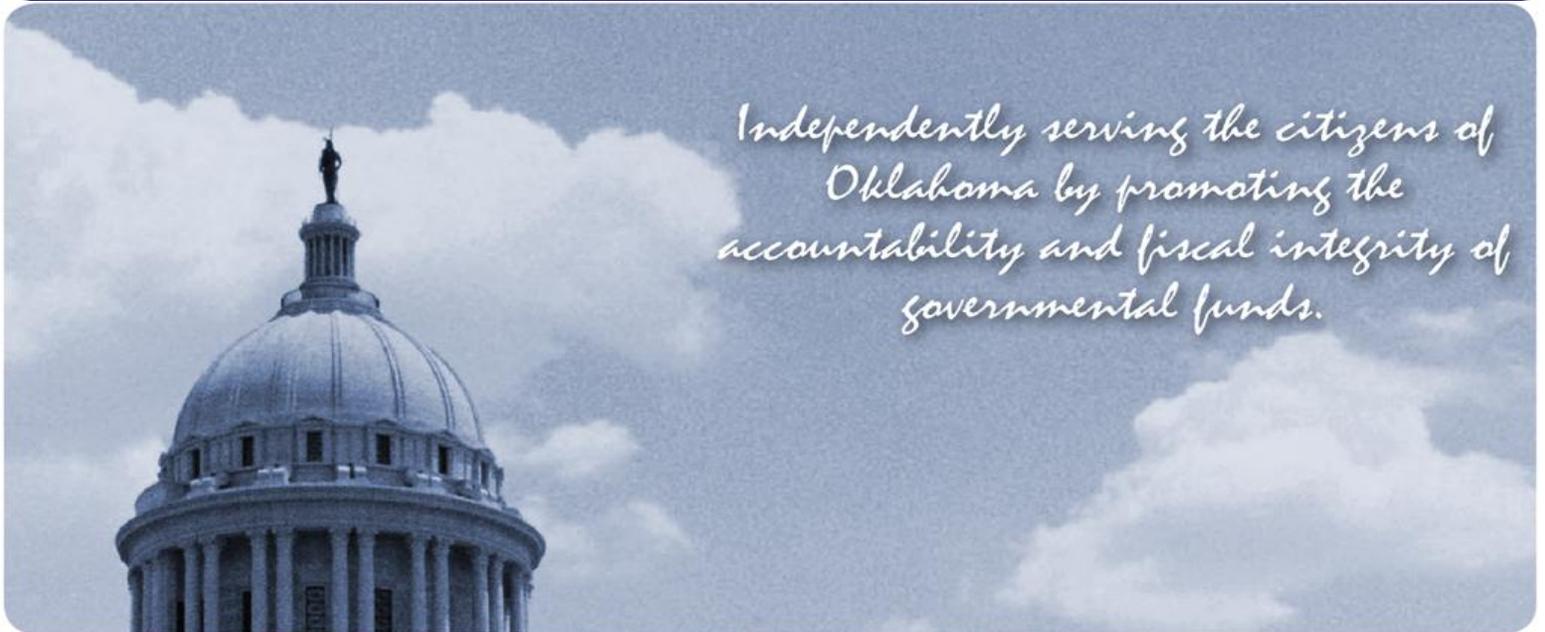


OPERATIONAL AUDIT

PITTSBURG COUNTY

For the fiscal year ended June 30, 2015



*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

**PITTSBURG COUNTY OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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 Prairie Collection (<http://digitalprairie.ok.gov/cdm/search/collection/audits/>) pursuant to 65 O.S. § 3-114.



Oklahoma State Auditor & Inspector

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

October 26, 2016

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

Transmitted herewith is the audit report of Pittsburg County for the fiscal year ended June 30, 2015.

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 with a long horizontal stroke at the end.

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

**PITTSBURG COUNTY, OKLAHOMA
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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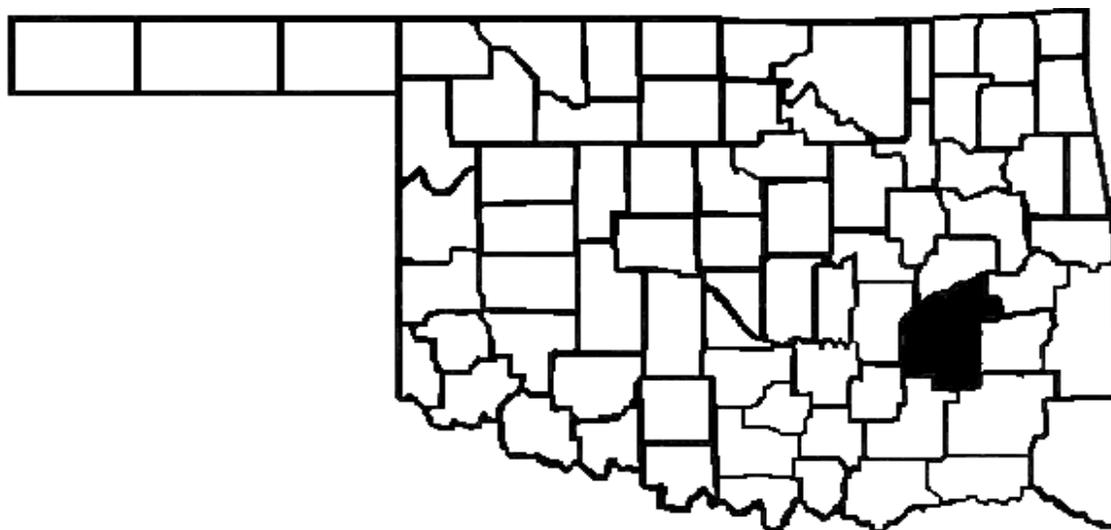
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**PITTSBURG COUNTY, OKLAHOMA
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**



Pittsburg County was created at statehood from Tobucksy County in the Choctaw Nation Indian Territory. The new county took its name from Pittsburgh, Pennsylvania. Perryville, which no longer exists, was the place in Tobucksy County that court was held and elections were designated to take place. It was located a few miles south of present-day McAlester and was also an important military post and depot for Confederate forces. In September 1863 Perryville was burned to the ground by Union troops.

The largest city and the county seat of Pittsburg County is McAlester, which was originally developed as a rail center for the coal mining industry. Today, it is also the site of the Oklahoma State Penitentiary.

Agriculture is an important factor in the present-day economy of Pittsburg County. Peanuts, cotton, wheat, oats, and soybeans are among the major crops grown. McAlester Union Stock yard, which is one of the largest in the Southwest, and a large army ammunition plant are also vital to the county. Krebs is the largest Italian community in Oklahoma and is known for its fine food.

