

OPERATIONAL AUDIT

TILLMAN COUNTY

For the period July 1, 2009 through June 30, 2010



*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 PERIOD JULY 1, 2009 THROUGH JUNE 30, 2010**

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Oklahoma State Auditor & Inspector

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September 29, 2011

TO TILLMAN COUNTY

Transmitted herewith is the audit report of Tillman County for the period July 1, 2009 through June 30, 2010.

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

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

Sincerely,

A handwritten signature in blue ink, appearing to read "Gary A. Jones", with a long horizontal flourish extending to the right.

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

**TILLMAN COUNTY
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Background

Bordering Texas at the Red River, part of Tillman County was in Comanche, Kiowa and Apache grazing lands opened for settlement by lottery June 9, 1901 to August 6, 1901. The southeastern part, 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 given the name of the famous U.S. Senator Benjamin Tillman of South Carolina.

County Seat - Frederick Area – 879.21 Square Miles

County Population – 8,148
(2007 est.)

Farms - 548 Land in Farms - 463,943 Acres

Primary Source: Oklahoma Almanac 2009-2010

County Officials:

- Linda Coleman..... County Assessor
- Jeri Boyd.....County Clerk
- Jimmie C. Smith County Commissioner District 1
- Joe Don Dickey..... County Commissioner District 2
- Kent Smith..... County Commissioner District 3
- Bobby Whittington County Sheriff
- Kim Lamb County Treasurer
- Daralene Kidwell Court Clerk

Purpose and Scope

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, 2009 through June 30, 2010.

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 if the County’s internal controls provide reasonable assurance that revenues were accurately reported in the accounting records.

Conclusion

The County’s internal controls do not provide reasonable assurance that revenues were accurately reported in the accounting records.

Methodology

To accomplish our objective, we performed the following:

- Documented internal controls related to the receipting process which included discussions with the County personnel, observation, and review of documents.

Observation

Inadequate Segregation of Duties Over the Receipting Process

Accountability and stewardship are overall goals of management in the accounting of funds. To help ensure a proper accounting of funds, the duties of receiving, receipting, recording, depositing cash and checks, reconciliations, and transaction authorization should be segregated. 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.

Based upon inquiry and observation of the receipting process for each office, the following was noted:

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County Treasurer's Office: The County Treasurer and her deputy issue receipts, record revenues, prepare deposits, deliver deposits to the financial institution, and the County Treasurer reconciles the bank statements.

County Clerk's Office: The County Clerk maintains one cash drawer from which all employees make change, and one employee is responsible for balancing the cash drawer and preparing the deposit.

County Assessor's Office: The County Assessor does not maintain a cash drawer. One employee is responsible for balancing receipts to cash and checks, preparing the deposit, and depositing with the County Treasurer.

County Sheriff's Office: One employee is responsible for issuing receipts, balancing the cash drawer, preparing the deposit, and delivering the deposit to the Treasurer.

County Sheriff Inmate Trust: Dispatchers do not issue receipts for inmate money. One employee is responsible for entering the amount received into the inmate trust system and preparing the deposit. Inmate trust funds are not deposited on a daily basis with the financial institution and bank statements are not properly reconciled to the inmate trust ledger. The system reflects the notation "Not Fully Reconciled."

Court Clerk's Office: The Court Clerk and her three employees work from the same cash drawer. The Court Clerk balances the cash drawer, prepares the deposit, and delivers the deposit to the Treasurer.

Recommendation

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

Further, the following duties should be separated in the respective offices:

County Treasurer's Office: The same person(s) issuing receipts should not prepare the deposits, deliver deposits to the financial institution, and reconcile bank statements.

County Clerk's Office: Employees should not all work from the same cash drawer. The duties of balancing the cash drawer and preparing the deposit should be performed by different individuals.

County Assessor's Office: Employees should maintain separate cash drawers. One employee should not be performing the duties of balancing receipts to cash and checks, preparing deposits, and delivering the deposit to the County Treasurer.

