

OPERATIONAL AUDIT

OKFUSKEE COUNTY

For the fiscal year ended June 30, 2014



*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

**OKFUSKEE COUNTY OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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Oklahoma State Auditor & Inspector

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February 22, 2016

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

Transmitted herewith is the audit report of Okfuskee County for the fiscal year ended June 30, 2014.

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 written in a cursive style.

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

**OKFUSKEE COUNTY, OKLAHOMA
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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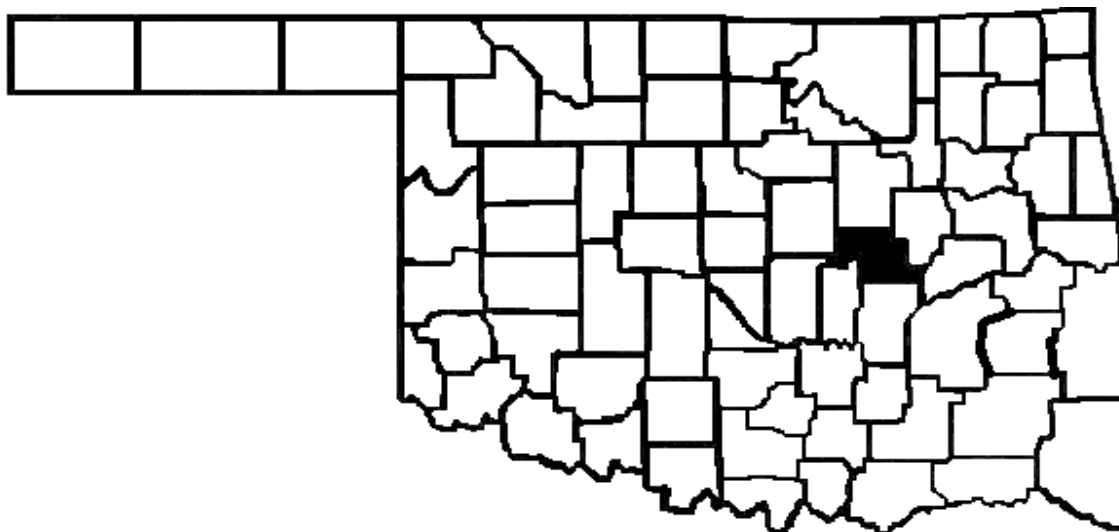
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**OKFUSKEE COUNTY, OKLAHOMA
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**



Named for a Creek town in Cleburn County, Alabama, Okfuskee County was originally part of the Creek Nation, Indian Territory.

Much of its history is tied to that of the Creek Nation. For example, Thlopthlocco Town, established in the 1830s in this area in the Creek Nation, became the headquarters of Colonel D.H. Cooper's Confederate forces in 1861, prior to battles with Opothleyahola and the "Loyal Creeks."

Okemah, the county seat, is named for the Creek Chief Okemah, meaning "Big Chief." Two of Okemah's most noted residents were Leon Chase Phillips, eleventh governor of Oklahoma, and legendary songwriter Woody Guthrie. Glen D. Johnson, a two-term Oklahoma Speaker of the House, is also from Okemah.

Boley, founded in 1904 on eighty acres of land belonging to a Creek freedman, is one of the few black towns remaining in the United States. Established to show the ability of the black community to govern itself, it thrived for many years until, in 1932, George Birdwell, "chief lieutenant" of Pretty Boy Floyd, not only robbed the Farmer's State Bank, but in the process shot and killed D.J. Turner, bank president and mayor of Boley.

For more information, call the county clerk's office at (918) 623-1724.

County Seat – Okemah

Area – 628. 91 Square Miles

County Population – 12,358
(2012 est.)

Farms – 950

Land in Farms – 298,814 Acres

Primary Source: Oklahoma Almanac 2013-2014

**OKFUSKEE COUNTY OFFICIALS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Board of County Commissioners

District 1 – Danny Wilson
District 2 – Max Henry
District 3 – Bruce Smith

County Assessor

Pamela J. Parish

County Clerk

Dianne Flanders

County Sheriff

Derrall Summers

County Treasurer

Judy Renee Alcorn

Court Clerk

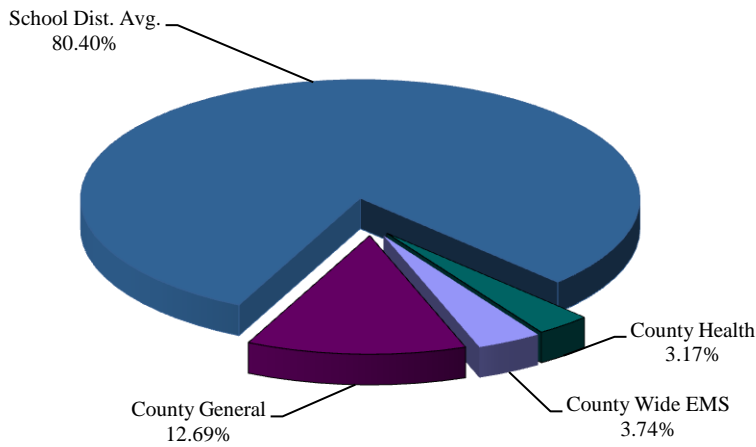
Sherri Foreman

District Attorney

Max Cook

**OKFUSKEE COUNTY, OKLAHOMA
AD VALOREM TAX DISTRIBUTION
SHARE OF THE AVERAGE MILLAGE
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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



