COUNTY AUDIT

PUSHMATAHA COUNTY

For the fiscal year ended June 30, 2014

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

PUSHMATAHA COUNTY, OKLAHOMA
FINANCIAL STATEMENT
AND INDEPENDENT AUDITOR'S REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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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 11, 2016

TO THE CITIZENS OF
PUSHMATAHA COUNTY, OKLAHOMA

Transmitted herewith is the audit of Pushmataha County, Oklahoma for the fiscal year ended June 30, 2014. The audit was conducted in accordance with 19 O.S. § 171.

A report of this type can be critical in nature. Failure to report commendable features in the accounting and operating procedures of the entity should not be interpreted to mean that they do not exist.

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

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ITEMS OF INTEREST

Finding 2014-17 – Lack of Management Oversight – County Sheriff: The County Sheriff does not have policies and procedures in place to ensure proper oversight of the financial and compliance operations of the office. Further, the County Sheriff does not monitor the expenditures of his office which resulted in overspending of the Sheriff's approved budget, purchases of items that could be questionable as to whether they are necessary for the operation of the office, and purchases for personal items for employees. **(Pg. 28)**

Finding 2014-18 – Incurring Debt Due to Failure to Timely Encumber Goods and Services Rendered and Expenditures Made in Excess of Lawful Budget – County Sheriff: The County Sheriff's Office did not operate within the constraints of funds available to operate his office which resulted in balances owed to vendors that were not properly authorized and were not recorded in the County's financial records. The County Sheriff knowingly allowed his employees to make purchases of items without prior approval and it is questionable as to whether some items were necessary for the lawful operation of the office. Some items purchased included Oakley sunglasses, boxer shorts, two gun suppressors/silencers, two gun flash suppressors, women's pants, and expenses related to a drug dog that is not the property of Pushmataha County. Because funds were not available for unauthorized purchases, invoices were altered to change the dates and these falsified invoices were submitted to the County Clerk's office at a later date when funds became available for the next years' budget. **(Pg. 30)**

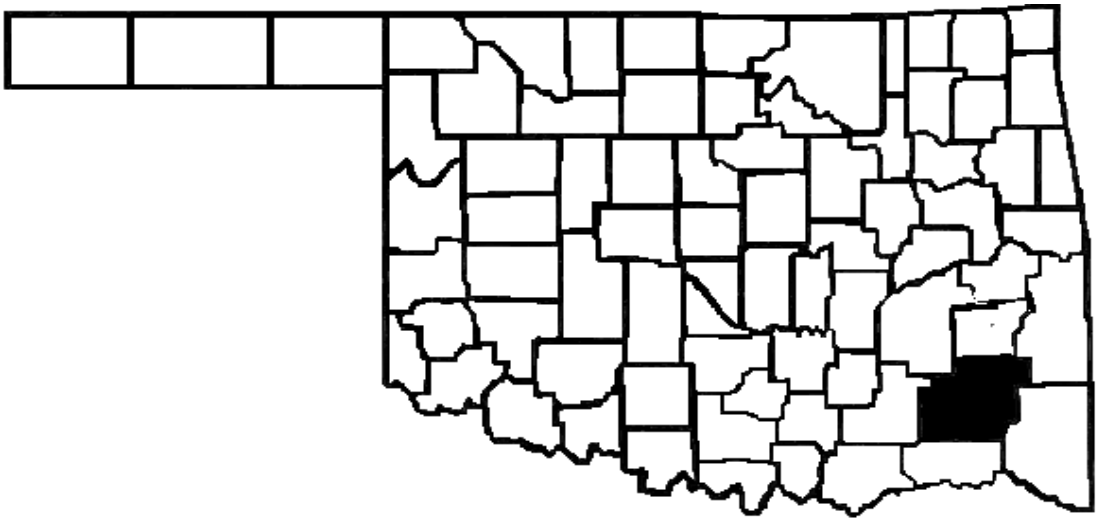
Finding 2014-19 – Possible Misappropriation of Inmate Trust Funds and Unauthorized Use of Funds and County Equipment for Personal Gain – County Sheriff (Repeat Finding): Statutes authorize a County Sheriff to establish an Inmate Trust Fund Checking Account for the holding of inmate funds. These funds are statutorily required to be held in trust in an outside checking account separate from funds of the County. Disbursements from this checking account may only be made to reimburse the inmate upon release from jail or to transfer amounts authorized by inmates to the Sheriff Commissary Fund for purchases of commissary items. The County Sheriff is solely responsible for the custody of these funds with no oversight by the Board of County Commissioners. It appears that funds were embezzled by issuing unauthorized checks to a Deputy's sister-in-law, an employee of the County Sheriff, and to an employee's husband. Also, two accounts were established within the IT system using fictitious names and unauthorized expenditures were issued for veterinary care and other incidental expenses related to a drug dog personally owned by a Deputy. **(Pg. 35)**

Finding 2014-20 – Inadequate Internal Controls and Noncompliance Over Inmate Telephone Calling Cards and Proceeds of Sales Not Fully Accounted For – County Sheriff: At the time of fieldwork, 57 telephone cards valued at $570 to be sold to inmates could not be accounted for. Further, $11,416.72 in telephone card sales was not

remitted to the Sheriff Service Fee where expenditures are approved by the Board of County Commissioners. Therefore, OSAI could not determine the disposition of these funds. **(Pg. 39)**

Finding 2014-21 – Inadequate Internal Controls and Noncompliance Over Fixed Assets – County Sheriff: The County Sheriff does not maintain an accurate inventory listing for all assets of the office nor does the County Sheriff maintain records of assets assigned to individual deputies. Further, the County Sheriff has allowed employees to make numerous purchases without proper authorization and without funds being available to pay for the purchases. This questionable spending has the appearance of 'shopping' with taxpayer funds. The majority of questionable expenditures were made by employees whom the County Sheriff allowed to make purchases at will. **(Pg. 40)**

INTRODUCTORY SECTION
UNAUDITED INFORMATION ON PAGES iv - xii
PRESENTED FOR INFORMATIONAL PURPOSES ONLY



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

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

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

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

County Seat – Antlers

Area –1,422.78 Square Miles

County Population – 11,205
(2012 est.)

Farms – 833

Land in Farms – 290,409 Acres

Primary Source: Oklahoma Almanac 2013-2014

Board of County Commissioners

District 1 – Michael Brittingham
District 2 – Jerry Duncan
District 3 – Jimmy Long

County Assessor

Frances Joslin

County Clerk

Jane Dunlap

County Sheriff

Terry Duncan

County Treasurer

Jenny Beth Caraway

Court Clerk

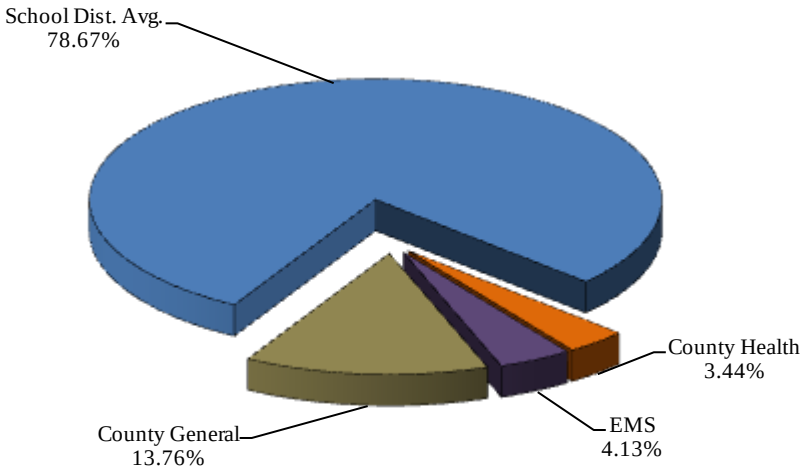
Tina Freeman

District Attorney

Mark Matloff

PUSHMATAHA COUNTY, OKLAHOMA
AD VALOREM TAX DISTRIBUTION
SHARE OF THE AVERAGE MILLAGE
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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

County General	10.29
County Health	2.57
EMS	3.09

School District Millages

		Gen.	Bldg.	Skg.	Career Tech	Common	Total
Rattan	I-1	36.66	5.24	-	-	4.12	46.02
Albion	D-2	35.75	5.11	10.10	12.32	4.12	67.40
Tuskahoma	D-4	36.27	5.18	-	12.32	4.12	57.89
Clayton	I-10	35.59	5.08	-	12.32	4.12	57.11
Antlers	I-13	35.99	5.14	-	12.32	4.12	57.57
Nashoba	D-15	35.97	5.14	-	12.32	4.12	57.55
Moyers	I-22	36.54	5.22	6.75	12.32	4.12	64.95
Soper	JT-4	35.00	5.00	5.86	12.00	4.12	61.98
Stringtown	JT-7	35.00	5.00	-	12.37	4.12	56.49
Smithville	JT-14	35.60	5.09	6.04	12.16	4.12	63.01
Battiest	JT-71	35.85	5.12	-	12.16	4.12	57.25

Sales Tax

Sales Tax of April 1, 2011

The voters of Pushmataha County approved a one percent (1%) sales tax effective April 1, 2011. The sales tax is effective for period of five years. This sales tax was established to provide revenue to the County for the following areas:

• Maintenance and Operation of the County Jail and for the financing the Operation and Maintenance of the Office of the Sheriff	50%
• County General Maintenance and Operation which funds the offices of the Tax Assessor, County Clerk, County Treasurer, Court Clerk, Election Board, District Attorney, Sheriff; and for Maintenance and Operation and Equipment of County Roads	34%
• OSU Extension Office	9%
• Pushmataha County Fair Board	2%
• Economic Development	3.5%
• Emergency Management	1.5%

These funds are accounted for in the County General Fund.

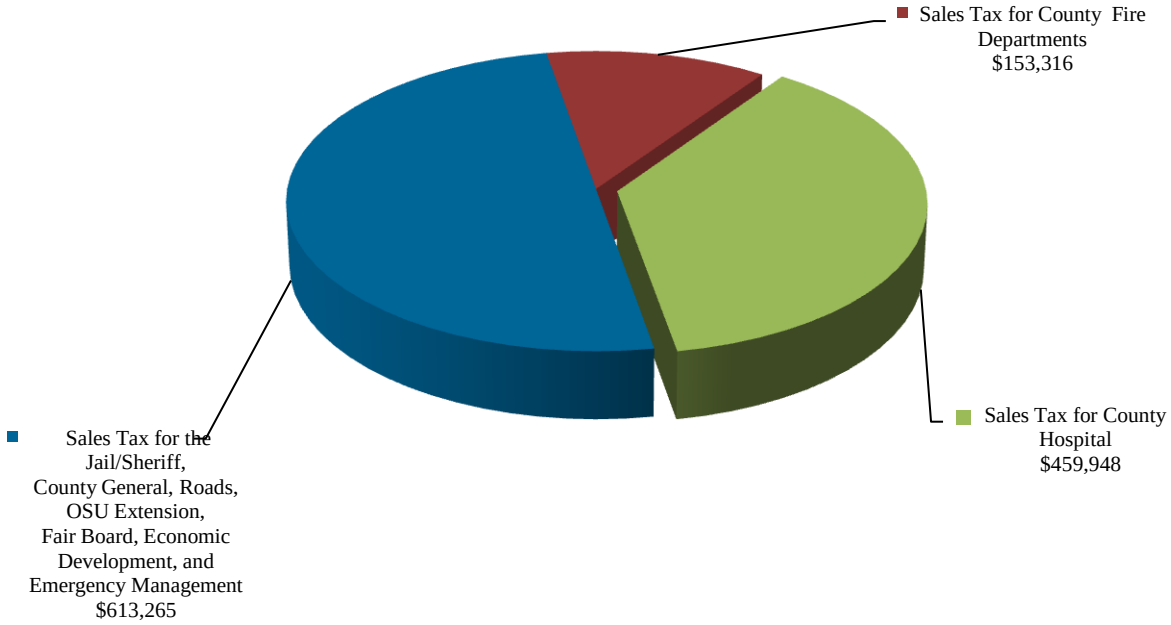
Sales Tax of July 1, 2013

The voters of Pushmataha County approved a continuation of a one-quarter percent (1/4%) sales tax effective July 1, 2013. The sales tax is effective for period of five years. This sales tax was established to provide revenue dedicated solely for the purchase of any and all equipment, maintenance, training, construction on new buildings or improvements made to existing buildings, existing or future loans, services and supplies for all existing Fire Departments in Pushmataha County. These funds are accounted for in the County General Fund.

The voters of Pushmataha County also approved a continuation of three-quarter percent (3/4%) sales tax effective July 1, 2013. The sales tax is effective for period of five years. This sales tax was established to provide revenue to support the operation, maintenance, equipment, and administration of the Pushmataha County Hospital. These funds are accounted for in the County General Fund.

