OPERATIONAL AUDIT

PUSHMATAHA COUNTY

For the period July 1, 2007 through June 30, 2011

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

PUSHMATAHA COUNTY OPERATIONAL AUDIT
FOR THE PERIOD JULY 1, 2007 THROUGH JUNE 30, 2011

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Oklahoma State Auditor & Inspector

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August 29, 2012

TO THE CITIZENS OF
PUSHMATAHA COUNTY, OKLAHOMA

Transmitted herewith is the audit report of Pushmataha County for the period July 1, 2007 through June 30, 2011.

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

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

Sincerely,

Gary A. Jones

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

BACKGROUND

Originally part of the Choctaw Nation, this county was created at statehood and takes its name from the Pushmataha District of the Choctaw Nation. Pushmataha was also the name of a Choctaw leader.

Antlers, the county seat, is the site of several manufacturing companies that produce items such as custom mixed concrete, lumber, roof trusses, building materials, and sportswear. Tuskahoma, last capital of the Choctaw Nation, is the site of the Choctaw Council House, built in 1884 and noted for its fine architecture.

A popular recreational area for outdoor enthusiasts, Pushmataha County offers locations such as the Kiamichi Mountains, Clayton Lake Recreational Area, Pine Creek State Park, and Sardis Lake for sporting activities. Although tourism and recreation contribute a great deal to the county's economy, agriculture is still a basic component, and wheat is the major crop. Ranching and timber are the main industries.

For more county information, call the county clerk's office at (580) 298–3626 or the chamber of commerce at (580) 298–2488.

County Seat – Antlers

Area – 1,422.78 Square Miles

County Population – 11,812
(2009 est.)

Farms – 833

Land in Farms – 290,409 Acres

Primary Source: Oklahoma Almanac 2011-2012

COUNTY OFFICIALS

Frances Joslin............ County Assessor
Jane Dunlap............ County Clerk
Michael Brittingham............ County Commissioner District 1
Jerry Duncan............ County Commissioner District 2
Jimmy Long............ County Commissioner District 3
Jim Duncan............ County Sheriff
Jenny Beth Caraway............ County Treasurer
Tina Freeman............ Court Clerk

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

	Beginning Cash Balance July 1, 2010	Receipts Apportioned	Disbursements	Ending Cash Balance June 30, 2011
Combining Information:				
County General Fund	$ 1,259,337	$ 1,946,040	$ 1,952,791	$ 1,252,586
Highway	843,644	2,753,464	2,930,378	666,730
County Health	148,741	330,109	302,890	175,960
Sheriff Cash Service Fee	106,804	155,081	185,533	76,352
Assessor Revolving	43,965	4,312	2,819	45,458
REAP	31,786	236,914	197,794	70,906
CBRI-103	-	198,095	163,075	35,020
CBRI-105	-	1,345,986	528,785	817,201
911 Collections	-	59,640	-	59,640
Remaining Aggregate Funds	151,875	279,011	272,640	158,246
Combined Total - All County Funds	$ 2,586,152	$ 7,308,652	$ 6,536,705	$ 3,358,099

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

PURPOSE, SCOPE, AND SAMPLE METHODOLOGY

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

The audit period covered was July 1, 2007 through June 30, 2011.

Sample methodologies can vary and are selected based on the audit objective and whether the total population of data was available. Random sampling is the preferred method; however, we may also use haphazard sampling (a methodology that produces a representative selection for non-statistical sampling), or judgmental selection when data limitation prevents the use of the other two methods. We selected our samples in such a way that whenever possible, the samples are representative of the populations and provide sufficient evidential matter. We identified specific attributes for testing each of the samples. When appropriate, we projected our results to that population.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. This report is a public document pursuant to the Oklahoma Open Records Act (51 O.S. § 24A.1 et seq.), and shall be open to any person for inspection and copying.

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

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

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

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

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

Finding: Inadequate Internal Controls over the County Treasurer's Monthly Reports and Lack of Segregation of Duties in the Treasurer's Office

Condition: When documenting the process over the monthly reports, we noted the duties are not adequately segregated:
- The Treasurer and one full-time deputy issue receipts.
- The same person preparing the daily deposit, issues receipts, maintains general ledger, reconciles the general bank account, and prepares monthly report.

Cause of Condition: Procedures have not been designed to review the monthly reports for accuracy. Further, the County Treasurer's office has a lack of resources to ensure the segregation of duties regarding the receipting process.

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

Recommendation: OSAI recommends that the County Treasurer implement a system of internal control to provide reasonable assurance that receipts apportioned, disbursements, and cash balances are accurately presented on the County Treasurer's monthly reports.

