

AUDIT REPORT

PUSHMATAHA COUNTY RURAL WATER DISTRICT #2
ALBION, OKLAHOMA

DECEMBER 31, 2011

KERSHAW CPA & ASSOCIATES, PC

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PUSHMATAHA COUNTY RURAL WATER DISTRICT #2
ALBION, OKLAHOMA
DECEMBER 31, 2011

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PUSHMATAHA COUNTY RURAL WATER DISTRICT #2
ALBION, OKLAHOMA
DECEMBER 31, 2011

BOARD OF DIRECTORS

<u>NAME</u>	<u>POSITION</u>
ALAN KIGHT, JR.	CHAIRMAN
ALAN KIGHT, SR.	VICE-CHAIRMAN
MARY UPTON	SECRETARY
ALLAN GIST	TREASURER
DARRELL CLARY	MEMBER

OFFICE MANAGER

LAURA DUNCAN

OPERATIONS MANAGER

ORVILLE DIGHTON

KERSHAW CPA & ASSOCIATES, PC

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Pushmataha County Rural Water District #2
Albion, Oklahoma

We have audited the accompanying financial statements of the Pushmataha County Rural Water District #2, as of and for the fiscal year ended December 31, 2011, as listed in the table of contents. These financial statements are the responsibility of the Pushmataha County Rural Water District #2's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and in accordance with Oklahoma Statutes. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, these financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

The District is required to withhold one half social security tax and applicable federal and state income tax from gross wages and timely remit such funds to the United States Treasury, the Oklahoma Tax Commission and the OESC. Reporting payroll activity on IRS forms 941, Oklahoma forms OW-8, OES-3 is required at various periods during the year, monthly, quarterly or annually. Payroll taxes for the current year were not paid in a timely manner and were still past due. The amount of penalties and interest relating to these past due taxes cannot be readily determined.

In our opinion, except for the effects on the financial statements relating to payroll and related taxes described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the modified cash basis financial position of the Pushmataha County Rural Water District #2, Albion, Oklahoma, as of December 31, 2011, and the changes in modified cash basis financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated October 29, 2012, on our consideration of the Pushmataha County Rural Water District #2's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over

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financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in compliance with Government Auditing Standards and should be considered in assessing the results of our audit.

Pushmataha County Rural Water District #2 has implemented the general provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34. However the District has not presented the Management's Discussion and Analysis required by the Governmental Accounting Standards Board (GASB) that the GASB has determined is necessary to supplement, although not required to be part of, the basic financial statements.

The introductory and the other supplementary information sections listed in the accompanying table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the District. Such additional information has not been subjected to the auditing procedures applied in our audit of the basic financial statements, and accordingly, we do not express an opinion thereon.

Kershaw CPA & Associates, P.C.

Kershaw CPA & Associates, PC

October 29, 2012

PUSHMATAHA COUNTY RURAL WATER DISTRICT #2
ALBION, OKLAHOMA
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
DECEMBER 31, 2011

	<u>ASSETS</u>	<u>2011</u>
<u>CURRENT ASSETS:</u>		
Cash:		
Petty Cash/Change		\$ 208
Operating		58,372
Savings Account		41,253
Certificates of Deposit		34,046
Total Current Assets		133,880
<u>OTHER ASSETS:</u>		
ORWA Investment		2,000
Total Restricted Assets		2,000
<u>CAPITAL ASSETS:</u>		
Water Distribution Facilities		666,265
Equipment		32,099
Buildings		30,553
Land		2,250
		731,167
Less: Accumulated Depreciation		(435,118)
Net Capital Assets		296,049
TOTAL ASSETS		\$ 431,929
<u>LIABILITIES & NET ASSETS</u>		
<u>CURRENT LIABILITIES:</u>		
Customer Meter Deposits		\$ 7,034
Current Portion of Long-Term Debt		-
Total Current Liabilities		7,034
<u>LONG-TERM LIABILITIES:</u>		
Notes Payable		-
Less: Current Portion		-
Total Long-Term Liabilities		-
TOTAL LIABILITIES		7,034
<u>NET ASSETS:</u>		
Invested in capital assets, net of related debt		296,049
Restricted for debt service		-
Unrestricted		128,847
TOTAL NET ASSETS		424,896
TOTAL LIABILITIES AND NET ASSETS		\$ 431,929

