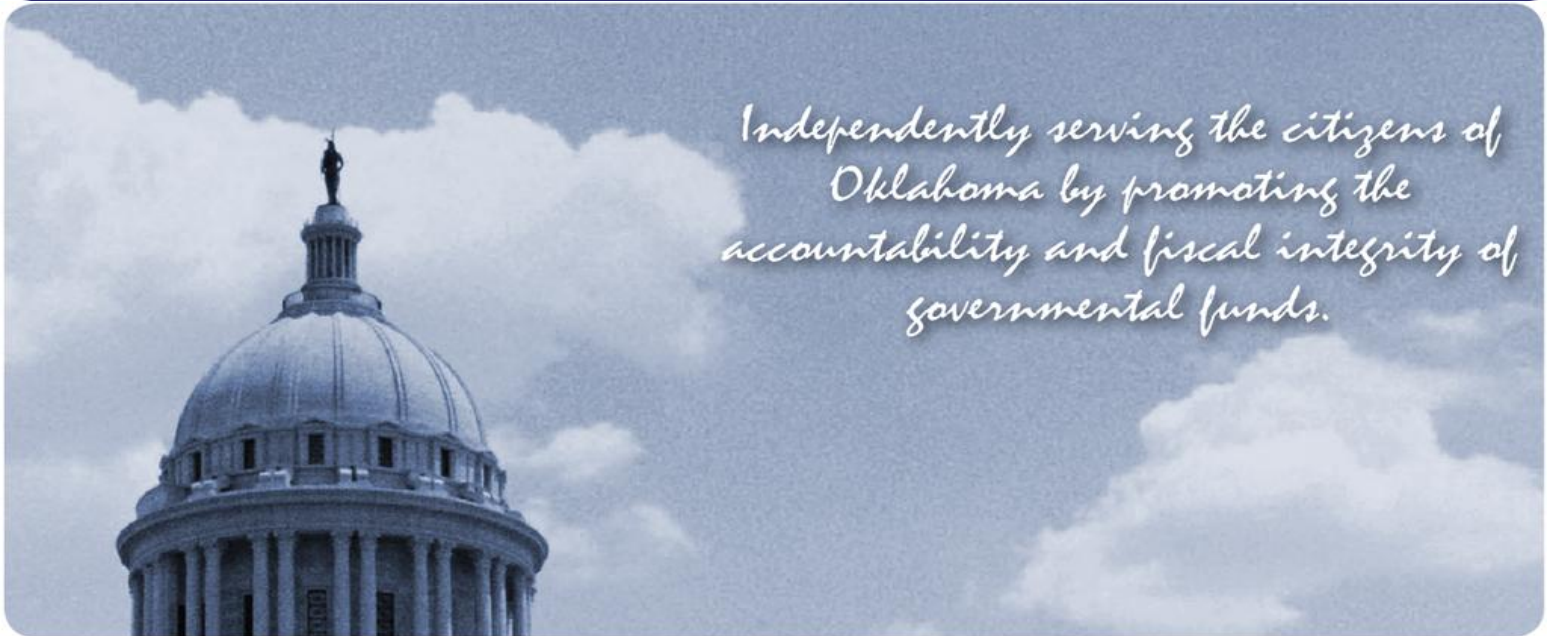


OPERATIONAL AUDIT

TILLMAN COUNTY

For the fiscal year ended June 30, 2016



*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

**TILLMAN COUNTY OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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

April 25, 2017

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

Transmitted herewith is the audit report of Tillman County for the fiscal year ended June 30, 2016.

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, CPA, CFE
OKLAHOMA STATE AUDITOR & INSPECTOR

**TILLMAN COUNTY, OKLAHOMA
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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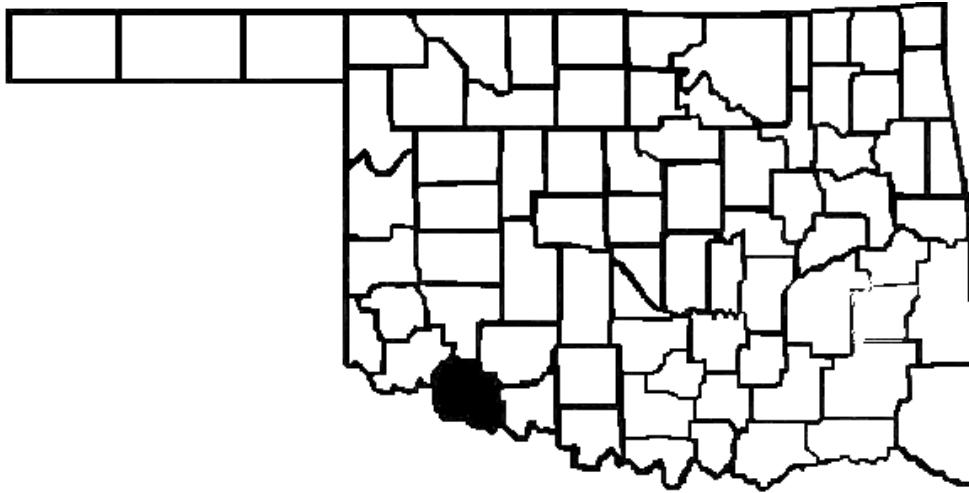
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**TILLMAN COUNTY, OKLAHOMA
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**



Bordering Texas at the Red River, part of the county was in Comanche, Kiowa, and Apache grazing lands opened for settlement by lottery June 9, 1901, to August 6, 1901. The southeastern part, in the Big Pasture, was opened by sealed bids in December 1906. These lands became part of Comanche County, Oklahoma Territory, until statehood, when Tillman County was organized and named for South Carolina Senator Benjamin Tillman.

Frederick, the county seat, was named after the son of a Frisco Railway executive who promised to give the city an iron flagpole in return for the honor. Great Plains Technology Center has a campus in Frederick.