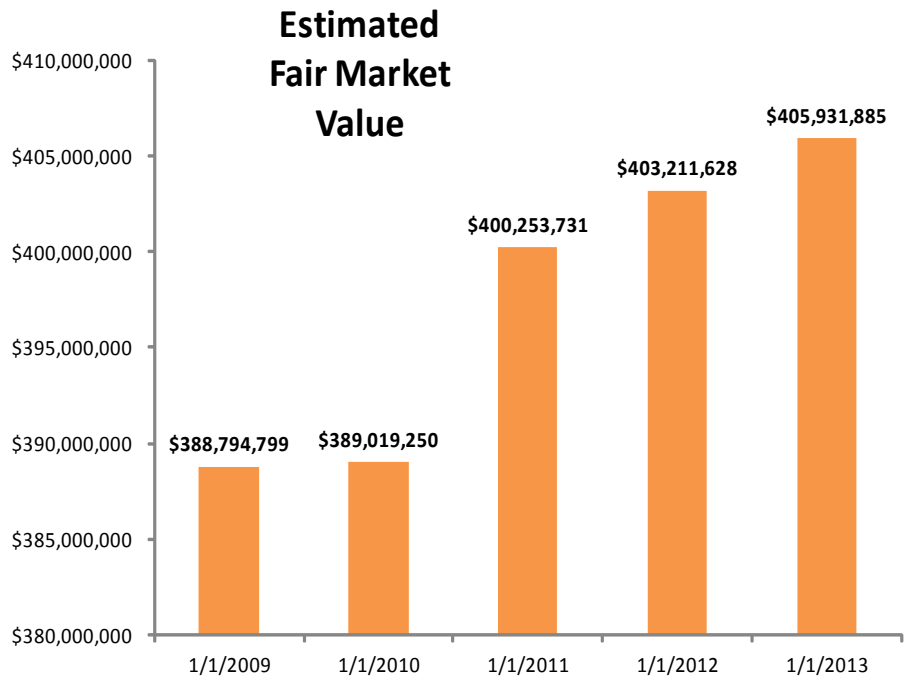
During the fiscal year the County collected $1,226,529 in total sales tax.

Sales Tax - Continued

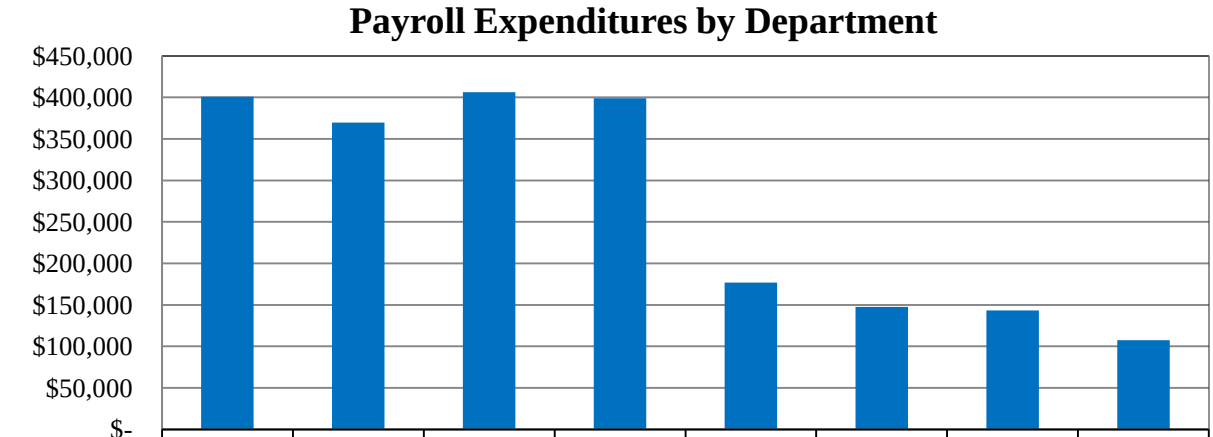


PUSHMATAHA COUNTY, OKLAHOMA
ASSESSED VALUE OF PROPERTY
TREND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

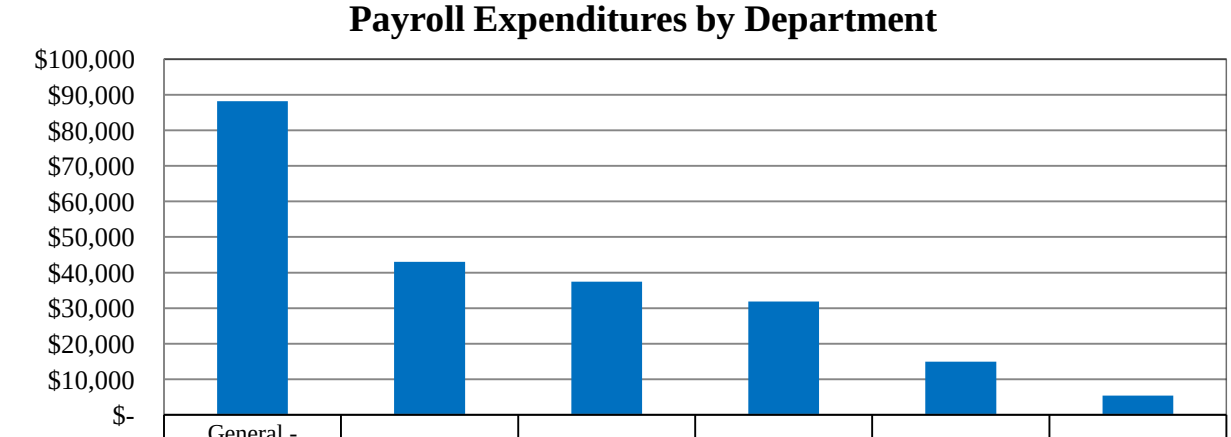
Valuation Date	Personal	Public Service	Real Estate	Homestead Exemption	Net Value	Estimated Fair Market Value
1/1/2013	$5,725,541	$6,227,795	$35,356,349	$3,246,215	$44,063,470	$405,931,885
1/1/2012	$5,959,756	$6,495,541	$34,549,777	$3,256,433	$43,748,641	$403,211,628
1/1/2011	$6,634,549	$6,869,755	$33,295,029	$3,260,630	$43,538,703	$400,253,731
1/1/2010	$6,052,220	$7,392,491	$32,438,430	$3,243,946	$42,639,195	$389,019,250
1/1/2009	$7,188,164	$7,120,475	$31,300,210	$3,240,290	$42,368,559	$388,794,799



County officers' salaries are based upon the assessed valuation and population of the counties. State statutes provide guidelines for establishing elected officers' salaries. The Board of County Commissioners sets the salaries for all elected county officials within the limits set by the statutes. The designated deputy or assistant's salary cannot exceed the principal officer's salary. Salaries for other deputies or assistants cannot exceed the principal officer's salary. The information presented below is for the fiscal year ended June 30, 2014.



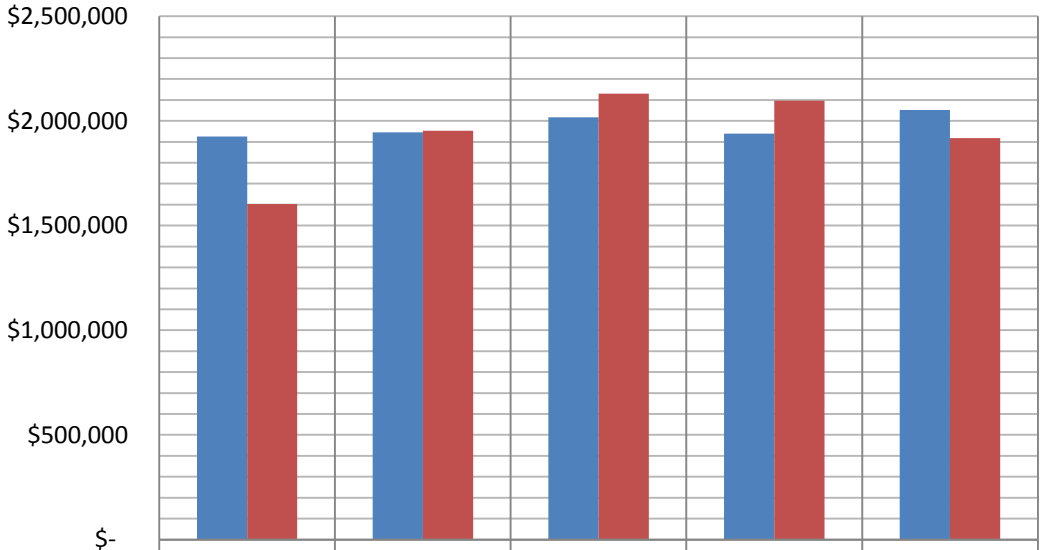
	District 1	District 2	District 3	County Sheriff	County Assessor	County Clerk	Court Clerk	County Treasurer
Payroll Dollars	$401,021	$369,678	$406,253	$398,979	$177,030	$147,523	$143,258	$107,608



	General - Insurance & Tax	Election Board	OSU Extension	General	Economic Development	Emergency Management
Payroll Dollars	$88,184	$43,010	$37,476	$31,868	$15,000	$5,432

County General Fund

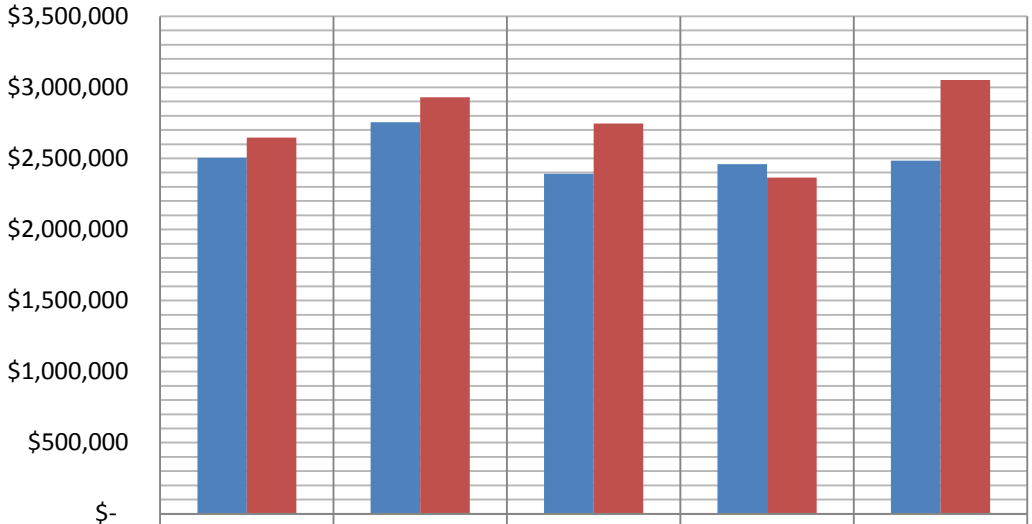
The Oklahoma Constitution and the Oklahoma Statutes authorize counties to create a County General Fund, which is the county's primary source of operating revenue. The County General Fund is typically used for county employees' salaries plus many expenses for county maintenance and operation. It also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



	FYE 2010	FYE 2011	FYE 2012	FYE 2013	FYE 2014
Receipts Apportioned	$1,925,261	$1,946,040	$2,017,739	$1,939,614	$2,052,104
Disbursements	$1,602,288	$1,952,791	$2,129,682	$2,096,754	$1,917,686

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.



	FYE 2010	FYE 2011	FYE 2012	FYE 2013	FYE 2014
Receipts Apportioned	$2,504,883	$2,753,464	$2,391,679	$2,459,076	$2,484,790
Disbursements	$2,645,961	$2,930,378	$2,744,747	$2,364,372	$3,051,245

FINANCIAL SECTION

Oklahoma State Auditor & Inspector

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

Independent Auditor's Report

TO THE OFFICERS OF
PUSHMATAH COUNTY, OKLAHOMA

Report on the Financial Statement

We have audited the combined total—all county funds on the accompanying regulatory basis Statement of Receipts, Disbursements, and Changes in Cash Balances of Pushmataha County, Oklahoma, as of and for the year ended June 30, 2014, and the related notes to the financial statement, which collectively comprise the County's basic financial statement as listed in the table of contents.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the regulatory basis of accounting described in Note 1, and for determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by Pushmataha County using accounting practices prescribed or permitted by Oklahoma state law, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of Pushmataha County as of June 30, 2014, or changes in its financial position for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the combined total of receipts, disbursements, and changes in cash balances for all county funds of Pushmataha County, for the year ended June 30, 2014, in accordance with the basis of accounting described in Note 1.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the combined total of all county funds on the financial statement. The accompanying Schedule of Expenditures of Federal Awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the remaining Other Supplementary Information, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the financial statement.

The Schedule of Expenditures of Federal Awards and the Other Supplementary Information, as listed in the table of contents, is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards and the Other Supplementary Information, as listed in the table of contents, is fairly stated, in all material respects, in relation to the combined total—all county funds.

The information listed in the table of contents under Introductory Section has not been subjected to the auditing procedures applied in the audit of the financial statement, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 7, 2016, on our consideration of Pushmataha County'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 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 accordance with *Government Auditing Standards* and in considering Pushmataha County's internal control over financial reporting and compliance.

