



CHEROKEE COUNTY

Financial Report

For the fiscal year ended June 30, 2018

Cindy Byrd, CPA
State Auditor & Inspector

**CHEROKEE COUNTY, OKLAHOMA
FINANCIAL STATEMENT
AND INDEPENDENT AUDITOR'S REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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Cindy Byrd, CPA | State Auditor & Inspector

2300 N. Lincoln Blvd., Room 123, Oklahoma City, OK 73105 | 405.521.3495 | www.sai.ok.gov

February 12, 2020

TO THE CITIZENS OF
CHEROKEE COUNTY, OKLAHOMA

Transmitted herewith is the audit of Cherokee County, Oklahoma for the fiscal year ended June 30, 2018. 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,

CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR



**CHEROKEE COUNTY OFFICIALS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

Board of County Commissioners

District 1 – Doug Hubbard
District 2 – Mike Brown
District 3 – Clif Hall

County Assessor

Marsha Trammel

County Clerk

Cheryl Trammel

County Sheriff

Norma Fisher

County Treasurer

Patsy Stafford

Court Clerk

Shelly Kissinger

District Attorney

Brian Kuester

**CHEROKEE COUNTY, OKLAHOMA
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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FINANCIAL SECTION

Independent Auditor's Report

TO THE OFFICERS OF
CHEROKEE 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 Cherokee County, Oklahoma, as of and for the year ended June 30, 2018, 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 Cherokee 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 Cherokee County as of June 30, 2018, 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 Cherokee County, for the year ended June 30, 2018, in accordance with the basis of accounting described in Note 1.

Other Matters

Supplementary 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 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 supplementary information is the responsibility of management and was derived from and relates 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 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 February 11, 2020, on our consideration of Cherokee 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 Cherokee County's internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Cindy Byrd". The signature is written in a cursive, flowing style.

CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR

February 11, 2020

REGULATORY BASIS FINANCIAL STATEMENT

CHEROKEE COUNTY, OKLAHOMA
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES—REGULATORY BASIS
(WITH COMBINING INFORMATION)
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	Beginning Cash Balances July 1, 2017	Receipts Apportioned	Transfers In	Transfers Out	Disbursements	Ending Cash Balances June 30, 2018
Combining Information:						
County General Fund	\$ 998,995	\$ 3,553,746	\$ 400,000	\$ -	\$ 3,542,466	\$ 1,410,275
Highway	1,953,236	3,709,099	-	-	2,992,055	2,670,280
CBRI 105	1,258,216	245,289	-	-	43,249	1,460,256
Sheriff Drug Buy Fund	6,838	914	-	-	1,400	6,352
County Health	810,373	312,388	-	-	523,182	599,579
Resale Property	469,767	339,804	26,547	-	285,114	551,004
Treasurer Mortgage Certification Fee	57,276	8,470	-	-	23,658	42,088
Sheriff Service Fee	112,886	247,803	-	-	255,354	105,335
911 Wireless	130,014	392,654	-	-	351,858	170,810
County Clerk Lien Fee (CCLF)	19,110	26,215	-	-	28,314	17,011
Keys Community Building	7,261	2,475	-	-	2,041	7,695
Corps of Engineers	21,459	40,040	-	-	47,127	14,372
Community Building Fund	6,308	11,365	-	-	16,793	880
Solid Waste Fund	82,753	286,249	-	-	317,439	51,563
Assessor Visual Inspection	22	-	-	-	22	-
Use Tax	1,161,707	396,995	-	400,000	381,440	777,262
911 Emergency	83,662	100,096	-	-	72,711	111,047
County Assessor Revolving Fund	22,487	3,409	-	-	5,312	20,584
Cherokee County Flood Plain	23,243	4,200	-	-	8,007	19,436
Sales Tax	2,372,322	3,916,486	-	-	3,636,995	2,651,813
Community Service	32,650	14,561	-	-	10,887	36,324
Sheriff Auction Fund	13,138	26,552	-	-	29,005	10,685
Fire Department Sales Tax	1,432,356	960,377	-	-	1,046,763	1,345,970
Governmental Building Authority	4,533,751	2,117,563	-	-	1,803,581	4,847,733
Sheriff Drug Forfeiture	6,981	3,930	-	-	1,022	9,889
Department of Corrections	15,371	39,781	-	-	44,623	10,529
Fairgrounds	4,896	8,500	-	-	11,641	1,755
Preservation Fund	119,938	50,290	-	-	23,380	146,848
Boot Camp Fund	25,509	68,770	-	-	68,458	25,821
County Treasurer Cash	500	-	-	-	-	500
Governmental Building Authority Interest	11	4	-	-	-	15
Community Development Block Grants	-	13,000	-	-	13,000	-
County Assessor Cash	6	-	-	-	-	6
County Health Cash	100	-	-	-	-	100
Eastern Oklahoma Development District-EODD	-	59,301	-	-	54,668	4,633
Juvenile Drug Court	51	-	-	-	-	51
Local Emergency Planning Committee-LEPC	1,000	-	-	-	-	1,000
Combined Total - All County Funds	\$ 15,784,193	\$ 16,960,326	\$ 426,547	\$ 400,000	\$ 15,641,565	\$ 17,129,501