Farming, ranching, and dairies illustrate a variety of agricultural interests. The Frederick Industrial Park has a 6,000-foot concrete and asphalt lighted runway and complete refueling services. Frederick's water supply is provided by a 900-acre lake, and the area also has the Tom Steed Reservoir. Just east of Manitou, Deep Red creek has been dammed to provide water and recreation. The Hackberry Flat Project as restored the area that was drained and farmed for years to provide a wildlife habitat for birds. The Oklahoma Historical Society completed a complex across from Tillman County Courthouse depicting farm life in the early twentieth century.

For more information, call the County Clerk's office at 580/335-3421.

County Seat – Frederick

Area – 879.21 Square Miles

County Population – 7,628
(2014 est.)

Farms – 556

Land in Farms – 541,419Acres

Primary Source: Oklahoma Almanac 2015-2016

**TILLMAN COUNTY OFFICIALS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Board of County Commissioners

District 1 – Jimmie C. Smith
District 2 – Joe Don Dickey
District 3 – Kent Smith

County Assessor

Matthew Smith

County Clerk

Cacy Caldwell

County Sheriff

Bobby Whittington

County Treasurer

Julie Garza

Court Clerk

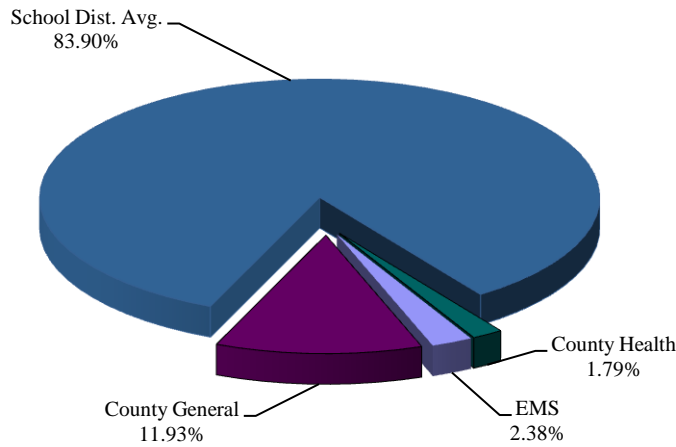
Kevin Stevens

District Attorney

Ken Darby

**TILLMAN COUNTY, OKLAHOMA
AD VALOREM TAX DISTRIBUTION
SHARE OF THE AVERAGE MILLAGE
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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	10.46	Tipton	I-8	36.75	5.25	14.11	14.51	4.19	74.81
County Health	1.57	Davidson	I-9	36.31	5.19	9.04	14.51	4.19	69.24
EMS	2.09	Frederick	I-158	36.49	5.21	23.44	14.51	4.19	83.84
		Grandfield	I-249	36.86	5.27	16.99	14.51	4.19	77.82
		Comanche Co.	JT-2	35.94	5.13	11.88	14.51	4.19	71.65
		Kiowa Co.	JT-4	36.60	5.23	-	14.51	4.19	60.53
		Comanche Co.	JT-132	37.19	5.31	18.07	14.51	4.19	79.27
		Cotton Co	JT-333	35.17	5.02	12.32	14.51	4.19	71.21

**TILLMAN COUNTY, OKLAHOMA
SALES TAX DISTRIBUTION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Sales Tax

Sales Tax of August 27, 2002

The voters of Tillman County approved a one percent (1%) sales tax effective August 2002, and shall be assessed and collected until repeal by election or other action of law to repeal. The sales tax was established to provide revenue for the support of various entities in the following proportion: OSU Cooperative Extension 12%; Free Fair 5%; County General 63%, and Capital Improvement 20%. These funds are accounted for in OSU Extension Sales Tax, Free Fair Sales Tax, and the County General Fund which includes Capital Improvement.

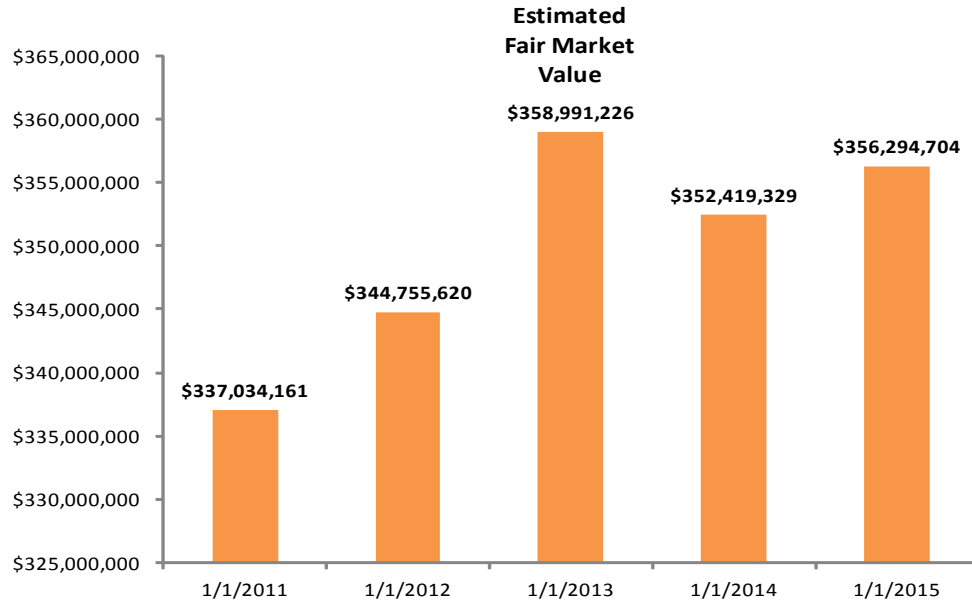
Sales Tax of July 27, 2010

The voters of Tillman County approved a one half of one percent ($\frac{1}{2}$ of 1%) sales tax effective January 1, 2011 to support the lease payment of the Tillman County Law Enforcement Center. The sales tax shall be assessed and collected for the duration of the bonds and said tax shall cease upon retirement of the bonds issued by the Tillman County Industrial Authority. These funds are accounted for in the Law Enforcement Center Sales Tax.