County-Wide Millages		School District Millages						
				Gen.	Bldg.	Skg.	Common	Total
County General	10.55							
County Health	2.64	Mason	I-2	39.01	5.57	7.12	4.22	55.92
EMS	3.11	Paden	I-14	37.27	5.32	3.47	4.22	50.28
		Okemah	I-26	36.80	5.26	17.09	4.22	63.37
		Bearden	C-29	37.74	5.39	7.60	4.22	54.95
		Weleetka	I-31	36.13	5.16	29.61	4.22	75.10
		Graham	I-54	37.75	5.39	4.49	4.22	51.85
		Hughes	I-54	39.35	5.62	19.91	4.22	69.10
		Seminole	I-15	36.68	5.24	4.70	4.22	50.84

**OKFUSKEE COUNTY, OKLAHOMA
SALES TAX DISTRIBUTION
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Sales Tax

Sales Tax of January 1, 1994

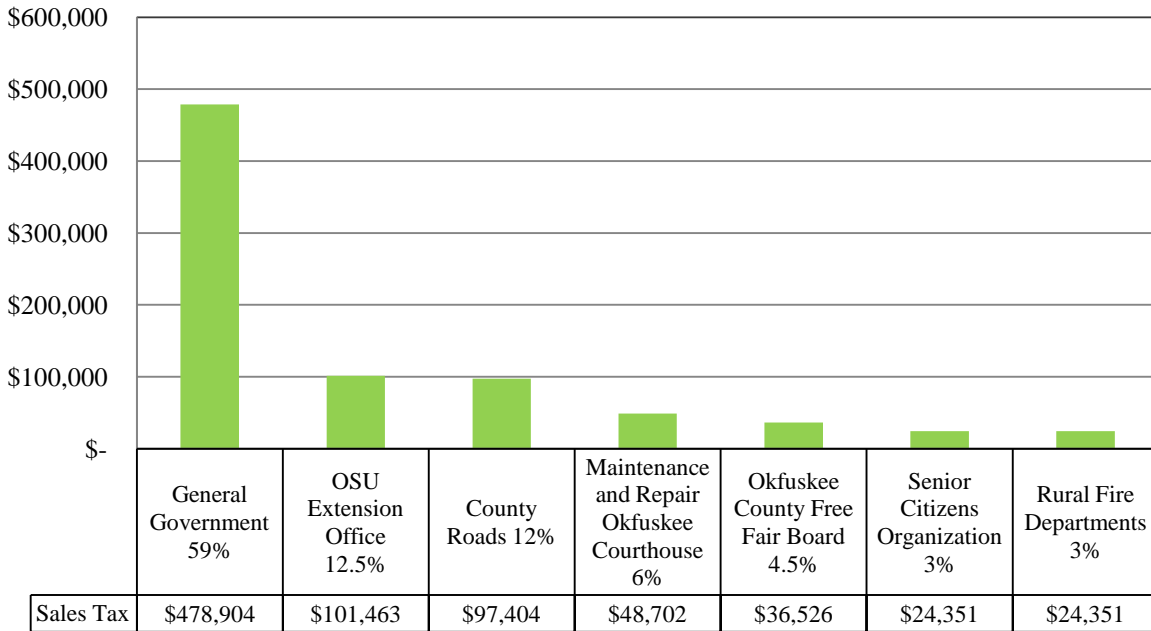
The voters of Okfuskee County approved a continuation of a 1 ¼ percent (1.25%) sales tax that went into effect January 1, 1994. This sales tax was established to provide revenue for the County and used for the following seven specific areas and percentages:

- | | | |
|----|--|-------|
| 1. | General Government | 59% |
| 2. | OSU Extension Office | 12.5% |
| 3. | County Roads | 12% |
| 4. | Maintenance and Repair Okfuskee Courthouse | 6% |
| 5. | Okfuskee County Free Fair Board | 4.5% |
| 6. | Senior Citizens Organizations | 3% |
| 7. | Rural Fire Departments | 3% |

These funds are accounted for in the County General Fund as reported on the Presentation of Apportionments, Disbursements, and Cash Balances of County Funds.