Duties should be adequately segregated so that individuals issuing receipts do not prepare the deposits, deliver the deposits to the financial institutions, or reconcile the bank statements. 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 - There is only one deputy in this office. Segregation of duties is impossible. We check each other's work as much as possible.

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

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

Conclusion: With respect to the days tested, the County did not comply with 62 O.S. § 517.4, which requires county deposits with financial institutions be secured with collateral securities or instruments.

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

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

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

Finding: Inadequate Internal Controls over Pledged Collateral

Condition: It was determined through discussion with County personnel, observation, and review of documents that procedures have not been designed to monitor pledged collateral to ensure bank balances are adequately collateralized. During our review of the bank balances, we noted the County funds were not adequately pledged at one financial institution for 21 of the 96 days reviewed.

Cause of Condition: Procedures have not been designed to review daily bank deposits to determine they are adequately secured.

Effect of Condition: Failure to monitor pledged collateral amounts could result in unsecured county funds, with the possible loss of these funds.

Recommendation: OSAI recommends that the County Treasurer implement a system of internal controls to provide reasonable assurance that county funds are adequately secured. These controls should include monitoring the bank balances on a daily basis.

Further, OSAI recommends the County Treasurer maintain evidence of monitoring pledged collateral amounts to bank balances on a daily basis to ensure that county funds are adequately secured.

Management Response: County Treasurer - Procedures have been implemented during heavy collections to ensure the County is adequately secured.

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

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

Conclusion: With respect to 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.

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

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

- Tested compliance of the significant law, which included the following:
  - Reviewed sales tax ballots to determine designation and purpose of sales tax collections.
  - Obtained confirmations from the Oklahoma Tax Commission for sales tax payments made to the County and recalculated the amounts apportioned by the County Treasurer to ensure sales tax collections were apportioned to the proper funds.
  - Selected a random sample of 40 purchase orders per year from the Sales Tax Revolving Fund and determined that expenditures were made for purposes designated on the sales tax ballot.

Finding: Inadequate Internal Controls over Sales Tax Collections

Condition: Internal controls have not been designed to monitor sales tax collections to ensure sales tax is appropriated and expended according to the sales tax ballot.

Cause of Condition: Procedures have not been designed to review the sales tax apportionment and determine sales tax collections are accurately appropriated to designated funds. Also, procedures have not been designed to ensure sales tax expenditures are made in accordance with the sales tax ballot.

Effect of Condition: This condition could result in unrecorded transactions, incorrect financial reports, undetected errors, misappropriation of funds, and non-compliance with state statutes.

Recommendation: OSAI recommends procedures be designed to review the calculation of the sales tax apportionment and appropriation to ensure collections are distributed in accordance with the sales tax ballots. Further, OSAI recommends procedures be designed to review the expenditures from the sales tax accounts to ensure monies are used for the purpose which such sales tax was designed.

Management Response:

County Treasurer - The monies are divided according to the ballot and apportioned accordingly. This office does not oversee how the tax dollars are spent.

County Clerk - Purchase orders are reviewed by County Clerk and Department Heads to ensure funds are expended according to sales tax resolutions.

Criteria: Effective internal controls would include procedures that ensure compliance with 68 O.S. §1370E.

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

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

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

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

- Tested compliance of the significant law, which included the following:

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

Finding: Inadequate Internal Controls over Ad Valorem Distribution

Condition: Internal controls have not been designed to ensure that ad valorem collections are apportioned correctly according to the certified levies.

Cause of Condition: Procedures have not been designed to review ad valorem collections and determine ad valorem collections are accurately apportioned in accordance with certified levies.

Effect of Condition: This condition could result in unrecorded transactions, incorrect financial reports, undetected errors, misappropriation of funds, and noncompliance with state statutes.

Recommendation: OSAI recommends that procedures be designed to ensure that ad valorem tax collections are properly apportioned and distributed. Further, OSAI recommends the Treasurer provide documentation of the verification of entering the certified mill levies into the system.

Management Response: County Treasurer - The County Clerk and County Assessor will now review the ad valorem apportionments.

Criteria: Accountability and stewardship are overall goals in evaluating management's accounting of funds. To help ensure the proper appropriation of ad valorem collections, a recalculation of the apportionment and appropriation should be performed and documented.

Further, 68 O.S. § 2923 requires the ad valorem tax collections to be apportioned and distributed monthly among the different funds to which they belong.

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

Conclusion: With respect to the items tested, the County did not comply with 19 O.S. § 1505C, 19 O.S. § 1505E, and 19 O.S. § 1505F, which outlines the procedures for acquisition, purchasing, and receiving goods and services.