During the fiscal year the County collected \$467,644 in total sales tax.

**TILLMAN COUNTY, OKLAHOMA
 ASSESSED VALUE OF PROPERTY
 TREND ANALYSIS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

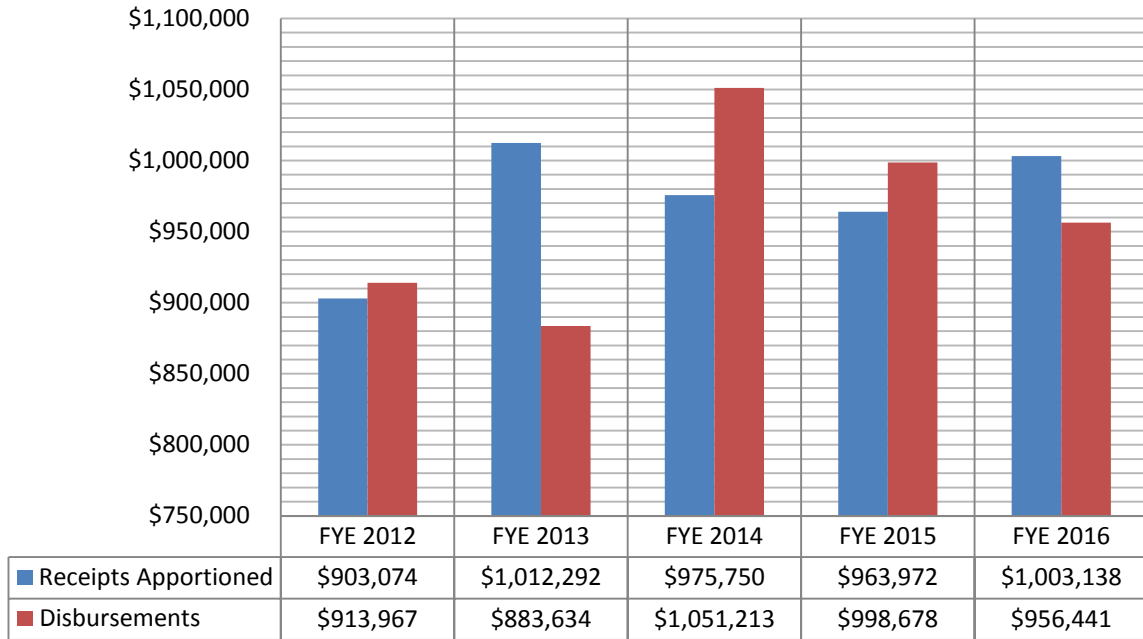
Valuation Date	Personal	Public Service	Real Estate	Homestead Exemption	Net Value	Estimated Fair Market Value
1/1/2015	\$8,668,981	\$7,124,770	\$30,344,710	\$2,161,462	\$43,976,999	\$356,294,704
1/1/2014	\$8,498,406	\$7,585,824	\$29,808,111	\$2,196,279	\$43,696,062	\$352,419,329
1/1/2013	\$8,144,519	\$6,671,349	\$31,430,875	\$2,184,708	\$44,062,035	\$358,991,226
1/1/2012	\$7,512,102	\$5,162,844	\$31,147,232	\$2,237,986	\$41,584,192	\$344,755,620
1/1/2011	\$7,343,687	\$4,968,695	\$30,491,032	\$2,244,575	\$40,558,839	\$337,034,161



**TILLMAN COUNTY, OKLAHOMA
COUNTY GENERAL FUND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

County General Fund

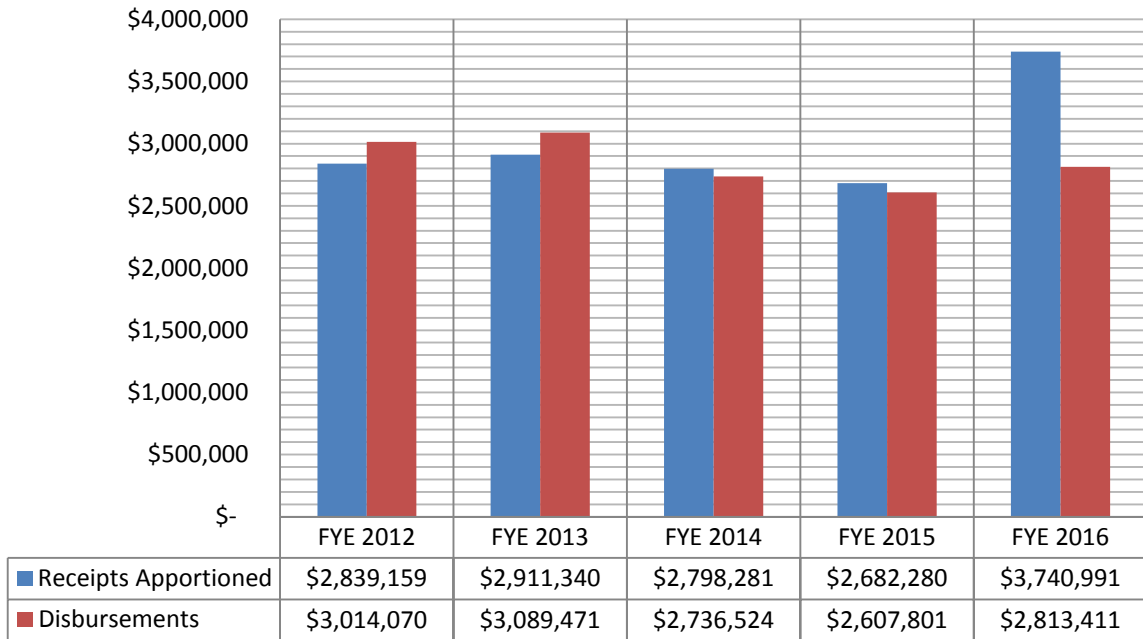
The Oklahoma Constitution and the Oklahoma Statutes authorize counties to create a County General Fund, which is the county’s primary source of operating revenue. The County General Fund is typically used for county employees’ salaries plus many expenses for county maintenance and operation. It also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



**TILLMAN COUNTY, OKLAHOMA
COUNTY HIGHWAY FUND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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.



