



ALFALFA COUNTY

Financial Report

For the fiscal year ended June 30, 2017

Cindy Byrd, CPA
State Auditor & Inspector

**ALFALFA COUNTY, OKLAHOMA
FINANCIAL STATEMENT
AND INDEPENDENT AUDITOR'S REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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Cindy Byrd, CPA | State Auditor & Inspector

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December 30, 2019

TO THE CITIZENS OF
ALFALFA COUNTY, OKLAHOMA

Transmitted herewith is the audit of Alfalfa County, Oklahoma for the fiscal year ended June 30, 2017. 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,

A handwritten signature in blue ink that reads "Cindy Byrd".

CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR



**ALFALFA COUNTY OFFICIALS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

Board of County Commissioners

District 1 – Jay Hague
District 2 – Stan Tucker
District 3 – Ray Walker

County Assessor

Donna Prince

County Clerk

Laneta Unruh

County Sheriff

Rick Wallace

County Treasurer

Valerie Vetter

Court Clerk

Tammi Miller

District Attorney

Christopher Boring

**ALFALFA COUNTY, OKLAHOMA
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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FINANCIAL SECTION

Independent Auditor's Report

TO THE OFFICERS OF
ALFALFA 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 Alfalfa County, Oklahoma, as of and for the year ended June 30, 2017, 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 this 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, the financial statement is prepared by Alfalfa 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 statement 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 Alfalfa County as of June 30, 2017, or changes in financial position for the year then ended.

Unmodified 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 Alfalfa County, for the year ended June 30, 2017, in accordance with the basis of accounting described in Note 1.

Other Matters

Supplementary and 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 other supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and are not a required part of the financial statement.

The other supplementary information 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 other supplementary information is fairly stated, in all material respects, in relation to the financial statement.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2019, on our consideration of Alfalfa 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 solely 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 effectiveness of the County's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Alfalfa County's internal control over financial reporting and compliance.



CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR

December 10, 2019

REGULATORY BASIS FINANCIAL STATEMENT

ALFALFA COUNTY, OKLAHOMA
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES—REGULATORY BASIS
(WITH COMBINING INFORMATION)
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Beginning Cash Balances July 1, 2016	Receipts Apportioned	Disbursements	Ending Cash Balances June 30, 2017
Combining Information:				
County General Fund	\$ 4,565,943	\$ 2,108,796	\$ 3,669,560	\$ 3,005,179
T-Highway	4,769,272	7,360,761	8,369,374	3,760,659
Emergency Medical Service District Sales Tax	16,389,935	1,227,368	688,965	16,928,338
Resale Property	117,778	41,261	17,933	141,106
Sheriff Service Fee	146,341	53,765	5,228	194,878
Sheriff Revolving Fee	22,265	8,005	18,986	11,284
County Clerk Lien Fee	306,718	24,690	3,197	328,211
Treasurer Mortgage Tax Certification Fee	3,069	1,010	331	3,748
Community Service Program	2,713	-	-	2,713
County Clerk Preservation	78,564	13,336	3,288	88,612
Assessor Visual Inspection	6,240	58	-	6,298
Assessor Revolving	17,101	4,164	1,792	19,473
Fair Arena Sales Tax	1,285,253	223,056	342,437	1,165,872
Enhanced 911 Cash	86,063	91,452	-	177,515
Emergency Grant	2,239	1,000	-	3,239
Highway Sales Tax District 1	639,704	151,069	80,556	710,217
Highway Sales Tax District 2	409,704	151,069	39,295	521,478
Highway Sales Tax District 3	639,704	151,069	22,043	768,730
County General Sales Tax	874,229	317,380	298,550	893,059
Sheriff Cash Courthouse Security	48,676	-	5,255	43,421
Combined Total - All County Funds	\$ 30,411,511	\$ 11,929,309	\$ 13,566,790	\$ 28,774,030

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

**ALFALFA COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

1. Summary of Significant Accounting Policies

A. Reporting Entity

Alfalfa 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 revenues derived from ad valorem tax, sales tax, officer's fees, interest earnings, and miscellaneous collections of the County. Disbursements are for the general operations of the County.