Annual events include the Italian Festival in McAlester in May, the Prison Rodeo in McAlester in September, and the Southeast Oklahoma Arts and Crafts Show during the first weekend in November. For more information, contact the county clerk at 918/423-6865.

County Seat – McAlester

Area – 1,377.85 Square Miles

County Population – 44,626
(2014 est.)

Farms – 1,567

Land in Farms – 523,627 Acres

Primary Source: Oklahoma Almanac 2015-2016

**PITTSBURG COUNTY OFFICIALS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Board of County Commissioners

District 1 – Gene Rogers
District 2 – Kevin Smith
District 3 – Ross Selman

County Assessor

Cathy Haynes

County Clerk

Hope Trammell

County Sheriff

Joel Kerns

County Treasurer

Donna Scrivner

Court Clerk

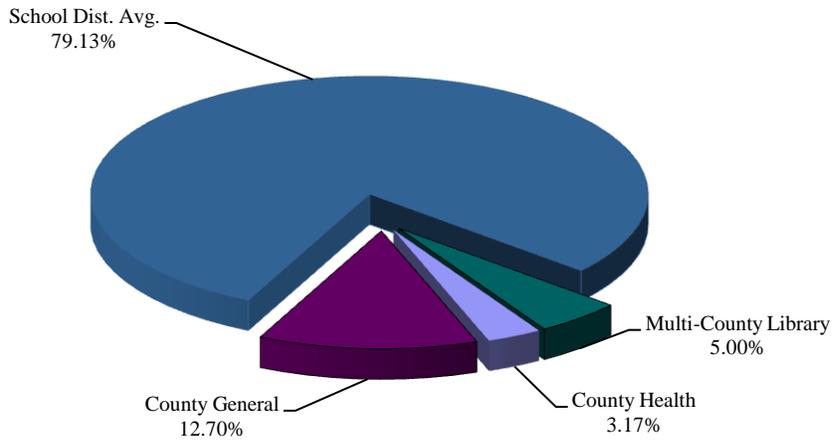
Cindy Smith

District Attorney

Farley Ward

**PITTSBURG COUNTY, OKLAHOMA
AD VALOREM TAX DISTRIBUTION
SHARE OF THE AVERAGE MILLAGE
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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	10.33								
County Health	2.58	Hartshorne	I-1	35.93	5.13	-	12.40	4.13	57.59
Multi-County Library	4.07	Canadian	I-2	35.60	5.09	2.17	12.40	4.13	59.39
		Haileyville	I-11	36.74	5.25	3.20	12.40	4.13	61.72
		Kiowa	I-14	36.57	5.22	-	12.40	4.13	58.32
		Quinton	I-17	36.09	5.16	25.15	12.40	4.13	82.93
		Indianola	I-25	37.30	5.33	3.05	12.40	4.13	62.21
		Crowder	I-28	36.91	5.27	4.73	12.40	4.13	63.44
		Savanna	I-30	36.60	5.23	10.79	12.40	4.13	69.15
		Pittsburg	I-63	36.51	5.22	13.41	12.40	4.13	71.67
		McAlester	I-80	35.76	5.11	-	12.40	4.13	57.40

**PITTSBURG COUNTY, OKLAHOMA
SALES TAX DISTRIBUTION
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Sales Tax

October 11, 2005

The voters of Pittsburg County approved three quarters of one (1) cent on October 11, 2005 to be pledged toward the retirement of indebtedness incurred therefore and to be designated and used specifically as follows:

- 48% constructing, renovating, expanding, equipping, which includes three-sixteenths of one (1) cent for operating and maintaining the Pittsburg County Jail;
- 47% acquisition of real property, constructing, renovating, expanding, and furnishing the Pittsburg County Courthouse;
- 5% acquisition of real property, constructing, equipping, which includes one-sixteenth of one (1) cent primarily for operating and maintaining a new Pittsburg County animal shelter.

A portion of this sales tax, one half of one (1) cent, expires October 11, 2024, or until principal and interest upon indebtedness is paid in full, whichever occurs earlier. The remaining one quarter sales tax is permanent.

These funds are accounted for in the Jail Construction and Renovation fund, Jail Maintenance and Operation fund, Courthouse Construction and Renovation fund, Animal Shelter Construction fund, and Animal Shelter Maintenance and Operation fund.

Sales Tax of July 29, 2008

The voters of Pittsburg County approved a permanent one quarter of one percent (1/4%) sales tax effective July 29, 2008. This sales tax was designated for fire protection. The sales tax will be distributed to the fire departments in the following communities; Alderson, Arrowhead Estates, Ashland, Blanco, Blue, Bugtussle, Canadian, Canadian Shores, Crowder, Elm Point, Gaines Creek, Haileyville, Hartshorne, Haywood-Arpear, High Hill, Highway 9, Indianola, Kiowa, Krebs, McAlester, Pittsburg, Quinton, Sam's Point, Savanna, Shady Grove, Tannehill, and Union Chappell, or others hereinafter established.

These funds are accounted for in the County Fire Tax fund.

During the fiscal year, the County collected \$6,280,927 in total sales tax.

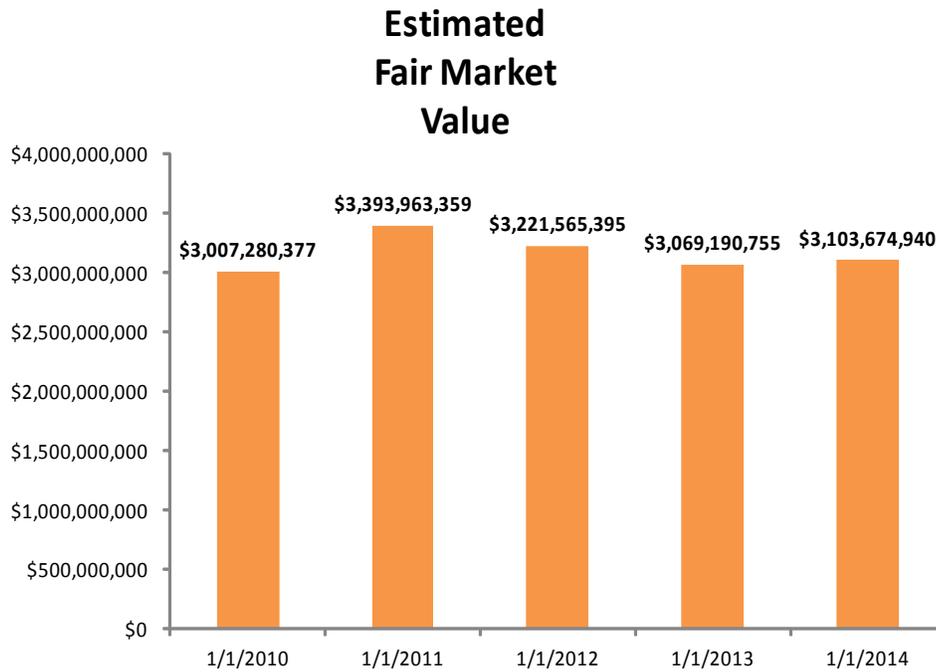
Sales Tax Revenue	Total Collection
Jail Construction and Renovation	\$1,507,422
Jail Maintenance and Operation	\$1,177,674
Courthouse Construction and Renovation	\$1,476,332
Animal Shelter Construction	\$156,866