**TILLMAN COUNTY
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Presentation of Apportionments, Disbursements, and Cash Balances of County Funds for the Fiscal Year Ended June 30, 2016.

	Beginning Cash Balances July 1, 2015	Receipts Apportioned	Transfers In	Transfers Out	Disbursements	Ending Cash Balances June 30, 2016
Combining Information:						
County Funds:						
County General Fund	\$ 248,299	\$ 1,003,138	\$ 111,594	\$ 100,000	\$ 956,441	\$ 306,590
County Highway Fund	1,235,758	3,740,991	102,546	100,000	2,813,411	2,165,884
County Health Department	98,141	90,009	-	-	88,001	100,149
Free Fair Sales Tax	26,099	15,588	-	-	15,516	26,171
OSU Extension Sales Tax	61,488	37,411	-	-	30,808	68,091
Law Enforcement Center Sales Tax	1	169,889	-	-	169,889	1
Sheriff Department of Corrections	192,825	745,891	-	-	757,985	180,731
County Bridge & Road Improvement Fund 105	1,332,269	172,155	-	-	318,951	1,185,473
Dispatch	42,562	172,800	1	-	174,325	41,038
Resale Property	127,212	64,142	-	-	73,072	118,282
Treasurer Mortgage Tax Certification Fee	35,268	1,665	-	-	-	36,933
County Clerk Lien Fee	20,214	2,290	-	-	3,619	18,885
County Clerk Records Preservation Fee	46,064	9,505	-	-	3,891	51,678
Assessor Revolving Fee	11,333	2,568	-	-	3,938	9,963
Sheriff Service Fee	45,377	114,750	-	-	114,278	45,849
Sheriff Reserve Deputy	1,038	50	-	-	438	650
Sheriff Commissary Fund	8,012	22,252	-	-	20,142	10,122
Sheriff Drug Fund	2,181	-	-	-	-	2,181
Insurance Deductible	11,594	-	-	11,594	-	-
Emergency 911	305,304	109,115	-	-	131,511	282,908
Grandfield Law Enforcement	1	-	-	1	-	-
Emergency Management SLA Program	345	210	-	-	196	359
Community Service Sentence	263	-	-	-	-	263
Trash Cop	43	-	-	-	-	43
Unemployment Fund	3,035	-	-	2,546	489	-
County Reward Fund	8	100	-	-	-	108
Combined Total - All County Funds	\$ 3,854,734	\$ 6,474,519	\$ 214,141	\$ 214,141	\$ 5,676,901	\$ 4,652,352

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

**TILLMAN COUNTY
DESCRIPTION OF COUNTY FUNDS AND TRANSFERS
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Description of County Funds

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

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

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

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

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

Free Fair Sales Tax – accounts for the collection of sales tax monies and disbursements are for the maintenance and operation of the Free Fair.

OSU Extension Sales Tax – accounts for the collection of sales tax monies and disbursements are for the maintenance and operation of the OSU Extension.

Law Enforcement Center Sales Tax – accounts for the collection of sales tax monies and disbursements are for the indebtedness of the Law Enforcement Center.

Sheriff Department of Corrections – accounts for state receipts and disbursements for the purpose of maintaining the Department of Corrections inmates.

County Bridge & Road Improvement Fund 105 – accounts for state receipts and disbursements are for the purpose of maintaining bridges and roads.

Dispatch – accounts for the collection of money from emergency 911 dispatching contracts and disbursed for salaries and maintenance and operations of emergency 911 dispatchers.

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

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

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

**TILLMAN COUNTY
DESCRIPTION OF COUNTY FUNDS AND TRANSFERS
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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

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

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

Sheriff Reserve Deputy – accounts for donations and disbursements for equipment for the reserve deputies.

Sheriff Commissary Fund – accounts for the collection of the sale of items to inmates and disbursements to purchase commissary goods from the vendor and can be used for the maintenance and operations of the jail.

Sheriff Drug Fund – accounts for forfeitures and disbursements are for drug enforcement.

Insurance Deductible – accounts for the collection of insurance reimbursements and disbursements to cover deductibles for future claims.

Emergency 911 – accounts for the collection of fees imposed on the residents within the boundaries of Tillman County from the phone company and disbursements are made to maintain an emergency telephone system.

Grandfield Law Enforcement – accounts for the collection of money from the City of Grandfield and disbursed for law enforcement services by the Sheriff’s department.

Emergency Management SLA Program – accounts for federal funds for the purpose of the County’s emergency management program.

Community Service Sentence – accounts for the collection of funding through the State Department of Corrections for administrative expenses and supervision of offenders.

Trash Cop – accounts for the trash cop grant and disbursed for the purpose of trash patrol.

Unemployment Fund – accounts for the collection of unemployment premiums prior to 2005 to establish a separate account to pay unemployment claims. There has been no activity within this fund since 2008.

County Reward Fund – accounts for collections of a fee from district court for the dumping of trash. Disbursements account for awards paid to citizens reporting to the local policing departments.

**TILLMAN COUNTY
DESCRIPTION OF COUNTY FUNDS AND TRANSFERS
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Interfund Transfers

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

- \$1 was transferred to the Dispatch fund from the Grandfield Law Enforcement fund as a residual equity transfer to close out the Grandfield Law Enforcement fund.
- \$2,546 was transferred to County Highway Fund from the Unemployment Fund as a residual equity transfer to close out the Unemployment Fund.
- \$11,594 was transferred to County General Fund from the Insurance Deductible fund as a residual equity transfer to close out the Insurance Deductible fund.