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

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

- Tested compliance of the significant law, which included the following:
  - Selected a random sample of 40 purchase orders per year from County funds and determined that:
    - Purchase orders were encumbered prior to ordering or receiving goods and services.
    - Invoices/receipts for goods and services were itemized.
    - Purchase orders were reviewed and authorized by the County Clerk.
    - Purchase orders were authorized by the Board of County Commissioners.
    - For items purchased that required to be bid, non-collusion affidavits were signed.

Finding: Inadequate Internal Controls over the Expenditure Process and Lack of Segregation of Duties

Condition: Internal controls have not been implemented to ensure compliance with purchasing statutes.

- Upon inquiry and observation of the County's purchasing process, the following was noted:
  - One deputy posts all encumbrances into the computer, verifies purchase orders, affixes warrant numbers to purchase orders, maintains warrant ledgers, prints warrants, and mails warrants.
  - Funds are not encumbered at the time of requisition.
  - The County Clerk does not maintain a ledger for cash voucher accounts.

- Our test of 160 purchase orders revealed the following noncompliance with regard to purchasing statutes:
  - Nineteen purchase orders were not encumbered before goods or services were ordered.
  - Fourteen purchase orders did not have a receiving report or the receiving report was not approved.
  - Two purchase orders were not supported by an itemized receipt/invoice.
  - One purchase order was not approved by the Board of County Commissioners.
  - One purchase order did not have a non-collusion affidavit attached.

Cause of Condition: Procedures have not been designed to adequately segregate key accounting functions regarding the expenditure process. Also, statutory procedures designed by 19 § 1505C, E, and F are not adequately implemented.

Effect of Condition: These conditions could result in unrecorded transactions, undetected errors, misappropriation of funds, inaccurate records, incomplete information, and non-compliance with state statutes.

Further, a single person having responsibility for more than one area of recording, authorizing, custody of assets, and execution of transactions could result in unrecorded transactions, incorrect financial reports, undetected errors, or misappropriation of funds.

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

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

Management Response:

County Clerk - Purchase orders are reviewed by purchasing agent, another clerk encumbers funds on computer, and County Clerk reviews purchase orders before they are paid. We will try to encumber funds promptly. Cash ledger is maintained but totals are not posted. The cash ledger will be maintained in the future with totals posted.

County Commissioner District 2 - Have talked to the County Clerk about trying to discuss and resolve these matters.

County Commissioner District 3 - I agree with the Auditor's findings and will work to correct this issue.

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

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

Conclusion: With respect to the items tested, the County did not comply with 19 O.S. § 1505B, which requires that purchases in excess of $10,000 be competitively bid.

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

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

- Selected a random sample of five purchases per fiscal year in excess of $10,000 and determined that the County followed statutes regarding public notice, handling of unopened bids, awarding bid to best bidder, recording appropriate information in BOCC minutes, and notification to successful bidders.

Finding: Inadequate Internal Controls over County Purchases in Excess of $10,000 and Lack of Segregation of Duties

Condition: Internal controls have not been implemented to ensure purchases in excess of $10,000 are bid in accordance with state statutes. The Purchasing Agent is performing the duties of preparing the advertisement of the bid to the newspaper, mailing notifications to vendors on the vendor lists, maintaining an affidavit of vendors that were mailed notifications, notifying successful bidders, performing the duties of the expenditure process, and reviewing and agreeing the purchase order to the bid.

- Our test of the 20 purchases in excess of $10,000 revealed the following:
  - Notification of successful bidders was not documented for two bids tested.

Cause of Condition: Procedures have not been developed and designed to document compliance with state statutes and provide assurance that controls are in place.

Effect of Condition: These conditions could result in noncompliance with state statutes.

Recommendation: OSAI recommends the County implement procedures to ensure bidding is properly performed. These procedures should include:

- Documentation of notification of successful bidder maintained in the bid file.

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

Management Response: County Clerk - We will try to maintain better control of purchase orders with amounts that exceed $10,000. Bids are reviewed by officers and County Clerk.

Criteria: Effective internal controls require that management properly implement procedures to ensure that purchases comply with 19 O.S. § 1505B.

Objective 7:	To determine the County's financial operations complied with 19 O.S. §180.74 and 180.75 regarding amounts allowed for officers' salaries.

Conclusion: With respect to the items tested, the County complied with 19 O.S. § 180.74 and 180.75, which prescribes the procedures to determine amounts allowed for officers' salaries.