T-Highway – accounts for revenues derived from state imposed fuel taxes and disbursements are for the maintenance and construction of County roads and bridges.

Emergency Medical Service District Sales Tax – accounts for sales tax collected and disbursed for the purpose of maintaining the health and well-being of the people and general operations of the emergency medical services.

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

**ALFALFA COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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

Sheriff Revolving Fee – accounts for the collection of monies from the Oklahoma Department of Corrections and disbursements are for the purpose of operation and maintaining the jail.

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

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

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

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

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

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

Fair Arena Sales Tax – accounts for sales tax collection and disbursed for the purpose of construction, repairing, and maintaining County fairgrounds.

Enhanced 911 Cash – accounts for the receipt of fees and disbursements of funds for the operation of Enhanced 911.

Emergency Grant – accounts for federal grant receipts for Emergency Management and disbursed for the purpose designated in the grant contract.

Highway Sales Tax District 1 – accounts for sales tax collected and disbursed for the purpose of construction, repairing, and maintaining County roads.

Highway Sales Tax District 2 – accounts for sales tax collected and disbursed for the purpose of construction, repairing, and maintaining County roads.

Highway Sales Tax District 3 – accounts for sales tax collected and disbursed for the purpose of construction, repairing, and maintaining County roads.

**ALFALFA COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

County General Sales Tax – accounts for sales tax collected and disbursed for the purpose of general operations of the County.

Sheriff Cash Courthouse Security – accounts for revenues received from court fees and tickets. Disbursements are for expenditures related to Courthouse security costs.

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 with all other funds included in the audit presented in the aggregate in a combining statement. However, the County has elected to present all funds included in the audit in the Statement of Receipts, Disbursements, and Changes in Cash Balances—Regulatory Basis.

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.

**ALFALFA COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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. The County Treasurer, according to the law, shall give notice of delinquent taxes and special assessments by publication once a week for two consecutive weeks at any time after April 1, but prior to the end of September following the year the taxes were first due and payable. Unpaid real property taxes become a lien upon said property after the treasurer has perfected the lien by public notice.

Unpaid delinquent personal property taxes are usually published in May. If the taxes are not paid within 30 days from publication, they shall be placed on the personal tax lien docket.

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

**ALFALFA COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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

On November 6, 2012, the citizens of Alfalfa County voted on and approved a two percent (2%) sales tax with fifty-five percent (55%) of the proceeds for the purpose pertaining to the health and well-being of the people and general operation of the Alfalfa County Emergency Medical Services; twelve and half percent (12.5%) of proceeds for the general operations, personal services, and improvements of the government of Alfalfa County; ten percent (10%) of proceeds for the continued construction, personal services, maintenance, operation, and repair of the Alfalfa County Fairgrounds, and twenty-two and half percent (22.5%) for purposes of the construction and maintenance of county blacktop roads. The sales tax shall begin January 1, 2013 and continue for 48 months until December 31, 2016.

On November 8, 2016, the citizens of Alfalfa County voted on and approved a two percent (2%) sales tax with fifty-two percent (52%) of the proceeds for the purpose pertaining to the health and

**ALFALFA COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

well-being of the people, including the personal services and maintenance and general operation of the Alfalfa County Emergency Medical Services; eighteen percent (18%) of proceeds for the general operations, personal services, and improvements of the government of Alfalfa County; ten percent (10%) of proceeds for the continued construction, personal services, maintenance, operation, and repair of the Alfalfa County Fairgrounds, and 20% for purposes of the construction and maintenance of county blacktop roads. The sales tax shall begin January 1, 2017 and continue for 48 months until December 31, 2020.