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

- \$100,000 was transferred to County General Fund from the County Highway Fund for the purpose of funding operating expenses as allowed by Title 68 O.S. § 3021.
- \$100,000 was transferred to County Highway Fund from the County General Fund to repay the operating transfer as required by Title 68 O.S. § 3021.

TILLMAN COUNTY, OKLAHOMA
COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES—BUDGET AND ACTUAL—BUDGETARY BASIS—
COUNTY GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	General Fund		
	Budget	Actual	Variance
Beginning Cash Balances	\$ 248,298	\$ 248,299	\$ 1
Less: Prior Year Outstanding Warrants	(81,625)	(81,625)	-
Beginning Cash Balances, Budgetary Basis	<u>166,673</u>	<u>166,674</u>	<u>1</u>
Residual Equity Transfer	-	11,594	11,594
Receipts:			
Ad Valorem Taxes	438,735	476,843	38,108
Charges for Services	30,501	33,250	2,749
Sales Tax	253,448	258,763	5,315
Intergovernmental Revenues	140,980	143,801	2,821
Miscellaneous Revenues	27,395	90,481	63,086
Total Receipts, Budgetary Basis	<u>891,059</u>	<u>1,003,138</u>	<u>112,079</u>
Expenditures:			
County Sheriff	240,057	240,008	49
County Treasurer	50,400	47,627	2,773
County Clerk	72,294	72,294	-
Court Clerk	78,831	78,331	500
County Assessor	76,200	72,563	3,637
Revaluation	79,663	71,253	8,410
General Government	148,544	124,329	24,215
Excise Equalization	4,000	3,143	857
County Election Expense	46,154	45,487	667
Insurance - Benefits	251,700	225,525	26,175
Charity	250	-	250
County Audit Budget Account	9,639	-	9,639
Total Expenditures, Budgetary Basis	<u>1,057,732</u>	<u>980,560</u>	<u>77,172</u>
Excess of Receipts and Beginning Cash Balances Over Expenditures, Budgetary Basis	<u>\$ -</u>	<u>200,846</u>	<u>\$ 200,846</u>
Operating Transfers:			
Operating Transfer In		100,000	
Operating Transfer Out		(100,000)	
Net Operating Transfers		-	
Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances			
Add: Current Year Outstanding Warrants		105,093	
Add: Current Year Encumbrances		651	
Ending Cash Balance		<u>\$ 306,590</u>	

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

TILLMAN COUNTY, OKLAHOMA
COMPARATIVE SCHEDULE OF RECEIPTS, EXPENDITURES, AND
CHANGES IN CASH BALANCES—BUDGET AND ACTUAL—BUDGETARY BASIS—
COUNTY HEALTH DEPARTMENT FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	County Health Department Fund		
	Budget	Actual	Variance
Beginning Cash Balances	\$ 98,142	\$ 98,141	\$ (1)
Less: Prior Year Outstanding Warrants	(2,834)	(2,834)	-
Less: Prior Year Encumbrances	-	(4,470)	(4,470)
Beginning Cash Balances, Budgetary Basis	95,308	90,837	(4,471)
Receipts:			
Ad Valorem Taxes	71,572	71,572	-
Charges for Services	-	18,239	18,239
Intergovernmental Revenues	-	198	198
Total Receipts, Budgetary Basis	71,572	90,009	18,437
Expenditures:			
County Health Budget Account	171,143	98,191	72,952
Total Expenditures, Budgetary Basis	171,143	98,191	72,952
Excess of Receipts and Beginning Cash Balances Over Expenditures, Budgetary Basis	\$ (4,263)	82,655	\$ 86,918
Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances			
Add: Current Year Encumbrances		2,500	
Add: Current Year Outstanding Warrants		14,994	
Ending Cash Balance		\$ 100,149	

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

**TILLMAN COUNTY
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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, 2016. 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 2016.

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

FINDINGS AND RECOMMENDATIONS

Finding 2016-2 – Inadequate Internal Controls Over the Collection Process (Repeat Finding)

Condition: Based upon inquiry of the County Treasurer and deputy, and through observation of the collection and deposit process for the County Treasurer's office, the following deficiencies were noted:

- The County Treasurer and a deputy perform the duties of issuing receipts, preparing deposits, making deposits with the financial institution, and reconciling bank statements. Further, documentation did not exist to support a review of these processes.

Cause of Condition: Policies and procedures have not been designed and implemented by the County Treasurer to ensure duties over the collection process are adequately segregated. Further, procedures have not been designed and implemented to maintain documentation supporting review processes over the review of monthly bank reconciliations of all bank accounts.

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

Recommendation: The Oklahoma State Auditor & Inspector's Office (OSAI) recommends management be aware of this condition and implement internal controls over the collection process. In the event that segregation of duties is not possible due to limited personnel, OSAI recommends implementing compensating internal controls to mitigate the risks involved with a concentration of duties. Compensating internal controls would include separating key processes and/or critical functions of the office, and having management review and approve accounting functions.

OSAI further recommends that the monthly reports be reviewed and approved by someone other than the preparer.

**TILLMAN COUNTY
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Management Response:

County Treasurer: We will work towards further segregating duties within our office and documentation of review processes will be maintained.

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.

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 did not comply 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.

FINDINGS AND RECOMMENDATIONS

Finding 2016-10 - Inadequate Internal Controls and Noncompliance Over the Disbursements and Appropriation of County Sales Tax Collections (Repeat Finding)

Condition: Upon inquiry and observation of the recordkeeping process of collecting and expending county sales tax, the following was noted:

- The ballot approved by the voters of Tillman County on April 27, 2002, requires 63% of the 1% sales tax to be distributed to the General Fund and 20% to the Capital Improvement Fund. However, 83% was distributed to the County General Fund. For the fiscal year 2016, the Capital Improvement Fund was shorted \$62,352.48.
- Additionally, the sales tax disbursements were not discretely presented within the County General Fund. The County apportioned \$258,762.82 in sales tax collections to the County General Fund during the fiscal year ended June 30, 2016. Since the sales tax collections were commingled with other sources of revenue, we could neither determine how much sales tax was expended nor perform a test of sales tax disbursements for the County General Fund.