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

April 7, 2016

REGULATORY BASIS FINANCIAL STATEMENT

PUSHMATAHA COUNTY, OKLAHOMA
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH BALANCES—REGULATORY BASIS (WITH COMBINING INFORMATION)—MAJOR FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Beginning Cash Balances July 1, 2013	Receipts Apportioned	Transfers In	Transfers Out	Disbursements	Ending Cash Balances June 30, 2014
Combining Information:						
Major Funds:						
County General Fund	$ 983,503	$ 2,052,104	$ -	$ -	$ 1,917,686	$ 1,117,921
County Highway	676,088	2,484,790	1,000,000	-	3,051,245	1,109,633
County Health	242,715	265,844	-	-	228,101	280,458
Sheriff Cash Service Fee	66,605	157,569	17,812	-	222,185	19,801
CDBG	-	68,250	-	-	-	68,250
CBRI-103	35,020	-	-	31,729	-	3,291
CBRI-105	540,462	296,037	31,729	-	514,840	353,388
BIA-3	-	274,861	-	-	274,861	-
FEMA/Sheriff	-	13,225	-	-	-	13,225
Sheriff Commissary Account	-	19,432	-	17,812	408	1,212
Remaining Aggregate Funds	261,901	501,141	-	-	446,812	316,230
Combined Total - All County Funds, As Restated	$ 2,806,294	$ 6,133,253	$ 1,049,541	$ 49,541	$ 6,656,138	$ 3,283,409

The notes to the financial statement are an integral part of this statement.

1. Summary of Significant Accounting Policies

A. Reporting Entity

Pushmataha County is a subdivision of the State of Oklahoma created by the Oklahoma Constitution and regulated by Oklahoma Statutes.

The accompanying financial statement presents the receipts, disbursements, and changes in cash balances of the total of all funds under the control of the primary government. The general fund is the county's general operating fund, accounting for all financial resources except those required to be accounted for in another fund, where its use is restricted for a specified purpose. Other funds established by statute and under the control of the primary government are also presented.

The County Treasurer collects and remits material amounts of intergovernmental revenues and ad valorem tax revenue for other budgetary entities, including emergency medical districts, school districts, and cities and towns. The cash receipts and disbursements attributable to those other entities do not appear in funds on the County's financial statement; those funds play no part in the County's operations. Any trust or agency funds maintained by the County are not included in this presentation.

B. Fund Accounting

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 included as combining information within the financial statement:

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

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

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

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

CDBG – accounts for federal grant funds for various projects including a courthouse elevator, rural water district lines, and renovations to a youth services building.

CBRI-103 – accounts for one-time state funds to be used for the construction of bridges throughout the County.

CBRI-105 – accounts for state funds to be used for the construction of roads and bridges throughout the County.

BIA-3 – accounts for Bureau of Indian Affairs funds received from the Choctaw Nation to be used for road projects throughout the County.

FEMA/Sheriff – accounts for federal funds used for a new generator and radio repeater for the Sheriff's office.

Sheriff Commissary Account – accounts for profits on commissary sales in the County jail to be used by the Sheriff's office for jail expenses as restricted by statute.

C. Basis of Accounting

The financial statement is prepared on a basis of accounting wherein amounts are recognized when received or disbursed. This basis of accounting differs from accounting principles generally accepted in the United States of America, which require revenues to be recognized when they become available and measurable or when they are earned, and expenditures or expenses to be recognized when the related liabilities are incurred. This regulatory basis financial presentation is not a comprehensive measure of economic condition or changes therein.

Title 19 O.S. § 171 specifies the format and presentation for Oklahoma counties to present their financial statement in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) or on a regulatory basis. The County has elected to present their financial statement on a regulatory basis in conformity with Title 19 O.S. § 171. County governments (primary only) are required to present their financial statements on a fund basis format with, at a minimum, the general fund and all other county funds, which represent ten percent or greater of total county revenue. All other funds included in the audit shall be presented in the aggregate in a combining statement.

D. Budget

Under current Oklahoma Statutes, a general fund and a county health department fund are the only funds required to adopt a formal budget. On or before the first Monday in July of each year, each officer or department head submits an estimate of needs to the governing body. The budget is approved for the respective fund by office, or department and object. The County Board of Commissioners may approve changes of appropriations within the fund by office or department and object. To increase or decrease the budget by fund requires approval by the County Excise Board.

E. Cash and Investments

For the purposes of financial reporting, "Ending Cash Balances, June 30" includes cash and cash equivalents and investments as allowed by statutes. The County pools the cash of its various funds in maintaining its bank accounts. However, cash applicable to a particular fund is readily identifiable on the County's books. The balance in the pooled cash accounts is available to meet current operating requirements.

State statutes require financial institutions with which the County maintains funds to deposit collateral securities to secure the County's deposits. The amount of collateral securities to be pledged is established by the County Treasurer; this amount must be at least the amount of the deposit to be secured, less the amount insured (by, for example, the FDIC).

The County Treasurer has been authorized by the County's governing board to make investments. Allowable investments are outlined in statutes 62 O.S. § 348.1 and § 348.3.

All investments must be backed by the full faith and credit of the United States Government, the Oklahoma State Government, fully collateralized, or fully insured. All investments as classified by state statute are nonnegotiable certificates of deposit. Nonnegotiable certificates of deposit are not subject to interest rate risk or credit risk.

2. Ad Valorem Tax

The County's property tax is levied each October 1 on the assessed value listed as of January 1 of the same year for all real and personal property located in the County, except certain exempt property. Assessed values are established by the County Assessor within the prescribed guidelines established by the Oklahoma Tax Commission and the State Equalization Board. Title 68 O.S. § 2820.A. states, ". . . Each assessor shall thereafter maintain an active and systematic program of visual inspection on a continuous basis and shall establish an inspection schedule which will result in the individual visual inspection of all taxable property within the county at least once each four (4) years."

Taxes are due on November 1 following the levy date, although they may be paid in two equal installments. If the first half is paid prior to January 1, the second half is not delinquent until April 1. Unpaid real property taxes become a lien upon said property on October 1 of each year.

3. Other Information

A. Pension Plan

Plan Description. The County contributes to the Oklahoma Public Employees Retirement Plan (the Plan), a cost-sharing, multiple-employer defined benefit pension plan administered by the

Oklahoma Public Employees Retirement System (OPERS). Benefit provisions are established and amended by the Oklahoma Legislature. The Plan provides retirement, disability, and death benefits to Plan members and beneficiaries. Title 74, Sections 901 through 943, as amended, establishes the provisions of the Plan. OPERS issues a publicly available financial report that includes financial statements and supplementary information. That report may be obtained by writing OPERS, P.O. Box 53007, Oklahoma City, Oklahoma 73105 or by calling 1-800-733-9008.

Funding Policy. The contribution rates for each member category are established by the Oklahoma Legislature and are based on an actuarial calculation which is performed to determine the adequacy of contribution rates.

B. Other Post Employment Benefits (OPEB)

In addition to the pension benefits described in the Pension Plan note, OPERS provides post-retirement health care benefits of up to $105 each for retirees who are members of an eligible group plan. These benefits are funded on a pay-as-you-go basis as part of the overall retirement benefit. OPEB expenditure and participant information is available for the state as a whole; however, information specific to the County is not available nor can it be reasonably estimated.

C. Contingent Liabilities

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, primarily the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable fund. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time; although, the County expects such amounts, if any, to be immaterial.

As of the end of the fiscal year, there were no claims or judgments that would have a material adverse effect on the financial condition of the County; however, the outcome of any lawsuit would not be determinable.

D. Sales Tax

The voters of Pushmataha County approved a one percent (1%) sales tax effective April 1, 2011. The sales tax is effective for a period of five years. This sales tax was established to provide revenues for maintenance and operation of the County jail and for financing the operation and maintenance of the office of the Sheriff of Pushmataha County, for county general, for county roads, for OSU Extension office, for the Pushmataha County Fair Board, for Economic Development, and for Emergency Management. These funds are accounted for in the County General Fund.

The voters of Pushmataha County approved a continuation of a one-quarter percent (1/4%) sales tax effective July 1, 2013. The sales tax is effective for a period of five years. This sales tax was

established to provide revenues dedicated solely for the purchase of any and all equipment, maintenance, training, construction on new buildings or improvements made to existing buildings, existing or future loans, services and supplies for all existing Fire Departments in Pushmataha County. These funds are accounted for in the County General Fund.

The voters of Pushmataha County approved a continuation of a three-quarter percent (3/4%) sales tax effective July 1, 2013. The sales tax is effective for a period of five years. This sales tax was established to provide revenues to support the operation, maintenance, equipment, and administration of the Pushmataha County Hospital. These funds are accounted for in the County General Fund.

E. Interfund Transfers

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

- $17,812 was transferred from the Sheriff Commissary Account to the Sheriff Cash Service Fee fund for a reimbursement on expenditures for commissary services.
- $31,729 was transferred from the CBRI-103 fund to the CBRI-105 fund for the reimbursement of expenditures on bridge and road projects in Pushmataha County.
- $1,000,000 was transferred from the Emergency and Transportation Revolving (ETR) fund, a trust and agency fund, to the County Highway fund as a loan used for bridge and road projects in the County.

F. Restatement of Cash Balances

Certain amounts in the cash balances have been restated in fiscal year 2014 due to reclassification of individual funds. Cash balances of the funds have been restated as follows:

Ending cash balance June 30, 2013, as previously reported	$2,829,761
Amounts reclassified from county funds to trust and agency fund (Drug Court Revolving Fund)	(23,467)
Ending cash balance June 30, 2013, as restated	$2,806,294

OTHER SUPPLEMENTARY INFORMATION

PUSHMATAHA COUNTY, OKLAHOMA
COMPARATIVE SCHEDULE OF RECEIPTS, EXPENDITURES, AND CHANGES IN CASH BALANCES—BUDGET AND ACTUAL—BUDGETARY BASIS—GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	General Fund		
	Budget	Actual	Variance
Beginning Cash Balances	$ 983,503	$ 983,503	$ -
Less: Prior Year Outstanding Warrants	(52,564)	(52,564)	-
Less: Prior Year Encumbrances	(56,108)	(56,025)	83
Beginning Cash Balances, Budgetary Basis	874,831	874,914	83
Receipts:			
Ad Valorem Taxes	412,194	478,468	66,274
Charges for Services	44,979	51,057	6,078
Intergovernmental Revenues	274,678	283,274	8,596
Sales Tax	918,452	1,226,529	308,077
Miscellaneous Revenues	6,491	12,776	6,285
Total Receipts, Budgetary Basis	1,656,794	2,052,104	395,310
Expenditures:			
District Attorney	8,000	8,000	-
County Sheriff	85,314	85,293	21
County Treasurer	76,331	76,331	-
County Clerk	165,914	165,768	146
Court Clerk	83,878	83,111	767
County Assessor	86,770	86,690	80
Revaluation of Real Property	132,453	115,664	16,789
General Government	138,842	121,386	17,456
Excise-Equalization Board	7,310	6,929	381
County Election Expense	51,417	47,353	4,064
County Commissioner - Sales Tax	41,281	14,000	27,281
Economic Development - Sales Tax	73,456	19,767	53,689
County Sheriff - Sales Tax	277,343	277,253	90
OSU Extension - Sales Tax	76,686	53,825	22,861
General Government - Sales Tax	282,441	196,107	86,334
Emergency Management - Sales Tax	15,343	5,432	9,911
Free Fair - Sales Tax	15,611	12,097	3,514
Hospital - Sales Tax	426,557	426,557	-
VFD - Sales Tax	475,624	72,104	403,520
County Audit Budget Account	11,054	8,781	2,273
Total Expenditures, Budgetary Basis	2,531,625	1,882,448	649,177
Excess of Receipts and Beginning Cash Balances Over Expenditures, Budgetary Basis	$ -	1,044,570	$ 1,044,570
Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances			
Add: Current Year Outstanding Warrants		32,826	
Add: Current Year Encumbrances		40,525	
Ending Cash Balance		$ 1,117,921	

PUSHMATAHA 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, 2014

	County Health Department Fund		
	Budget	Actual	Variance
Beginning Cash Balances	$ 242,715	$ 242,715	$ -
Less: Prior Year Outstanding Warrants	(11,069)	(11,069)	-
Less: Prior Year Encumbrances	(23,015)	(21,281)	1,734
Beginning Cash Balances, Budgetary Basis	208,631	210,365	1,734
Receipts:			
Ad Valorem Taxes	102,948	119,616	16,668
Miscellaneous Revenues	143,753	146,228	2,475
Total Receipts, Budgetary Basis	246,701	265,844	19,143
Expenditures:			
Health and Welfare	455,332	216,588	238,744
Total Expenditures, Budgetary Basis	455,332	216,588	238,744
Excess of Receipts and Beginning Cash Balances Over Expenditures, Budgetary Basis	$ -	259,621	$ 259,621
Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances			
Add: Current Year Encumbrances		17,085	
Add: Current Year Outstanding Warrants		3,752	
Ending Cash Balance		$ 280,458	

PUSHMATAHA COUNTY, OKLAHOMA
COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH BALANCES—REGULATORY BASIS—
REMAINING AGGREGATE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Beginning Cash Balances July 1, 2013	Receipts Apportioned	Disbursements	Ending Cash Balances June 30, 2014
Remaining Aggregate Funds:				
Resale Property	$ 124,581	$ 113,973	$ 83,325	$ 155,229
County Clerk Lien Fee	4,084	4,914	4,176	4,822
Assessor Visual Inspection	40	-	-	40
Assessor Revolving Fund	48,540	5,140	2,582	51,098
Sheriff Drug Cash Account	2,100	-	1,841	259
REAP	15,524	128,567	116,476	27,615
KEDDO Grant	5	-	-	5
Courthouse A/C	324	-	-	324
RMP (Records Management and Preservation Fund)	20,404	13,090	8,537	24,957
Clayton Nutrition Center	6,040	-	6,040	-
CAMA	-	22,303	3,765	18,538
SGA (Sheriff Grant Account)	14,736	-	14,729	7
Trash Cop	145	-	-	145
911 Collections	8,640	102,912	102,559	8,993
Court Clerk Payroll	6,889	65,526	65,373	7,042
Sheriff Revolving	28	-	-	28
Treasurer Mortgage Tax Fee	2,382	2,625	2,051	2,956
Drug Dog Account	1,546	133	1,679	-
State Disaster	5,893	-	5,893	-
DOC Revolving Fund	-	41,958	27,786	14,172
Combined Total - Remaining Aggregate Funds	$ 261,901	$ 501,141	$ 446,812	$ 316,230

1. Budgetary Schedules

The Comparative Schedules of Receipts, Expenditures, and Changes in Cash Balances—Budget and Actual—Budgetary Basis for the General Fund and the County Health Department Fund present comparisons of the legally adopted budget with actual data. The "actual" data, as presented in the comparison of budget and actual, will differ from the data as presented in the Combined Statement of Receipts, Disbursements, and Changes in Cash Balances with Combining Information because of adopting certain aspects of the budgetary basis of accounting and the adjusting of encumbrances and outstanding warrants to their related budget year.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in these funds. At the end of the year unencumbered appropriations lapse.