**PITTSBURG COUNTY, OKLAHOMA
SALES TAX DISTRIBUTION
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Sales Tax Revenue	Total Collection
Animal Shelter Maintenance and Operation	\$392,401
County Fire Tax	\$1,570,232

**PITTSBURG COUNTY, OKLAHOMA
 ASSESSED VALUE OF PROPERTY
 TREND ANALYSIS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

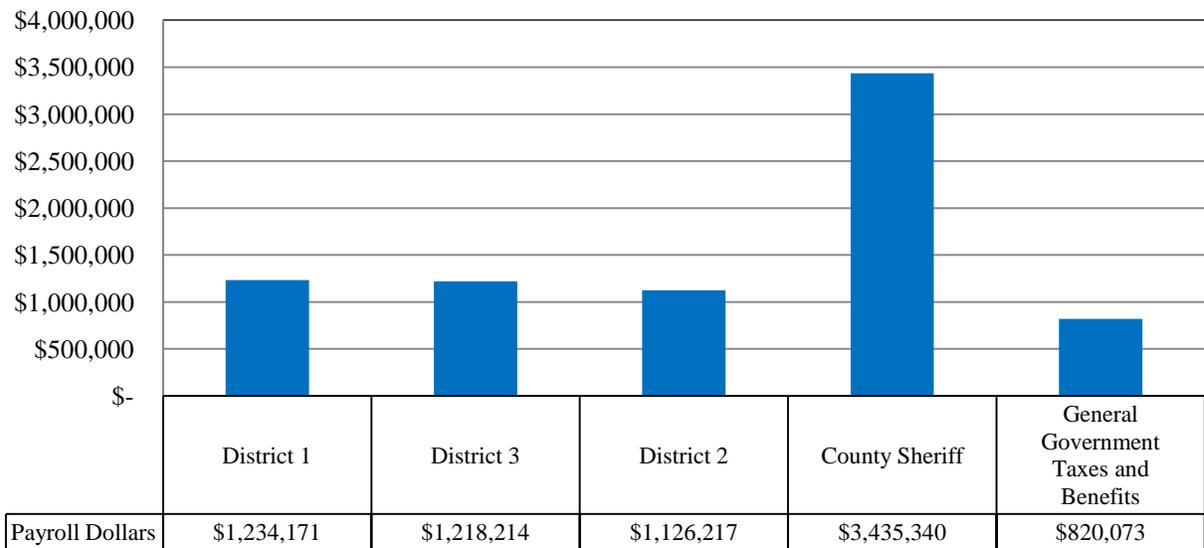
Valuation Date	Personal	Public Service	Real Estate	Homestead Exemption	Net Value	Estimated Fair Market Value
1/1/2014	\$158,510,456	\$34,541,411	\$190,651,761	\$13,561,236	\$370,142,392	\$3,103,674,940
1/1/2013	\$163,145,762	\$33,719,095	\$183,332,182	\$13,799,930	\$366,397,109	\$3,069,190,755
1/1/2012	\$166,499,439	\$32,426,197	\$171,659,656	\$13,543,270	\$357,042,022	\$3,221,565,395
1/1/2011	\$190,155,295	\$32,929,577	\$166,715,886	\$13,663,431	\$376,137,327	\$3,393,963,359
1/1/2010	\$156,163,311	\$28,592,139	\$160,341,461	\$13,562,896	\$331,534,015	\$3,007,280,377



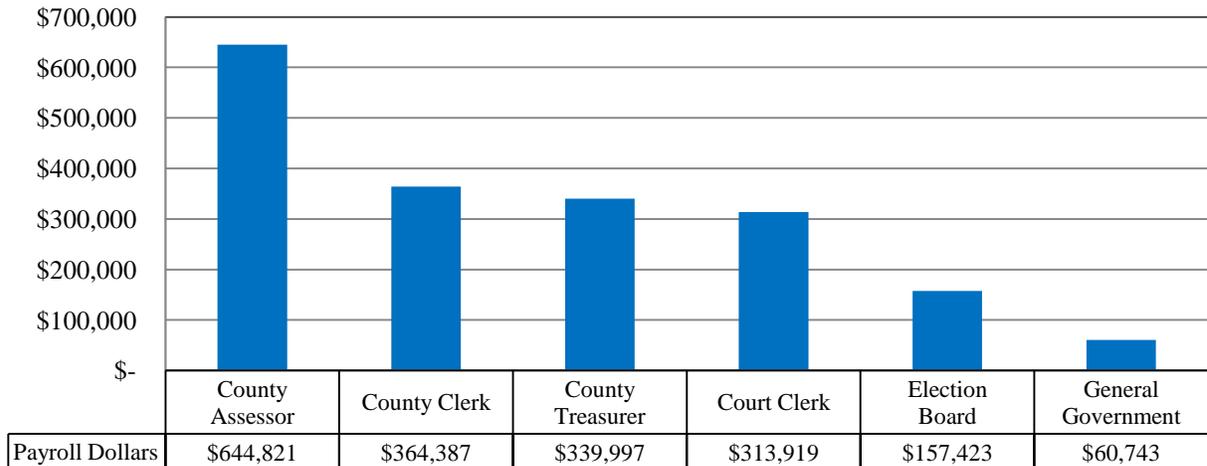
**PITTBURG COUNTY, OKLAHOMA
COUNTY PAYROLL EXPENDITURES ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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, 2015.