The sales tax collections and disbursements for the health and well-being of the residents of Alfalfa County are accounted for in the Emergency Medical Service District Sales Tax fund. The sales tax collections and disbursements for the county fairgrounds are accounted for in the Fair Arena Sales Tax fund. The sales tax collections and disbursements for the general operations of the County are accounted for in the County General Sales Tax fund. The collections and disbursements of sales tax for construction and maintenance of County blacktop roads are accounted for in the Highway Sales Tax District 1, Highway Sales Tax District 2, and Highway Sales Tax District 3.

OTHER SUPPLEMENTARY INFORMATION

ALFALFA 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, 2017

	General Fund		
	Budget	Actual	Variance
Beginning Cash Balances	\$ 4,565,943	\$ 4,565,943	\$ -
Less: Prior Year Outstanding Warrants	(130,375)	(130,375)	-
Less: Prior Year Encumbrances	(714,005)	(520,239)	193,766
Beginning Cash Balances, Budgetary Basis	<u>3,721,563</u>	<u>3,915,329</u>	<u>193,766</u>
 Total Receipts, Budgetary Basis	 <u>1,225,340</u>	 <u>2,108,796</u>	 <u>883,456</u>
Total Expenditures, Budgetary Basis	<u>4,946,903</u>	<u>3,176,556</u>	<u>1,770,347</u>
 Excess of Receipts and Beginning Cash Balances Over Expenditures, Budgetary Basis	 <u>\$ -</u>	 2,847,569	 <u>\$ 2,847,569</u>
Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances			
Add: Cancelled Warrants		355	
Add: Current Year Outstanding Warrants		91,511	
Add: Current Year Encumbrances		<u>65,744</u>	
Ending Cash Balance		<u>\$ 3,005,179</u>	

ALFALFA COUNTY, OKLAHOMA
NOTE TO OTHER SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

1. Budgetary Schedules

The Comparative Schedules of Receipts, Expenditures, and Changes in Cash Balances—Budget and Actual—Budgetary Basis for the General 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 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.

INTERNAL CONTROL AND COMPLIANCE SECTION

**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
ALFALFA 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 Statement of Receipts, Disbursements, and Changes in Cash Balances (with Combining Information) of Alfalfa County, Oklahoma, as of and for the year ended June 30, 2017, and the related notes to the financial statement, which collectively comprises Alfalfa County's basic financial statement, prepared using accounting practices prescribed or permitted by Oklahoma state law, and have issued our report thereon dated December 10, 2019.

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, 2017, 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 Alfalfa 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 Alfalfa County's internal control. Accordingly, we do not express an opinion on the effectiveness of Alfalfa County's internal control.

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. 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.



Our consideration of internal control was for the limited purpose described in the first 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be material weaknesses: 2017-001, 2017-002, 2017-003, 2017-004 and 2017-005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Alfalfa 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*.

Alfalfa County's Response to Findings

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

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.



CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR

December 10, 2019

**ALFALFA COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

SECTION 1—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 2017-001 – Inadequate County-Wide Controls (Repeat Finding 2013-001, 2014-001)

Condition: Through the process of gaining an understanding of the County’s internal control structure, it was noted that 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 and implemented to address the 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 and implement a system of county-wide procedures to identify and address risks related to financial reporting and to ensure that information is communicated effectively. OSAI also recommends that the County design and implement 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 of the Board: I will encourage everyone to work as a team and focus on completing the County-Wide Controls Checklist.

County Treasurer: I will work to get everybody on board to complete the County-Wide Controls Checklist. I will suggest that we meet monthly until this project is completed.

County Clerk: I would like to have monthly officers meeting and thoroughly complete a section of the County-Wide Controls Checklist at each meeting, instead of performing a review of the checklist.

Criteria: The United States Government Accountability Office’s *Standards for Internal Control in the Federal Government* (2014 version) aided in guiding our assessments and conclusion. Although this publication (GAO Standards) addresses controls in the federal government, this criterion can be treated as best practices and may be applied as a framework for an internal control system for state, local, and quasi-governmental entities.

The GAO Standards – Section 1 – Fundamental Concepts of Internal Control – OV1.01 states in part:

**ALFALFA COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

Definition of Internal Control

Internal control is a process effected by an entity's oversight body, management, and other personnel that provides reasonable assurance that the objectives of an entity will be achieved.