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

**CHEROKEE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

1. Summary of Significant Accounting Policies

A. Reporting Entity

Cherokee 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 libraries, 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 from ad valorem taxes, officers' fees, interest earnings, and miscellaneous collections of the County. Disbursements are for the general operations of the County.

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

CBRI 105 – accounts for revenue received from the Oklahoma Department of Transportation. Monies are earmarked for bridges, roads, and certain improvement of roads.

Sheriff Drug Buy Fund – accounts for revenues from monies seized and forfeited to the Sheriff's office. Disbursements are for the enforcement of drug laws.

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

**CHEROKEE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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

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

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

911 Wireless – accounts for fees collected by local wireless service providers in Cherokee County. Disbursements are for the operation of the enhanced emergency telephone system.

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

Keys Community Building – accounts for revenue from the rental of the Keys Community Building. Disbursements are for maintenance and operation of the building.

Corps of Engineers – accounts for funding provided by the Corps of Engineers. Disbursements are for the expense of a Sheriff's patrol on corps land and lakes.

Community Building Fund – accounts for revenue from the rental of the Community Building. Disbursements are for maintenance and operation of the building.

Solid Waste Fund – accounts for revenue from solid waste fees from the three transfer stations. Disbursements are used to pay fees and employee payroll.

Assessor Visual Inspection – accounts for the collection of fees charged to all entities receiving ad valorem taxes. Disbursements are for the revaluation of all county property for ad valorem purposes.

Use Tax – accounts for the collection of use tax remitted to the County by the Oklahoma Tax Commission. Disbursements are for any function of county government as designated by the County Commissioners.

911 Emergency – accounts for fees collected by local telephone land line providers in Cherokee County. Disbursements are for the operation of the enhanced emergency telephone system.

County Assessor Revolving Fund – accounts for revenues from fees collected by the County Assessor. Disbursements are to maintain electronic databases and geographic information systems in the Assessor's office.

**CHEROKEE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

Cherokee County Flood Plain – accounts for revenues from monies paid to the County Clerk when a piece of property sells, and a five-dollar fee must be paid for maps to determine if the property is in a flood plain. Disbursements are for payroll of employees issuing permits.

Sales Tax – accounts for the collection of sales tax revenue and the disbursements of funds, as restricted by the sales tax ballot.

Community Service – accounts for revenue from the State Department of Corrections to reimburse the County for the expense of administering the Community Service Program.

Sheriff Auction Fund – accounts for revenue from proceeds from property forfeiture auctions. Disbursements are used to make improvements to the gun range.