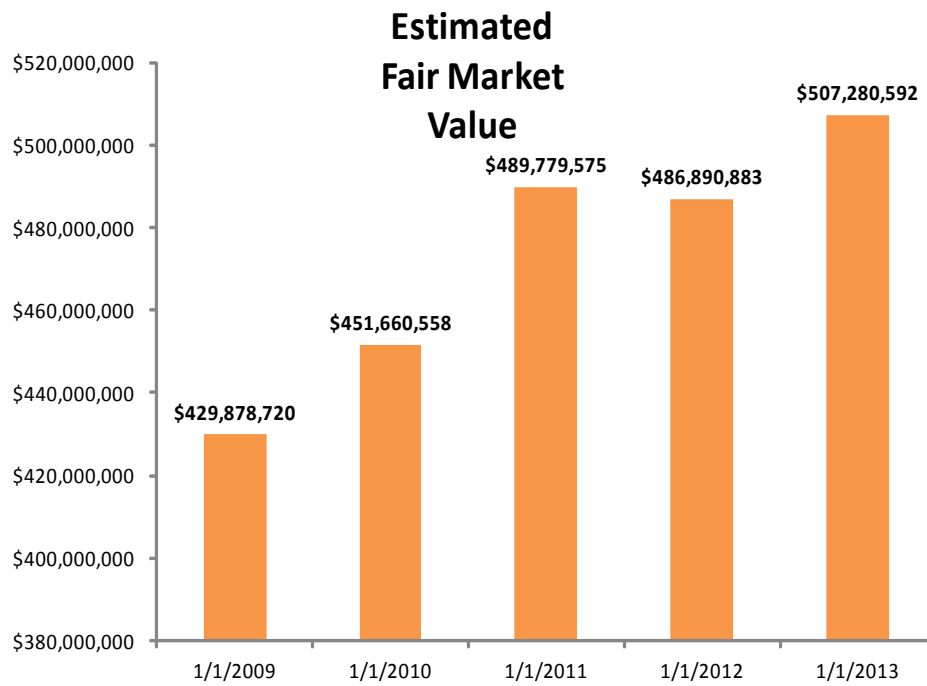
During the fiscal year the County collected \$811,701 in total sales tax.

2014 Sales Tax Distribution



**OKFUSKEE COUNTY, OKLAHOMA
 ASSESSED VALUE OF PROPERTY
 TREND ANALYSIS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

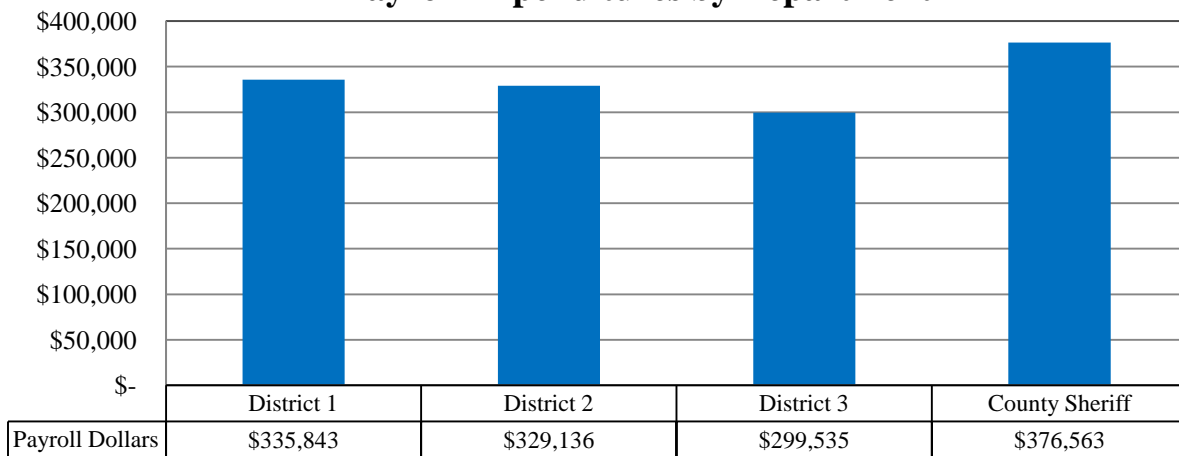
Valuation Date	Personal	Public Service	Real Estate	Homestead Exemption	Net Value	Estimated Fair Market Value
1/1/2013	\$16,686,129	\$15,871,410	\$31,283,046	\$2,966,914	\$60,873,671	\$507,280,592
1/1/2012	\$16,497,030	\$14,630,499	\$30,276,329	\$2,976,952	\$58,426,906	\$486,890,883
1/1/2011	\$17,189,337	\$15,093,200	\$29,512,604	\$3,021,592	\$58,773,549	\$489,779,575
1/1/2010	\$15,480,100	\$13,225,248	\$28,554,369	\$3,060,450	\$54,199,267	\$451,660,558
1/1/2009	\$15,133,516	\$13,067,416	\$24,360,675	\$2,680,844	\$49,880,763	\$429,878,720



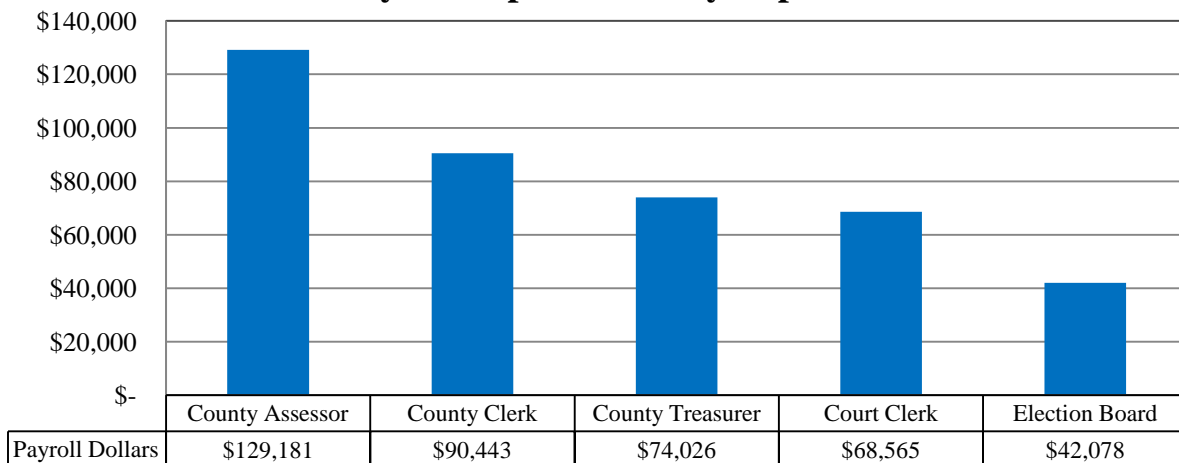
**OKFUSKEE COUNTY, OKLAHOMA
COUNTY PAYROLL EXPENDITURES ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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, 2014.