Payroll Expenditures by Department



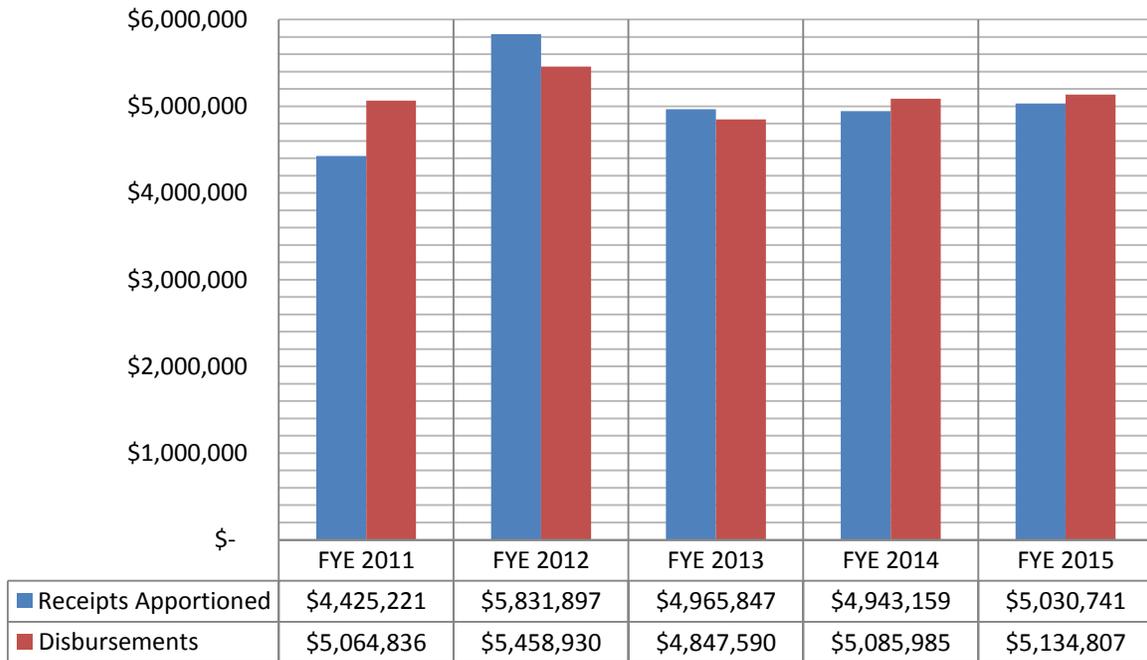
Payroll Expenditures by Department



**PITTSBURG COUNTY, OKLAHOMA
COUNTY GENERAL FUND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

County General Fund

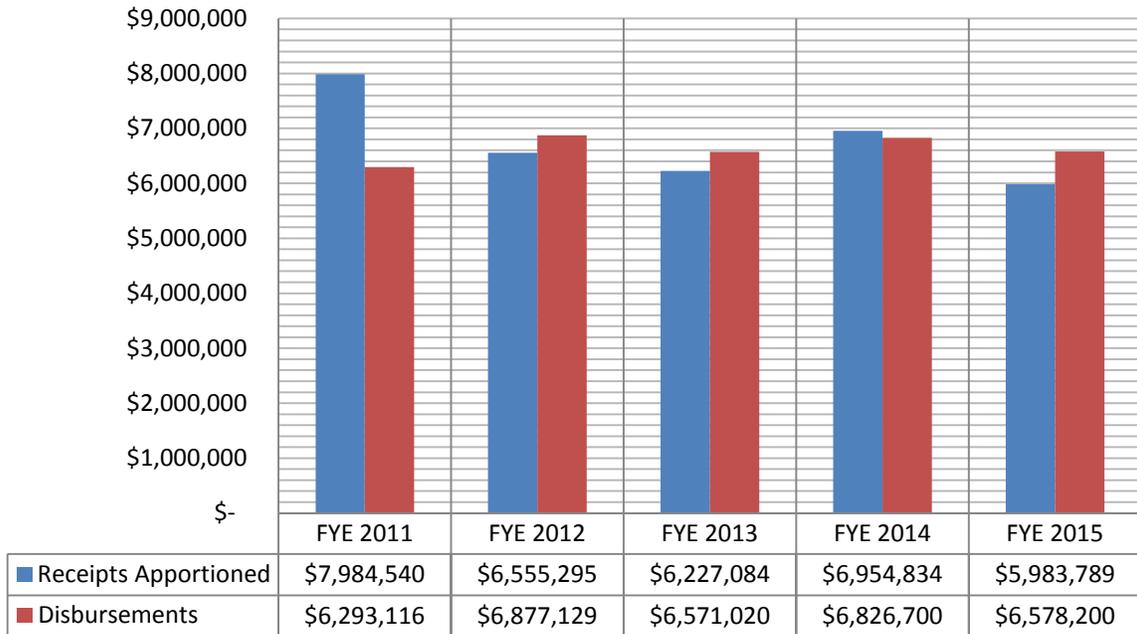
The Oklahoma Constitution and the Oklahoma Statutes authorize counties to create a County General Fund, which is the county's primary source of operating revenue. The County General Fund is typically used for county employees' salaries plus many expenses for county maintenance and operation. It also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



**PITTSBURB COUNTY, OKLAHOMA
COUNTY HIGHWAY FUND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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.



**PITTSBURG COUNTY
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Presentation of Apportionments, Disbursements, and Cash Balances of County Funds for Fiscal Year Ended June 30, 2015