Fire Department Sales Tax – accounts for sales tax monies collected for the funding of fourteen fire districts within Cherokee County. Disbursements are for the fire protection of Cherokee County.

Governmental Building Authority – accounts for sales tax monies collected for acquiring, constructing, equipping, operating, and maintaining new county jail facilities, and parking facilities. Disbursements are for acquiring, constructing, equipping, operating, and maintaining these facilities.

Sheriff Drug Forfeiture – accounts for proceeds from forfeited drug cases. Disbursements are for the maintenance and operation of the Sheriff's Drug Task Force for the enforcement of controlled dangerous substance laws.

Department of Corrections – accounts for revenue from the State Department of Corrections for housing inmates. Disbursements are for the feeding and housing of prisoners.

Fairgrounds – accounts for revenue from the rental for the fairgrounds. Disbursements are for maintenance and operation of the fairgrounds.

Preservation Fund – accounts for revenue from fees charged by the County Clerk for recording instruments. Disbursements are for the maintenance and preservation of public records.

Boot Camp Fund – accounts for revenue are monies received from the public schools and a federal grant passed through the County. Disbursements are used to pay Boot Camp officer's salary.

County Treasurer Cash – accounts for monies kept in the cash drawers to be used for daily office operations.

CHEROKEE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Governmental Building Authority Interest – accounts for revenue from interest earned on governmental building fund monies. Disbursements are for acquiring, constructing, equipping, operating, and maintaining county jail facilities and parking facilities.

Community Development Block Grants – accounts for Community Development Block Grant funds received and disbursement of funds as restricted to the grant agreement.

County Assessor Cash – accounts for monies kept in the cash drawers to be used for daily office operations.

County Health Cash – accounts for monies kept in the cash drawers to be used for daily office operations.

Eastern Oklahoma Development District-EODD – accounts for revenues awarded to the County through the Eastern Oklahoma Development District grants for special projects.

Juvenile Drug Court – accounts for revenues from the State of Oklahoma to reimburse the salary of the juvenile drug court administrator and monthly fees collected by the administrator. Disbursements are for the salary of the juvenile drug court administrator and supplies.

Local Emergency Planning Committee-LEPC – accounts for grant monies received from the Department of Environmental Quality. Disbursement of funds as restricted to the grant agreement.

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.

**CHEROKEE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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."

**CHEROKEE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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 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.

**CHEROKEE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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 September 15, 1998, the voters of Cherokee County approved a one-quarter percent (1/4%) sales tax designated for the purpose of providing funding for the fire departments in the following communities: Chicken Creek, Cookson, Gideon, Hulbert, Illinois River, Keys, Lowery, Norwood, Peggs, Sparrow Hawk, Spring Valley, Tahlequah, Welling, and Woodall or others hereinafter established, for such fire protection as may be deemed necessary by the Board of County Commissioners. There is no expiration date on this sales tax. These funds are accounted for in the Fire Department Sales Tax fund.

On February 24, 2004, the voters of Cherokee County approved a three-fourth of one percent (3/4%) sales tax. This sales tax is to be used solely to pay for acquiring, constructing, equipping, operating, and maintaining new county jail facilities and parking facilities on behalf of the County by the Cherokee County Governmental Building Authority, providing one-half of one percent (1/2%) shall be levied until repealed by a majority of the voters of Cherokee County and providing that the remaining one-fourth of one percent (1/4%) for the indebtedness of the Cherokee County Governmental Building Authority. This one-fourth of one percent (1/4%) shall expire when the indebtedness is paid or by June 30, 2014, whichever comes first. These funds are accounted for in the Governmental Building Authority fund.

On April 1, 2008, the voters of Cherokee County approved a continuation of a one percent (1%) sales tax. The proceeds of the tax are used as follows: 50% for county roads, 15% for law enforcement, and 25% for general county operations, including extension services and 4-H clubs, and 10% for grant matching funds, and provided further that said sales tax shall become effective January 1, 2009 and shall be levied on a permanent basis or until repealed by a majority of electors of Cherokee County in an election called for that purpose. These funds are accounted for in the Sales Tax fund and County General Fund.