Payroll Expenditures by Department



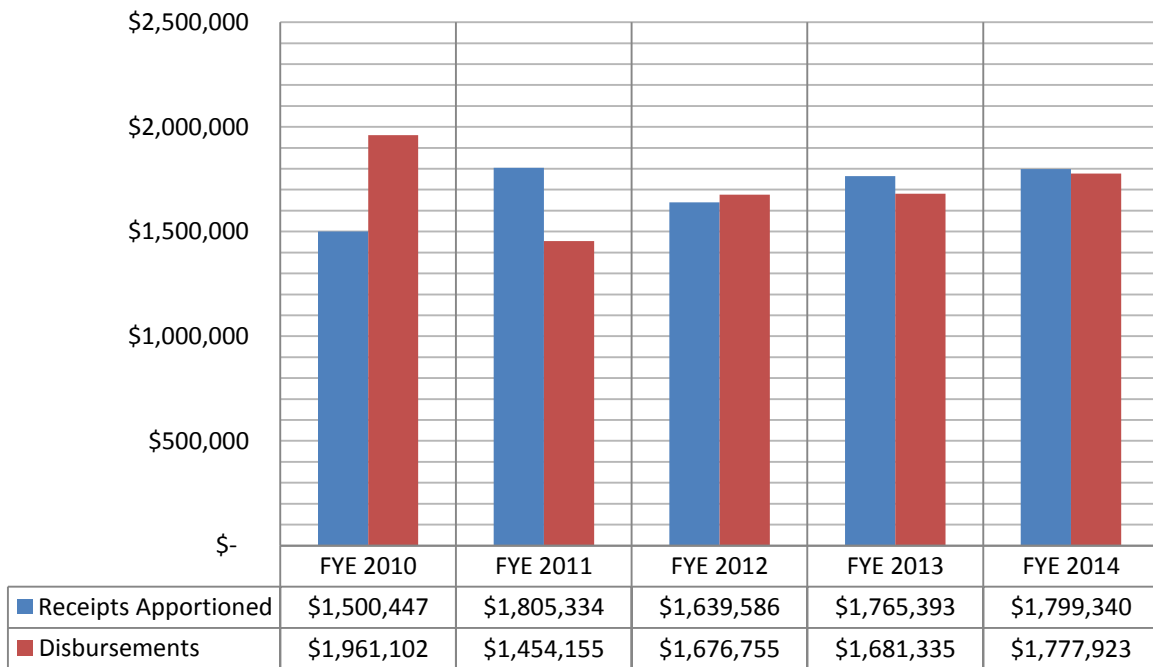
Payroll Expenditures by Department



**OKFUSKEE COUNTY, OKLAHOMA
COUNTY GENERAL FUND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

County General Fund

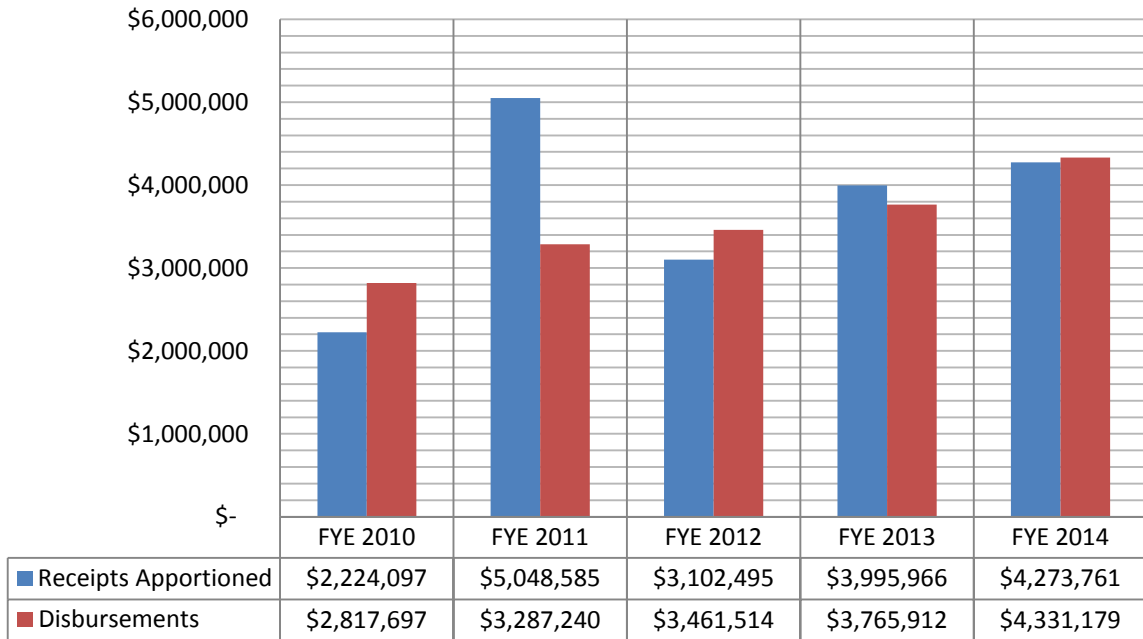
The Oklahoma Constitution and the Oklahoma Statutes authorize counties to create a County General Fund, which is the county's primary source of operating revenue. The County General Fund is typically used for county employees' salaries plus many expenses for county maintenance and operation. It also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