Cause of Condition: Policies procedures have not been designed and implemented to ensure compliance with 68 O.S. § 1370E.

Effect of Condition: These conditions resulted in noncompliance with state statute and AG Opinions and could result in unrecorded transactions, misstated financial reports, undetected errors, and

**TILLMAN COUNTY
OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

misappropriation of funds. Further, sales tax may not be apportioned in accordance with the sales tax ballot.

Recommendation: OSAI recommends the County appropriate sales tax funds in accordance with the ballot approved by the majority of voters of Tillman County. OSAI also recommends that the County sales tax apportioned to the County General Fund be accounted for in a separate account so as to discretely present the expenditures. In addition, the sales tax should be expended in such a manner to provide assurance that expenditures are made in accordance to the purposes specified by the ballot as outlined by 68 O.S. § 1370E.

Management Response:

Chairman of the Board of County Commissioner, County Clerk, and County Treasurer: We will establish a County General Fund – Sales Tax account within the County General Fund to be designated for the purpose proposed by the sales tax ballot. Any remaining balance at the end of the fiscal year will remain in the designated account and expended as such in the next fiscal year.

Criteria: Title 68 O.S. § 1370E states in part, “Any sales tax which may be levied by a county shall be designated for a particular purpose...The County shall identify the purpose of the sales tax when it is presented to the voters pursuant to the provisions of subsection A of this section...the proceeds of any sales tax levied by a County shall be deposited in the General revenue or Sales Tax Revolving Fund of the County and shall be used only for the purpose for which such sales tax was designated...”

Further, AG opinion 2005 OK AG 23 dated 07/13/2005 states:

“3. Proceeds of a county sales tax voted for a specific purpose but placed in the county’s general fund must be accounted for as a discrete fund, and any surplus not needed for the stated purpose during one fiscal year must be transferred to the county budget for the next fiscal year, for the same specified purpose.”

Additionally, AG opinion 2014 OK AG 15 dated 10/31/2014 states:

“4. C. As the fiscal agent responsible for superintending the funds of Canadian County, the board of county commissioners is responsible to ensure that the sales tax proceeds are not intermingled and are used exclusively for the purpose expressed in the ballot measure and resolution. The board can direct that the funds be deposited in a dedicated revolving fund and not intermingled with other revenues. Okla. Const. art. X, § 19; [68 O.S. 2011, § 1370](#); [19 O.S. Supp. 2013, § 339](#); [19 O.S. 2011, § 345](#); Cavin v. Bd. of County Comm'rs, [1934 OK 245 ¶ 11](#), [33 P.2d 477](#), 479.

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 regarding the application of certified levies to the tax rolls should be strengthened.

FINDINGS AND RECOMMENDATIONS

Finding 2016-12 - Inadequate Internal Controls Over Certified Ad Valorem Tax Levies (Repeat Finding)

Condition: Upon inquiry and observation of the ad valorem tax apportionment process, the following was noted:

- The certified ad valorem tax levies are entered into the system by the County Treasurer and the County Clerk verifies the levies; however, no evidence of independent oversight of the accuracy of this process is maintained.

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 system and ad valorem tax apportionments are distributed correctly.

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 controls to provide reasonable assurance that certified ad valorem tax levies are reviewed by someone independent of the process and the ad valorem tax collections are apportioned and distributed correctly among the different funds to which they belong. Such controls may include independent verification of accuracy of reports.

Management Response:

County Treasurer: Documentation of the review will be maintained as verification that ad valorem tax levies are correctly entered into the system.

Criteria: Accountability and stewardship are overall goals in evaluating management's accounting of funds. Internal controls should be designed to analyze and check accuracy and completeness. To help

ensure proper accounting of funds, the duties of 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: With respect to the items tested, the County’s internal controls did not provide reasonable assurance that expenditures (including payroll) were accurately reported in the accounting records and financial operations did not comply with significant laws and regulations.

FINDINGS AND RECOMMENDATIONS

Finding 2016-4 – Inadequate Internal Controls and Noncompliance Over the Disbursement Process (Repeat Finding)

Condition: Through inquiry of the disbursement process and the audit of forty (40) disbursements reflected the following:

- The County Clerk has physical control of the signature stamp of the Chairman of the BOCC. The Chairman’s signature stamp, along with the County Clerk’s personal signature stamp, is retained in the safe of the County Clerk’s office.
- One (1) instance was noted in which the disbursement was not signed by a requisitioning officer.
- One (1) instance was noted in which the disbursement was not charged to the proper fund and account.
 - The County Clerk has one employee that is paid from the T-Highway Personal Services account instead of the County Clerk Personal Services account.

In addition, the audit of payroll claims for seven (7) offices reflected three (3) instances where timesheets were not signed by supervisors.

Cause of Condition: Policies and procedures have not been designed and implemented over the disbursement process to strengthen internal controls and ensure compliance with state statutes.

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Effect of Condition: These conditions resulted in noncompliance with state statutes. Further, these conditions could result in unrecorded transactions, misstated financial reports, undetected errors, and misappropriation of funds.

Recommendation: OSAI recommends signature stamps are adequately safeguarded from unauthorized use, be utilized only by the official to whom it belongs, and all disbursements must be signed by an approved requisitioning officer in accordance with 19 O.S. § 1505.

Further, OSAI recommends that only highway personnel be paid from County Highway in accordance with Title 69 O.S. § 1503(a).