County Sheriff's Office: One employee should not be performing all of the duties of issuing receipts, preparing the deposit, and delivering the deposit to the Treasurer's office. Employees should not all work from the same cash drawer. With regards to the inmate trust account, receipts should be issued at the time money is received, daily deposits should be made at the financial institution, and bank statements should be reconciled to the system on a monthly basis.

Court Clerk's Office: Employees should not all work from the same cash drawer. The Court Clerk should not be performing all the duties of balancing the cash drawer, preparing the deposit, and delivering the deposit to the Treasurer's office.

**Views of Responsible
Officials**

The County Clerk's office will implement internal controls which provide reasonable assurance that revenues are accurately reported in the accounting records by providing a cash drawer for each employee. Responsibilities of daily balancing of separate cash drawer totals with the software program, preparing the deposit, issuing official depository vouchers, preparing the monthly report to the Board of County Commissioners and reconciling the monthly report with the Treasurer will be segregated, as efficiently as possible with a limited number of staff, with consistent ongoing documented monitoring.

The County Treasurer's office will implement internal controls which provide reasonable assurance that revenues are accurately reported in the accounting records. Duties of receipting and recording revenue, preparing the deposit and delivering to the financial institution, issuing official depository vouchers and reconciling bank statements will be performed with consistent ongoing documented monitoring.

Deputies in the Court Clerk's office all work from different cash drawers. One deputy balances the cash drawer another deputy prepares the deposit and delivers to the Treasurer. The Court Clerk reconciles the monthly report with the Treasurer.

The County Assessor's office will implement internal controls which provide reasonable assurance that revenues are accurately reported in the accounting records by preparing the deposit, issuing official depository vouchers, preparing the monthly report to the Board of County Commissioners and reconciling the monthly report with the Treasurer will be segregated, as efficiently as possible with a limited number of staff, with consistent ongoing documented monitoring.

The County Assessor does not maintain a cash drawer. Fees are receipted and deposited with the Treasurer immediately.

Objective 2: To determine if the County's internal controls provide reasonable assurance that expenditures were accurately reported in the accounting records.

Conclusion The County's internal controls provide reasonable assurance that expenditures generated through the purchase order system and the cash voucher system were accurately reported in the accounting records. However, our review of the internal controls over court fund expenditures did not provide assurance that the Court Fund expenditures were accurately reported in the accounting records.

Methodology To accomplish our objective, we performed the following:

- Documented internal controls related to the expenditure process which included discussions with the County personnel, observation, and review of documents.
- Tested controls which included reviewing a random sample of 25 expenditures for the following:
 - Ensuring that claims reflected authorized signatures for the requisitioning officer, receiving officer, and approval for payment by a majority of the Board of County Commissioners.
 - Ensuring that claims were signed by the County Clerk attesting all supporting documentation was attached to the claim prior to submission for payment.
- Tested controls which included reviewing a random sample of 25 cash voucher expenditures for the following:
 - Ensuring that Court Clerk Revolving fund claims are prepared by the Court Clerk's office and documentation supports the expenditure.
 - Ensuring that claims reflected authorized signatures for payment.
 - Ensuring that payments were issued by the County Clerk's office and registered with the County Treasurer's office.
- Tested controls which included reviewing a random sample of 3 reconciliations between the County Treasurer and the County Clerk and determined:
 - The County Treasurer and County Clerk are reconciling the general ledger to the appropriation ledger.

Observation Inadequate Segregation of Duties Over the Court Fund Expenditures Process

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

Upon inquiry and observation of court fund expenditures, one individual prepares the claim, issues and signs the voucher, and distributes vouchers to the appropriate vendors.

Recommendation OSAI recommends management be aware of this condition 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.

Further, the duties of preparing claims, issuing vouchers, signing vouchers, and distributing vouchers to the appropriate vendor should not be performed by one individual.

Views of Responsible Officials The Court Clerk will prepare the court claims and the first deputy will be issuing and signing the vouchers and another deputy will distribute the vouchers to the vendors.

Objective 3: To determine if the County’s internal controls provide reasonable assurance that payroll expenditures were accurately reported in the accounting records.