**OKFUSKEE COUNTY, OKLAHOMA
COUNTY HIGHWAY FUND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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.



**OKFUSKEE COUNTY
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Presentation of Apportionments, Disbursements, and Cash Balances of County Funds for Fiscal Year Ending June 30, 2014

	Beginning Cash Balances July 1, 2013	Receipts Apportioned	Transfers In	Transfers Out	Disbursements	Ending Cash Balances June 30, 2014
Combining Information:						
Major Funds:						
County General Fund	\$ 1,374,400	\$ 1,799,340	\$ 400,000	\$ 400,000	\$ 1,777,923	\$ 1,395,817
Highway Cash	2,594,680	4,273,761	-	-	4,331,179	2,537,262
County Health Department	258,815	167,243	-	-	196,102	229,956
Resale Property	249,076	62,650	37,875	-	51,520	298,081
Emergency Management	13,997	21,000	-	-	23,181	11,816
Sheriff Service Fee	92,908	86,920	-	-	37,480	142,348
County Clerk Lien Fee	95,909	21,277	-	-	13,605	103,581
County Clerk Records Preservation Fee	74,070	20,635	-	-	30,568	64,137
County Assessor Revolving	4,920	4,410	-	-	1,504	7,826
County Treasurer Mortgage Tax Certification Fee	19,535	2,055	-	-	1,936	19,654
Sheriff Revolving	71,766	38,622	-	-	3,431	106,957
CDBG Solid Waste	446	-	-	-	-	446
Insurance Damage	8,500	2,701	-	-	2,701	8,500
REAP	-	14,356	-	-	14,356	-
JAIB Grant	6,025	11	-	-	-	6,036
County Use Tax	60,075	64,243	-	-	49,628	74,690
Combined Total - All County Funds	\$ 4,925,122	\$ 6,579,224	\$ 437,875	\$ 400,000	\$ 6,535,114	\$ 5,007,107

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

**OKFUSKEE COUNTY
DESCRIPTION OF COUNTY FUNDS
OPERATIONAL AUDIT
FOR THE FISCAL YEAR JUNE 30, 2014**

Description of County Funds

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

Following are descriptions of the county funds within the Presentation of Apportionments, Disbursements, and Cash Balances of County Funds:

County General Fund – accounts for the general operations of the government.

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

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

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

Emergency Management – account for monies received and disbursed for the Emergency Management Department.

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

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

County Clerk Records Preservation Fee – accounts for fees collected for instruments filed with the County Clerk as restricted by statute to be used for preservation of records.

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

County 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 state statute.

Sheriff Revolving – accounts for revenues from various fees collected by the Sheriff. Disbursements are for any legal expense of the Sheriff's office.

**OKFUSKEE COUNTY
DESCRIPTION OF COUNTY FUNDS
OPERATIONAL AUDIT
FOR THE FISCAL YEAR JUNE 30, 2014**

CDBG Solid Waste – accounts for grant monies received and disbursed as restricted by the grant agreement for a Community Development Block Grant.

Insurance Damage – accounts for revenues from the County’s insurance coverage. Disbursements are for the repair of damaged properties.

REAP – accounts for revenues from State and Rural Economic Action Plan Grant provided for the upkeep of county buildings.

JAIB Grant – accounts for revenues from a Juvenile Accountability and Incentive Block Grant.

County Use Tax – accounts for revenues from sales tax charged to out-of-county vendors on in-county sales. Disbursements are for any legal expenses of the County.