Management Response:

BOCC, Chairman: The Board of County Commissioners will work to make sure all approved requisitioning officers sign all purchase orders that are requisitioned. Also, the Chairman will safeguard his personal signature stamp. Further, we will ensure that highway funds are expended in accordance with statute and all timesheets are signed by an employee and a supervisor.

County Clerk: We will emphasize the need for requisitioning officers to sign all purchase orders. Also, the County Clerk will safeguard her personal signature stamp. Further, we will work toward all claims having proper supporting documentation.

County Sheriff: We are aware of the condition and we will work to make sure all timesheets are signed by an employee and a supervisor.

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.

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.

Title 19 O.S. § 1505 prescribes the procedures for requisition, purchase, and receipt of supplies, material, and equipment.

Title 69 O.S. § 1503(a) states, "All monies raised for use on the county highways in each county, or apportioned to each county for road purposes, from any source, including all funds and monies derived by law, levy, taxation, or apportionment shall, unless otherwise provided by law, be placed in the county treasury in a fund to be known as the county highway fund, to be expended on order of the board of county commissioners on county highways as defined herein, or on state highways within their respective counties including the

lighting thereof, if, in the judgment of the board of county commissioners, such expenditure would be just and equitable and for the best interest of the county.”

All Objectives:

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

Finding 2016- 1 – Inadequate County-Wide Controls and Disaster Recovery Plan (Repeat Finding)

Condition: When assessing the county-wide controls, the following weaknesses were noted:

- County-wide controls regarding Risk Management and Monitoring have not been designed.
- The County Sheriff, County Assessor, District 1, District 2, and District 3 have not designed a Disaster Recovery Plan over information systems operating within each office.

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

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

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. OSAI further recommends offices should prepare a Disaster Recovery Plan in order to maintain operations in the event of a disaster.

Management Response:

District 1, 2, and 3: The Board of County Commissioners will work towards assessing and identifying risks to design written county-wide controls. The BOCC will also work towards the design of Disaster Recovery Plans for each district.

County Sheriff: The department will work towards the design of a Disaster Recovery Plan.

County Assessor: The office will work towards the design of a Disaster Recovery Plan.

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

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

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

Further, According to the standards of the Information Systems Audit and Control Association (CobiT, Deliver and Support 4), information services function management should ensure that a written Disaster Recovery Plan is documented and contains guidelines and instructions for the County to follow in the event of a disaster.

Other Item(s) Noted:

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

Finding 2016-3 - Inadequate Internal Controls and Noncompliance Over Estimate of Needs – County Health Department Fund

Condition: Upon review of the County's Estimate of Needs for the County Health Department Fund for the fiscal year ending June 30, 2016, the following was noted:

- The budgeted appropriations exceeded the beginning fund balance plus budgeted revenues.

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Cause of Condition: Policies and procedures have not been designed and implemented to ensure the Estimate of Needs is accurately completed.

Effect of Condition: These conditions resulted in noncompliance with the state statute. It could also result in misstated financial reports, undetected errors, and misappropriation of funds.

Recommendation: OSAI recommends that the County review the Estimate of Needs prior to approval to ensure that all funds are accounted for and accurately presented.

Management Response:

Chairman, Board of County Commissioners: We will discuss this issue with our budget maker, and we will review the estimate of needs for completion prior to approval.

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 users' 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, Notwithstanding the provisions of the School District Budget Act, each board of county commissioners and the board of education of each school district, 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 statement 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. The statement of estimated needs shall be itemized so as to show, by classes: first, the several amounts necessary for the current expenses of the political subdivision and each officer and department thereof as submitted in compliance with the provisions of Section 3004 of this title; second, the amount required by law to be provided for sinking fund purposes; third, the probable income that will be received from all sources, including interest income and ad valorem taxes; and shall be detailed in form and amount so as to disclose the several items for which the excise board is authorized and required, by this article, to approve estimates and make appropriations.

REPORT ON STATUTORY COMPLIANCE – OTHER MATTERS



Oklahoma State Auditor & Inspector

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Tillman County
Board of County Commissioners
Tillman County Courthouse
Frederick, Oklahoma 73542

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, 2016:

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

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

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

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

A handwritten signature in blue ink that reads "Gary A. Jones".

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

April 24, 2017

**TILLMAN COUNTY, OKLAHOMA
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SCHEDULE OF FINDINGS AND RESPONSES

Finding 2016-6 - Inadequate Internal Controls and Noncompliance Over Court Clerk Disbursement Processes (Repeat Finding)

Condition: The audit of twenty-five (25) Court Fund claims and twelve (12) Court Clerk Revolving Fund claims reflected the following deficiencies within the disbursement process:

- Supporting documentation of disbursements was not attached to two (2) Court Fund claims.
- Supporting documentation did not match the amount paid for one (1) Court Fund claim.
- Supporting documentation of disbursements was not attached to one (1) Court Clerk Revolving Fund claim.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure adequate supporting documentation is obtained and attached to Court Fund and Court Clerk Revolving Fund claims. Further, procedures have not been designed and implemented to ensure all claims have proper affidavit approval.

Effect of Condition: These conditions resulted in noncompliance with state statutes and could result in unrecorded transactions, misstated financial reports, undetected errors, and misappropriation of funds.

Recommendation: OSAI recommends management implement compensating procedures to ensure adequate documentation is obtained and attached to claims to support disbursements of Court Fund and Court Clerk Revolving Fund monies. OSAI further recommends the Court Clerk comply with 20 O.S. § 1304 which outlines procedures for expending Court Fund monies, and 19 O.S. § 220 which outlines procedures for expending Court Clerk Revolving Fund monies, including proper authorization, proper supporting documentation, and approval of claims.

Management Response:

Court Clerk: We will ensure that supporting documentation is attached to all Court Fund and Court Clerk Revolving Fund claims.

Criteria: Accountability and stewardship are overall goals in evaluating management's 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. Internal controls should be designed to analyze and check accuracy, completeness, and authorization of disbursements, signatures, safeguarding of assets and reconciliation.