2. Remaining County Funds

Remaining aggregate funds as presented on the financial statement are as follows:

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

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

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

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

Sheriff Drug Cash Account – accounts for the collection of the Sheriff's percentage of drug forfeitures.

REAP – accounts for state grant funds used for various community projects in Pushmataha County.

KEDDO Grant – accounts for state funds used for renovations to the Pushmataha County Jail.

Courthouse A/C – accounts for state funds used for repairs to the courthouse air conditioning system.

RMP (Records Management and Preservation Fund) – accounts for fees collected for instruments filed in the County Clerk's office as restricted by statute for preservation of records.

Clayton Nutrition Center – accounts for state funds used for the construction of a nutrition center in Clayton, Oklahoma.

CAMA – accounts for state funds to be used for the Child Abuse Awareness Program.

SGA (Sheriff Grant Account) – accounts for state funds to be used for the operation of the Sheriff's office.

Trash Cop – accounts for state funds to be used to prosecute trash offenders.

911 Collections – accounts for the collection of fees charged on telephone bills for the County's Emergency 911 system. Disbursements are for the expenditures related to providing 911 services.

Court Clerk Payroll – accounts for funds deposited to be used for payroll for the Court Clerk's office.

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

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

Drug Dog Account – accounts for donations used for the care of the drug dogs.

State Disaster – accounts for federal funds to be used for disaster recovery.

DOC Revolving Fund – accounts for the monies received from the State of Oklahoma for the boarding and feeding of Department of Corrections' prisoners.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

PUSHMATAHA COUNTY, OKLAHOMA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
U.S. DEPARTMENT OF INTERIOR			
Direct Grant:			
Payments in Lieu of Taxes	15.226		$ 66,527
Total U.S. Department of Interior			66,527
U.S. DEPARTMENT OF HOMELAND SECURITY			
Passed Through the Oklahoma Department of Emergency Management:			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	DR-4117	18,043
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	DR-4164	920,946
Total U.S. Department of Homeland Security			938,989
Total Expenditures of Federal Awards			$ 1,005,516

PUSHMATAHA COUNTY, OKLAHOMA
NOTE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Basis of Presentation

The schedule of expenditures of federal awards includes the federal grant activity of Pushmataha County, and is presented on the *cash basis of accounting*. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

INTERNAL CONTROL AND COMPLIANCE SECTION

Oklahoma State Auditor & Inspector

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

Independent Auditor's 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 OFFICERS OF
PUSHMATAHA COUNTY, OKLAHOMA

We have audited, in accordance with the 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, the combined total—all funds of the accompanying Combined Statement of Receipts, Disbursements, and Changes in Cash Balances of Pushmataha County, Oklahoma, as of and for the year ended June 30, 2014, which comprises Pushmataha County's financial statement, prepared using accounting practices prescribed or permitted by Oklahoma state law, and have issued our report thereon dated April 7, 2016.

Our report included an adverse opinion on the financial statement because the statement is prepared using accounting practices prescribed or permitted by Oklahoma state law, which is a basis of accounting other than accounting principles generally accepted in the United States of America. However, our report also included our opinion that the financial statement does present fairly, in all material respects, the receipts, disbursements, and changes in cash balances – regulatory basis of the County for the year ended June 30, 2014, on the basis of accounting prescribed by Oklahoma state law, described in Note 1.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered Pushmataha County's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of Pushmataha County's internal control. Accordingly, we do not express an opinion on the effectiveness of Pushmataha County's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses: 2014-1, 2014-4, 2014-5, 2014-6, 2014-17, and 2014-18.

A *significant deficiency* is a deficiency, or 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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies: 2014-2, 2014-19, 2014-20, and 2014-21.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pushmataha County's financial statement is free from material misstatement, we performed tests of its 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters regarding statutory compliance that we reported to the management of Pushmataha County, which are included in Section 4 of the schedule of findings and questioned costs contained in this report.

Pushmataha County's Responses to Findings

Pushmataha County's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Pushmataha County's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on the responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

This report is also 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.

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

April 7, 2016

Oklahoma State Auditor & Inspector

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

Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133

TO THE OFFICERS OF
PUSHMATAHA COUNTY, OKLAHOMA

Report on Compliance for Each Major Program

We have audited the compliance of Pushmataha County, Oklahoma, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on Pushmataha County's major federal program for the year ended June 30, 2014. Pushmataha County's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of Pushmataha County's management.

Auditor's Responsibility

Our responsibility is to express an opinion on Pushmataha County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Pushmataha County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Pushmataha County's compliance with those requirements.

As described in item 2014-24, in the accompanying schedule of findings and questioned costs, Pushmataha County did not comply with requirements regarding Allowable Cost/Cost Principles that are applicable to its Disaster Grants – Public Assistance (Presidentially Declared Disasters). Compliance with such requirements is necessary, in our opinion, for Pushmataha County to comply with the requirements applicable to that program.

Opinion on Each Major Federal Program

In our opinion, except for the noncompliance described in the preceding paragraph, the County, complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2014.

Internal Control Over Compliance

Management of Pushmataha County is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Pushmataha County's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Pushmataha County's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2014-22 and 2014-23 to be material weaknesses.

Other Matters

Pushmataha County's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Pushmataha County's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, those charged with governance, others within the entity, and is not intended to be and should not be used by anyone other than the specified parties. This report is also a public document pursuant to the Oklahoma Open Records Act (51 O.S., section 24A.1 et seq.), and shall be open to any person for inspection and copying.

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

April 7, 2016

SECTION 1—Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:.....Adverse as to GAAP; unqualified as to statutory presentation

Internal control over financial reporting:

- Material weakness(es) identified?..... Yes
- Significant deficiency(ies) identified? ..... Yes

Noncompliance material to financial statements noted?..... No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified?..... Yes
- Significant deficiency(ies) identified? ..... None reported

Type of auditor's report issued on compliance for major programs: ..... Qualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?..... Yes

Identification of Major Programs

CFDA Number(s)	Name of Federal Program or Cluster
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)

Dollar threshold used to distinguish between Type A and Type B programs: $300,000

Auditee qualified as low-risk auditee?..... No

SECTION 2—Findings related to the 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*

Finding 2014-1 - Inadequate County-Wide Internal Controls (Repeat Finding)

Condition: Through the process of gaining an understanding of the County's internal control structure, it was noted that county-wide controls regarding Risk Assessment and Monitoring have not been designed.

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

Effect of Condition: Without an adequate system of county-wide controls, there is greater risk of a breakdown in control activities which could result in unrecorded transactions, undetected errors, or misappropriation of funds.

Recommendation: The Oklahoma State Auditor & Inspector's Office (OSAI) recommends that the County design procedures to identify and address risks. OSAI also recommends that the County design monitoring procedures to assess the quality of performance over time. These procedures should be written policies and procedures and could be included in the County's policies and procedures handbook.

Management Response:
Chairman, Board of County Commissioners: Pushmataha County will make every effort to ensure that procedures are written to address the needs of Risk Assessment and Monitoring. We will encourage all elected officials and department heads to attend and have their employees attend training workshops. We will meet on a quarterly basis and/or as needed with other officers.

As Chairman of the Board of County Commissioners, I will, in a joint effort with the County Commissioners and other County officials, develop a plan to monitor the County's internal controls to ensure that the audit findings and other reviews are properly resolved. The Board of County Commissioners (BOCC) will strive to make Risk Assessment and Monitoring a priority.

County Treasurer: The County Treasurer's office is doing all we can with the resources and manpower we have. We will continue to strive to make sure all funds are accounted for, all deposits are made timely and accurately, and that all risks are addressed as we are presented with them.

County Clerk: Our office will work with other offices to find solutions regarding internal controls.

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 processes. Proper monitoring will ensure that controls continue to be adequate and function properly.

Finding 2014-2 - Inadequate Internal Controls Over Information Systems Security – County Clerk, County Treasurer, and County Assessor (Repeat Finding)

Condition: Upon review of the computer systems within the office of the County Clerk, County Treasurer, and the County Assessor, it was noted that there does not appear to be adequate internal controls in place to safeguard data from unauthorized modification, loss, or disclosure. The specifics of the condition have been sanitized to protect the County pursuant to the provision of 51 O.S. § 24A.28.

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

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

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

Management Response:
County Treasurer: We are working on a solution for this finding.

County Clerk: Controls have been implemented to correct this finding.

County Assessor: I am working to correct this issue.

Criteria: According to the standards of the Information Systems Audit and Control Association (CobiT, Delivery and Support DS5), the need to maintain the integrity of information and protect IT assets requires a security management process. This process includes establishing and maintaining IT security roles and responsibilities, policies, standards, and procedures. Security management also includes performing security on monitoring and periodic testing and implementing corrective actions for indentified security weakness or incidents. Effective security management protects all IT assets to minimize the business impact of security vulnerabilities and incidents.

Finding 2014-4 - Inadequate Segregation of Duties Over Receipting and Balancing Processes (Repeat Finding)

Condition: The duties of issuing receipts, preparing deposits, and reconciling bank statements in the County Treasurer's office are not properly segregated. While the County Treasurer has implemented some mitigating controls, the following weaknesses still exist:

- All employees issue receipts and have administrator rights to void receipts.
- Daily reports are not reviewed by someone other than the preparer.
- The amount encoded by the bank on the deposit receipt is verified to the deposit slip; however, the amount encoded by the bank is in total and does not denote the cash amount separately.
- Although cash and checks are verified to receipts while balancing each employee's cash drawer, there is no independent verification to determine that the original change amount was left intact.

The following item, when evaluated with the weaknesses noted above, further weakens the internal controls in place regarding the collection process:

- A mail log is not utilized for collections.

Cause of Condition: Although the County Treasurer has worked to implement internal controls over the collections process, there are still weaknesses that should be addressed to safeguard funds and ensure accurate financial reporting.

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

Recommendation: OSAI recommends the County Treasurer implement the following compensating controls to mitigate the risks involved with a concentration of duties:

- A report of voided receipts should be generated daily and reviewed for validity and accuracy. Explanations for voided receipts should be included on the report. The report should reflect evidence of the review with initials and dates.
- Daily reports should be signed and dated by the preparer and the reviewer. In addition, tic marks should be used evidencing verification of the daily report to documentation in the daily jacket.

- Additional documentation should be obtained on the deposit receipt from the bank indicating amounts deposited for cash. The amounts encoded on the receipt (cash and total deposit) should be agreed to deposit records by someone other than the person who delivered the deposit to the bank.
- The entire cash drawer should be counted and verified by a second person.

The County Treasurer could further strengthen internal controls by implementing the following procedure:

- Maintain a daily log of mailed in receipts.

Management Response:
County Treasurer: We will print a daily voided receipts report. We will continue to monitor our work by reviewing when time and employees allow. The bank statement, general ledger, miscellaneous receipts are balanced weekly. Any discrepancy would be evident. We do not have enough manpower or time to maintain a daily log of mailed in receipts. Other than myself, I have one full-time and one part-time employee.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. To help ensure a proper accounting of funds, the duties of receipting collections, delivering deposit, and maintaining financial ledgers/reconciliations should be segregated.

Finding 2014-5 - Inadequate Segregation of Duties and Internal Controls Over Purchasing (Repeat Finding)

Condition: Upon inquiry and observation of the County's purchasing process, we noted the following weaknesses:

- Lack of segregation of duties over purchasing process – One person encumbers funds, issues warrants, and has physical custody to deliver warrants.
- Lack of internal controls over the cash voucher process – Cash voucher claims are not signed by the County Clerk or her designee and all claims are not reviewed for accuracy before a cash voucher is prepared and paid.

Cause of Condition: Policies and procedures have not been designed and implemented with regard to the purchasing process to ensure adequate internal controls over the process.

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

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 risk involved with a

concentration of duties. Compensating controls would include separating key processes and/or critical functions of the office, and having management review and approve accounting functions.