OKFUSKEE COUNTY, OKLAHOMA
COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES—BUDGET AND ACTUAL—BUDGETARY BASIS—
COUNTY GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	General Fund		
	Budget	Actual	Variance
Beginning Cash Balances	\$ 1,374,400	\$ 1,374,400	\$ -
Less: Prior Year Outstanding Warrants	(50,810)	(50,810)	-
Less: Prior Year Encumbrances	(41,596)	(41,596)	-
Beginning Cash Balances, Budgetary Basis	<u>1,281,994</u>	<u>1,281,994</u>	<u>-</u>
Receipts:			
Ad Valorem Taxes	582,266	618,498	36,232
Charges for Services	44,148	73,139	28,991
Intergovernmental Revenues	891,132	971,333	80,201
Miscellaneous Revenues	51,796	136,370	84,574
Total Receipts, Budgetary Basis	<u>1,569,342</u>	<u>1,799,340</u>	<u>229,998</u>
Expenditures:			
County Sheriff	450,000	449,100	900
County Treasurer	75,376	73,592	1,784
County Commissioners	72,632	25,491	47,141
County Commissioners OSU Extension	5,400	4,386	1,014
Court Clerk	71,377	71,376	1
County Assessor	74,076	74,053	23
Revaluation	102,095	100,437	1,658
Excise Equalization	3,700	3,599	101
County Election Expense	55,265	50,139	5,126
County Purchasing Agent	3,500	2,644	856
Welfare Agencies	1,500	22	1,478
County Audit Budget Account	5,896	-	5,896
Sales Tax	1,930,519	895,001	1,035,518
Total Expenditures, Budgetary Basis	<u>2,851,336</u>	<u>1,749,840</u>	<u>1,101,496</u>
Excess of Receipts and Beginning Cash			
Balances Over Expenditures, Budgetary Basis	<u>\$ -</u>	1,331,494	<u>\$ 1,331,494</u>
Interfund Transfers:			
Interfund Transfer In		400,000	
Interfund Transfer Out		(400,000)	
Net Interfund Transfers		<u>-</u>	
Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances			
Add: Current Year Outstanding Warrants		39,890	
Add: Current Year Encumbrances		24,433	
Ending Cash Balance		<u>\$ 1,395,817</u>	

Source: County Estimate of Needs (presented for informational purposes)

OKFUSKEE 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, 2014

	County Health Department Fund		
	Budget	Actual	Variance
Beginning Cash Balances	\$ 258,814	\$ 258,815	\$ 1
Less: Prior Year Outstanding Warrants	(332)	(332)	-
Less: Prior Year Encumbrances	(70,205)	(70,205)	-
Beginning Cash Balances, Budgetary Basis	188,277	188,278	1
Receipts:			
Ad Valorem Taxes	145,705	154,776	9,071
Charges for Services	-	278	278
Intergovernmental Revenues	-	11,123	11,123
Miscellaneous Revenues	3,813	1,066	(2,747)
Total Receipts, Budgetary Basis	149,518	167,243	17,725
Expenditures:			
County Health Budget Account	337,795	135,854	201,941
Total Expenditures, Budgetary Basis	337,795	135,854	201,941
Excess of Receipts and Beginning Cash Balances Over Expenditures, Budgetary Basis	\$ -	219,667	\$ 219,667
Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances			
Add: Current Year Encumbrances		4,184	
Add: Current Year Outstanding Warrants		6,105	
Ending Cash Balance		\$ 229,956	

Source: County Estimate of Needs (presented for informational purposes)

**OKFUSKEE COUNTY
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

PURPOSE, SCOPE, AND SAMPLE METHODOLOGY

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

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In planning and conducting our audit, we focused on the major financial related areas of operations based on assessment of materiality and risk for the fiscal year ended June 30, 2014. Our audit procedures included:

- Inquiries of appropriate personnel,
- Inspections of documents and records,
- Observations of the County's operations,
- Reconciling total apportionments, disbursements, and balances presented on the County's Presentation of Apportionments, Disbursements, and Cash Balances of County Funds for the fiscal year to the County Treasurer's and County Clerk's financial ledgers,
- Confirming third party confirmations to the financial ledgers, and
- Selecting representative samples to determine disbursements were made in accordance with state statutes, approved ballots, and county purchasing procedures.
- Gaining an understanding of the County's internal controls as it relates to each audit objective.

To ensure the samples were representative of the population and provided sufficient, appropriate evidence, both random sample and judgmental sample methodologies were used. We identified specific attributes for testing each of the samples and when appropriate, we projected our results to the population.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, errors or fraud may occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

This report is a public document pursuant to the Oklahoma Open Records Act (51 O.S. § 24A.1 et seq.), and shall be open to any person for inspection and copying.

**OKFUSKEE COUNTY
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Objective 1: To determine the receipts apportioned, disbursements, and cash balances are accurately presented on the County Treasurer's monthly reports for FY 2014.

Conclusion: With respect to the items reconciled and reviewed; the receipts apportioned, disbursements, and cash balances are accurately presented on the County Treasurer's monthly reports. However, we noted some deficiencies in internal controls regarding the financial reporting process.

FINDINGS AND RECOMMENDATIONS

Finding 2014-1 – Inadequate Segregation of Duties – County Treasurer (Repeat Finding)

Condition: The following weaknesses were noted regarding the collection and balancing process in the County Treasurer's office:

- The duties of issuing receipts, voiding receipts, accepting cash, reconciling the cash drawer, and preparing the deposit were not adequately segregated within the County Treasurer's office which is the office primarily responsible for collections of revenues.
- The employees in the County Treasurer's office operate from the same cash drawer.
- Upon visual verification, we determined there was no notation of the monthly bank reconciliations, or monthly reports being reviewed by someone other than the preparer.
- Two accounts on the general ledger do not belong to the County.
 - Industrial Authority \$170,959.53
 - Industrial Authority CD \$20,625.56
- One account owned by the County was not on the general ledger.
 - EFTPS \$1,746.00

Furthermore, we noted checks which have cleared the bank and not posted as paid, overstating the County General Fund at June 30th in the amount of \$20,055.22.