	Beginning Cash Balances July 1, 2014	Receipts Apportioned	Transfers In	Transfers Out	Disbursements	Ending Cash Balances June 30, 2015
Combining Information:						
County Funds:						
General	\$ 1,231,051	\$ 5,030,741	\$ -	\$ -	\$ 5,134,807	\$ 1,126,985
County Sinking	18,880	1	-	-	-	18,881
County Highway	3,154,085	5,983,789	173,882	-	6,578,200	2,733,556
Federal Emergency Management	58	12,978	-	-	-	13,036
County Health Department	868,812	1,151,450	-	-	1,114,944	905,318
Treasurer Mortgage Tax Certification Fee	30,432	8,964	-	-	7,533	31,863
Resale Property	411,443	275,415	-	-	181,461	505,397
County Clerk Lien Fee	107,296	38,186	-	-	19,260	126,222
Assessor Visual Inspection	27,062	6,696	-	-	11,111	22,647
Civil Defense	222,944	169,144	74,248	-	180,599	285,737
DHS Attendant Care	1,793	-	-	-	-	1,793
County Clerk Records Preservation	102,506	56,175	-	-	46,312	112,369
Sheriff Service Fee	623,238	1,012,152	-	-	1,281,705	353,685
CEL - Corps of Engineers	6,099	9,316	-	-	9,831	5,584
Youth Services Travel	7	-	-	-	-	7
Juvenile Detention Building and Maintenance	25,603	39	-	-	-	25,642
REAP	-	135,074	-	-	135,074	-
Local Emergency Planning Program	12,298	-	-	-	-	12,298
Jail Construction and Renovation	3,069,059	1,512,766	-	-	515,144	4,066,681
Jail Maintenance and Operation	2,172,803	1,191,614	-	-	1,952,619	1,411,798
Courthouse Construction and Renovation	2,968,296	1,481,507	-	-	504,411	3,945,392
Animal Shelter Construction	315,519	157,416	-	-	53,661	419,274
Animal Shelter Maintenance and Operation	1,024,668	448,327	-	-	558,506	914,489
Emergency Disaster Relief Donation	32,374	50	-	-	-	32,424
E-911	26,251	337,440	-	-	335,760	27,931
Animal Shelter Donations	12,210	3,570	-	-	2,082	13,698
County Fire Tax	2,962,306	1,583,952	-	74,248	1,513,429	2,958,581
Sheriff Training	446	-	-	-	-	446
Sheriff Commissary	275,329	137,318	-	-	120,481	292,166
Local Emergency Preparedness Grant	3,487	1,000	-	-	-	4,487
Litter Reward Revolving	1,202	108	-	-	-	1,310
CDBG	-	69,830	-	-	69,830	-
Oklahoma Bar Association Donation	-	14,050	-	-	13,527	523
Total - All County Funds	<u>\$ 19,707,557</u>	<u>\$ 20,829,068</u>	<u>\$ 248,130</u>	<u>\$ 74,248</u>	<u>\$ 20,340,287</u>	<u>\$ 20,370,220</u>

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

**PITTSBURG COUNTY
DESCRIPTION OF COUNTY FUNDS AND TRANSFERS
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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 with the Presentation of Apportionments, Disbursements, and Cash Balances of County Funds:

General – accounts for ad valorem taxes, officers’ fees, interest earnings, and miscellaneous collections of the County. Disbursements are for the general operations of the government.

County Sinking – accounts for debt service receipts derived generally from a special ad valorem tax levy and from interest earned on investments of cash not immediately required for debt service payments.

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

Federal Emergency Management – accounts for the receipt and disbursement of funds from state and local governments for civil defense purposes.

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.

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

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

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

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

Civil Defense – accounts for the receipt and disbursement of funds from state and local governments for civil defense purposes.

DHS Attendant Care – accounts for the state contract funds for juvenile care.

**PITTSBURG COUNTY
DESCRIPTION OF COUNTY FUNDS AND TRANSFERS
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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

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

CEL - Corps of Engineers – accounts for monies received from the Corps of Engineers for patrolling services.

Youth Services Travel – accounts for state reimbursements for the transportation of juveniles.

Juvenile Detention Building and Maintenance – accounts for state funds held for the maintenance and operation of the juvenile detention building.

REAP – accounts for state grant funds received for specific projects as identified by the grant.

Local Emergency Planning Program – accounts for federal funds from the Department of Emergency Management for the operation of the emergency management office.

Jail Construction and Renovation – accounts for the collection of sales tax revenue and the disbursement of funds as restricted by the sales tax resolution.

Jail Maintenance and Operation – accounts for the collection of sales tax revenue and the disbursement of funds as restricted by the sales tax resolution.

Courthouse Construction and Renovation – accounts for the collection of sales tax revenue and disbursement of funds as restricted by the sales tax resolution.

Animal Shelter Construction – accounts for the collection of sales tax revenue and disbursement of funds as restricted by the sales tax resolution.

Animal Shelter Maintenance and Operation – accounts for the collection of sales tax revenue and disbursement of funds as restricted by the sales tax resolution.

Emergency Disaster Relief Donation – accounts for donations to the County for emergency disaster relief.

E-911 – accounts for a fee collected by local telephone service providers for the operation of the enhanced emergency telephone system.

Animal Shelter Donations – accounts for the monies received from donations and disbursement of funds for the boarding of stray and abandoned animals in the care of the County animal shelter.

**PITTSBURG COUNTY
DESCRIPTION OF COUNTY FUNDS AND TRANSFERS
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

County Fire Tax – accounts for the collection of sales tax revenue and disbursement of funds as restricted by the sales tax resolution.

Sheriff Training – accounts for monies collected from other law enforcement agencies for attendance of training classes for law enforcement certifications and disbursement of funds are for expenses of conducting classes.

Sheriff Commissary – accounts for the monies received from the sale of commissary items and disbursement of funds are for commissary and jail operating expenses.

Local Emergency Preparedness Grant – accounts for monies received from the Department of Homeland Security passed through the Oklahoma Department of Emergency Management to be used for the grant program.

Litter Reward Revolving – accounts for the collection of fines from littering and the disbursements are restricted to be used for the prevention of littering.

CDBG – accounts for the federal funds received to fund the improvements made to McNally Road.

Oklahoma Bar Association Donation – accounts for funds received from the Oklahoma Bar Association for the purchase of recording equipment to be used in the courtrooms.

Transfers

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

- \$173,882 from the County Highway ETR Loan fund (a trust and agency fund) to the County Highway fund to reimburse for expenditures on bridge and road projects in the County.
- \$74,248 from the County Fire Tax fund to the Civil Defense fund for the reimbursement expenditures made by from the Civil Defense fund on behalf of the County Fire Departments.

**PITTSBURG COUNTY
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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, 2015. 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,
- Selecting representative samples to determine disbursements were made in accordance with state statutes, approved ballots, and county purchasing procedures, and
- 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.

Objective 1: To determine the receipts apportioned, disbursements, and cash balances are accurately presented on the County Treasurer's monthly reports for FY 2015.

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

2015 – 1 – Inadequate Internal Controls Over the County Treasurer's Monthly Reports and Lack of Segregation of Duties in the County Treasurer's Office (Repeat Finding)

Condition: Upon inquiry, observation, review of documentation, and testwork, the following weaknesses were noted:

- Duties were not adequately segregated in the County Treasurer's office, because one deputy performs the duties of balancing the cash drawer, prepares the deposit, issues receipts, posts to the daily reports and general ledger, prepares the monthly reports, and reconciles the bank accounts.
- All employees work from the same cash drawer.
- Three (3) of the thirty-six (36) bank reconciliations tested were not properly performed.

Cause of Condition: Policies and procedures have not been designed and implemented to review apportionments, disbursements, and cash balances to verify that these amounts are accurately presented on the monthly reports. Further, duties regarding the collection process have not been adequately segregated. Additionally, policies and procedures have not been designed and implemented to ensure all bank accounts are reconciled and approved and that all reconciling items are documented and investigated.