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

**PUSHMATAHA COUNTY RURAL WATER DISTRICT #2
ALBION, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - MODIFIED CASH BASIS
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2011**

	2011
<u>OPERATING REVENUES:</u>	
Water Sales	\$ 189,721
Late Fees	3,727
Benefit Units/Meters	3,750
Grant Income	-
Service Fees	-
TOTAL OPERATING REVENUES	197,198
<u>OPERATING EXPENSES:</u>	
Salaries	46,790
Payroll Taxes	5,397
Director's Fees	1,850
Water Purchases	59,233
Small Tools	-
Utilities	7,069
Truck Expense	4,125
Supplies, Repairs & Maintenance	13,020
Office Supplies & Postage	3,622
Legal and Audit	1,009
Dues & Fees	1,549
Water Tests	968
Insurance and Bonds	7,321
Mileage	2,505
Depreciation	14,808
Miscellaneous	1,291
Bank Charges	44
Returned Checks	1,096
Total Operating Expenses	171,696
NET OPERATING INCOME (LOSS)	25,503
<u>OTHER REVENUES (EXPENSES):</u>	
Interest Income	493
Interest Expense	-
Gain on Sale of Equipment	-
Miscellaneous	5,860
Total Other Revenues (Expenses)	6,353
NET INCOME (LOSS)	31,856
CAPITAL CONTRIBUTIONS - Membership Income	-
TOTAL NET ASSETS, Beginning of Year	424,264
TOTAL NET ASSETS, Prior Year Adjustment	(31,224)
TOTAL NET ASSETS, End of Year	\$ 424,896

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

PUSHMATAHA COUNTY RURAL WATER DISTRICT #2
ALBION, OKLAHOMA
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011

	2011
<u>Net Cash Flows from Operating Activities:</u>	
Cash Receipts from Customers	\$ 197,198
Cash Receipts from Others	-
Payments to Suppliers for Goods & Services	(109,133)
Payments to Employees & Laborers	(46,790)
Net Cash Provided (Used) by Operating Activities	41,276
<u>Net Cash Flows from Capital & Related Financing Activities:</u>	
Additions to Capital Assets	(24,743)
Gain on Sale of Equipment	-
Proceeds from long-term debt	-
Principal paid on long-term debt	-
Interest paid on Debt	-
Net Cash Provided (Used) by Capital & Related Financing Activities	(24,743)
<u>Net Cash Flows from Investing Activities:</u>	
Miscellaneous Income	5,860
Interest Income	493
Net Cash Provided (Used) by Investing Activities	6,353
Net Increase (Decrease) in Cash and Cash Equivalents	22,887
Cash & Cash Equivalents, Beginning of Year	109,167
Cash & Cash Equivalents, Prior Year Adjustment	1,827
Cash & Cash Equivalents, End of Year	\$ 133,880
<u>Reconciliation of operating income (loss) to net cash provided</u>	133,880
<u>operating activities:</u>	
Operating Income (Loss)	\$ 25,503
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities	
Depreciation	14,808
Increase(Decrease) in Security Deposits	965
Net Cash Provided (Used) by Operating Activities	\$ 41,276

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

PUSHMATAHA COUNTY RURAL WATER DISTRICT #2
ALBION, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES

Organization & Reporting Entity

Rural Water District No. 2, Pushmataha County, Oklahoma was formed on November 15, 1965, pursuant to the Oklahoma Rural Water, Sewer, and Solid Waste Management District Act. The District operates as a nontaxable government entity to serve residents of a portion of rural Pushmataha County in Albion, Oklahoma.

Basis of Presentation

The Enterprise Fund is used to account for the operations of the District that are financed and operated in a manner similar to private business enterprises where the intent is that costs of providing goods or services be recovered in whole or part through user fees or charges.