Additionally, GAO Standards – Section 2 – Establishing an Effective Internal Control System – OV2.04 states in part:

Components, Principles, and Attributes

Control Environment - The foundation for an internal control system. It provides the discipline and structure to help an entity achieve its objectives.

Risk Assessment - Assesses the risks facing the entity as it seeks to achieve its objectives. This assessment provides the basis for developing appropriate risk responses.

Information and Communication - The quality information management and personnel communicate and use to support the internal control system.

Monitoring - Activities management establishes and operates to assess the quality of performance over time and promptly resolve the findings of audits and other reviews.

Finding 2017-002 – Inadequate Internal Controls Over Reconciliation of the County Clerk's Appropriation Ledger to County Treasurer's General Ledger (Repeating Finding 2013-002, 2014-002)

Condition: Based on our documentation of controls, reconciliations are not being performed between the County Clerk's appropriation ledger and the County Treasurer's general ledger for all funds and on a monthly basis.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure the reconciliation of the County Clerk's appropriation ledger to the County Treasurer's general ledger for all funds.

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

Recommendation: OSAI recommends management take steps to ensure reconciliations are performed between all funds presented on the County Clerk's appropriation ledger and the County Treasurer's general ledger. Documentation of this reconciliation should be reviewed and approved by someone other than the preparer.

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Management Response:

County Treasurer: There is a better understanding of the information that needs to be shared between the two offices, so we are getting closer to having the reconciliation completed.

County Clerk: I will be more proactive about getting the reconciliation from the appropriation ledger to the general ledger completed.

Criteria: The GAO Standards - Principle 16 – Perform Monitoring Activities: 16.05 states, in part:

Internal Control System Monitoring

Management performs ongoing monitoring of the design and operating effectiveness of the internal control system as part of the normal course of operations. Ongoing monitoring includes regular management and supervisory activities, comparisons, reconciliations and other routine actions.

Finding 2017-003 – Inadequate Internal Controls and Monitoring Over Bank Reconciliations (Repeat Finding 2014-011)

Condition: The County Treasurer was not able to correctly identify all reconciling items for the June 30, 2017 bank reconciliations in a timely manner. As a result, the following amounts were unsubstantiated:

- One financial institution balance for the Certificate of Deposits account showed a balance of \$0.00 at June 30, 2017, while the Treasurer’s General Ledger had a recorded balance of \$1,000,000.00. Another financial institution balance for the Certificate of Deposits account showed a balance of \$1,000,000.00 at June 30, 2017, while the Treasurer’s General Ledger had a recorded balance of \$0.00.
- Reconciling items of \$449 could not be supported on the bank statement reconciliation for the Official Depository account.
- Reconciling items of \$630 could not be supported on the bank statement reconciliation for the Credit Card Account.
- Reconciling item of \$1,621 could not be supported on the bank statement reconciliation for a bank in the Certificate of Deposits.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure all accounts are reconciled, approved, and the amounts recorded on the bank reconciliations are complete and accurate. Further, procedures have not been designed to ensure reconciling items are resolved in a timely manner.

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

Recommendation: OSAI recommends that the County design policies and procedures to ensure that all activity on all bank statements is complete and accurate. We recommend that all accounts be reconciled on

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a monthly basis and in a timely manner. Furthermore, the review and approval of the reconciliation should be documented.

Management Response:

County Treasurer: I am having every receipt and every warrant double checked for accuracy. I am currently focusing on reconciling the warrant account and reviewing the past transactions to correctly identify the reconciling items.

Criteria: The GAO Standards - Principle 16 – Perform Monitoring Activities: 16.05 states, in part:

Internal Control System Monitoring

Management performs ongoing monitoring of the design and operating effectiveness of the internal control system as part of the normal course of operations. Ongoing monitoring includes regular management and supervisory activities, comparisons, reconciliations and other routine actions.