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

Methodology To accomplish our objective, we performed the following:

- Documented internal controls related to the payroll expenditure process which included discussions with the County personnel, observation, and review of documents.

Observation

Inadequate Segregation of Duties Over the Payroll Expenditures

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

The payroll clerk enrolls new hires, posts withholdings, maintains personnel files, initiates the payment of payroll, prints payroll, posts to accounting records, distributes payroll checks, prepares OPERS reports and state and federal tax reports.

Recommendation

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

Further, the duties of enrolling new hires, posting withholdings, maintaining personnel files, initiating the payment of payroll, printing payroll, posting to accounting records, distributing payroll checks, preparing OPERS reports and state and federal tax reports should be adequately segregated.

Views of Responsible Officials

The County Clerk's office will implement internal controls which provide reasonable assurance that payroll expenditures are accurately reported in the accounting records by the County Clerk approving the payroll verification report, preparing 941 payroll reports, signing payroll warrants, and reviewing new hire personnel files.

Objective 4:

To determine if the County's internal controls provide reasonable assurance that inventories were accurately reported in the accounting records.

Conclusion

The County's internal controls do not provide reasonable assurance that inventories were accurately reported in the accounting records.

Methodology

To accomplish our objective, we performed the following:

- Documented internal controls related to the inventory process which included discussions with the County personnel, observation, and review of documents.

Observation

Inadequate Internal Controls Over Fixed Assets

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 acquisition, use, or disposition of fixed assets and safeguard fixed assets from loss, damage, or misappropriation.

Upon inquiry and observation of the recordkeeping process regarding fixed assets, the following was noted:

Evidence of an annual physical inventory count being performed by the following county officials was not documented.

- County Clerk
 - County Assessor
 - County Treasurer
 - County Sheriff
 - County Commissioners for Districts 1, 2, and 3
- The secretary for the County Commissioners, with an office located in the county courthouse, is designated to maintain the fixed asset records for Districts 1, 2, and 3. Further, the IT program she uses to keep these records is not password protected.

Failure to maintain accurate records of fixed asset inventories and failure to perform a periodic physical inventory of fixed assets could result in inaccurate records, unauthorized use of fixed assets, or misappropriation of fixed assets.

Recommendation

OSAI recommends that each county office implement procedures to accurately maintain fixed asset records. Further, an annual verification of fixed asset items should be performed and documented to properly account for fixed assets.

Observation

Inadequate Internal Controls Over Consumable Inventories

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 acquisition, use, or disposition of consumable inventories and safeguard consumable inventories from loss, damage, or misappropriation.

Upon inquiry and observation of the recordkeeping process regarding consumable inventories, the following was noted:

District 1: Consumable inventory records are not maintained.

District 2: There is no independent oversight of consumable inventories due to one individual receiving inventory, maintaining consumable records, and carrying out physical counts of consumable inventory.

District 3: There is no independent oversight of consumable inventories due to one individual receiving inventory, maintaining consumable records, and carrying out physical counts of consumable inventory.

Failure to maintain accurate records of consumable inventories, to adequately segregate duties over consumable inventory and failure to perform a periodic physical inventory of consumable inventories could result in inaccurate records, unauthorized use of consumable inventories, or misappropriation of consumable inventories.

Recommendation

OSAI recommends that each district implement internal control procedures for the accurate reporting of consumable inventories including adequately segregating the duties. Records should be maintained for all consumable inventory items in an accurate manner that reflects consumable inventory by category and reflects current balances. Further, a periodic physical verification of consumable inventories should be performed and reconciled to inventory records.

Views of Responsible Officials

The County Commissioners will implement internal controls to provide reasonable assurance that inventories are accurately reported in the accounting records by performing a documented annual verification of the fixed asset items. Commissioner District 1 will maintain all consumable inventory items in an accurate manner that reflects consumable inventory by category and reflects current balances. A periodic physical verification of consumable inventories will be performed and reconciled to inventory records by an employee that does not prepare the inventory records.

The County Clerk's office will implement internal controls to provide reasonable assurance that inventories are accurately reported in the accounting records by performing a visual documented annual verification of the fixed asset items.