Title 20 O.S. § 1304 prescribes procedures for expending Court Fund monies.

Title 19 O.S. § 220 prescribes procedures for expending Court Clerk Revolving Fund monies.

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Finding 2016-7 – Inadequate Internal Controls and Noncompliance Over the Inmate Trust Fund Checking Account and Sheriff Commissary Fund (Repeat Finding)

Condition: Upon inquiry and observation of the Inmate Trust Fund Checking Account and Sheriff Commissary Fund, one individual is primarily responsible for entering inmate deposits into the Commissary system, preparing deposit slips, depositing with the financial institution, preparing checks, posting transactions to inmate records, and reconciling the Inmate Trust Fund Checking Account ledger to the bank statement at the end of each month.

Further, the following was noted through the observation of records:

- Receipts are not prepared for the inmate trust fund and deposits are not made on a daily basis.
- In a test of 100% of disbursements, it was noted sixty (60) checks, totaling \$54,117.67, were not issued in compliance with state statutes.
- 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 fiscal year.
- Reconciliations are not being performed.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure that controls are in place with regards to the Inmate Trust Fund Checking Account and Sheriff Commissary Fund.

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

Recommendation: OSAI recommends the following:

- Management be aware of these conditions and realize that a concentration of duties and responsibilities is not desired from a control point of view. Management should provide segregation of duties so that no one employee is able to perform all accounting functions.
- Receipts should be issued for all monies collected. Receipts issued should bear the name of the office and account and should be pre-numbered, duplicate receipts, issued in sequential order and collections should be deposited on a daily basis into the Inmate Trust Fund Checking Account.
- Disbursements should be made from the Sheriff's Commissary Fund in accordance with 19 O.S. § 180.43D.
- The Sheriff should file a report of the commissary with the County Commissioners by January 15th, of the fiscal year.
- Inmate trust fund 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.

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Management Response:

County Sheriff: The department will work to rectify these issues.

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

Title 19 O.S. § 682 states in part, “It shall be the duty of each and every county officer...to deposit daily...all monies...of every kind received or collected by virtue or under color of office...”

Title 19 O.S. § 531A states, “...the county sheriff may establish a checking account, to be designated the "Inmate Trust Fund Checking Account", to be managed by the county sheriff and maintained separately from regular county funds...The county sheriff shall deposit all monies collected from inmates incarcerated in the county jail into this checking account and may write checks to the Sheriff's Commissary Account for purchases made by the inmate during his or her incarceration and to the inmate from unencumbered balances due the inmate upon his or her discharge.”

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

Finding 2016-8 - Inadequate Internal Controls and Noncompliance Over Fixed Assets and Consumable Inventories (Repeat Finding)

Condition: Upon inquiry and observation of fixed assets inventory, we noted an annual physical fixed assets inventory verification was not performed for the office of the County Sheriff. Further, in the offices of the County Treasurer, County Clerk, Court Clerk, District 1, District 2, and District 3, one individual is responsible for maintaining inventory records and performing the annual fixed asset count.

Upon inquiry and observation of consumable inventory items, we noted the following:

- District 1 does not perform reconciliations of fuel usage.

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- District 2 does not keep record of all consumable items. Stock cards and transfer documents are not utilized.
- District 2 and 3 did not have documentation of the performance of a monthly physical consumable inventory count.

Cause of Condition: Policies and procedures have not been adequately designed and implemented by county offices/departments to ensure the accurate reporting of fixed assets and consumable inventory items, as well as adequate procedures to ensure equipment is properly identified in accordance with state statutes.

Effect of Condition: These conditions resulted in noncompliance with state statutes. Opportunities for loss and misappropriation of county assets may be more likely to occur when the County does not have procedures in place to account for fixed assets. Additionally, when consumable inventory items are not adequately documented and inadequate segregation of duties exist, the opportunity for the misappropriation and undetected errors, could result.

Recommendation: OSAI recommends the County Officers implement internal controls to ensure compliance with 19 O.S. §§ 178.1, 178.2, 1502(A)(1), 1502(B)(1) and 1504 regarding fixed assets and consumable 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.
- Inventory records should be filed with the County Clerk.
- Utilize stock cards and transfer documents.
- Perform a monthly consumable inventory count.
- Reconcile fuel usage on a weekly basis.

Management Response:

County Clerk: We will work to segregate the annual review duty and inventory control duty.

County Treasurer: We will work to segregate the annual review duty and inventory control duty.

Court Clerk: We will work to segregate the annual review duty and inventory control duty.

County Sheriff: We will maintain documentation of the periodic physical inventory counts and file a copy with the County Clerk.

County Commissioner District 1: We will work to segregate the annual review duty and inventory control duty. Further, we will work to make sure weekly fuel reconciliations are performed.

County Commissioner District 2: We will work to segregate the annual review duty and inventory control duty. We will begin keeping track of consumable inventory and begin performing a monthly inventory verification.

**TILLMAN COUNTY, OKLAHOMA
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County Commissioner District 3: We will work to segregate the annual review duty and inventory control duty. Further, we will maintain documentation of a monthly inventory verification performed.

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.

Title 19 O.S. § 178.1 requires the board of county commissioners in each county of this state to take or cause to be taken, an inventory of all working tools, apparatus, machinery and equipment.

Title 19 O.S. § 178.2 requires each elected county official to create and maintain inventory records of said office. Such inventory shall be filed with the county clerk.

Title 19 O.S. § 1502(A)(1) requires a prescribed uniform identification system for all supplies, materials, and equipment of a county used for maintenance for roads and bridges.

Title 19 O.S. § 1502(B)(1) requires a prescribed uniform identification system for all supplies, materials, and equipment of a county not used in the construction and maintenance for roads and bridges.

Title 19 O.S. § 1504 requires the receiving officer to maintain a record of all items received, disbursed, stored and consumed by the department.



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