GAO Standard 13.04 states Management obtains relevant data from reliable internal and external sources in a timely manner based on the identified information requirements. Relevant data have a logical connection with, or bearing upon, the identified information requirements. Reliable internal and external sources provide data that are reasonably free from error and bias and faithfully represent what they purport to represent. Management evaluates both internal and external sources of data for reliability. Sources of data can be operational, financial, or compliance related. Management obtains data on a timely basis so that they can be used for effective monitoring.

Finding 2017-004 – Inadequate Internal Controls Over Presentation of Financial Statement and Notes to the Financial Statement

Condition: During the review and reconciliation of the financial statement and notes to the financial statement as initially prepared by the County, it was determined that the financial statement and notes to the financial statement were not approved by the BOCC and the related notes to the financial statement only included some of the fund descriptions.

Cause of Condition: The County has not designed and implemented internal controls for the presentation and approval of the County's financial statement and notes to the financial statement.

Effect of Condition: This condition could result in inaccurate reporting of the financial statement and notes to the financial statement.

Recommendation: OSAI recommends the County design and implement policies and procedures to ensure the accurate presentation and approval of the financial statement and notes to the financial statement.

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Management Response:

Chairman of the Board: The BOCC will start approving the financial statement and footnotes. We will refer to the prior year information to ensure format is similar and numbers carry forward correctly.

County Treasurer: I am working on the financial statements for fiscal year 2019 and the related footnotes. I will submit them to the board for approval as soon as they are completed.

Criteria: The County is required to present a financial statement for each fiscal year ended June 30. Title 19 O.S. § 171 states in part, “Unless the county elects to prepare its financial statement in accordance with Generally Accepted Accounting Principles as prescribed by the Governmental Accounting Standards Board, the county shall present their financial statements in a regulatory basis of accounting.”

The limitations of the auditor are described in the American Institute of Certified Public Accountants Clarified Statements on Auditing Standards AU-C § 210, which states in part:

“The concept of an independent audit requires that the auditor's role does not involve assuming management's responsibility for the preparation and fair presentation of the financial statements or assuming responsibility for the entity's related internal control and that the auditor has a reasonable expectation of obtaining the information necessary for the audit insofar as management is able to provide or procure it. Accordingly, the premise is fundamental to the conduct of an independent audit.”

Finding 2017-005 – Inadequate Internal Controls Over the Payroll Process

Condition: Upon inquiry and observation of the County’s payroll process, it was noted the employee who processes payroll also has the ability to add new employees and make changes to the amounts to be withheld.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure the payroll process is properly segregated.

Effect of Condition: This condition could result in unrecorded transactions, inaccurate reporting of employees’ time and leave balances, misstated financials reports, undetected errors, and misappropriation of funds.

Recommendation: OSAI recommends that payroll duties be segregated. One employee should not be responsible for processing payroll claims while still having the ability to enroll new hires into the system and change withholding amounts.

Management Response:

County Clerk: I will check with software providers to see if a report can be generated to list new hires and payroll changes. Then an individual not involved in the payroll process will double check the list.

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Criteria: The GAO Standards – Principal 10 – Design and Control Activities – 10.03 states part:

Segregation of duties

Management divides or segregates key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud. This includes separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets so that no one individual controls all key aspects of a transaction or event.

Additionally, Principal 10 - Segregation of Duties states:

10.12 – Management considers segregation of duties in designing control activity responsibilities so that incompatible duties are segregated and, where such segregation is not practical, designs alternative control activities to address the risk.

10.13 – Segregation of duties helps prevent fraud, waste, and abuse in the internal control system. Management considers the need to separate control activities related to authority, custody, and accounting of operations to achieve adequate segregation of duties. In particular, segregation of duties can address the risk of management override. Management override circumvents existing control activities and increases fraud risk. Management addresses this risk through segregation of duties, but cannot absolutely prevent it because of the risk of collusion, where two or more employees act together to commit fraud.

10.14 – If segregation of duties is not practical within an operational process because of limited personnel or other factors, management designs alternative control activities to address the risk of fraud, waste, or abuse in the operational process.



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