Basis of Accounting

The District has elected to present its financial statements on a modified cash basis of accounting. This modified cash basis of accounting is a basis of accounting other than generally accepted accounting principles. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses, and their related assets and liabilities. Under the District's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from cash transactions, except for the recording of depreciation expense on capital assets.

As a result of the used of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expense and liabilities) are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this financial report, the reader should keep in mind the limitations resulting from the use of the modified cash basis of accounting.

Budgetary Data

The District is required by Article 8 of its By-laws to prepare an annual budget.

Assets, Liabilities, & Equity

Cash & Cash Equivalents

For purposes of these financial statements, the District considers cash and cash equivalents to be currency on hand and demand deposits with banks. There were no non-monetary transactions.

PUSHMATAHA COUNTY RURAL WATER DISTRICT #2
ALBION, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

Inventory

Inventory consists of meters, pipe, and other supplies on hand at December 31, 2011. Inventory items are valued at cost. However, because of the District's use of the modified cash basis of accounting the balance of inventory is not included in the financial statements.

Capital Assets

Water Distribution facilities and equipment purchased or constructed by the District are stated at cost. Depreciation is computed on the straight-line method based on the estimated useful lives of the assets ranging from five to fifty years. The dollar threshold for capitalization has been set at \$100.00.

Construction in progress is recorded at cost. No depreciation is recognized until construction contracts are complete and the applicable facilities become operational.

Long-Term Debt

Long-term debt is reported at face value, net of applicable discounts and deferred loss on refunding. Costs related to the issuance of debt are deferred and amortized over the lives of various debt issues.

Equity Classification

Equity is classified as net assets and displayed in three components:

1. Invested in capital assets, net of related debt—Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
2. Restricted net assets—Consists of net assets with constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets—All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Revenues, expenditures & expenses

Operating revenues and expenses for proprietary funds result from providing services and producing and delivering goods and/or services. They also include all revenues

PUSHMATAHA COUNTY RURAL WATER DISTRICT #2
ALBION, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

and expenses not related to capital and related financing, noncapital financing, or investing activities.

Governmental Accounting Standards Board Statement No. 34

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. Certain of the significant changes in the Statement include the following:

1. For the first time the financial statement should include:
 - a. A Management Discussion and Analysis (MD&A) section providing analysis of the District's overall financial position and results of operations. However, the District has chosen not to present the required MD&A for the current year.
 - b. Financial statements prepared using full accrual accounting for all of the District's activities, except for including the General capital assets or infrastructure (lines, pump stations, etc.).
2. A change in the fund financial statements to focus on major funds.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements). The District has elected to implement the general provisions of the Statement and report infrastructure acquired after December 31, 2003 as provided by GASB standards.

Memorandum Only

The "Memorandum Only" captions above the total columns mean that totals are presented for overview information purposes only.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

As a local government unit, the District is subject to various federal, state, and local laws and contractual regulations. In accordance with Government Auditing Standards, the auditor has issued a report on his consideration of the District's internal control over financial reporting and tested its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in compliance with Government Auditing Standards and should be read in conjunction with this report in considering the results of the audit.

PUSHMATAHA COUNTY RURAL WATER DISTRICT #2
ALBION, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

Finance-related Legal & Contractual Provisions

The District does not have any loans which would require reserve accounts or budget preparation.

Deficit Fund Balance or Retained Earnings

As indicated in the financial statements, there are no fund balance or retained earnings deficits for the District for this fiscal year.

NOTE 3 - CASH AND INVESTMENTS

Custodial Credit Risk

At December 31, 2011, the District held deposits of approximately \$133,880 at financial institutions. The District's cash deposits, including interest-bearing certificates of deposit are covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the District or by its agent in the District's name.

Investment Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment Credit Risk

The District has no policy that limits its investment choices other than the limitation of state law as follows:

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers' acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.

PUSHMATAHA COUNTY RURAL WATER DISTRICT #2
ALBION, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

NOTE 4 - RESTRICTED ASSETS

The District no longer has restricted assets because the notes payable have been paid in full.