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

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

- Tested compliance of the significant law which included:
    - Recalculating the maximum amount allowed for officers' salaries as set forth in 19 O.S. § 180.74 and 180.75.
    - Reviewing the salaries of Pushmataha County officials to ensure that the amounts paid did not exceed statutory limits.

Finding: Inadequate Internal Controls over Officers' Salaries and Lack of Segregation of Payroll Duties

Condition: Internal controls have not been designed to ensure that officials' salaries are in compliance with limits set by state statutes.

The County Clerk is enrolling new hires; processing payroll information; entering withholdings; preparing O.P.E.R.S., state and federal reports; maintaining personnel files; posting to accounting records; and distributing payroll checks.

Cause of Condition: Procedures have not been designed to review for compliance with state statues, and procedures have not been designed to adequately segregate the functions of the payroll process.

Effect of Condition: This condition could result in noncompliance with salary limitations; particularly in the event of fluctuations in the ad valorem tax revenue and population of the County that determines salary limitations.

In addition, a single person having responsibility for more than one area of recording, authorizing, custody of assets, and execution of transactions could result in unrecorded transactions, incorrect financial reports, undetected errors, or misappropriation of funds.

Recommendation: OSAI recommends the County implement procedures to ensure that the amounts paid to the County officers do not exceed the amounts allowed. These procedures should include calculating the maximum amount allowable and having an independent review of those calculations.
Further, OSAI recommends the following key accounting functions of the payroll process be adequately segregated:

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

Management Response: County Clerk - Not enough staff to segregate duties. Officers review salary sheets before payroll is ran.

Criteria: Effective internal controls include management design procedures to ensure that officers' salaries comply with 19 O.S. § 184.74 and 180.75.

Accountability and stewardship are overall goals in evaluating management's 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 distributing payroll should be segregated.

Finding: Officers' Travel Allowance

Condition: Prior to January 2006. County officials were receiving a monthly travel allowance, but taxes were not being withheld. On January 23, 2006, the County passed a resolution to include travel allowance in with their salaries, which states:

- Pursuant to IRS Regulations regarding taxing monthly mileage for officials, the Board of County Commissioners of Pushmataha County and all Officials of Pushmataha County vote to combine the mileage with salaries.

After the resolution was passed, all officials' salaries were increased by $600, which was the allowable travel allowance for the Commissioners and Sheriff and $200 and $300 more than allowed by statute for the Assessor and County Clerk, Treasurer, and Court Clerk, respectively.

During discussion with County officials, it was determined that the resolution passed by the Board of County Commissioners on January 23, 2006, eliminated the travel allowance for elected officials, but in turn gave each officer a pay raise.

On June 4, 2007, the Assistant District Attorney issued an opinion to Commissioner Jimmy Long, stating that a County Commissioner who was not receiving a travel allowance may drive a county-owned vehicle.

The minutes of Board of County Commissioners Meeting June 11, 2007, state:

> "Jimmy also stated that he had a letter from the Assistant District Attorney in the letter Larry Grant gave the Attorney General's opinion that if a commissioner or sheriff does not draw a monthly mileage check that they could legally drive a county vehicle."

The minutes of Board of County Commissioners Meeting December 31, 2007, state:

> "Under unfinished business, monthly mileage for County Officials was discussed; none of Pushmataha County's elected officials receive mileage."

After the resolution was passed, District 3 Commissioner and the Sheriff continued to drive county-owned vehicles. The current Commissioners and Sheriff signed a questionnaire stating they do drive a county-owned vehicle.

We found no Board action resending the resolution dated January 23, 2006, or reinstating the travel allowance for County officers.

Cause of Condition: There was no formal Board action allowing officers to receive a monthly travel allowance or drive a county-owned vehicle in lieu of the monthly allowance.

Effect of Condition: This condition resulted in the unauthorized receipt of benefits or use of county-owned vehicles.

Recommendation: OSAI recommends that the Board of County Commissioners establish and approve policy pertaining to County officials' monthly travel allowance. Further, OSAI recommends after establishing a travel policy for the elected official that each officer choose and document one of the following travel elections:

- Receive the monthly travel allowance as outlined by statute.
- File monthly claims with appropriate documentation for actual out of pocket travel expenses.
- Drive a county-owned vehicle in lieu of a monthly allowance.

In the event that an official requests to decline all travel compensation, documentation should be maintained to provide evidence of this election.

Management Response:

County Assessor – This has been corrected by resolution.

County Clerk –Resolution 1063 was rescinded and resolution 1056-2012 was adopted to clear up any confusion.

County Treasurer – This issue was addressed in a later resolution, 1056-2012.

