing and maintaining IT security roles and responsibilities, policies, standards, and procedures. Security management also includes performing security on monitoring and periodic testing and implementing corrective actions for identified security weakness or incidents. Effective security management protects all IT assets to minimize the business impact of security vulnerabilities and incidents.

Finding 2012-4 – Inadequate Segregation of Duties for County Treasurer (Repeat Finding)

Condition: A concentration of duties exists in the County Treasurer's office because one person receives monies, issues receipts, reconciles monies to the receipts issued, performs reconciliations on the general bank account, and reconciles the general ledger to the daily report and monthly report.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure adequate segregation of duties in the County Treasurer's 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 transaction, misstated financial reports, clerical errors, or misappropriation of funds not being detected in a timely manner.

Recommendation: OSAI recommends that management be aware of these conditions and realize that a concentration of duties and responsibilities in a limited number of individuals is not desired from a control point of view. The most effective controls lie in management's oversight of office operations and a periodic review of operations. OSAI recommends that management provide segregation of duties so that no one employee is able to perform all accounting functions. In the event that segregation of duties is not possible due to limited personnel, OSAI recommends implementing compensating controls to mitigate the risk 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.

OSAI recommends the following key accounting functions of the Treasurer's office be adequately segregated:

- Issuing receipts.

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- Preparing/reviewing deposits and taking them to the bank.
- Maintaining accounting ledgers and reconciling bank statements.

Management Response:

County Treasurer: I have implemented compensating controls to mitigate the risk involved with the concentration of duties in my office. I currently review and approve reconciliations, daily reports, and monthly reports.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. To help ensure a proper accounting of funds, key duties and responsibilities should be segregated among different individuals to reduce the risk of error or fraud. No one individual should have the ability to authorize transactions, have physical custody of assets, and record transactions.

Finding 2012-5 – Inadequate Segregation of Duties Over the Purchasing Process

Condition: Based on our documentation of controls, a lack of segregation of duties exists in the County Clerk's office because one deputy performs all key purchasing processes including:

- Preparing purchase orders.
- Approving/authorizing the encumbrance.
- Reviewing purchase orders for accuracy.
- Printing warrants.
- Distributing warrants.
- Maintaining ledgers.
- Has access to make changes within the purchasing system.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure adequate segregation of duties in the County Clerk's office with regard to the purchasing process.

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

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.

OSAI recommends management take steps to adequately segregate the following key accounting functions:

- Preparing purchase orders.
- Encumbering purchase orders.

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- Printing warrants.
- Distributing warrants.

Management Response:

County Clerk: I will implement compensating controls to mitigate the risk involved with a concentration of duties in purchasing.

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 disbursements and/or transactions. To help ensure a proper accounting of funds, the duties of processing, authorizing, and distribution should be segregated.

Finding 2012-6 – Inadequate Segregation of Duties Over Payroll Process (Repeat Finding)

Condition: Based on our documentation of controls, a lack of segregation of duties exists in the County Clerk's office because one deputy performs all key payroll processes including:

- Enrolling new employees.
- Inputting payroll information into the system.
- Maintaining personnel files.
- Processing payroll claims.
- Reviewing payroll verification reports.
- Printing payroll warrants.
- Distributing payroll warrants.
- Preparing payroll reports.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure adequate segregation of duties in the County Clerk's office with regard to the payroll process.

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

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.

OSAI recommends management take steps to adequately segregate the following key accounting functions:

- Enrolling new employees and maintaining personnel files.
- Reviewing time records and preparing payroll.

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- Distributing payroll warrants to individuals.

Management Response:

County Clerk: I will implement compensating controls to mitigate the risk involved with a concentration of duties in payroll.

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 allow for prevention and detection of errors and abuse. To help ensure a proper accounting of funds, key functions within the payroll process such as the duties of processing, authorizing, and payroll distribution should be adequately segregated.

Finding 2012-7 – Reconciliation of Appropriation Ledger to General Ledger (Repeat Finding)

Condition: Based on our documentation of controls, reconciliations are not performed between the County Clerk’s appropriation ledger and the County Treasurer’s general ledger.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure the reconciliation of the County Clerk’s appropriation ledger to the County Treasurer’s general ledger.