OSAI recommends the following regarding internal controls:

- The cash voucher claims should be signed by the County Clerk or her designee.
- All claims should be reviewed for accuracy before a cash voucher is prepared and paid.

Management Response:
County Clerk: I will try to segregate duties when it is possible. Also, we will review and sign resale vouchers in the future so we have all the supporting documentation.

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 disbursements and/or transactions. To help ensure a proper accounting of funds, the duties of processing, authorizing, and distribution should be segregated. Claims should be reviewed for accuracy and signed by authorized County Clerk personnel.

Finding 2014-6 - Inadequate Segregation of Duties Over the Payroll Process (Repeat Finding)

Condition: Upon inquiry and observation of the County's payroll process, we noted the following weakness:

- Lack of segregation of duties over the payroll process – One person enrolls all new employees, maintains personnel files, prepares payroll, prints payroll warrants, and has custody of payroll warrants.

Cause of Condition: Policies and procedures have not been designed and implemented with regard to segregation of duties and/or compensating internal controls over the payroll process.

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

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.

Management Response:
County Clerk: Whenever possible, I will try to segregate duties.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. Internal controls should be designed to analyze and check accuracy, completeness, and authorization of

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

Finding 2014-17 – Lack of Management Oversight – County Sheriff

Condition: Public officials are ultimately accountable to the law and to the people they serve. To ensure fiscal responsibility, state law requires all units of local government to annually prepare a financial statement and estimate of needs for inspection by county and state officials and by the public. In this process of budget preparation and review, the County Officers are required by law to perform several important functions.

Appropriations are placed in funds for office workforce, equipment, and projects. These become limited or maximum allowable expenses designated to each fund, account, or office.

The County Sheriff does not have policies and procedures in place to ensure proper oversight of the financial and compliance operations of the office. Further, the County Sheriff does not monitor the expenditures of his office which resulted in waste and overspending of taxpayer dollars. During our review of the County Sheriff's office operations, we noted the following breakdown in the County Sheriff's management of the office:

- Invoices from the previous fiscal year were submitted to be paid with current fiscal year funds which appear to be purchasing items in excess of the County Sheriff's budget for the fiscal year.
- The County Sheriff is the designated requisitioning officer for the office, but he allows and is aware that employees are signing his name to requisition funds for purchases.
- The County Sheriff allowed an employee to sign his name on Inmate Trust Fund Checking Account checks, therefore, he had no oversight or control of the expenditures paid from the inmates' funds.
- The County Sheriff was aware of assets being purchased and received, but failed to document them on the County's inventory.
- The County Sheriff does not maintain a current inventory list of items checked out to each officer, including equipment and uniforms.
- The County Sheriff does not take steps to ensure inventory in possession of terminated employees is returned to the County.
- It appears the County Sheriff allowed expenditures for items that were not for the operation of the office.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure the operations of the County Sheriff's office are conducted in an effective and efficient manner. Additionally, policies and procedures have not been developed to ensure expenditures are incurred only for the lawful operation of the office and that budgeted funds are properly managed to ensure purchases are not made in excess of budgeted appropriations creating debt for the County.

Effect of Condition: These conditions adversely affect the entity's ability to initiate, authorize, record, process, or report financial data reliably and resulted in noncompliance with state statute. Additionally, this has resulted in the creation of unpaid debt and possible loss of county assets.

Recommendation: OSAI recommends the County Sheriff implement policies and procedures to ensure the operation of his office complies with all statutory requirements, including operation the office within his budget. Also, we recommend that the County Sheriff perform all of his required duties for requisitioning and purchasing items and signing/authorizing checks from the Inmate Trust Fund Checking Account. Additionally, we recommend the County Sheriff maintain a current inventory list to ensure all county assets are protected against misappropriations or theft.

Management Response:
County Sheriff: I was not aware that any invoices from the previous year were submitted for payment with current fiscal year funds. In the future, I will work diligently with the County Clerk and County Commissioners to prevent this.

I have never authorized anyone to sign my name nor do I approve of this. I now inspect every requisition for purchase.

As soon as I was aware of the problems with the Inmate Trust Fund Checking Account, the employee was removed from the account. They no longer work for the Pushmataha County Sheriff's Office.

I questioned several purchases and was told by the Deputy that they were purchasing the item with their own funds and was having them shipped to the Sheriff's office. Therefore, they didn't have to go on the inventory. A new policy that nothing can be shipped to the Sheriff's Office unless it is ordered by the Sheriff's Office for the Sheriff's Office was created and will prevent it from happening ever again.

We do maintain current inventory lists. The only one I could not find was the one of a Deputy that his spouse, another Deputy, was under investigation by the OSBI. I asked him to provide me with another list of his inventory for OSAI. He refused and stated that his spouse's attorney advised him not to provide me with it. I made multiple attempts to retrieve inventory belonging to the Sheriff's Office from a Deputy that quit and was successful. In the future, the employee's last check will be held until all inventory is returned and accounted for.

I was not aware of expenditures that were not for the operation of this office. I have terminated two employees to ensure that this does not happen again in the future.

Auditor Response: The County Sheriff has a duty to oversee the operation of his office which would include working within his fiscal year budget, requisitioning all purchase orders prior to making a purchase, monitoring the Inmate Trust Fund Checking Account, including signing all checks to ensure they are in compliance with state statute, maintain a current fixed assets inventory, maintain a current inventory list of items checked out to each officer, and ensure all items purchased are absolutely necessary for the operation of the County Sheriff's office.

Criteria: Effective internal controls are essential to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, and compliance with applicable laws and regulations. An effective internal control system has in place policies and procedures that reduce the risk of errors and fraud within an organization. A key factor in this system is the environment established by management. In addition, management attitude, qualifications, and operating style become the foundation of all other internal control components.

Finding 2014-18 – Incurring Debt Due to Failure to Timely Encumber Goods and Services Rendered and Expenditures in Excess of Lawful Budget – County Sheriff

Condition: Expenditures of the County must be initiated by a designated requisitioning officer and funds must be encumbered by the purchasing agent after determining the proper purchasing method will be used. The County's policies allow the individual requisitioning the item to contact the vendor to place the order.

It was brought to our attention that several vendors had contacted the County in reference to unpaid bills for items purchased by the County Sheriff. We were provided with eighty-three (83) invoices from twelve (12) vendors totaling $31,293.02 of which $21,362.69 has not been paid. During our review of the invoices and related purchase orders the following was noted:

- The goods or services were not encumbered prior to ordering $31,293.02 in purchases.
- False purchase order numbers were given to the vendor in order to make the purchase on forty (40) of the eighty-three (83) invoices.
- Four (4) false invoices totaling $5,557.75 were created and submitted to the County Clerk's office for payment of which $5,160.00 was paid. This appears to have been done to reflect the purchase order was requisitioned and funds encumbered prior to the purchase due to the County Sheriff not having available funds to pay expenditures. Also, one (1) invoice totaling $991.59 was obtained from the vendor to cover three (3) invoices for items that had been previously purchased was submitted and paid.
- Due to the County Sheriff not having available funds at June 30, 2015, it appears that invoices for purchases made during fiscal year ended June 30, 2015 were not submitted for payment until the subsequent fiscal year when funds were available. Expenditures totaling $2,711.59 incurred during the fiscal year ended June 30, 2015 were paid with funds budgeted for the subsequent fiscal year.
- Purchases were made for personal items that included synthetic bite sleeve, leg bite sleeve, training video for drug dogs, dog food, shorts, boxer shorts, a pair of sunglasses, and other clothing items which appears to be a violation of Title 21 O.S. § 341.

Chief Supply:

- Eight (8) invoices were reviewed totaling $5,342.83 with $4,351.24 outstanding and not yet paid.
- The items purchased included light bars and lights, clothing, console box, etc.
- A payment of $991.59 was made on October 14, 2014, purchase order 1069, for invoice 487679 dated October 2, 2014, which does not agree with the invoice obtained from the vendor. The

invoices from the vendor reflect the items were purchased on July 3, 9, and 16, 2014, therefore it appears a false invoice was submitted for payment and a purchase order was not requisitioned prior to ordering.

- The County Sheriff stated that he was aware of some of the lights being purchased.
- The invoices do not reflect the individual making the purchase, but five (5) of the eight (8) invoices reflect a Deputy's first name followed by "Tahoe," listed under purchase number. The Deputy drives a 2011 Chevrolet Tahoe.

Elite K-9:

- Invoice 89589 dated January 19, 2015 in the amount of $412.40 is for a synthetic bite sleeve, leg bite sleeve, and a training video for drug dogs. There has not been a purchase order requisitioned for this purchase.
- In addition to the invoice above, three (3) payments totaling $958.83 were made from the Inmate Trust Fund Checking Account which is a violation of state statute.
- This invoice is to the attention of a Sheriff's Deputy Pushmataha County Sheriff's Office. Based on the documentation that the County did not own a drug dog, it appears this purchase was made by a Sheriff's Deputy for personal use.

Lattice Incorporated:

- Seven (7) invoices totaling $6,020.00 were reviewed of which $5,160.00 had been paid leaving $860.00 unpaid.
- These invoices were for the purchase of telephone calling cards that are sold to inmates housed in the County jail. A total of 1,400 telephone cards in $10 denomination were purchased.
- Six (6) invoices were paid on two (2) purchase orders, 89 and 3989, by submitting a single false invoice on each purchase order. A company representative verified that the invoices attached to these purchase orders were not their invoices.
- The invoice attached to the purchase order, 3898, issued June 23, 2015 was for telephone calling cards purchased September 17, 2014, October 8, 2014, and November 14, 2014; therefore, these purchases were made prior to the funds being encumbered. The invoice attached to purchase order, 89, issued July 6, 2015 was for telephone cards purchased January 20, 2015, March 30, 2015, and July 6, 2015. Based on the documentation these purchases were not timely encumbered and two (2) purchases were made during one fiscal year and paid with funds budgeted for the subsequent year.

Quill Corporation:

- Eighteen (18) invoices totaling $2,045.58 were reviewed of which none had a purchase order requisitioned or paid by the County.
- All of the invoices except one had purchase order numbers listed on them that had been used to encumber other county funds; therefore, the individual making the purchase gave the vendor a false purchase order number when the items were ordered.
- The items purchased included office supplies, ink cartridges, laundry soap, fabric softener, wireless mouse and keyboard, receipt books, plastic cup, plates and eating utensils, bath tissue, toothpaste, and various other items.

- The Sheriff stated that he believed the Deputy purchased the supplies for the jail.
- The Sheriff negotiated with the collection agency to pay $1,795.13 for the account to be paid in full. The payment was made by the County Sheriff from his personal bank account.

Truck Vault:

- There was one (1) invoice dated August 18, 2014 in the amount of $2,937.87 for the purchase of a truck vault and daybox for a 2011 Chevrolet Tahoe. A truck vault is a custom designed vehicle storage unit to secure weapons and other valuable gear. The truck vault installed in the 2011 Chevrolet Tahoe measures thirty-five (35) inches long, forty-eight (48) inches wide, and twenty-two and seven eighths (22 7/8) inches high. The daybox fits inside the truck vault for storage and transporting of explosive type devices.
- No purchase order was requisitioned for the purchase. We obtained documentation from the vendor reflecting the equipment was ordered by a Sheriff's Deputy for a patrol unit assigned to that Deputy's husband.
- On April 18, 2015 check 2021 was issued to the vendor in the amount of $750.00. The check was issued from the Inmate Trust Fund Checking Account which is a violation of state statute.
- The County Sheriff stated that he did not authorize the purchase of the truck vault and only became aware of the purchase when it was delivered.

Galls, LLC:

- Twenty-one (21) invoices totaling $5,269.89 were reviewed which have not been paid. The invoices reflect the items were purchased from August 11, 2014 through October 20, 2014.
- Several invoices have a purchase order number listed, but County records reflect these numbers were not issued or issued to a different vendor. Therefore, the individual making the purchase gave the vendor a false purchase order number when the items were ordered.
- The invoices reflect items were sold to and shipped to a Deputy.
- Some of the items purchased included shirts, tactical pants ($108.95), tactical vest ($2,345.99), rain jacket ($108.80), gloves ($27.20), laptop computer mount ($339.99), under armor boxer shorts, tactical cargo shorts, women's pants ($44.95 each), plates for body armor ($889.90), gas mask and replacement canister ($412.97), light bar ($389.99), caps, a pair of Oakley sunglasses ($120.00), and various other supplies.
- The County Sheriff stated that he could understand the purchase of the shirts and pants, if they were the right colors. He stated that he was not aware of most of the purchases until they were received at the Sheriff's office and when he asked the Deputy about them, she stated the items were being purchased using their personal credit card.
- A former Deputy had received the sunglasses and on February 10, 2016 the County Sheriff received a package from the former Deputy containing his badge and the sunglasses.

GT Distributors:

- Four (4) invoices dated August 8 & 21, 2014 and October 8 & 21, 2014, totaling $5,598.88, were reviewed which have not been paid. The items on the invoices include a pistol, holster, a rifle scope ($1,424.95), two 5.56 suppressors/silencers ($2,139.50), a 5.56mm rifle ($1,266.00), ammunition, and two flash hiders.