NOTE 5 - CAPITAL ASSETS

Capital asset activity, for the fiscal year ended December 31, 2011, was as follows:

	Balance at Dec. 31, 2010	Additions	Deductions	Balance at Dec. 31, 2011
Water Distribution Facilities	\$ 641,522	\$ 24,743	\$ -	\$ 666,265
Equipment	32,099	-	-	32,099
Buildings	30,553	-	-	30,553
Land	2,250	-	-	2,250
Subtotal	706,425	24,743	-	731,167
Less: Accum. Depr. Total Capital Assets (Net of Depreciation)	(420,310)	(14,808)	-	(435,118)
	<u>\$ 286,115</u>	<u>\$ 9,934</u>	<u>\$ -</u>	<u>\$ 296,049</u>

The current year addition was for engineering fees.

NOTE 6 - LONG-TERM DEBT

The District currently has no long-term debt.

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended December 31, 2011:

	Balance at December 31, 2010	Additions	Deductions	Balance at December 31, 2011
Notes Payable	\$ -	\$ -	\$ -	\$ -
Total Long-Term Debt	\$ -	\$ -	\$ -	\$ -

Debt Services Requirements to Maturity

The annual debt service requirements to maturity, including principal and interest, for long-term debt, as of December 31, 2011, are as follows:

PUSHMATAHA COUNTY RURAL WATER DISTRICT #2
 ALBION, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2011

Year Ending December 31,		
2012	\$	-
2013		-
2014		-
2015		-
2016		-
2017-2021		-
Total	\$	-

NOTE 7 - FUND EQUITY

As described in Note 1 above, equity is classified as net assets and displayed in three components:

1. Invested in capital assets, net of related debt
2. Restricted net assets
3. Unrestricted net assets

NOTE 8 - CONTINGENCIES

Litigation

According to management there were no known contingent liabilities at December 31, 2011, which would have a material effect on the financial statements.

Federally Assisted Programs

In the normal course of operations, the District participates in various federal or state/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. Any liability of reimbursement that may arise as a result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

NOTE 9 - ACCUMULATED UNPAID VACATION BENEFITS

The modified cash basis of accounting does not require recording of the accumulated unpaid vacation benefits as a liability in the financial statements. However, it is the District's position that any accrued benefits are not significant and would not materially affect the financial statements.

PUSHMATAHA COUNTY RURAL WATER DISTRICT #2
ALBION, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 10 - WATER CONTRACTS

The District purchases all of its water from the Talihina Public Works Authority. The current rate of purchase is \$1.70 per 1,000 gallons of water. This rate became effective October 5, 2006.

The District sells water to the Choctaw Housing Authority for \$135.50 for the first 10,000 gallons, \$57.75 for the next 21,000 gallons and \$3.11 per 1,000 gallons for the remainder.

NOTE 11 - INSURANCE COVERAGE

The District maintains the following insurance coverage through the Oklahoma Rural Water Association.

- Auto Liability & Auto Physical
- Property Insurance
- General Liability
- Directors & Officers
- Employment Practice
- Employee Dishonesty
- Money Securities
- Workers' Compensation

NOTE 12 - ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that could affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 13 - SUBSEQUENT EVENTS

The District did not have any subsequent events through the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year end December 31, 2011.

NOTE 14 - PRIOR YEAR ADJUSTMENT

A prior year adjustment was made to remove old outstanding checks. A second adjustment was made to remove receivables and payables and other accruals for the District's use of the modified cash basis.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Pushmataha County Rural Water District #2
Albion, Oklahoma

We have audited the financial statements of the Pushmataha County Rural Water District #2, which were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles, as of December 31, 2011 and have issued our report thereon dated October 29, 2012, which was qualified for problems relating to payroll and related taxes. The Pushmataha County Rural Water District #2 has implemented the general provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34, except that the District did not present the required MD&A. We conducted our audit in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and in accordance with Oklahoma Statutes.