Effect of Condition: This condition could result in unrecorded transactions and undetected errors.

Recommendation: OSAI recommends management take steps to ensure reconciliations are performed between the funds presented on the County Clerk’s appropriation ledger and the County Treasurer’s general ledger monthly. Documentation of this reconciliation should be reviewed and approved by someone other than the preparer.

Management Response:

County Clerk: I will continue to work with the County Treasurer’s office to reconcile my appropriation ledger to the County Treasurer’s general ledger, and to investigate variances.

Criteria: To ensure a proper accounting of funds, the County Clerk’s appropriation ledger should be reconciled monthly to the County Treasurer’s general ledger.

Finding 2012-8 – Inadequate Internal Controls and Noncompliance Over Signature Stamp Commissioner District 3

Condition: Upon inquiry, observation, and review of documents, we noted the following internal control weaknesses with regard to purchasing procedures:

- The District 3 Commissioner’s signature stamp is not on file with the Oklahoma Secretary of State.

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- The Board of County Commissioners' secretary has physical control of the District 3 Commissioner's signature stamp; the stamp is retained in an unlocked drawer in the secretary's desk.

Cause of Condition: Management was unaware of requirements for signature stamps to be registered with the Oklahoma Secretary of State. Also, policies and procedures have not been designed to safeguard the signature stamp from unauthorized use.

Effect of Condition: This condition resulted in noncompliance with state statute and could result in unauthorized transactions and misappropriation of funds.

Recommendation: OSAI recommends signature stamps be adequately safeguarded from unauthorized use and filed with the Oklahoma Secretary of State.

Management Response:

County Commissioner District 3: Steps have been taken to ensure that the signature stamp is only taken out of the safe when I am present and at my request. All other times the stamp will remain in the safe.

Auditor Response: The signature stamp must be on file with the Secretary of State to be valid on public securities. In addition, the signature stamp is not adequately safeguarded from unauthorized use.

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

Title 62 O.S. § 602 requires any authorized officer to file his manual signature, certified by him under oath, with the Oklahoma Secretary of State for his facsimile signature to have the same legal effect as his manual signature.

Finding 2012-9 – Inadequate Internal Controls Over Bank Reconciliations (Repeat Finding)

Condition: Upon inquiry of the County Treasurer and observation of bank reconciliations, we noted the following:

- Monthly bank reconciliations are not being performed on seven of the County's bank accounts.
- Bank reconciliations for the official depository account were not approved by someone other than the preparer.

Regarding the general bank account:

- Three Treasurer's checks, outstanding for multiple years, have not been cancelled. The County Treasurer's office was unable to provide any additional documentation of the checks.

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Cause of Condition: Policies and procedures have not been designed and implemented to ensure all accounts are reconciled and approved and that all reconciling items are documented and investigated.

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

Recommendation: OSAI recommends that bank reconciliations are performed monthly for all accounts. In addition, all bank reconciliations should be approved by someone other than the preparer and include an indication of review. Also, OSAI recommends that all reconciling items be properly documented and investigated.

Management Response:

County Treasurer: My office will perform bank reconciliations on all accounts. The official depository account reconciliation will be reviewed and approved by someone other than the preparer. The outstanding Treasurer's checks will be cancelled.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. To help ensure a proper accounting of funds, all banks reconciliations should be performed monthly, with all reconciling items properly identified, and approved by someone other than the preparer.

Finding 2012-12 – Inadequate Internal Controls and Noncompliance Over Disbursements (Repeat Finding)

Condition: Of sixty-nine disbursements tested, the following exceptions were noted:

- Fourteen disbursements did not have receiving reports attached to the purchase orders.
- Seventeen disbursements were not timely encumbered.
- Three disbursements had no supporting documentation; therefore, we could not determine if the purchase was timely encumbered.

In addition, after a review of paid purchase orders, it was determined:

- A total of \$692,755.22 in disbursements was paid less than 5 days after presentation of payment.
- Warrants were also signed in the same Board of County Commissioners' meeting as the purchase orders presented for payment.

Cause of Condition: The County did not follow the policies and procedures designed by state statutes regarding the purchasing process.

Effect of Condition: These conditions resulted in noncompliance with state statutes and could result in unrecorded transaction, undetected errors, and misappropriation of funds, inaccurate records, and incomplete information.