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

Recommendation: The Oklahoma State Auditor & Inspector's Office (OSAI) recommends that the County Treasurer implement a system of internal controls to provide reasonable assurance that receipts apportioned, disbursements, and cash balances are accurately presented on the County Treasurer's monthly reports. To improve controls over the County Treasurer's monthly reports, we recommend the following:

- Bank reconciliations should be reviewed by someone other than the preparer.
- Reconciling items should be documented with the bank statements.

**PITTSBURG COUNTY
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

In addition, OSAI recommends establishing a system of internal 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.

Further, in the event that segregation of duties is not possible due to the 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 which would provide independent oversight of the accuracy of the County Treasurer's monthly reports.

Management Response:

County Treasurer: With limited staff the First Deputy does most of the balancing, along with other duties as needed. We have one cash register that the cashier for the day works out of. The only time another person will run the register is lunch at time. All receipts are run through the register and that balances to the state report that is ran at the end of the day. The monthly reports are balanced to each office along with the County Clerk. Not all offices will have a report that is signed by our office to show that it is balanced. Bank statement reconciliations will be reviewed by me and one statement was incorrect for a few months before being corrected.

Auditor Response: Due to limited personnel compensating controls can be implemented to mitigate the risk involved with the concentration of duties.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. An important aspect of internal controls is the safeguarding of assets. Internal controls over safeguarding of assets constitute a process, affected by an entity's governing body, management, and other personnel, designed to provide reasonable assurance regarding prevention or timely detection of unauthorized transactions, and safeguarding assets from misappropriation. To help ensure a proper accounting of funds, the duties of receiving, receipting, recording, depositing cash and checks, reconciliations, and transaction authorization should be segregated.

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.

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; however, internal controls over the apportionment of ad valorem Tax should be strengthened.

FINDINGS AND RECOMMENDATIONS

Finding 2015-2 – Inadequate Internal Controls Over Ad Valorem Tax Apportionments (Repeat Finding)

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

- The County Treasurer's office did not maintain documentation that certified levies were reviewed for accuracy when entered into the ad valorem tax system.

Cause of Condition: Policies and procedures have not been designed and implemented to document and retain evidence of procedures performed to ensure ad valorem tax levies are accurately entered into the ad valorem system.

Effect of Condition: This condition could result in ad valorem tax collections being incorrectly apportioned and remitted.

Recommendation: OSAI recommends that the County Treasurer implement a system of internal controls to provide reasonable assurance that the tax levies are entered into the Treasurer's system accurately and maintain evidence of these controls.

Management Response:

County Treasurer: The levies are reviewed after being input by another deputy before statements are printed. They also have to match the Assessor's levies that were entered prior to the Treasurer entering the levies. They will be signed off on from now on.

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

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

Conclusion: The County's internal controls do not provide reasonable assurance that expenditures, including payroll, were accurately reported in the accounting records.

The County's financial operations did not comply with 19 O.S. § 1505, which requires that disbursements be timely encumbered.

FINDINGS AND RECOMMENDATIONS

Finding 2015-4 – Inadequate Internal Controls and Noncompliance Over the Disbursement Process (Repeat Finding)

Condition: The test of fifty-six (56) purchase orders reflected the following exceptions:

- Six (6) were not encumbered prior to ordering or receiving the goods.
- One (1) was not signed and approved by the requisition officer.

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

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

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

Management Response:

County Clerk: My office will stress to the requisitioning officers the importance of a timely encumbrance. Also, I will stress to the purchasing agent to verify all attachments before submitting the purchase order for payment.

Criteria: Effective internal controls require that management properly implement procedures to ensure that purchases are made in compliance with 19 O.S. § 1505.

Finding 2015-5 – Inadequate Segregation of Duties and Inadequate Internal Controls Over the Payroll Process (Repeat Finding)

Condition: Upon inquiry and observation, review of documentation, and testwork the following was noted:

- The Payroll Clerk enrolls new employees, inputs payroll information into the system, maintains personnel files, and prepares the OPERS reports and state and federal tax reports. In addition, the Payroll Clerk processes payroll claims, prints and reviews payroll verification reports for errors, prints payroll warrants, distributes payroll warrants, and initiates direct deposits.
- One (1) of forty (40) payroll timesheets tested was not signed by the supervisor.

Cause of Condition: Policies and procedures have not been designed and implemented with regards to segregation of duties and/or compensating controls over the payroll process. Additionally, policies and procedures have not been designed and implemented to ensure timesheets are signed by the employee and approved by the supervisor.

Effect of Condition: These conditions could result in unrecorded transactions, undetected errors, inaccurate records, incomplete information, 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. Additionally, all time sheets should be signed by the employee and approved by the official or immediate supervisor.

Management Response:

County Clerk: Due to the limited number of personnel, it is hard to segregate payroll. However, we will try to find a way to separate these duties. Timesheets are the responsibility of each individual official, but we will stress to each official the importance of them verifying that all of the information is correct and properly signed.

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 a proper accounting of funds, the duties of processing, authorizing, and payroll distribution should be segregated and supporting documentation such as payroll claims and timesheets should be signed and approved by the appropriate personnel.

All Objectives:

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

Finding 2015-9 – Inadequate County-Wide Controls (Repeat Finding)

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

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

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

Recommendation: OSAI recommends 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.

Management Response:

Chairman of the Board of County Commissioners: The continuity of the operations plan is currently being reviewed and updated. Employee training will be looked at further and additional training will be discussed. Elected official meetings will be held regularly in the future.

County Treasurer: These issues are currently under review.

County Clerk: We are currently reviewing these issues of risk management and monitoring. We are currently updating the disaster recovery plan. We will schedule elected official meetings more often to review and update policies. We will also speak to the budget maker to make sure the budget is accurate and completed properly.

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.

**Finding 2015-11 – Inadequate Internal Controls Over Information Technology - County Treasurer
(Repeat Finding)**

Condition: Upon review of the computer system within the office of 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 specifics of the condition have been sanitized to protect the County pursuant to the provision of 51 O.S. § 24.A.28.

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

Effect of Condition: This condition could result in compromised security for the computer, computer programs, and data.

Recommendation: The County Treasurer should comply with best practices presented in the criteria. The specifics of the recommendation have been sanitized to protect the County pursuant to the provision of 51 O.S. § 24A.28.

Management Response:

County Treasurer: We will review and discuss this issue with our software provider.

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 monitoring and periodic testing and implementing corrective actions for identified security weaknesses or incidents. Effective security management protects all IT assets to minimize the business impact of security vulnerabilities and incidents.