County Commissioner District 1 – As the Board, we withdrew the old resolution and replaced with an updated resolution to clarify the mileage and to be in compliance.

County Commissioner District 2 – In regards to DA opinion, this problem was taken care of with a new resolution.

County Commissioner District 3 – A new resolution and resending the 2006 resolution should have this matter corrected.

County Sheriff – Chose not to respond.

Court Clerk – Chose not to respond.

Criteria: 19 O.S. § 165 A. outlines the monthly travel allowance in lieu of reimbursements. Further, 1999 OK AG 68 states in part, "Both the monthly travel allowances of Section 165 and the use of a county-owned vehicle under Section 19 O.S. 180.43(C) are "in lieu of" receiving a mileage reimbursement under Section 164. The use of a county-owned vehicle is also "in lieu of" the Section 165 monthly travel allowance."

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

Conclusion: With respect to the items tested, the County did not comply with 19 O.S. § 1504A, which prescribes the procedures for maintaining a record of all supplies, materials, and equipment received, disbursed, stored, and consumed by their department.

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

- Gained an understanding of the internal controls related to the process of maintaining a record of all supplies, materials, and equipment received, disbursed, stored, and consumed by a department, which included discussions with County personnel, observation, and review of documents.

- Tested compliance of the significant law, which included the following:
  - Reviewed consumable records and selected a sample to determine that county records were maintained and up to date, and that county records agree to the physical count on hand.
  - Obtained the fuel logs to determine that fuel logs are maintained and reconciled, and that fuel logs agree to the physical count on hand.

Finding: Inadequate Internal Controls over Consumable Inventory and Lack of Segregation of Duties

Condition: Internal controls have not been adequately implemented to ensure the accuracy of consumable inventory records:

- County Commissioner District 1:
  - One employee is the receiving officer and performs the duties of maintaining consumable records, preparing receiving reports and transfer documentation, maintaining and reconciling fuel records, and performs the review and reconciliation of consumable records to consumables on hand.

  - Balances on the consumable records did not agree to the consumable items on hand for twenty-one items tested.
  - There is no documentation to support that a review of consumable items on hand is being reconciled to the consumable records.

- County Commissioner District 2:
  - One employee is the receiving officer and performs the duties of maintaining consumable records, preparing receiving reports and transfer documents, and performs the review and reconciliation of consumable records to consumables on hand.
  - Consumable cards did not agree to the consumable items on hand for two items tested. Also, a consumable card for gravel is not prepared and maintained.
  - Fuel logs are maintained, but they do not have a balance and are not reconciled to the actual fuel on hand.
  - There is no documentation to support that a review of consumable items on hand is being reconciled to the consumable records.

- County Commissioner District 3:
  - One employee is the receiving officer and performs the duties of maintaining consumable records, preparing receiving reports and transfer documents, and performs the review and reconciliation of consumable records to consumables on hand.
  - Consumable cards did not agree to the consumable items on hand for three items tested.
  - One employee maintains all fuel records, reconciles fuel records to fuel on hand, and is one of only two employees that have a key to the lock on the fuel tanks. There is no documentation to support that a review of the fuel records is performed.
  - There is no documentation to support that a review of consumable items on hand is being reconciled to the consumable records.

Cause of Condition: Procedures have not been implemented for the accurate reporting of consumable inventories. Also, procedures have not been designed to adequately segregate key functions regarding consumable inventories.

Effect of Condition: This condition could result in inaccurate records, unauthorized use of consumable inventories, or loss of consumable inventories.

A single person having responsibility for more than one area of recording, authorizing, custody of assets, and execution of transactions could result in unrecorded transactions, incorrect financial reports, undetected errors, or misappropriation of funds.

Recommendation: OSAI recommends that management implement procedures to ensure compliance with 19 O.S. § 1504A. These procedures would include filing monthly consumable reports with the County Clerk and perform and document a periodic physical count of inventory. Additionally, the key functions of receiving duties and inventory control duties should be performed by separate employees in order to effectively segregate those duties.

Management Response:

County Commissioner District 1 - Do not know what 21 items would be, but we have and in the future have an employee that is not a receiving officer; verify on weekly reconciling of fuel, review and inspects inventory, and sign off quarterly on consumable products.

County Commissioner District 2 – Steps have and are being taken to fix problems listed.

County Commissioner District 3 **-** I agree with the Auditor's findings and will work to correct this issue.

Criteria: Title 19 O.S. § 1504 describes the manner in which the receiving officer shall maintain a record of all supplies, materials, and equipment received, disbursed, stored, and consumed by his department.