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Recommendation: OSAI recommends that the County adhere to state purchasing guidelines. Adequate supporting documentation should be attached to the purchase order. This includes invoices, haul tickets, and receiving reports. Purchase orders should be encumbered before goods or services are ordered.

Management Response:

County Clerk: We will continue to “stamp” purchase orders that are not timely encumbered. Purchase orders will not be submitted to the Board of County Commissioners for approval until all documentation is received for the purchase. My office will continue to denote questionable purchases and bring them to the attention of the County Commissioners.

County Treasurer: I have implemented auditor’s recommendations.

County Commissioner District 1: I will place more importance on following the state purchasing statutes.

County Commissioner District 2: I will review purchase orders more closely to make sure that the County is complying with state statutes.

County Commissioner District 3: We will make every effort to ensure that state purchasing procedures are followed.

Criteria: 19 O.S. § 1505 prescribes the procedures established for the requisition, purchase, lease-purchase, rental, and receipt of supplies, materials, and equipment for maintenance, operation, and capital expenditures of county government. Additionally 19 O.S. § 1505 F 1 states, “Purchase orders may be allowed and paid at the first meeting of the board of county commissioners five (5) days after presentation for payment..”

Finding 2012-14 – Purchases Split to Circumvent Bid Requirements – Fire Departments

Condition: While reviewing disbursements from the McCurtain County Volunteer Fire Department Fund, we noted two purchase orders were issued to the same vendor within a thirty day period. The items included on the purchase orders were for one vehicle, on sequential vendor invoices. The total for the two purchase orders was \$17,477.00 which exceeded the bid amount. There was no evidence that bids or quotes were taken. The fire department obtained two different purchase orders separately to ensure the cost on one individual purchase order did not exceed \$10,000.

- Purchase order 4202 dated 2/3/12 for \$9,744.00 for skid frame and water tank;
 - Invoice 169886 - 400 gallon poly tank, pump and motor, stainless steel sliding aluminum skid frame, 6 gallon fuel tank, automotive battery, and 5 gallon pail of class A foam.
- Purchase order 4711 dated 3/2/12 for \$7,733.00 for foam system, spray nozzle, and hose reel;
 - Invoice 169887 - Blizzard wizard foam system, hose reel with 150 feet of HP hose, spray nozzle, 100 feet booster line, 48 inch light bar, siren, siren speaker, and lower zone lights.

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Cause of Condition: The County did not follow the policies and procedures designed by state statute regarding the purchasing process.

Effect of Condition: This condition resulted in noncompliance with state statutes, laws, regulations or legislative intent and could result in inaccurate records, incomplete information, or a misappropriation of assets.

Recommendation: OSAI recommends that the County adhere to state purchasing procedures. Furthermore, OSAI recommends that the all purchases for \$10,000 or more, be bid in accordance with state statutes. This includes purchases for secondary equipment, such as lights, sirens, water tanks, and hoses, that are needed to enhance an already purchased equipment item.

Management Response:

County Clerk: My office will continue to denote questionable purchases and bring them to the attention of the County Commissioners.

Chairman of the Board of County Commissioners: We have made every effort to ensure that all entities within County Government, i.e., fire departments, adhere to proper purchasing procedures and obtain bids for purchases in accordance with state statutes.

Criteria: Title 19 O.S. § 1501 A. states in part, “The county purchasing agent:

1. Shall, within the amount of the unencumbered balance, make all purchases that are paid from county funds for the various institutions, departments, officers, and employees of the county, except at public auctions and as otherwise provided for by law;
2. May make purchases for political subdivisions of this state within the county if authorized by appropriate action of the governing board or body of the political subdivision affected;
3. Shall make purchases and rental or lease-purchase agreements only after following the bidding procedures as provided for by law, except:
 - a. when the purchase does not exceed Ten Thousand Dollars (\$10,000.00). All purchases made pursuant to this subparagraph shall be by a single purchase order. Splitting purchase orders which would result in paying an amount in excess of the limitations specified in this subparagraph is expressly prohibited. Any person convicted of violating the provisions of this subparagraph shall be guilty of a misdemeanor and such person shall forfeit the person's position or office.”