- The County Sheriff stated that he was aware of the purchase of the rifle and suppressors/silencers.
- The pistol, rifle, scope, and one suppressor were in a Deputy's possession and one suppressor was in the Sheriff's possession.
- A purchase order has not been requisitioned for or payment made for any of these invoices.

Proforma:

- There was one (1) invoice in the amount of $170.02 dated November 17, 2015 for drug testing kits, which was attached to purchase order 1529.
- The purchase order was requisitioned by the Sheriff and encumbered on November 17, 2015. The Board of County Commissioners have not approved payment for this expenditure.
- Documentation was obtained that reflects the invoice attached to the purchase order is not the actual invoice issued by the vendor. The original invoice issued by the vendor documents the purchase was made July 16, 2015.
- The documentation shows that a false invoice was submitted to the County Clerk by the County Sheriff for payment of the expenditures that had not been encumbered prior to ordering the goods.

PB Electronics, Inc.:

- There was one (1) invoice dated November 17, 2015 in the amount of $227.73 for a radar display board attached to purchase order 1531.
- The purchase order was requisitioned by the Sheriff and encumbered on November 17, 2015. The Board of County Commissioners have not approved payment for this expenditure.
- Documentation was obtained that reflects the invoice attached to the purchase order is not the actual invoice issued by the vendor. The original invoice issued by the vendor documents the purchase was made May 5, 2015.
- It appears the County Sheriff filed false documentation with the County Clerk to pay prior year expenditures with current year's appropriations.

Best Breed Pet Foods:

- There were seventeen (17) invoices dating from February 6, 2014 through August 31, 2015 totaling $1,602.63 with $619.47 outstanding and not yet paid.
- There were three (3) checks totaling $951.38 issued to the vendor from the Inmate Trust Fund Checking Account which is a violation of state statute.
- The invoice reflects bill to Pushmataha County Sheriff's office to the attention to a Deputy. All of the invoices have purchase order number 1648 listed on them which is a false number.
- The invoices are for the purchase of dog food and shipping expense.
- The County does not own the drug dogs; therefore it appears the purchase of the dog food was made by the Deputy for personal use.

Regional Organized Crime Information Center (ROCIC):

- There was one (1) invoice in the amount of $300.00 for an annual membership. The organization verified that the Sheriff's office was not a member due to termination of non-payment.

Sirchie Fingerprint Laboratories:

- There were three (3) invoices totaling $1,365.19 dated July 9, 21, & 31, 2014 none of the invoices were encumbered or paid. The items purchased included finger printing supplies and drug test and evidence kits.

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

Effect of Condition: This condition resulted in fictitious invoices being created to circumvent the purchasing statute, misappropriation of funds, unpaid outstanding debt, use of current year budgeted appropriations to pay prior year expenditures, and unrecorded transactions. This condition could also result in judgments being levied against the County.

Recommendation: OSAI recommends the County Sheriff encumber purchase orders prior to ordering or receiving goods and services in accordance with state statutes. Further, OSAI recommends the proper authorities review this finding to determine the further action necessary.

Management Response:
County Sheriff: Policies have been implemented to double check that purchase order numbers have been received before any purchases occur. The person responsible for these actions has been terminated and is under investigation. These items purchased were used by only two deputies. Both have been terminated. Some of these purchases could have been for what I was told they were paying for with their own personal funds and just having shipped to the Sheriff's Office.

Auditor Response: Although the Deputies are no longer employed, it is the lawful duty and responsibility of the County Sheriff to ensure that all purchases are made in accordance with state statutes and that expenditures in excess of his lawful budget is not exceeded.

Criteria: Title 19 O.S. § 1505.C. 2. states in part, that encumbrances be made prior to the ordering or the receiving of goods and services.

Title 19 O.S. § 1505.E. states in part, " A receiving officer for the requisitioning department shall be responsible for the receiving of all items delivered to that department. Upon delivery of an item, the receiving officer shall determine if a purchase order exists for the item being delivered. If no such purchase order has been provided, the receiving officer shall refuse delivery of the item."

Title 19 O.S. § 531 A. states in part, "The county sheriff may establish a checking account, to be designated the "Inmate Trust Checking Account". 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 21 O.S. § 341 states in part, "Every public officer of the state or any county, city, town, or member or officer of the Legislature, and every deputy or clerk of any such officer and every other person receiving any money or other thing of value on behalf of or for account of this state or any department of the government of this state or any bureau or fund created by law and in which this state or the people thereof, are directly or indirectly interested, who either:

First: Receives, directly or indirectly, any interest, profit or perquisites, arising from the use or loan of public funds in the officer's or person's hands or money to be raised through an agency for state, city, town, district, or county purposes; or…"

Finding 2014-19 – Possible Misappropriation of Inmate Trust Funds and Unauthorized Use of Funds and County Equipment for Personal Gain – County Sheriff (Repeat Finding)

Condition: State statutes authorize a County Sheriff to establish an Inmate Trust Fund Checking Account for the holding of inmate funds. These funds are statutorily required to be held in trust in an outside checking account separate from funds of the County. Disbursements from this checking account may only be made to reimburse the inmate upon release from jail or to transfer amounts authorized by inmates to the Sheriff Commissary Fund for purchases of commissary items. All checks issued must reflect two signatures for authorization. The County Sheriff is solely responsible for the custody of these funds with no oversight by the Board of County Commissioners.

OSAI obtained a statement signed by the County Sheriff documenting the duties and responsibilities of the Sheriff's employees which states that a Deputy signs the Inmate Trust Fund Checking Account checks and that the Sheriff was aware that deputies signed his name on the checks as well. Also, the statement reflects that the County Sheriff stated he rarely signs checks.

The Sheriff's office periodically receives donations for operations of the office. All donations of the County must be accepted by the Board of County Commissioners in an open meeting pursuant to state statute. While interviewing, the County Sheriff on January 14, 2016, it was brought to his attention the names of two (2) individual that had made donations that had been deposited into the Inmate Trust Fund Checking Account, he stated that he was unaware that the donations were deposited into the Inmate Trust Fund Checking Account. He further stated these donations were made before the Sheriff's office had the third party benefit and the that he believed the Deputy deposited the money into the Inmate Trust Fund Checking Account because she knew the Board of County Commissioners would not accept the donations.

While reviewing the Inmate Trust Fund Checking Account, data from the commissary program, Board of County Commissioner's minutes, purchase orders, vendor invoices, and other documentation, the following was noted:

- We noted four (4) checks totaling $782.57 issued to a Deputy's sister-in-law and one (1) check for $170.00 issued to an employee of the Sheriff's office from the Inmate Trust Fund Checking

Account. At the present time charges are pending on these disbursements as a result of an investigation by the Oklahoma State Bureau of Investigation (OSBI).

In addition to the checks listed above we noted check number 1958, issued on September 3, 2014 to the husband of an employee of the Sheriff's office in the amount of $384.12. The County's jail log does not reflect this individual being booked in the jail at or near the date the check was issued. The Department of Corrections records reflect this individual was incarcerated in a state facility at the time. OSAI could find no evidence of these funds belonging to the employee's husband.

- As noted above, any donation must be accepted by the Board of County Commissioners in an open meeting. The Sheriff allowed a deputy to obtain donated drug dogs without proper authorization. OSAI obtained a data dump from the inmate commissary program and found improper activities related to the unauthorized drug dogs. Two (2) fictitious inmate accounts were created on March 25, 2014 and December 30, 2014, respectively by the Deputy. The first account was created by using the Deputy's drug dog name, Athena, and the last name of her sister-in-law. The second account was listed as Drug Dog rather than an individual inmate. It appears these accounts were used to pay expenditures related to the drug dogs which are owned by the Deputy and not the County. It appears the following payments were made to vendors funneled though the fictitious inmate accounts:

    - Best Breed – Four (4) checks totaling $983.16. In addition to these payments, there is a current balance due of $619.47.
    - Boswell Animal Kare – Four (4) checks totaling $2,108.42.
    - Elite K-9 – Three (3) checks totaling $958.38.

OSAI discovered a letter dated September 3, 2014 to the vendor Elite K-9 in reference to the account and signed by the Deputy which stated:

> "Enclosed is a check for $500.00 I will get the rest of the due amount to you in the next few days. I have to pay for K-9's by donations and I had one of dogs become ill. I had to send the vet money also this month due to the unforeseen illness."

The creation of the fictitious inmate accounts and paying the invoices for expenditures related to the drug dogs appears to be a violation of Title 21 O.S. § 1953 A. In addition the purchase of goods, with county monies, appears to be embezzlement in accordance with Title 21 O.S. § 341. Also, the County Sheriff allowing the payment to vendors from the Inmate Trust Fund Checking Account is in violation of Title 19 O.S. § 531.

In addition to the purchases for the Deputy's drug dogs from the Inmate Trust Fund Checking Account, OSAI noted the following expenditures totaling $1,410.52 from county funds during fiscal year ended June 30, 2014, as listed below:

- Elite K-9 - $427.10 from the County General Fund – Sheriff's sales tax account.

- Best Breed Dog Food:
    - $287.37 from the County General Fund – Sheriff's sales tax account.
    - $504.47 from the Sheriff Cash Service Fee account.
    - $191.58 from the SGA (Sheriff Grant Account).

OSAI further noted other related expenditures paid from county funds, which includes the following:

- The County's fuel records reflected fuel in the amount of $30.31 was purchased in Dallas, TX on July 17, 2015, for a 2007 Ford Expedition K-9 unit. The County Sheriff provided us with a signed statement documenting that he had discussed the purpose of a fuel ticket in Dallas, TX with the Deputy and the Deputy stated that the fuel was purchased when they took their canine to the veterinarian. Further, the Deputy's timesheet reflected the employee worked ten hours on this date.

Based on the information provided, the Deputy used a county vehicle, purchased fuel with county funds, claimed hours worked while conducting personal business, and purchased dog food and supplies for their personal drug dogs.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure all donations made to the County are accepted and approved by the Board of County Commissioners, that all disbursements of the Inmate Trust Fund Checking Account are made in compliance with state statutes, and that assets of the County are safeguarded against misappropriation and abuse.

Effect of Condition: These conditions resulted in noncompliance with state statutes, inaccurate records, incomplete information, and misappropriation of County assets.

Recommendation: OSAI recommends that all donations to the County received by the County Sheriff be accepted by the Board of County Commissioners. Also, OSAI recommends the County Sheriff not expend County funds for items not belonging to the County. Further, OSAI recommends the County Sheriff make no deposits to or expenditures from the Inmate Trust Fund Checking Account that is not allowed by state statute.

Management Response:
County Sheriff: I was unaware of this until it was brought to my attention by the OSBI. The Deputy/Secretary was taken off the account and no longer works for the Sheriff's Office.

The Deputy had the donated drug dogs before I took the Office of Sheriff on December 1, 2012. I had no knowledge of fictitious accounts. I had no knowledge of wrongful payments to vendors from the Inmate Trust funds until it was brought to my attention by the OSAI. Also, I had no knowledge of the payment of the County funds to vendors for drug dog related expenditures. This deputy has been terminated.

The Deputy admitted to me when asked about the $30.31 fuel purchase in Dallas, TX on July 17, 2015. The fuel purchase was for taking the dog to the vet. When I learned of this, I told an auditor with OSAI. This deputy no longer works here and we have no K-9's.

Auditor Response: It is the responsibility of the County Sheriff to oversee the operation of the County Sheriff's office.

Criteria: An important aspect of internal controls is the safeguarding of assets. Internal controls 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 safeguarding items from loss, damage, or misappropriation.

Title 60 O.S. § 390 states, "The board of county commissioners of each county of the state, as to such county, and the governing board of each city, town and school district of the state, as to each such governmental subdivision, is hereby authorized in its discretion to accept, upon behalf of such county, city, town or school district, any gift, testamentary or otherwise, whether unconditional or conditional, of any property, whether real or personal or both, to such county, city, town, or school district, or any institution, department or agency thereof; and, in such instances, the property, or, in the case of real property or intangible personal property, the muniments of title thereto, shall be delivered to, and any necessary receipts therefor shall be executed by, such board."

Title 21 O.S. § 341 states in part, "Every public officer of the state or any county, city, town, or member or officer of the Legislature, and every deputy or clerk of any such officer and every other person receiving any money or other thing of value on behalf of or for account of this state or any department of the government of this state or any bureau or fund created by law and in which this state or the people thereof, are directly or indirectly interested, who either:

First: Receives, directly or indirectly, any interest, profit or perquisites, arising from the use or loan of public funds in the officer's or person's hands or money to be raised through an agency for state, city, town, district, or county purposes; or…"

Title 21 O.S. § 1953 A. states in part, "2. Use a computer, computer system, computer network or any other property as hereinbefore defined for the purpose of devising or executing a scheme or artifice with the intent to defraud, deceive, extort or for the purpose of controlling or obtaining money, property, services or other thing of value by means of a false or fraudulent pretense or representation;

Title 19 O.S. § 531 A. states in part, "The county sheriff may establish a checking account, to be designated the "Inmate Trust Checking Account". 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."

Finding 2014-20 – Inadequate Internal Controls and Noncompliance Over Inmate Telephone Calling Cards and Proceeds of Sales Not Fully Accounted For – County Sheriff

Condition: While performing a review of the internal controls over the County Sheriff's inmate telephone calling cards, we noted the following:

- The County Sheriff does not maintain an inventory record/ledger for the telephone calling cards and the cards are not sold in sequential numeric order.
- There were fifty-seven (57) cards, valued at $570.00, missing on January 13, 2016.
- The proceeds from the sale of the cards totaling $11,416.72 were not deposited into the Sheriff Cash Service Fee fund from which the cards were purchased as required by 19 O.S. § 180.43 E.