Internal Control Over Financial Reporting

Management of Pushmataha County Rural Water District #2 is responsible for establishing and maintaining internal control over financial reporting. In planning and performing our audit, we considered the Pushmataha County Rural Water District #2's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Pushmataha County Rural Water District #2's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that I consider to be material weakness, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings that we consider to be significant deficiencies in internal control over financial reporting. Those deficiencies are listed as Items 11-01, 11-02 & 11-03. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Pushmataha County Rural Water District #2's financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is included in the Schedule of Findings as Item 11-04. The results of our tests disclosed no instances of other matters that are required to be reported under *Government Auditing Standards*.

The District's response to the findings identified in our audit is described in the accompanying Schedule of Findings. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the board of directors and management of the Pushmataha County Rural Water District #2 and is not intended to be and should not be used by anyone other than these specified parties.

Kershaw CPA & Associates, P.C.
Kershaw CPA & Associates, PC

October 29, 2012

PUSHMATAHA COUNTY RURAL WATER DISTRICT #2
ALBION, OKLAHOMA
SCHEDULE OF FINDINGS
DECEMBER 31, 2011

INTERNAL CONTROL FINDINGS:

Item 11-01: Segregation of Duties

Criteria: A good system of internal control requires a proper segregation of duties to prevent one person from being in a position to authorize, execute, and record the same transaction.

Condition: Due to the size of the District's major areas of internal control, that would be prevalent in a larger District, such segregation of duties is not available for this size operation. Duties are concentrated in the hands of a few individuals, who are responsible for all phases of the accounting functions. Because of this lack of division of responsibility, internal control is determined to be weak, and in some instances, non-existent.

Cause/Effect: Due to the limited number of personnel, a breach of internal controls could occur and not be detected in the normal course of operations.

Recommendation: The Board should continue to be actively involved in the operations of the organization.

Response: The Board continues to be actively involved in the operations of the organization.

Item 11-02: General Ledger

Criteria: Internal control refers to the methods and procedures used to provide reasonable assurance regarding the achievement of objectives in the following categories: Safeguarding assets, Ensuring validity of financial records and reports, Promoting adherence to policies, procedures, regulations and laws, and Promoting effectiveness and efficiency of operations. Internal control also refers to how an entity processes, summarizes and records the financial transactions. In general terms, internal controls are simply good business practices.

Condition: The District did not have strong internal controls in place for ensuring validity of financial records and reports, and in some instances internal control is virtually non-existent.

Cause/Effect: Due to the weak internal control system, the general ledger did not include all income and expenses for the year. However, other evidence including bank statements and previous year's comparisons were used in audit procedures to determine any adjustments necessary to correct the general ledger.

Recommendation: All revenue and expenses should be properly classified and documented. The Board should continue to be actively involved in the operations of the District.

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Response: Due to the limited number of personnel, verification of the accuracy of the accounting records is not always possible.

Item 11-03: Customer Deposits

Criteria: It is the responsibility of the District to properly report and account for the financial information.

Condition: The Deposit Liability has not been accurately posted with all transactions.

Cause/Effect: Customers could potentially not receive proper reimbursement on their deposit and the organization's balance sheet could be incorrect with respect to the deposit account.

Recommendation: All deposit refunds and final bills should be accurately posted to reconcile the liability account at yearend. A Meter Deposit Ledger should be properly maintained so that an accurate liability amount can be reported.

Response: Due to the limited number of personnel, verification of the accuracy of the accounting records is not always possible.

COMPLIANCE FINDINGS:

Item 11-04: Payroll Reporting and Compliance

Criteria: The District is required to withhold one half social security tax and applicable federal and state income tax from gross wages and timely remit such funds to the United States Treasury, the Oklahoma Tax Commission and the OESC. Reporting payroll activity on IRS forms 941, Oklahoma forms OW-8, OES-3 is required at various periods during the year, monthly, quarterly or annually.

Condition: Payroll taxes for the current were not paid in a timely manner and were still past due during the year.

Cause/Effect: The past due taxes have left the District subject to additional tax liability, penalties, and interest charges by the taxing agencies.

Recommendation: The District needs to get in compliance with the federal and state payroll tax requirements.

Response: The District was not aware of the past due taxes until the last month of 2010. At that time, the District began trying to get caught up and made several payments during the current year.