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SECTION 3—Independent Auditor's Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133

Finding 2012-29 – Inadequate County-Wide Controls - Schools and Roads (Repeat Finding)

PASS-THROUGH GRANTOR: Oklahoma State Treasurer

FEDERAL AGENCY: U.S. Department of Agriculture

CFDA NO: 10.665

FEDERAL PROGRAM NAME: Schools and Roads - Grants to States

FEDERAL AWARD YEAR: 2012

CONTROL CATEGORY: Activities Allowed/Unallowed; Allowable Costs/Cost Principles; Cash Management; Procurement and Suspension and Debarment

QUESTIONED COSTS: \$-0-

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

Cause of Condition: Policies and procedures have not been designed and implemented to ensure the County is in compliance with grant requirements.

Effect of Condition: This condition could result in noncompliance to grant requirements.

Recommendation: OSAI recommends that the County implement a system of internal controls to ensure compliance with grant requirements.

Examples of control environment and procedures to address control environment for federal programs:

Control Environment	Procedures
The communication to employees from management of its belief that internal controls are important to meeting goals and objectives of federal grants.	<ul style="list-style-type: none"> • Establish written policies and procedures regarding federal funds. • Provide resources and training for the proper handling of federal funds. • Establish a written policy with regards to reporting known or suspected misappropriation of federal funds.

Examples of risks and procedures to address risk management for federal programs:

Risks	Procedures
Errors and misstatements in reporting	Independent review by another employee
Fraudulent activity	Segregation of duties
Information lost to computer crashes	Daily backups of information

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Risks	Procedures
Noncompliance with laws and grant requirements	Attend workshops, ensure employees receive current compliance supplements
New employee errors	Training, attending workshops, monitoring

Examples and procedures to address information and communication for federal programs:

Information and Communication	Procedures
The information and communication required to prepare the County's SEFA.	<ul style="list-style-type: none"> • Designate one person to prepare the SEFA. • Each department submits a monthly summary of financial information to the designated SEFA preparer. • Record significant grant activity in the BOCC minutes. • Review and approve the SEFA in BOCC meeting.

Examples of activities and procedures to address monitoring of federal programs:

Monitoring	Procedures
Communication between officers	Discussion in BOCC meetings to monitor progress of grant and compliance with grant requirements.
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 timely corrected.
Financial status	Periodically review budgeted amounts to actual amounts and resolve unexplained variances.
Compliance with grant requirements	Ensure employees understand grant requirements for federal program and are provided with the latest version of the compliance supplement.

Management Response:

Chairman of the Board of County Commissioners: We plan to develop and implement procedures to ensure compliance with grant requirements.

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

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Control Environment, Risk Assessment, Information and Communication, and Monitoring for the achievement of these goals.

The Control Environment is the foundation for all other components of internal control. When management believes that internal controls are important to meeting its goals and objectives and communicates this belief to its employees at all levels, internal controls are more likely to be functioning well. However, if management views internal controls as unrelated to achieving its goals and objectives, or even as an obstacle, it is almost a certainty that this attitude will be held by all employees, despite official statements or policies to the contrary. This understanding by management of the importance of internal controls and the communication of this importance to its employees are key elements of the control environment.

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 of efficient and effective operations, reliable financial reporting, and compliance with laws and regulations.

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

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

Finding 2012-30 – Inadequate Internal Controls Activities Over Major Federal Program – Schools and Roads

PASS-THROUGH GRANTOR: Oklahoma State Treasurer

FEDERAL AGENCY: U.S. Department of Agriculture

CFDA NO: 10.665

FEDERAL PROGRAM NAME: Schools and Roads - Grants to States

FEDERAL AWARD YEAR: 2012

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CONTROL CATEGORY: Activities Allowed/Unallowed; Allowable Costs/Cost Principles; Cash Management; Procurement and Suspension and Debarment

QUESTIONED COSTS: \$0-

Condition: During the process of documenting the County's internal controls regarding federal disbursements, we noted that McCurtain County has not established internal controls to ensure compliance with the following compliance requirements: Activities Allowed; Allowable Costs/Cost Principles; Cash Management; Procurement and Suspension and Debarment.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure the County is in compliance with grant requirements.

Effect of Condition: This condition could result in noncompliance to grant requirements.