The vendor invoices reflected the County Sheriff purchased 200 cards, valued at $10 each at a discounted rate of fifty-seven percent (57%). The cards are sold to jail inmates at which time ten dollars ($10) per card is deducted from their account balance maintained in the Sheriff's Inmate Trust Fund Checking Account.

At the Board of County Commissioners' meeting held July 30, 2015, the County Sheriff stated that there were 325 telephone calling cards on hand. OSAI obtained documentation from the County Sheriff's office of the number of telephone calling cards sold to inmates from July 30, 2015 through January 13, 2016. On January 13, 2016, documentation reflects there should be 110 telephone calling cards on hand. OSAI verified there were fifty-three (53) cards on hand at January 13, 2016. The Sheriff's office could not account for the fifty-seven missing telephone cards, valued at $570.00.

In addition to verifying the number of telephone calling cards on hand, OSAI noted for the period from September 17, 2014 through July 21, 2015 the County Sheriff's office purchased 1,400 telephone calling cards. Of these cards, 1,200 were paid for from the Sheriff Cash Service Fee fund and an outstanding balance for 200 cards had not been paid. At this time, the Sheriff's office had little funds available to make purchases of additional cards and could not pay this bill in full. Invoices were altered and fraudulent invoices were submitted by the Sheriff's office in order to pay part of this bill and still remain in good standing with this vendor to order additional cards.

OSAI reviewed the Inmate Trust Fund Checking Account to determine the amount of the proceeds from the telephone cards was transferred to the Sheriff Service Fee account. From September 2014 through February 2016 two (2) checks, numbers 2002 and 2016, in the amounts of $1,269.73 and $213.55, respectively, totaling $1,483.28 were issued to Pushmataha County Sheriff for the transfer of commissary profits or telephone card proceeds. The total proceeds from telephone calling cards through January 13, 2016 should have been $13,470.00. Therefore, $11,416.72 in sales proceeds could not be accounted for.

Cause of Condition: Policies and procedures have not been designed with regard to the inmate phone card inventory and remitting the sale proceeds to the proper county fund.

Effect of Condition: These conditions resulted in noncompliance with state statute, unrecorded transactions, loss of revenue, and misappropriation of funds.

Recommendation: OSAI recommends that the County Sheriff maintain an accurate inventory of the telephone calling cards. This would include maintaining the number of cards received, sold, and balance of cards on hand. Also, the cards should be issued sequentially by card number at the time of sale. Further, the proceeds for the sale of cards should be reconciled to the number of cards sold and remitted to the Sheriff Cash Service Fee fund on a monthly basis. OSAI also recommends that the County Sheriff investigate the disposition of the missing cards and take the appropriate action necessary.

Management Response:
County Sheriff: I was told that all of this was done correctly and kept track of on the computer of the Deputy that was terminated. I now have a new employee taking care of this. I also check the accuracy of this employee on a regular basis. I believe that the Deputy that was terminated was responsible for the missing telephone cards. I will see that this is investigated and charges are filed is necessary. I believe that the deputy whose duty it was to deposit the money correctly may have deposited it in another Sheriff's account with the County or in the Inmate Trust Fund Checking Account. This Deputy's terminated should prevent this from happening in the future.

Auditor Response: It is the duty of the County Sheriff to ensure all monies due to the County are properly remitted and all assets are protected against loss or theft.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. Internal controls should be designated to analyze and check accuracy, completeness, and authorization of calculations and/or transactions. To help ensure a proper accounting of telephone calling cards, an inventory should be kept and maintained.

Title 19 O.S. § 180.43 E states, "Each county sheriff may operate, or contract the operation of, a telephone system 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 Service Fee Account. Such funds may be expended according to the guidelines previously established for expenditures from the general fund. The claims for expenses shall be filed with and allowed by the board of county commissioners in the same manner as other claims."

Finding 2014-21 – Inadequate Internal Controls and Noncompliance Over Fixed Assets – County Sheriff

Condition: Numerous purchases were made without proper authorization and without funds being available to pay for the purchases. Due to the nature of the unauthorized purchases, OSAI prepared a list of items purchased from the invoices listed in Finding 2014-18 and visually verified the items. The following was noted:

- The County Sheriff had not updated and filed with the County Clerk an inventory list that included all items purchased as required by Title 19 O.S. § 178.2.

- The County Sheriff does not maintain an up to date inventory list for items issued to each deputy. Because a complete inventory assignment record is not maintained, OSAI could not determine that all inventory items were properly accounted for.
- The purchase of gun suppressors (silencers) is questionable as whether this item is a lawful, necessary expenditure of the Sheriff's office.

Included in the items visually verified was $5,202.87 of lights, sirens, mounts, brackets, and consoles that were installed on a Deputy's vehicle (drug dog vehicle) and the County Sheriff's vehicle. Also, installed in the Deputy's vehicle was a truck vault costing $2,937.87, which included a day box.

In addition to the items listed above OSAI visually verified the following items:

• Dragon Fire KXPIIIA Tactical Vest	$2,345.99
• Glock 27 Gen 3 Pistol	$357.00
• Trijicon ACOG 4X32 Scope	$1,424.95
• Surefire SOCOM 5.56 Suppressor/Silencer	$1,069.80
• Surefire SOCOM 5.56 Suppressor/Silencer	$1,069.80
• Sig Sauer 5.56 Rifle	$1,266.00

The items listed above were in the possession of the Deputy, except one (1) suppressor that was in the possession of the County Sheriff. The County Sheriff did not maintain an inventory list for items in possession of this Deputy.

Cause of Condition: Policies and procedures have not been designed and implemented with regard to effective internal controls over safeguarding of fixed assets by maintaining a current inventory list, by maintaining records of inventory assigned to each employee, and by filing the fixed asset inventory record with the County Clerk.

Effect of Condition: This condition resulted in noncompliance with state statutes and possible embezzlement of county assets and could result in unrecorded transactions and misappropriation of assets.

Recommendation: OSAI recommends that the County Sheriff maintain a current inventory list filed with the County Clerk as required by 19 O.S. § 178.2. In addition OSAI recommends the County Sheriff maintain a current and accurate list of items issued to each deputy. Management of the County should take steps to ensure all inventory purchases of the Sheriff's office are physically verified to ensure the location of the assets.

Management Response:
County Sheriff: I relied on a Deputy to do this and was told by that Deputy that this had been done. This employee has since been terminated. I, myself, will ensure that this is done in the future. We now have an up to date inventory list of items issued to all employees. This was done in the past and the only one missing was for a Deputy whose spouse, also a Deputy, was under investigation by the OSBI. I asked him for a new list of his inventory and he refused and said that his spouses' attorney advised against it. Both Deputies no longer work for the Sheriff's office.

I was asked by a Deputy to purchase two suppressors for the Sheriff's office. These would be used to aid in training and also for entry into homes since gunfire in a confined area can cause hearing damage. I was lied to about the costs of the suppressors. I also thought they were paid for correctly. The Deputy told me that the seller would take care of all of the legal paperwork, since we were a Sheriff's Office. This Deputy has been terminated.

Auditor Response: It is the County Sheriff's responsibility to safeguard all assets of his office against loss and/or theft by maintaining a current accurate inventory.

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

Title 19 O.S. § 178.2 states, "It shall be and is hereby made the duty of every county officer, board, commission, or department, and by record directive of the board of county commissioners may be made the duty of any employee of the board of county commissioners subject to summary discharge and removal by the board, to conform in all respects and be amenable to all uniform resolutions adopted by their respective boards of county commissioners directing the taking, recording, maintaining and reporting inventories of properties in their respective custody in accordance with the provisions of this act. It shall be the duty and responsibility of each elected county official to create and maintain inventory records of said office. Such inventory shall be filed with the county clerk."

Title 21 O.S. § 341 states in part, "Every public officer of the state or any county, city, town, or member or officer of the Legislature, and every deputy or clerk of any such officer and every other person receiving any money or other thing of value on behalf of or for account of this state or any department of the government of this state or any bureau or fund created by law and in which this state or the people thereof, are directly or indirectly interested, who either:

First: Receives, directly or indirectly, any interest, profit or perquisites, arising from the use or loan of public funds in the officer's or person's hands or money to be raised through an agency for state, city, town, district, or county purposes; or…"

SECTION 3— Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133

Finding 2014-22 – Inadequate County-Wide Controls Over Major Federal Programs – Disaster Grants - Public Assistance

PASS THROUGH GRANTOR: Oklahoma Department of Emergency Management
FEDERAL AGENCY: U.S. Department of Homeland Security
CFDA NO: 97.036
FEDERAL PROGRAM NAME: Disaster Grants – Public Assistance (Presidentially Declared Disasters)
FEDERAL AWARD NUMBER: DR-4117, DR-4164
FEDERAL AWARD YEAR: FY 2014
CONTROL CATEGORY: Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Cash Management; Matching, Level of Effort, Earmarking; Period of Availability of Federal Funds; and Special Tests and Provisions
QUESTIONED COSTS: $-0-

Condition: County-wide controls regarding Control Environment, Risk Assessment, Information and Communication, and Monitoring have not been designed.

Cause of Condition: Policies and procedures have not been designed to ensure the County is in compliance with grant requirements.

Effect of Condition: This condition could result in noncompliance with grant requirements.

Recommendation: OSAI recommends that the County implement a system of internal controls to ensure compliance with grant requirements.

Management Response:
Chairman of the Board of County Commissioner: Pushmataha County will make every effort to ensure that procedures are written to address controls regarding Control Environment, Risk Assessment, Information and Communication, and Monitoring. We will encourage all elected officials and department heads to read and follow A-133 guidelines. We will meet on a quarterly basis and/or as needed with the other officers to communicate and discuss risks of the County associated with federal grants.

As Chairman of the Board of County Commissioners, I will, in joint effort with the County Commissioners and other County officials develop a plan to monitor the County's internal controls to ensure that the audit findings and other review are properly resolved. The Board of County Commissioners will strive to make County-Wide controls a priority.

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 Control Environment, Risk Assessment, Information and Communication, and Monitoring for the achievement of these goals.

The control environment is the foundation for all other components of internal control. When management believes that internal controls are important to meeting its goals and objectives and communicates this belief to its employees at all levels, internal controls are more likely to be functioning well. However, if management views internal controls as unrelated to achieving its goals and objectives, or even as an obstacle, it is almost a certainty that this attitude will be held by all employees, despite official statements or policies to the contrary. This 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.

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.

Information and Communication is a component of internal controls which should provide for a county to run and control its operations. A County must have relevant, reliable information, both financial and nonfinancial. That information should be recorded and communicated to management and others within the County who need it and in a form and within a time frame that enables them to carry out their internal control and operational responsibilities. In addition, the county needs to make sure that the forms of communications are broad-based and that information technology management assures useful, reliable, and continuous communications.

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.

Finding 2014-23 – Inadequate Internal Controls Over Major Federal Programs – Disaster Grants - Public Assistance

PASS THROUGH GRANTOR: Oklahoma Department of Emergency Management
FEDERAL AGENCY: U.S. Department of Homeland Security
CFDA NO: 97.036

FEDERAL PROGRAM NAME: Disaster Grants – Public Assistance (Presidentially Declared Disasters)
FEDERAL AWARD NUMBER: DR-4117 and DR-4164
FEDERAL AWARD YEAR: FY 2014
CONTROL CATEGORY: Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Cash Management; Matching, Level of Effort, Earmarking; Period of Availability of Federal Funds; and Special Tests and Provisions
QUESTIONED COSTS: $-0-
Condition: During the process of documenting the County's internal controls regarding federal disbursements, we noted that Pushmataha County has not established procedures to ensure compliance with the following compliance requirements: Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Cash Management; Matching, Level of Effort, Earmarking; Period of Availability of Federal Funds; and Special Tests and Provisions.

Cause of Condition: Policies and procedures have not been designed to ensure federal expenditures are made in accordance with federal compliance requirements.

Effect of Condition: This condition could result in noncompliance to grant requirements and loss of federal funds to the County.

Recommendation: OSAI recommends the County gain an understanding of requirements for these programs and implement internal control procedures to ensure compliance with requirements.

Management Response:
Chairman of the Board of County Commissioners: We will review the A-133 Compliance Supplement and design internal controls for all applicable compliance requirements.

Criteria: *OMB A-133, Subpart C*, § .300 reads as follows:

> Subpart C-Auditees
> § .300 Auditee responsibilities.
> The auditee shall:
> (b) Maintain internal control over federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have material effect on each of its Federal programs.

Further, accountability and stewardship should be overall goals in management's accounting of federal funds. Internal controls should be designed to monitor compliance with laws and regulations pertaining to grant contracts.