Cause of Condition: Management has not implemented procedures to separate key functions and processes among various employees in the office or to have levels of review over the processes performed.

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

**OKFUSKEE COUNTY
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Recommendation: The Oklahoma State Auditor and Inspector's Office (OSAI) recommends the following key accounting functions of the Treasurer's office be adequately segregated:

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

In addition, OSAI recommends establishing a system of controls to adequately protect the collections of the Treasurer's office, which include but are not limited to the following:

- Establish separate cash drawers for all employees receiving cash.
- A daily log of mailed in receipts should be compiled.
- The County Treasurer should only maintain funds belonging to the County.

Management Response:

County Treasurer: I took office on July 6, 2015. I have taken the necessary steps to segregate duties in the issuing of receipts, voiding receipts, accepting cash, reconciling the cash drawer, and preparing the deposit. The monthly bank statements and reports are being verified by one employee and then reviewed and approved by another. This includes documentation of the reconciliation and is being initialed and dated by each employee. The Industrial Authority account and the Industrial Authority CD have been removed from the general ledger as these do not belong to the County. The EFTPS account will be listed on the general ledger if there is a balance. In addition, checks clearing the bank are now treated as checks and are posted as paid on the general fund.

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.

Objective 2: To determine the County's financial operations complied with 68 O.S. § 1370E, which requires the sales tax collections to be deposited in the general revenue or Sales Tax Revolving Fund of the County and be used only for the purpose for which such sales tax was designated.

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

**OKFUSKEE COUNTY
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Objective 3: To determine the County's financial operations complied with 68 O.S. § 2923, which requires the ad valorem tax collections to be apportioned and distributed monthly among the different funds to which they belong.

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

Objective 4: To determine whether the County's internal controls provide reasonable assurance that expenditures (including payroll) were accurately reported in the accounting records and financial operations complied with significant laws and regulations.

Conclusion: The County's internal controls do not provide reasonable assurance that expenditures (including payroll) were accurately reported in the accounting records. However, the financial operation complied with significant laws and regulations.

FINDINGS AND RECOMMENDATIONS

Finding 2014-3 – Inadequate Internal Controls Over the Disbursement and Payroll Processes (Repeat Finding)

Condition: Upon inquiry and observation of the County's disbursement and payroll processes, we noted the following:

- A lack of segregation of duties exists in the County Clerk's office because the Payroll Clerk adds new hires to the payroll system, makes changes to payroll, processes payroll claims, issues payroll, prints payroll, and has access to blank warrants and distributes payroll.
- The duties of processing disbursements are not adequately segregated. One employee of the County Clerk can encumber funds, print and issue checks, and have physical custody to deliver checks.

Cause of Condition: Policies and procedures have not been designed and implemented to adequately segregate the duties within the disbursement and payroll processes.

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

**OKFUSKEE COUNTY
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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

Management Response:

County Clerk: As of November 20, 2015, the County Clerk has implemented steps to correct this. The Assistant Purchasing Agent will encumber the funds, the County Clerk will enter and process batch pay, the Assistant Purchasing Agent will print warrants and register them with the County Treasurer, and the County Clerk will separate warrants by department. For payroll, the Payroll Clerk will add new hires to the payroll system and make changes to payroll from the payroll reports; the County Clerk will verify payroll affidavits, process payroll claims, and issue payroll; the Payroll Clerk will print payroll warrants, register warrants with the County Treasurer, and separate payroll warrants by department.

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

All Objectives:

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

Finding 2014-5 - Inadequate County-Wide Controls (Repeat Finding)

Condition: County-wide controls regarding Risk Management and Monitoring have not been designed. Also, a County-wide Disaster Recovery Plan has not been designed and implemented by County management, with the exception of County Clerk.

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

Effect of Condition: These conditions could result in unrecorded transactions, undetected errors, or misappropriation of funds. Further, these conditions could also result in the loss of data, the unreliability of data, and increase the risk that the County may not recover in an emergency situation and/or disaster.

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

Further, a County-wide Disaster Recovery Plan should be designed and implemented with the inclusion of all information systems used by individual offices in order to maintain operations in the event of an emergency situation and/or disaster.

Management Response:

Board of County Commissioners: The Board of County Commissioners (BOCC) has implemented steps to correct this. The BOCC will hold quarterly discussions with all elected officials in an open meeting to address possible risks of the County. The BOCC will design and implement a County-Wide Disaster Recovery Plan and request that each elected official or department head do the same. The County Clerk has a plan on file with the Sheriff, Emergency Management Director, BOCC Chairman, and each County Clerk employee.

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

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

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

REPORT ON STATUTORY COMPLIANCE – OTHER MATTERS



Oklahoma State Auditor & Inspector

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Okfuskee County
Board of County Commissioners
Okfuskee County Courthouse
Okemah, Oklahoma 74859

Dear Chairman:

For the purpose of complying with 19 O.S. § 171 and 20 O.S. § 1312, we have performed statutory procedures regarding the following offices and departments for the fiscal year ended June 30, 2014:

- All County Offices - Fixed Assets procedures (19 O.S. § 178.1 and 69 O.S. § 645).
- All County Offices - Consumable Inventories procedures (19 O.S. § 1502 and 19 O.S. § 1504).
- Court Clerk procedures (20 O.S. § 1304 and 19 O.S. § 220).
- Inmate Trust Fund procedures (19 O.S. § 531 and 19 O.S. § 180.43).