Recommendation: OSAI recommends that the County implement a system of internal controls to ensure compliance with grant requirements.

Management Response:

Chairman of the Board of County Commissioners: We plan to develop and implement procedures to ensure compliance with grant requirements.

Criteria: Circular A-133 § .300 (b) states that the auditee shall:

Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have material effect on each of its Federal programs.

SECTION 4—This section contains certain matters not required to be reported in accordance with *Government Auditing Standards*. However, we believe these matters are significant enough to bring to management's attention. We recommend that management consider these matters and take appropriate corrective action.

Finding 2012-18 – Inadequate Internal Controls Over Court Clerk Reconciliation - District Court Case Balance Summary

Condition: While performing a reconciliation of the District Court Fund, we noted the following:

- There is no documentation of the reconciliation of the Court Clerk's District Court case balance summary report to the County Treasurer's official depository ledger.
- A variance of \$5,446.10 was noted when comparing the Court Clerk's District Court case balance summary report to the County Treasurer's official depository ledger.

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- We noted that the receipts on the Court Clerk's District Court case balance summary report for June 2012 do not agree to the County Treasurer's official depository ledger. A variance of \$51.70 was noted.

Cause of Condition: Policies and procedures regarding a monthly reconciliation have not been designed to ensure the Court Clerk's reports reconcile to the County Treasurer's official depository ledger.

Effect of Condition: This condition could result in unrecorded transactions, undetected errors, misappropriation of funds, or clerical errors that are not detected in a timely manner.

Recommendation: OSAI recommends that the Court Clerk's District Court case balance summary report be reconciled monthly to the County Treasurer's official depository ledger, and documentation of this process maintained.

Management Response:

Court Clerk: I will begin reconciling the District Court case balances with the County Treasurer.

Criteria: Safeguarding controls are an aspect on internal controls. Safeguarding controls relate to the prevention or timely detection of unauthorized transactions and unauthorized access to assets. Failure to perform tasks that are part of internal controls, such as reconciliations not prepared or timely prepared, are deficiencies in internal control. Further, reconciliations should be performed and maintained on a monthly basis.

Finding 2012-21 – Inadequate Internal Controls and Noncompliance Over Court Clerk Revolving Fund Disbursements

Condition: During our test of ten Court Clerk Revolving Fund vouchers and claims, the following was noted:

- Two claims did not have an invoice or supporting documentation.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure Court Clerk Revolving Fund disbursements have proper documentation, and are reviewed for accuracy.

Effect of Condition: This condition could result in unrecorded transactions, misstated financial reports, undetected errors, misappropriation of funds, or clerical errors that are not detected in a timely manner.

Recommendation: OSAI recommends that more emphasis be placed on verifying that disbursements have invoices and supporting documentation, and are mathematically accurate.

Management Response:

Court Clerk: I will ensure disbursements are properly supported.

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Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. Effective procedures are necessary to ensure stewardship and accountability of public funds. An aspect of effective accounting procedures includes maintaining supporting documentation for expenditures, verifying that amounts indicated on the documentation are mathematically correct, and having proper approval by a majority of the Court Fund Board.

Finding 2012-23 – Inadequate Segregation of Duties Over Court Clerk Court Fund and Court Clerk Revolving Funds

Condition: A concentration of duties exists in the Court Clerk’s office due to the following:

Receipts/Deposits:

- All employees receive monies, issue receipts, and reconcile their cash drawer.
- All employees rotate the duties of reconciling total receipts to the deposit ticket and taking the deposit to the Treasurer.

Disbursements/Reconciling:

- For the Court Fund, the Court Clerk performs the duties of preparing claims, issues vouchers, approves vouchers and claims, prepares reports, and reconciles with the County Treasurer.
- For the Court Clerk Revolving Fund, the Court Clerk performs the duties of preparing claims, approving claims, preparing reports, and reconciling with the County Treasurer.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure adequate segregation of duties in the Court Clerk’s 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 transaction, misstated financial reports, clerical errors, or misappropriation of funds not being detected in a timely manner.