An important aspect of internal control is the safeguarding of assets. Internal controls over safeguarding of assets constitute a process affected by an entities governing body, management, and other personnel, designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the entities consumable inventory and safeguard consumable inventory from loss, damage, or misappropriation. To help ensure a proper accounting of all consumable inventories, the duties of maintaining records, custody of inventory, and reconciliation of inventory should be segregated.

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

Conclusion: With respect to the items tested, the County did not comply with 19 O.S. §178.1 and 69 O.S. § 645, which requires the maintenance of inventory records, periodic inventory verifications, and that equipment be clearly and visibly marked "Property of Pushmataha County."

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

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

- Tested compliance of the significant law, which included the following:
    - We selected a sample of fixed asset equipment and traced to county records to determine that the equipment is maintained on fixed asset records.
    - We selected a sample of road equipment and verified the equipment was clearly and visibly marked "Property of Pushmataha County."

Finding: Inadequate Internal Controls over Fixed Assets and Lack of Segregation of Duties

Condition: The County does not have procedures in place to ensure fixed asset inventory was maintained in accordance with 19 O.S. § 178.1 and 69 O.S. § 645.

- County Assessor
  - Did not perform an annual inventory review to verify the location of county-owned fixed asset inventory.
- County Clerk
  - Did not have documentation to support that an annual inventory review of fixed assets was performed.
- County Sheriff
  - Did not perform an annual inventory review to verify the location of county-owned fixed asset inventory.
  - Three equipment items could not be traced to the inventory record.
- County Treasurer
  - Did not perform an annual inventory review to verify the location of county-owned fixed asset inventory.
- Health Department
  - Did not perform an annual inventory review to verify the location of county-owned fixed asset inventory.
  - One equipment item could not be traced to the inventory record.
- Emergency Management
  - Did not perform an annual inventory review to verify the location of county-owned fixed asset inventory.
- OSU Extension
  - Did not perform an annual inventory review to verify the location of county-owned fixed asset inventory.
- County Commissioner District 1
  - Did not have documentation to support that an annual inventory review of fixed assets was performed.
  - One equipment item could not be traced to the inventory record.
  - One road equipment item was not marked "Property of Pushmataha County."
- County Commissioner District 2
  - Did not have documentation to support that an annual inventory review of fixed assets was performed.
  - One equipment item could not be traced to the inventory record.
  - Three road equipment items were not marked "Property of Pushmataha County."
- County Commissioner District 3
  - Did not have documentation to support that an annual inventory review of fixed assets was performed.

Cause of Condition: Procedures have not been implemented regarding the accurate reporting of fixed assets. In addition, procedures have to been designed to adequately segregate key functions regarding fixed asset records.

Effect of Condition: When documentation of an annual inventory count is not maintained and duties of receiving fixed assets and numbering them are not adequately segregated, there is opportunity for misuse or loss of equipment. Also, when fixed assets are not monitored and equipment is not marked with "Property of Pushmataha County," opportunities for misuse or loss of equipment can occur.

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

Additionally, OSAI recommends that management implement internal controls to ensure compliance with 69 O.S. § 645.

Management Response:

County Clerk - In the future, County Clerk will sign inventory sheet.

County Treasurer - We will now review and correct our inventory records yearly.

County Commissioner District 1 - Documentation of 1 piece of equipment has been produced and equipment has been properly labeled with Pushmataha County District 1 labels. Inventory cards are being maintained properly since 2011 audit.

County Commissioner District 2 – I have taken care of most of documentation and will continue to try to keep everything up to date.

County Commissioner District 3 - I agree with the Auditor's findings and will work to correct this issue.

Criteria: Title 19 O.S. § 178.1 prescribes the maintenance of inventory records and the periodic inventory verifications. Further, 69 O.S. § 645 prescribes that equipment be clearly and visibly marked "Property of" the county.

In addition, an important aspect of internal control is the safeguarding of assets. Internal controls over safeguarding of assets constitute a process affected by an entities governing body, management, and other personnel, designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the entities fixed assets inventory and safeguard fixed assets inventory from loss, damage, or misappropriation.

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

Conclusion: With respect to the items tested, the County did not comply with 19 O.S. § 682 which require officers to deposit daily, in the official depository, all collections received under the color of office.

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

- Gained an understanding of the internal controls related to the process of officers depositing daily in the official depository all collections received under the color of office, which included discussions with County personnel, observation, and review of documents.

- Tested compliance with 19 O.S. § 682, which included reviewing a sample of receipts from County Clerk's and County Sheriff's official depository accounts, verifying the following:
  - Official depository receipts are deposited daily.
  - Deposits are properly and accurately recorded to the account, amount, and period.
  - Official depository receipts agree to the amounts recorded on the deposits.