Our statutory compliance engagement was limited to the procedures related to the statutes above and was less in scope than an audit performed in accordance with generally accepted auditing standards. Accordingly, we do not express an opinion on any basic financial statement of Okfuskee County.

Based on our procedures performed, we have presented our findings in the accompanying schedule.

This report is intended for the information and use of the management of the County. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

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

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

February 18, 2016

**OKFUSKEE COUNTY, OKLAHOMA
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SCHEDULE OF FINDINGS AND RESPONSES

Finding 2014-6 – Inadequate Internal Controls and Noncompliance Over the Inmate Trust Fund Checking Account and Sheriff Commissary Fund (Repeat Finding)

Condition: Upon inquiry of County officials and employees, and observation of records in regard to the Inmate Trust Fund Checking Account and the Sheriff Commissary fund the following weaknesses were noted:

- One employee issues receipts, voids receipts, accepts cash, reconciles the cash drawer, prepares deposits, maintains inmates' accounts and reconciles accounts.
- Funds were not deposited daily.
- Upon visual verification, we determined there was no evidence of the monthly bank reconciliations being reviewed by someone other than the preparer.
- Checks from the Inmate Trust Fund Checking Account did not require two signatures.
- The Annual Commissary Report was not filed with the Board of County Commissioners.
- Blank Purchase Orders for the Commissary Fund are pre-signed and located in an unsecured area.

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

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

Recommendation: OSAI recommends the total of inmate's trust fund balances should be reconciled to the bank statements each month with someone other than the preparer reviewing it collection of inmate monies should be deposited daily, and no operating expenditures should be made from this fund. Furthermore, an annual report of commissary operations should be submitted to the Board of County Commissioners no later than January 15th of each year. Purchase orders should not be pre-signed and located in a secure area. All checks from the Inmate Trust Fund Checking Account should have two authorized signatures.

Management Response:

County Sheriff: In response to the finding we have implemented the following:

- There are now two people maintaining the Inmate Trust Fund Checking Account.
- Funds will be deposited daily.
- The verification of monthly bank reconciliations is being reviewed by a separate person other than the preparer.
- Checks from the Inmate Trust Fund Checking Account now require two signatures.
- The Commissary Report is being filed with the Board of County Commissioners.
- Operating expenses will not be paid out of the Inmate Trust Fund Checking Account.

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- Blank purchase orders for the Commissary Fund are now in a secured location and no longer pre-signed.

Criteria: The overall goal of effective internal controls is to demonstrate accountability and stewardship. To help ensure a proper accounting of funds, no one individual should have the ability to authorize transactions, have physical custody of assets, and record transactions. In addition, two authorized signatures should be required on all inmate trust account checks, bank reconciliations should be performed each month, and contracts should be approved by the Board of County Commissioners.

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

Finding 2014-7 - Inadequate Internal Controls Over the Court Clerk Collection and Disbursement Processes (Repeat Finding)

Condition: Upon inquiry and observation of the Court Clerk’s Office, we noted the following weaknesses with regard to internal controls related to the receipting and expenditure processes.

Receipting Process:

- All employees operate from the same cash drawer.
- One employee issues receipts, balances the cash drawer, prepares deposits, takes the deposit to the Treasurer, and reconciles daily receipts to the cash book.

Expenditure Process:

- One employee prepares claims, approves claims, prints vouchers, signs vouchers, reconciles accounts, has access to make changes and voids in system, and prepares quarterly and annual reports.

Cause of Condition: Policies and procedures have not been designed and implemented to adequately segregate the duties of the receipting and expenditure processes within the office of the Court Clerk.

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

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Recommendation: OSAI recommends that management be aware of these conditions and realize that concentration of duties and responsibilities in a limited number of individuals is not desired from a control point of view. Regarding the receipting process, OSAI recommends that one employee should not be performing all of the duties regarding issuing receipts, balancing the cash drawer, preparing the deposit, and delivering the deposit to the County Treasurer's office. Further, we recommend that all employees issuing receipts operate from separate cash drawers. The cash drawer should be closed out, reconciled to the employees daily receipts, and be approved by someone independent of the cash drawer and making the deposit.

OSAI also recommends the following key accounting functions of the disbursement be adequately segregated as follows:

- Preparing claims.
- Printing vouchers.
- Signing and registering vouchers with the County Treasurer.
- Reconciling monthly and quarterly reports with the County Treasurer.

Management Response:

Court Clerk: At this time our office is implementing changes as to the cash drawer and delegation of duties. This will include two people signing off for acceptance of cash payments on receipts and cash payment slips. All receipts and monies shall be balanced at the end of the day by two deputies, locked overnight and taken for deposit the following day by another deputy. A mail log for incoming daily payments shall be maintained by all deputies opening mail. Preparation of claims and vouchers shall also require the clerk and deputy or two deputies preparing and another signing off on vouchers after authorization by the Court Fund Committee.

Criteria: Accountability and stewardship are over all 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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