Recommendation: OSAI recommends that management be aware of these conditions and realize that a concentration of duties and responsibilities in a limited number of individuals is not desired from a control point of view. The most effective controls lie in management’s oversight of office operations and a periodic review of operations. OSAI recommends that management provide segregation of duties so that no one employee is able to perform all accounting functions. In the event that segregation of duties is not possible due to limited personnel, OSAI recommends implementing compensating controls to mitigate the risk 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.

OSAI recommends the following key accounting functions of the Court Clerk’s office be adequately segregated:

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- Issuing receipts.
- Preparing/reviewing deposits and taking them to the bank.
- Maintaining accounting ledgers and reconciling bank statements.

Management Response:

Court Clerk: I agree with the auditor's recommendations, but due to limited personnel I will continue to perform the disbursements and reconciliation functions of the Court Fund and Court Clerk Revolving Fund.

Auditor Response: Although the office is limited in staff, mitigating controls such as reviewing work of others could be implemented to reduce the risks of error and fraud. Evidence of the review should be noted with initials and dates.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. To help ensure a proper accounting of funds, key duties and responsibilities should be segregated among different individuals to reduce the risk of error or fraud. No one individual should have the ability to authorize transactions, have physical custody of assets, and record transactions.

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Finding 2011-22 – County-Wide Controls Schools and Roads (Repeat Finding)

Pass-Through Grantor: Oklahoma State Treasurer

Federal Agency: United States Department of Agriculture

CFDA No: 10.665

Federal Program Name: Schools and Roads - Grants to States

Federal Award Year: 2011

Control Category: Activities Allowed/Unallowed; Allowable Costs/Cost Principles; Cash Management; Procurement and Suspension and Debarment

Questioned Costs: \$-0-

Finding Summary: County-wide controls regarding Control Environment, Risk Assessment, Information and Communication, and Monitoring have not been designed.

Status: No corrective action has been taken.

Finding 2011-23 – Internal Controls Activities Allowed and Allowable Cost for Schools and Roads (Repeat Finding)

Pass-Through Grantor: Oklahoma State Treasurer

Federal Agency: United States Department of Agriculture

CFDA No: 10.665

Federal Program Name: Schools and Roads - Grants to States

Federal Award Year: 2011

Control Category: Activities Allowed/Unallowed; Allowable Costs/Cost Principles

Questioned Costs: \$-0-

Finding Summary: During the process of documenting the County's internal controls regarding federal disbursements, we noted that McCurtain County has not established internal controls to ensure compliance with the following compliance requirements: Activities Allowed/Unallowed; Allowable Costs/Cost Principles.

Status: No corrective action has been taken.

Finding 2011-24 – Internal Controls Cash Management for Schools and Roads (Repeat Finding)

Pass-Through Grantor: Oklahoma State Treasurer

Federal Agency: United States Department of Agriculture

CFDA No: 10.665

Federal Program Name: Schools and Roads - Grants to States

Federal Award Year: 2011

Control Category: Cash Management

Questioned Costs: \$-0-

Finding Summary: During the process of documenting the County's internal controls regarding federal disbursements, we noted that McCurtain County has not established internal controls to ensure compliance with the following compliance requirement: Cash Management.

In addition, McCurtain County does not maintain a ledger for interest earned on the Schools and Roads-

**McCURTAIN COUNTY, OKLAHOMA
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Grants to States program. The County earned approximately \$10,485.84 on this fund during the fiscal year. The interest earned on this fund was apportioned to other funds.

Status: No corrective action has been taken.

Finding 2011-25 – Internal Controls Procurement for Schools and Roads (Repeat Finding)

Pass-Through Grantor: Oklahoma State Treasurer

Federal Agency: United States Department of Agriculture

CFDA No: 10.665

Federal Program Name: Schools and Roads - Grants to States

Federal Award Year: 2011

Control Category: Procurement and Suspension and Debarment

Questioned Costs: \$-0-

Finding Summary: During the process of documenting the County's internal controls regarding federal disbursements, we noted that McCurtain County has not established internal controls to ensure compliance with the following compliance requirement: Procurement and Suspension and Debarment. We tested 12 expenditures of the Schools and Roads-Grants to States and determined 6 expenditures totaling \$65,140.59 did not meet attributes for Compliance Requirement I – Procurement due to not encumbering the cost of goods prior to purchasing. In addition, one expenditure totaling \$450.66 did not meet attributes for Compliance Requirement I – Procurement due to proper documentation not attached to claim.