Finding 2014-24 – Noncompliance with Compliance Requirement B – Allowable Costs/Cost Principles

PASS THROUGH GRANTOR: Oklahoma Department of Emergency Management

FEDERAL AGENCY: U.S. Department of Homeland Security
CFDA NO: 97.036
FEDERAL PROGRAM NAME: Disaster Grants – Public Assistance (Presidentially Declared Disasters)
FEDERAL AWARD NUMBER: DR-4164
FEDERAL AWARD YEAR: FY 2014
CONTROL CATEGORY: Allowable Costs/Cost Principles
QUESTIONED COSTS: $79,970.12
Condition: While performing testwork on Project Worksheet (PW) 24, we noted the following:

- Multiple discrepancies on labor hours charged for employees were noted. The labor hours charged did not agree to employee's timesheet. This resulted in the County overcharging $7,945.50 for hours worked.
- Incorrect labor rates were used when calculating the straight time and overtime costs. This resulted in the county receiving an overpayment of $61,354.72.
- Incorrect FEMA equipment rates were used for several pieces of equipment. Further, we noted that several pieces of equipment had more hours claimed on the equipment than the employees actually worked on that day. These discrepancies totaled $10,094.69.
- The equipment rental costs charged by the County included a credit which resulted in an overcharge of $400.00.
- Labor costs charged for Direct Administrative Costs did not agree to the employees timesheets. This resulted in the County overcharging $175.21 for hours worked.

Cause of Condition: Policies and procedures have not been designed to ensure federal expenditures are made in accordance with federal compliance requirements. A lack of sub-recipient monitoring on behalf of the Oklahoma Department of Emergency Management contributed to noncompliance with Requirement B.

Effect of Condition: These conditions resulted in an overpayment in labor and equipment costs to the County. These conditions could also result in the County having incomplete and inaccurate records, inappropriate expenditures, or loss of federal funds.

Recommendation: OSAI recommends the County verify that any labor hours charged to a project worksheet agrees to the employee's timesheets and that the correct hourly labor rate is used when calculating labor costs for project worksheets. Also, OSAI recommends the County verify that any equipment hours charged to a project worksheet agrees to the hours that the employee worked on the project. Further, OSAI recommends that the County verify documentation for the cost of equipment rental to ensure any refund or credits and delivery and pickup costs are not included.

Management Response:
County Commissioner District 1: We will verify hours charged for labor and equipment to timesheets for accuracy. We will also verify equipment rates to the FEMA schedule. This FEMA project was a new program called PILOT. We turned all labor and equipment rates over to Oklahoma Emergency Management (OEM) and inquired by e-mail and phone that these rates were incorrect and never received any response to the discrepancies in the rates. We gave all credit documentation to OEM. However,

OEM did not adjust the PW to show that the credit was given on the rental of the equipment.

County Commissioner District 2: In the future we will make sure time worked on projects agrees to the time sheets. We will verify correct labor rates with OEM in the future before work is performed. Also, we will verify the correct FEMA equipment rates are used and the hours charged for equipment usage will be verified to match time sheets. Further, all credits given on rentals will be given to OEM so they can adjust rental cost accordingly.

Criteria: OMB Circular A-87, Paragraph C. Basic Guidelines, states in part,

> "1. Factors affecting allowability of cost. To be allowable under Federal awards, costs must meet the following general criteria:…
> i. Be the net of all applicable credits
> j. Be adequately documented."

SECTION 4—This section contains certain matters not required to be reported in accordance with *Government Auditing Standards.* However, we believe these matters are significant enough to bring to management's attention. We recommend that management consider these matters and take appropriate corrective action.

Finding 2014-11 – Inadequate Segregation of Duties – Court Clerk (Repeat Finding)

Condition: Upon inquiry and observation of the Court Clerk, we noted the following weaknesses with regard to internal controls related to the receipting and expenditure processes over Court Fund, Revolving Fund, and District Court Fund.

Receipting Process:

- All employees issue receipts and operate from the same cash drawer.
- A mail log is not maintained.

Expenditure Process:

- The Court Clerk performs all Court Fund duties associated with preparing claims, issuing vouchers, approving vouchers and claims, preparing reports, and reconciling with the County Treasurer.
- The Court Clerk performs all Court Clerk Revolving Fund duties associated with preparing claims, preparing reports, and reconciling with the County Treasurer.
- The Court Clerk performs all duties associated with the issuing, approving, and distributing of official depository vouchers for the District Court Fund.

Cause of Condition: Policies and procedures have not been designed and implemented to adequately segregate the duties of the receipting and expenditure processes within the office of the Court Clerk.

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, undetected errors, or misappropriation of funds not being detected in a timely manner.

Recommendation: OSAI recommends that management be aware of these conditions and realize that a concentration of duties and responsibilities in a limited number of individuals is not desired from a control point of view. OSAI recommends that procedures be developed to separate key functions of the receipting and expenditure processes for the Court Fund, Court Clerk Revolving Fund, and District Court Fund. In the event that a segregation of duties is not possible due to limited personnel, OSAI recommends implementing compensating controls to mitigate the risk involved with a concentration of duties. Compensating controls would include separating key processes and/or critical functions of the office, and having management review and approve accounting functions.

Management Response:
Court Clerk: Receipting Process: I will monitor the duties of the receipting process and try to segregate them accordingly. I will not maintain a mail log, because of the high volume of mail that comes through my office. We would be unable to keep up. Expenditure process: I am aware of the situation and will no longer be approving claims, since the District and Associate Judges both approve the claim and only two signatures are needed. Additionally, a deputy acknowledges the claim. Furthermore, all quarterly reports are now reviewed and signed by someone other than the preparer before being taken to the Treasurer. We will continue to try to further segregate the duties of the expenditure process for the Court Fund and Revolving Fund.

Criteria: 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.

Finding 2014-12 - Inadequate Internal Controls and Noncompliance Over Inmate Trust Fund Checking Account and Sheriff Commissary Fund (Repeat Finding)

Condition: An audit of the Inmate Trust Fund Checking Account and Sheriff Commissary Fund reflected the following:

- One employee performs the duties of preparing deposits, taking deposits to the bank, posting to inmate accounts, and issuing and approving checks from the Inmate Trust Fund Checking Account.
- The County Sheriff granted a County Deputy the authority to sign the County Sheriff's signature on Inmate Trust Fund Checking Account checks. Since the County Sheriff allows this, only one person is approving Inmate Trust Fund Checking Account checks. Therefore, the County Deputy was given sole responsibility, with no oversight, to prepare, approve, and disperse Inmate Trust Fund Checking Account checks.

- Deposits to the Inmate Trust Fund Checking Account are not made daily.
- Inmate ledger balances are not reconciled to the bank statements.
- The County Sheriff's office does not file an annual report for the Sheriff Commissary Fund with the Board of County Commissioners by January 15th, of each year.
- We were unable to verify multiple inmates' names, from the issued checks, to the booking documentation for the County Sheriff's office. The checks were not documented with enough detail to verify these checks were issued/released to inmate's family members or to the inmate upon release.

While reviewing Inmate Trust Fund Checking Account checks, we noted the following expenditures that were not accordance with Title 19 O.S. § 531.A:

- Four (4) expenditures were made to Antlers Pharmacy totaling $50.88.
- Four (4) expenditures were made to Best Breed totaling $983.16.
- Four (4) expenditures were made to Boswell Animal Kare totaling $2,108.42.
- One (1) expenditure was made to CPI for $320.00.
- Three (3) expenditures were made to Elite K-9 totaling $951.38.
- Three (3) expenditures were made to Galls, LLC totaling $1,600.00.
- One (1) expenditure was made to Hard Drive Graphics for $825.36.
- One (1) expenditure was made to Latimer County for $302.68.
- One (1) expenditure was made to Logo Venture Inc. for $307.00.
- Nine (9) expenditures were made to Pruitt's Pharmacy for $238.01.
- One (1) expenditure was made to Tiger Commissary for $105.01.
- One (1) expenditure was made to Truck Vault for $750.00.
- Four (4) expenditures were made to the sister-in-law of a county deputy, totaling $782.57.
- One (1) expenditure was made to the husband of a county deputy, in the amount of $384.12.
- Two (2) expenditures were made to a County Deputy, totaling $270.00.

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

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

Recommendation: OSAI recommends the following:

- Key duties and responsibilities should be segregated among different individuals to reduce the risk of error or fraud. No one individual should have the ability to authorize transactions, have physical custody of assets, and record transactions.
- All funds received should be deposited to the Inmate Trust Fund Checking Account daily.

- Inmate trust fund monies should be maintained in a manner that reflects each inmate's trust deposits, disbursements, and account balances. The inmate's ledger balances should be reconciled to the bank statements each month.
- The Sheriff should file a report of the Commissary with the Board of County Commissioners by January 15th, of each year in accordance with Title 19 O.S. § 180.43.

OSAI recommends that the expenditures should be made from the Inmate Trust Fund Checking Account in accordance with 19 O.S. § 531 A. OSAI recommends that the Sheriff review all expenditures for accuracy and approve them by affixing his signature.

Management Response:
County Sheriff: Now the Secretary prepares deposits and a deputy takes the deposit to the bank. The Undersheriff posts to inmate accounts and checks are issued by the Secretary and approved and signed by the County Sheriff and Undersheriff.

I have never authorized anyone to sign my name. Also, when I learned of the possible wrong doing, this deputy was taken off of the Inmate Trust Fund Checking Account and was replaced by the Undersheriff. It should be noted that the deputy was named by the previous County Sheriff as a signer on this account.

We now deposit inmate trust fund money daily. Also, we now reconcile the inmate trust fund with every bank statement.

I had instructed my former Deputy/Secretary to file an annual report and was told that it was done. I now have a new Secretary and in will ensure this gets done in the future.

In the future, the Undersheriff and I will inspect all Inmate Trust Fund Checking Account checks for detail and accuracy. Then and only then we will both sign them.

Auditor Response: After interviewing the County Sheriff on the duties and responsibilities of the Sheriff's employee, the County Sheriff was presented with a memo "Duties and Responsibilities of Sheriff's Employees" listing the employee and their duties as discussed in the interview for the County Sheriff to sign verifying its accuracy. The County Sheriff signed the memo verifying that the Deputy responsible for the Inmate Trust Fund Checking Account signed her name to the checks and that he was aware that she signed his name on the checks as well.

Criteria: Accountability and stewardship are overall goals of management in accounting of funds. To help ensure a proper accounting of funds, no one individual should have the ability to have physical custody of assets, prepare deposits, make deposits, and sign off that deposits are completed. In addition, bank reconciliations should be performed each month and funds should be deposited daily.

Title 19 O.S. § 531 A. states in part, "The county sheriff may establish a checking account, to be designated the "Inmate Trust Fund Checking Account." 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 Sherriff'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. § 180.43 D. states in part, "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 2014-13 – Inadequate Internal Controls and Noncompliance Over Fixed Assets Inventory (Repeat Finding)

Condition: While gaining an understanding of internal controls over fixed assets, we noted the following weaknesses:

- The County Treasurer, County Sheriff, District 1 Commissioner, and District 2 Commissioner do not perform an annual review of fixed assets.
- The County Clerk and District 3 Commissioner do not have documentation to support that an annual review of fixed assets was performed.

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

Effect of Condition: These conditions resulted in noncompliance with state statute and could result in inaccurate records, unauthorized use, or misappropriation of fixed assets.

Recommendation: OSAI recommends the County perform and document a periodic physical verification of fixed assets in accordance with Title 19 O.S. 178.1. The documentation should include the date and signature of the employees conducting and reviewing the verification.

Management Response:
County Commissioner District 1: Fixed assets inventory was not completed. Commissioner Assistant will start doing inventories quarterly on all assets and will be reviewed and signed off on by another employee for verification.

County Commissioner District 2: We have started to do annual reviews of all fixed assets and will have documentation in the future.

County Commissioner District 3: I was not Commissioner, but we will get it taken care of in order to be in compliance.

County Treasurer: We will perform an annual review of fixed assets and filed with the County Clerk's office.

County Clerk: We will document all fixed assets after reviewing.

County Sheriff: I will implement an annual review of fixed assets. This implementation will be performed each year in a timely manner and filed with the County Clerk's office.

Criteria: 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.

Title 19 O.S. § 178.1 requires the maintenance of inventory records and periodic inventory verifications.

Finding 2014-15 – Inadequate Internal Controls and Noncompliance Over Consumable Inventories (Repeat Finding)

Condition: Upon inquiry of County personnel, observation, and review of documents regarding consumable inventories, the following weaknesses were noted:

- District 2 does not maintain documentation of their periodic review of consumable inventories.
- District 2 is maintaining a fuel log; however, the fuel log does not have a balance and is not reconciled to the actual fuel on hand at the district barn.
- District 1, 2, and 3 do not maintain fuel logs for portable fuel tanks.

Cause of Condition: Policies and procedures have not been implemented for the accurate reporting of consumable inventories.

Effect of Condition: These conditions resulted in noncompliance with state statute and could result in inaccurate records, unauthorized use, or loss of consumable inventories.

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

- Performing and documenting a periodic physical count of inventory.
- Maintaining a fuel log with all pertinent information including a current balance.
- Reconciling fuel log periodically to fuel on hand and explain any variance or adjustments.

Management Response:
County Commissioner District 1: Fuel log book has been placed in both pickups that carry fuel tanks. When fuel is taken out of yard to equipment it will be logged on both reconcile sheets at shop and in vehicle log book showing where fuel went to.

County Commissioner District 2: We are working to resolve these issues.

County Commissioner District 3: We don't have meters on pumps but we will take care of the problem.

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

None were reported.

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