Finding: Inadequate Internal Controls over Official Depository Accounts and Lack of Segregation of Duties

Condition: When documenting the receipting process for official depository collections in each office, we noted the following:

- **Treasurer's Office**: All employees wrote receipts and worked out of the same cash drawer through fiscal year 2010, but subsequently have separate cash drawers. One employee receives and verifies deposits, enters deposits into the ledger, prepares deposit for bank.

- **County Sheriff's Office**: All employees write receipts and work out of the same money bag. One employee receives and verifies deposits, enters deposits into the computer, prepares deposit for the Treasurer's office. The Sheriff's office was not able to locate a receipt for monies deposited and deposits were not made in a timely manner.

- **Assessor's Office**: All employees write receipts and work out of the same cash drawer. One of the employees who writes receipts and works the cash drawer, also verifies receipt listing to cash and checks, prepares the deposit, takes deposit to the Treasurer, and prepares vouchers at month end to transfer collections to the cash accounts.

- **County Clerk's Office**: All employees write receipts and work out of the same cash drawer. One employee receives and verifies deposits, enters deposits into the computer, prepares deposit for the Treasurer's office, and prepares vouchers at month end to transfer collections to the cash accounts.

- **Election Board Office**: All employees write receipts. As soon as a receipt is written, a deposit is made with the County Treasurer. Only one person will write the receipt, make the deposit, balance with the Treasurer, and prepare vouchers at month end to transfer collections to the general account.

- **Health Department**: One employee prepares and makes the deposit, reconciles with the County Treasurer, and prepares vouchers at month end to transfer collections to the cash general account.

Cause of Condition: In an order to provide prompt services to the citizens of Pushmataha County and for ease of operations, the offices of the County utilize all employees to issue receipts. Additionally, due to the limited number of personnel within each office, one individual is sometimes responsible for all the key functions of the office.

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

Recommendation: OSAI recommends that the County officials implement procedures to ensure that all collections received under the color of office be deposited daily in the official depository account.

OSAI also recommends establishing a system of controls to adequately protect the collections of each office, which include but are not limited to the following:

- The person preparing the deposit should not issue receipts or reconcile the account to the Treasurer's monthly report.
- Each office should establish separate cash drawers for all employees receiving cash.

Management Response:

County Clerk **-** County Clerk will have two deputies file daily deposits. One deputy will do receipts and another one will do deposits.

County Treasurer – We each review the other's deposits and receipts for accuracy every day and initial and date them.

Other offices – Management chose not to respond.

Criteria: Effective internal controls require that key functions within a process be adequately segregated to allow for prevention and detection of errors and possible misappropriation of funds.

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

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

Conclusion: With respect to the items tested, the County did not comply with 19 O.S. §220 and 20 O.S. §1304, which prescribes procedures for expending court clerk revolving fund monies and court fund monies.

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

- Gained an understanding of the internal controls related to expending court fund monies and court clerk revolving fund monies, which included discussions with County personnel, observation, and review of documents.

- Tested compliance with 20 O.S. § 1304 for the Court Fund, which included the following:
  - Randomly selected 59 Court Fund claims and verified the following:
    - Expenditures were made for the lawful operation of the office.
    - Claims were approved by the court clerk and either the district or associate district judge.

- Tested compliance with 19 O.S. § 220 for the Court Clerk Revolving Fund, which included the following:
  - Testing 100% of the claims from the Court Clerk Revolving Fund claims and verified the following:
    - Expenditures were made for the operation of the court.
    - Claims were approved by the district judge and either the court clerk or the local associate district judge.

Finding: Inadequate Internal Controls over Court Fund and Court Clerk Revolving expenditures and Lack of Segregation of Duties

Condition: Internal controls have not been adequately implemented to ensure that court fund and court clerk revolving fund monies are expended in accordance with state statutes.

There is a lack of segregation of duties in the Court Clerk's office. All Court Clerk employees issue receipts and work out of the same cash drawer. The employees also rotate performing the duties of counting the cash drawer, preparing the deposit, reconciling the cash drawer, and taking the deposit to the Treasurer.

Further, the Court Clerk maintains possession of a judge's signature stamp. The Court Clerk performs all the duties of preparing and approving claims, verifying goods and services, preparing vouchers, approving vouchers, and reconciling with the Treasurer for the Court Fund. The Court Clerk performs all the duties of preparing and approving claims and reconciling with the Treasurer for the Revolving Fund.

- Of the 59 Court Fund expenditures tested, the following was noted:
  - Five did not have approval from the majority of the Court Fund Board.
  - One did not have supporting documentation.