Status: No corrective action has been taken.

Finding 2010-23 – County-Wide Controls Schools and Roads

CFDA: 10.665

Federal Program Name: Schools and Roads - Grants to States

Federal Agency: United States Department of Agriculture

Finding Summary: County-wide controls regarding Control Environment, Risk Assessment, Information and Communication, and Monitoring have not been designed.

Status: No corrective action has been taken.

Finding 2010-24 – County-Wide Controls Disaster Grants

CFDA: 97.036

Federal Program Name: Disaster Grants - Public Assistance (Presidentially Declared Disasters)

Federal Agency: United States Department of Homeland Security

Finding Summary: County-wide controls regarding Control Environment, Risk Assessment, Information and Communication, and Monitoring have not been designed.

Status: No corrective action has been taken.

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Finding 2010-25 – Internal Controls Activities Allowed and Allowable Cost for Schools and Roads

CFDA: 10.665

Federal Program Name: Schools and Roads - Grants to States

Federal Agency: United States Department of Agriculture

Finding Summary: During the process of documenting the County's internal controls regarding federal disbursements, we noted that McCurtain County has not established internal controls to ensure compliance with the following compliance requirements: Activities Allowed; Allowable Costs.

Status: No corrective action has been taken.

Finding 2010-26 – Internal Controls Cash Management for Schools and Roads

CFDA: 10.665

Federal Program Name: Schools and Roads - Grants to States

Federal Agency: United States Department of Agriculture

Finding Summary: During the process of documenting the County's internal controls regarding federal disbursements, we noted that McCurtain County has not established internal controls to ensure compliance with the following compliance requirement: Cash Management. In addition, McCurtain County does not maintain a ledger for interest earned on the Schools and Roads - Grants to States program. The County earned approximately \$12,157.82 on this fund during the fiscal year. The interest earned on this fund was apportioned to other funds.

Status: No corrective action has been taken.

Finding 2010-27 – Internal Controls Procurement for Schools and Roads

CFDA: 10.665

Federal Program Name: Schools and Roads - Grants to States

Federal Agency: United States Department of Agriculture

Finding Summary: During the process of documenting the County's internal controls regarding federal disbursements, we noted that McCurtain County has not established internal controls to ensure compliance with the following compliance requirement: Procurement and Suspension and Debarment. We tested 13 expenditures of the Schools and Roads - Grants to States and determined 10 expenditures totaling \$168,743.99 did not meet attributes for Compliance Requirement I – Procurement due to not encumbering the cost of goods prior to purchasing.

Status: No corrective action has been taken.

Finding 2010-28 – Internal Controls over Compliance Requirements – FEMA

CFDA: 97.036

Federal Program Name: Disaster Grants - Public Assistance (Presidentially Declared Disasters)

Federal Agency: United States Department of Homeland Security

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Finding Summary: During the process of documenting the County's internal controls regarding federal disbursements, we noted that McCurtain County has not established internal controls to ensure compliance with the following compliance requirements: Activities Allowed/Unallowed; Cash Management; Matching Level of Effort/Earmarking; Period of Availability; and Special Tests and Provisions.

Status: No corrective action has been taken.

Finding 2010-29 – Internal Controls Allowable Cost for Disaster Grants

CFDA: 97.036

Federal Program Name: Disaster Grants - Public Assistance (Presidentially Declared Disasters)

Federal Agency: United States Department of Homeland Security

Finding Summary: During the process of documenting the County's internal controls regarding federal disbursements, we noted that McCurtain County has not established internal controls to ensure compliance with the following compliance requirement: Allowable Costs/Cost Principles. In addition, we tested four projects and determined that a total of \$15,345.53 was charged for ineligible labor and equipment due to lack of adequate documentation.

Status: No corrective action has been taken.

Finding 2010-30 – Internal Controls Procurement for Disaster Grants

CFDA: 97.036

Federal Program Name: Disaster Grants - Public Assistance (Presidentially Declared Disasters)

Federal Agency: United States Department of Homeland Security

Finding Summary: During the process of documenting the County's internal controls regarding federal disbursements, we noted that McCurtain County has not established internal controls to ensure compliance with the following compliance requirement: Procurement and Suspension and Debarment. In addition, we tested four projects and determined that expenditures totaling \$46,154.95 did not meet attributes for Compliance Requirement I – Procurement due to not encumbering the cost of goods prior to purchasing.