**Finding 2015-15 – Inadequate Internal Controls Over Signature Stamp – County Treasurer
(Repeat Finding)**

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

- The employees of the County Treasurer’s office have access to the Treasurer’s signature stamps. The three (3) signature stamps are not under the physical control of the County Treasurer and are retained in an unsecure location.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure control of the signature stamps due to the official being unaware of the risk involved with someone other than herself having access to her signature stamps.

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Effect of Condition: This condition could result in unauthorized transactions or misappropriation of funds.

Recommendation: OSAI recommends signature stamps be adequately safeguarded from unauthorized use and ensure signature stamps are used only by the official.

Management Response:

County Treasurer: The stamps are now locked in the vault at night and are kept in a secure location during the day.

Auditor Response: To be adequately safeguarded, signature stamps should be in the possession of and be used only by the official whose name is on the stamp.

Criteria: An important 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 untimely detection of unauthorized acquisition, use or disposition of the entity's assets and safeguarding assets from loss, damage, or misappropriation.

Other Item(s) Noted:

Although not considered significant to the audit objectives, we feel the following issue should be communicated to management.

2015-10 – Inadequate Internal Controls and Noncompliance Over Estimate of Needs (Repeat Finding)

Condition: While reviewing the 2015-2016 Estimate of Needs and financial statement of the fiscal year 2014-2015, we noted that the information related to the General Fund and County Health Department fund cash receipts and disbursements were presented with inaccurate information and the related schedules were not completed to include all information.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure the County's Estimate of Needs is accurate.

Effect of Condition: These conditions resulted in noncompliance with state statute and an incomplete and inaccurate Estimate of Needs being approved.

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Recommendation: OSAI recommends the County review the Estimate of Needs prior to approval to ensure that financial information is accurately presented.

Management Response:

Chairman of the Board of County Commissioners:

We will address issues with the budget maker to ensure that all appropriate information is complete.

Criteria: The adopted budget is an expression of public policy and financial intent and is a method of providing controls over that intent. Effective internal controls as they relate to government entities financial reporting should assist in fulfilling government's duty to be publicly accountable and should enable user's access to that accountability by demonstrating whether resources were obtained and used in accordance with the entity's adopted budget.

Title 68 O.S. § 3002 (A) states in part, "...each board of county commissioners...shall prior to October 1 of each year, make, in writing, a financial statement, showing the true fiscal condition of their respective political subdivisions as of the close of the previous fiscal year ended June 30th, and shall make a written itemized statement of estimated needs and probable income from all sources including ad valorem tax for the current fiscal year. Such financial statements shall be supported by schedules or exhibits showing, by classes, the amount of all receipts and disbursements, and shall be sworn to as being true and correct..."

REPORT ON STATUTORY COMPLIANCE – OTHER MATTERS



Oklahoma State Auditor & Inspector

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Pittsburg County
Board of County Commissioners
Pittsburg County Courthouse
McAlester, Oklahoma 74501

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, 2015:

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

Our statutory compliance engagement was limited to the procedures 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 Pittsburg 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.

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

October 24, 2016

**PITTSBURG COUNTY, OKLAHOMA
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SCHEDULE OF FINDINGS AND RESPONSES

2015-17 – Inadequate Internal Controls and Noncompliance Over Fixed Assets Records (Repeat Finding)

Condition: While gaining an understanding of internal controls over fixed assets, and testing compliance with state statutes over fixed assets, we noted the following:

- A fixed assets inventory was not on file with the County Clerk for the following fire departments; Sam’s Point, Tannehill, Elm Point, Russellville, Canadian, Hartshorne, Haileyville, Bugtussle, Arrowhead Estates, and McAlester as required by 19 O.S. § 178.2.
- The County has not set forth procedures to perform and document an annual physical inventory to ensure compliance with 19 O.S. § 178.1 for the following offices/departments: Animal Shelter, County Clerk, County Assessor, District Attorney, County Commissioner District 2, Election Board, Emergency Management, Health Department, and the following fire departments: Alderson, Ashland, Blanco, Blue, Crowder, High Hill, Krebs, Pittsburg, Indianola, Canadian Shores, Quinton, Union Chapel, Haywood-Arpelar, Savanna, and Kiowa.
- County Commissioners District 1, District 2, and District 3 did not have all equipment marked “Property Of Pittsburg County” as required by 69 O.S § 645.
- The following offices did not segregate duties of preparing the fixed asset inventory list and the annual review of fixed assets: Animal Shelter, County Clerk, Court Clerk, County Assessor, County Commissioners District 1, District 2, and District 3, Election Board, OSU Extension, and County Sheriff.

Cause of Condition: Policies and procedures have not been designed and implemented with regard to effective internal controls over safeguarding of fixed assets by performing an annual physical inventory count, creating and maintaining of a fixed assets inventory record, and properly identifying fixed assets.

Effect of Condition: When fixed assets are not monitored and equipment is not properly marked with “Property of,” opportunities for misuse or loss of equipment can occur. Additionally, these conditions resulted in noncompliance with state statutes.

Recommendation: OSAI recommends the County Officers implement internal controls to ensure compliance with 19 O.S. §§ 178.1 and 178.2 regarding fixed assets inventory records. These controls would include that all offices:

- Retain documentation to verify the physical inventory counts were performed.
- Inventory counts should be performed by someone other than the receiving officer or inventory officer.
- Complete and up to date inventory records are filed with the County Clerk.

Additionally, OSAI recommends that all road machinery and equipment, and each automobile and truck, to be marked “Property of Pittsburg County,” to ensure compliance with 69 O.S. § 645.

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Management Response:

Chairman of Board of County Commissioners (County Commissioner District 1): We will advise all departments that it is mandatory to comply with inventory controls and that it must be done promptly. We will make sure duties are segregated; inventory is promptly filed, and make sure equipment is properly marked.

County Commissioner District 2: We will segregate duties, make sure equipment is properly marked, and inventory is done promptly.

County Commissioner District 3: We will segregate duties, make sure equipment is properly marked, and inventory is done promptly.

County Clerk: We will make sure that the inventory listing is filed timely and will segregate the duties and advise other offices to do the same.

Court Clerk: We will delegate inventory duties to another deputy to make sure duties are segregated.

County Assessor: We will make sure the inventory listing is filed timely and will segregate the duties over inventory.

Election Board: We will make sure that the inventory listing is filed timely. Our office has three full time employees and cannot segregate the duties, but two of us will sign the inventory.

Health Department: We will make sure that the inventory listing is filed timely. We are in the process of segregating the duties.

Emergency Management: The office will make sure that a timely and proper fixed asset control is established.

County Sheriff: We will segregate the duties over inventory.