The County Treasurer's office will implement internal controls to provide reasonable assurance that inventories are accurately reported in the accounting records by performing a visual documented annual verification of the fixed asset items.

The County Sheriff's department is in the process of establishing a computer data base of all inventory. The department shall conduct annual inventories of all items over \$500 in value.

Objective 5: 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 complied 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:

- Documented internal controls related to pledged collateral which included discussions with the Treasurer, observation, and review of ledgers and documents.
- We compared the largest balances per month for the two banks to the amount of pledged collateral to determine that deposits were adequately secured.

Observation **Inadequate Internal Controls Over Pledged Collateral**

The County Treasurer has not properly designed and implemented internal controls related to pledged collateral. The County Treasurer did not maintain evidence of monitoring deposits to determine that funds were adequately secured on a daily basis.

Recommendation OSAI recommends the County Treasurer implement internal control procedures for daily monitoring of deposits to ensure deposits are adequately secured with collateral securities or instruments.

Views of Responsible Officials In response, the County Treasurer's office will implement controls to provide reasonable assurance that bank deposits are accurately monitored for adequate pledged collateral.

Objective 6: 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 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:

- Documented internal controls related to the process of receipting and apportioning sales tax collections, which included discussions with the County personnel, observation, and review of documents.
- Reviewed the sales tax ballot to determine designation and purpose of sales tax collections.
- Compared the third party Oklahoma Tax Commission confirmations for sales tax to the amounts recorded on the apportionment ledger to ensure that they agreed and were apportioned to the appropriate fund.

Objective 7: 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:

- Documented internal controls related to the process of apportioning and distributing ad valorem tax collections, which included discussions with the County personnel, observation, and review of documents.
- Tested internal controls which included:
 - Determining the Treasurer used the certified levies as fixed by the Excise Board of Tillman County for the audit period.

- Compared the certified levies for the audit period to the computer system to ensure correct levies were used for applying levies to the tax rolls.
- Recalculated the apportionment to determine that ad valorem tax collections were accurately apportioned to the taxing entities.

Other Item(s) Noted:

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

Observation Inadequate County-Wide Controls

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 Control Environment, Risk Assessment, Information and Communication, 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 and control monitoring part of their regular operating processes.

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

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

Recommendation OSAI recommends that the County implement a system of internal controls to provide reasonable assurance regarding the achievement of goals and objectives.

Views of Responsible Officials Ensuring elected officials know their responsibilities for adequate internal controls, communicating the importance of these controls to employees and performing ongoing monitoring during normal daily operations with documentation, will be instrumental in providing the controlled environment necessary to safeguard Tillman County assets and prevent and detect errors and fraud. Tillman County is in the process of designing a County wide written policy for risk assessment and management and procedures for maintaining internal control objectives.

Observation **Control Environment of County Sheriff’s Department**

Control environment is the foundation for all other components of internal control. The understanding by management of the importance of internal controls and the communication of this importance to its employees are key elements of the control environment. A review of the control environment of the Tillman County Sheriff’s Department revealed the following control weaknesses:

- The County Sheriff designated an individual to purchase supplies for the Tillman County Sheriff’s Department for vehicle maintenance who is not a full-time county employee of the County Sheriff.
- The two receiving officers designated by the County Sheriff are not, at all times, properly preparing the receiving reports. The receiving officers are preparing the receiving report from the invoice rather than visually verifying goods or services are received.

These conditions result in a lack of safeguarding County assets.

Recommendation OSAI recommends the County Sheriff restrict the duties of requisitioning and receiving to those officially designated as the requisitioning and receiving officers. Further, receiving reports should be completed only from visual verification of goods or services rather than an invoice.

**Views of Responsible
Officials**

The individual designated to purchase supplies was a reserve deputy who donated his time to the Sheriff's Department to keep the patrol units in operating condition. This person no longer makes purchases on behalf of the Tillman County Sheriff's Department.

All purchases are being personally verified by the receiving officer before being used by this department, and/or invoices being submitted for payment to the County Clerk.



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