Status: No corrective action has been taken.

Finding 2009-12 – Internal Controls over Major Programs

CFDA: 10.665

Federal Program Name: Schools and Roads - Grants to States

Federal Agency: United States Department of Agriculture

Finding Summary: During the process of documenting the County's internal controls regarding federal disbursements, we noted that McCurtain County has not established internal controls to ensure compliance with the following compliance requirements: Activities Allowed; Allowable Costs; Cash Management; Matching, Level of Effort, Earmarking; Procurement and Suspension and Debarment.

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Status: We do not believe this finding warrants further action because the Federal agency or pass-through entity is not currently following up with the County on this finding.

Finding 2009-13 – Schools and Roads – Grant to States

CFDA: 10.665

Federal Program Name: Schools and Roads - Grants to States

Federal Agency: United States Department of Agriculture

Finding Summary: McCurtain County does not maintain a ledger for interest earned on the Schools and Roads - Grants to States program. The County earned approximately \$5,421.74 on this fund during the fiscal year. The interest earned on this fund was apportioned to other funds.

Status: We do not believe this finding warrants further action because the Federal agency or pass-through entity is not currently following up with the County on this finding.

Finding 2009-14 – Schools and Roads – Grant to States

CFDA: 10.665

Federal Program Name: Schools and Roads - Grants to States

Federal Agency: United States Department of Agriculture

Finding Summary: Of the 60 expenditures tested, 13 expenditures totaling \$33,949.57 did not meet attributes for Compliance Requirement I – Procurement due to not encumbering the cost of goods prior to purchasing.

Status: We do not believe this finding warrants further action because the Federal agency or pass-through entity is not currently following up with the County on this finding.

Finding 2009-22 – Schools and Roads - Grant to States

CFDA: 10.665

Federal Program Name: Schools and Roads - Grants to States

Federal Agency: United States Department of Agriculture

Finding Summary: Of the 60 expenditures tested, 3 did not meet attributes for Compliance Requirement I – Procurement due to lack of proper documentation regarding detailed invoices and receiving reports.

Status: We do not believe this finding warrants further action because the Federal agency or pass-through entity is not currently following up with the County on this finding.

Finding 2008-13 – Internal Controls over Major Programs

CFDA: 10.665, 97.036

Federal Program Name: Schools and Roads - Grants to States, Disaster Grants - Public Assistance (Presidentially Declared Disasters)

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Federal Agency: United States Department of Agriculture, Department of Homeland Security

Finding Summary: During the process of documenting the County's internal controls regarding federal disbursements, we noted that McCurtain County has not established internal controls to ensure compliance with the following compliance requirements: Activities Allowed; Allowable Costs; Cash Management; Matching, Level of Effort, Earmarking; Period of Availability; Procurement and Suspension and Debarment.

Status: We do not believe this finding warrants further action because the Federal agency or pass-through entity is not currently following up with the County on this finding.

Finding 2008-14 – Interest Earned on Federal Funds

CFDA: 10.665

Federal Program Name: Schools and Roads - Grants to States

Federal Agency: United States Department of Agriculture

Finding Summary: McCurtain County does not maintain a ledger for interest earned on the Schools and Roads - Grants to States program. The County earned approximately \$4,456.57 on these funds during the fiscal year. The interest earned on the fund was apportioned to other funds.

Status: We do not believe this finding warrants further action because the Federal agency or pass-through entity is not currently following up with the County on this finding.

Finding 2008-15 – Schools and Roads – Grant to States (Procurement)

CFDA: 10.665

Federal Program Name: Schools and Roads - Grants to States

Federal Agency: United States Department of Agriculture

Finding Summary: Of the twenty seven (27) expenditures tested ten (10) did not meet attributes for Compliance Requirement I – Procurement due to not encumbering the cost of goods prior to purchasing. (Dollar amount not properly encumbered \$71,528.90).

Status: We do not believe this finding warrants further action because the Federal agency or pass-through entity is not currently following up with the County on this finding.



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