Criteria: Internal controls over safeguarding of assets constitute a process, affected by an entity's governing body, management, and other personnel designed to provide reasonable assurance regarding prevention or timely detection of unauthorized transactions and safeguarding assets from misappropriation. Effective internal controls include management design procedures to ensure that all fixed assets records be maintained to comply with 19 O.S. § 178.1 and 19 O.S. § 178.2.

Title 69 O.S. § 645 states that all county-owned, rented or leased road machinery and equipment, and each automobile and truck shall be conspicuously and legibly marked PROPERTY OF (name of county) COUNTY.

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Finding 2015-18 – Inadequate Internal Controls and Noncompliance Over Consumable Inventories (Repeat Finding)

Condition: Upon inquiry of County personnel, observation, review of documents, and performing testwork, regarding consumable inventories, it was noted that County Commissioner District 1, 2, and 3 did not reconcile the actual fuel on hand to fuel logs. In addition, an inventory of consumable items is not maintained.

Cause of Condition: Policies and procedures have not been designed and implemented with regard to effective internal controls over safeguarding of consumable inventory by performing physical inventory counts, maintaining of the consumable inventory records, and performing reconciliations between fuel records and the actual fuel on hand.

Effect of Condition: This condition resulted in noncompliance with state statute. Additionally, failure to maintain accurate records of consumable inventories and failure to perform a periodic physical inventory of consumable inventories could result in inaccurate records, unauthorized use of consumable inventories, or misappropriation of consumable inventories.

Recommendation: OSAI recommends management implement internal controls to ensure compliance with 19 O.S. § 1504A. These controls would include:

- Performing and documenting a periodic physical count of inventory.
- Maintaining consumable cards for all consumable items.
- Reconciling fuel log to fuel on hand on a weekly basis and explain any variance or adjustments.

Management Response:

County Commissioner District 1: We will correct these issues.

County Commissioner District 2: We will correct these issues.

County Commissioner District 3: We will correct these issues.

Criteria: Effective internal controls include management design procedures to ensure that all supplies, materials, and equipment received, disbursed, stored and consumed by their department to ensure compliance with 19 O.S. § 1504A.

Finding 2015-12 – Inadequate Internal Controls and Segregation of Duties – Court Clerk (Repeat Finding)

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

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- Evidence of independent review over the Court Fund and Court Clerk Revolving Fund monthly reports and reconciliation with the County Treasurer is not maintained.
- Employees work from one cash drawer in the Court Clerk's Office.
- The deposit is held in an unsecured location.

Cause of Condition: Policies and procedures have not been designed and implemented to adequately segregate the duties within the Court Clerk's office, and safeguard the collections process.

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

Recommendation: OSAI recommends that procedures be developed to separate key functions of the Court Clerk's office. In the event that segregation of duties are 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 approve accounting functions.

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

- Establish separate cash drawers for all employees receiving cash.
- The deposit should be kept in a secured location.
- Monthly reports and the reconciliation should be reviewed by someone other than the preparer.

Management Response:

Court Clerk: I will start having the Treasurer sign off at the end of the month when we balance. There is only one cashier who operates out of the cash drawer at one time except during lunch when the back-up cashier takes over. When they change shifts, they balance the drawer and note it in a journal with the ending receipt number, time, and initials of the cashier. They do this every time they change shifts.

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.

2015-14 – Inadequate Internal Controls and Noncompliance Over Inmate Trust Checking Fund Account and Sheriff Commissary Fund (Repeat Finding)

Condition: Regarding the Inmate Trust Fund Checking Account and the Sheriff Commissary Fund, the following weaknesses were noted:

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- One employee opens mail, collects cash from kiosk machine, receipts monies, prepares deposits, posts deposits, receives deposit slips, controls bank statements, and performs reconciliation for the Inmate Trust Fund Checking Account.
- One employee prepares disbursements, prints checks, has administrative rights to the software program, and is an authorized check signer for the account.
- The Inmate Trust Fund Checking Account balance is not reconciled to the total of the inmates' balances.
- The ledgers for the Inmate Trust Fund Checking Account were not reconciled to the bank statement at June 30, 2015. A variance of (\$5,284.83) was noted.
- Receipts were not clearly marked for the purpose of Inmate Trust Fund Checking Account.
- Bank reconciliations were not performed.
- Deposits were not made daily.
- The Sheriff's office does not file an annual report for the Commissary Fund with the Board of County Commissioners by January 15th, of each year.
- Two signatures on checks were not obtained for approval of disbursement.

After performing testwork regarding Inmate Trust Fund Checking Account expenditures, the following noncompliance was noted regarding the six-hundred and fifty (650) disbursements/checks tested:

- Six (6) were issued to bondsman.

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

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

Recommendation: OSAI recommends the following:

- Key duties and responsibilities should be segregated among different individuals to reduce the risk of error or fraud. No one individual should have the ability to authorize transactions, have physical custody of assets, and record transactions.
- Inmate Trust Fund Checking Account monies should be maintained in a manner that reflects each inmate's trust deposits, disbursements, and account balances. The inmate's trust fund balances should be reconciled to the bank statements each month.
- Bank reconciliations should be performed on a monthly basis.
- All collections should be deposited daily.
- The Sheriff should file a report of the commissary with the Board of County Commissioners by January 15th, of each year as required by 19 O.S. § 180.43 (D).
- All checks from the Inmate Trust Fund Checking Account should have two authorized signatures.

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- Expenditures should be made from the Inmate Trust Fund Checking Account in accordance with 19 O.S. § 531.

Management Response:

County Sheriff: There will be two employees present to open mail, collect cash from Kiosk machines, and to sign off on receipting monies. Receipts will be clearly marked as inmate trust fund. The employee which disperses checks will not be authorized to sign them; one employee shall not sign for both signatures. Bank reconciliations will be performed monthly. Efforts to make bank deposits daily will be made. An annual report for the commissary fund will be filed with the Board of County Commissioners by January 15th, of each year. Expenditures will be made in accordance with 19 O.S. § 531. The Sheriff's Office administration will set forth procedures designed for the management of the Inmate Trust Fund Checking Account for proper accounting procedures to protect the Inmate Trust Fund Checking Account from fraud or error and to stay in compliance with state statutes.

Criteria: Effective internal controls include management properly implementing procedures to ensure that collections and expenditures of inmate funds comply with 19 O.S. § 531 and that internal control procedures be implemented to ensure the safeguarding of inmate trust funds. In addition, effective internal controls include management properly implementing procedures to ensure compliance with 19 O.S. § 180.43 regarding the Sheriff's Commissary.



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