- Of the Court Clerk Revolving Fund expenditures tested, the following was noted:
  - One did not have approval from the majority of the Court Fund Board.

Cause of Condition: Statutory procedures designed by 19 O.S. § 220 and 20 O.S. § 1304 for expending court clerk revolving fund monies and court fund monies have not been implemented. Procedures have not been designed to adequately segregate key accounting functions regarding the expenditure process of the court fund and court clerk revolving fund.

Effect of Condition: A single person having responsibility for more than one area of recording, authorizing, custody of assets, and execution of transactions could result in unrecorded transactions, incorrect financial reports, undetected errors, and misappropriation of funds.

Recommendation: OSAI recommends that the Court Clerk implement procedures to ensure that expenditures from court fund monies and court clerk revolving fund monies are in accordance with state statutes.

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

Management Response: Court Clerk **-** Claims are now approved and signed by the Judge personally. Deputies review and sign claims and Court Clerk issues vouchers.

Criteria: Effective internal controls include management design procedures to ensure court fund and court clerk revolving fund monies are spent in accordance with 19 O.S. § 220 and 20 O.S. § 1304.

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

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

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

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

- Tested compliance of the significant law, which included the following:
    - Selected three months of Inmate Trust disbursements for each fiscal year to determine that monies were properly expended.

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

Condition: Internal controls have not been designed to ensure an accurate accounting of the Sheriff's Inmate Trust Fund. The secretary is performing the duties of reconciling receipts to deposits, preparing deposits, making deposits at the bank, posting amounts to ledgers, issuing checks, and reconciling the ledger to the bank statements. In addition, the inmate balances cannot be reconciled to the balance in the Inmate Trust Account, and an unidentified reconciling item is included in the secretary's reconciliation.

Furthermore, of the 129 disbursements tested, 40 expenditures were not made in accordance with statutes. Statutes only allow expenditures from the inmate trust fund for refunds to inmates or transfers to the Sheriff's Commissary Fund.

Cause of Condition: Procedures have not been designed for the accurate reporting of the Inmate Trust Fund, and procedures have not been designed to ensure disbursements are in accordance with state statute.

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

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

Further, OSAI recommends that the Sheriff's office perform reconciliations, including all balances being traced to the inmate account ledger, and investigating any unidentified balances.

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

Management Response: Sheriff - Management chose not to respond.

Criteria: Effective internal controls require that management properly implement procedures to ensure compliance with 19 O.S. § 531A with regard to inmate trust funds.

Further, accountability and stewardship are overall goals in evaluating management's accounting of funds. To help ensure a proper accounting of financial records, the duties of receipting, depositing, posting amounts to accounts, maintaining records, issuing checks, and performing bank reconciliations should be segregated.

All Objectives:

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

Finding: Inadequate County-Wide Controls

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

Cause of Condition: Procedures have not been designed 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.

Examples of risks and procedures to address risk management:

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

Examples of activities and procedures to address monitoring:

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

Management Response:

County Commissioner District 1 - Will visit with other County Officials in open meeting to get suggestions on this matter when we update handbook.

County Commissioner District 2 - Something to be discussed with all officers as soon as possible.

County Commissioner District 3 - I agree with the Auditor’s findings and will work to correct this issue.

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

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

Monitoring is a component of internal control which 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.

Other Items Noted:

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

Finding: Disaster Recovery Plan

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

- County Treasurer
- County Clerk
- County Assessor

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

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

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

Management Response:

County Clerk - County Clerk has all documents in office scanned or microfilmed, also daily backups to Kellpro at Duncan for land records, payroll, and purchasing.

County Treasurer - The County Treasurer’s daily business activities are backed up each night at OSU CCCP. The Treasurer’s office would be able to retrieve all documents.

County Assessor – Chose not to respond.

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

Finding: Collection of Partial Ad Valorem Taxes

Condition: The County Treasurer is accepting partial ad valorem payments for delinquent parcels and holding these payments in trust in the official depository account.

Cause of Condition: Procedures have not been implemented regarding the collection of ad valorem taxes established by state statute.

Effect of Condition: This condition could also result in possible loss of revenue and noncompliance to state statutes.

Recommendation: OSAI recommends that the County Treasurer only accept payment for ad valorem taxes as prescribed in 68 O.S. § 2913.

Management Response: County Treasurer - The Treasurer’s office will no longer hold partial payments in trust. We are able to currently identify all monies we are holding in trust.

Criteria: Title 68 O.S. § 2913 outlines procedures for the collection of ad valorem taxes.

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