E. Tax Abatements

The County is subject to ad valorem tax abatements granted by the State of Oklahoma in accordance with the Oklahoma Constitution, Article 10 Section 6B for qualifying manufacturing concern—ad valorem tax exemption.

Under this program, a five-year ad valorem tax exemption exempts all real and personal property that is necessary for the manufacturing of a product and facilities engaged in research and development which meet the requirements set by the Oklahoma Constitution and statutes. Under Title 68 O.S. § 2902, in exchange for the five-year exemption, qualifying manufacturing concerns must meet certain minimum investment requirements for construction, acquisition, or expansion of a manufacturing facility. In addition, there are general minimum payroll requirements that must

**CHEROKEE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

be met and the qualifying manufacturing concern must offer basic health benefit plans to all full-time employees within 180 days of employment.

The County had \$489 of ad valorem taxes abated under this program for the fiscal year ended June 30, 2018.

The State has an Ad Valorem Reimbursement Fund in accordance with Title 62 O.S. § 193 that is used to reimburse the County for the loss of revenue. Monies apportioned to this fund by the State also may be transferred to other state funds or otherwise expended as directed by the Legislature. In the event monies apportioned to the Fund are insufficient to pay all claims for reimbursement, claims for reimbursement for loss of revenue due to manufacturing exemptions of ad valorem taxes shall be paid first, and any remaining funds shall be distributed proportionally among the counties making claims for reimbursement for loss of revenue for school district exemptions.

F. Interfund Transfers

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

- \$400,000 was transferred from the Use Tax fund to the County General Fund to meet requirements of appropriations in accordance with 68 O.S. § 3021.
- \$26,547 was transferred from the Excess Resale Fund (a trust and agency fund) to the Resale Property fund in accordance with 68 O.S. § 3131

SUPPLEMENTARY INFORMATION

CHEROKEE 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, 2018

	General Fund		
	Budget	Actual	Variance
Beginning Cash Balances	\$ 998,995	\$ 998,995	\$ -
Less: Prior Year Outstanding Warrants	(131,685)	(131,685)	-
Less: Prior Year Encumbrances	(58,862)	(56,870)	1,992
Beginning Cash Balances, Budgetary Basis	808,448	810,440	1,992
 Total Receipts, Budgetary Basis	 3,207,184	 3,553,746	 346,562
Total Expenditures, Budgetary Basis	4,015,632	3,529,054	486,578
 Excess of Receipts and Beginning Cash Balances Over Expenditures, Budgetary Basis	 \$ -	 835,132	 \$ 835,132
 Net Operating Transfers		400,000	
 Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances			
Add: Cancelled Warrants		20	
Add: Current Year Outstanding Warrants		113,792	
Add: Current Year Encumbrances		61,331	
Ending Cash Balance		\$ 1,410,275	

CHEROKEE 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, 2018

	County Health Department Fund		
	Budget	Actual	Variance
Beginning Cash Balances	\$ 810,373	\$ 810,373	\$ -
Less: Prior Year Outstanding Warrants	(25,490)	(26,406)	(916)
Less: Prior Year Encumbrances	(68,810)	(35,706)	33,104
Beginning Cash Balances, Budgetary Basis	<u>716,073</u>	<u>748,261</u>	<u>32,188</u>
 Total Receipts, Budgetary Basis	 285,896	 312,388	 26,492
 Total Expenditures, Budgetary Basis	 1,001,969	 545,229	 456,740
 Excess of Receipts and Beginning Cash Balances Over Expenditures, Budgetary Basis	 <u>\$ -</u>	 515,420	 <u>\$ 515,420</u>
 Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances			
Add: Current Year Encumbrances		82,497	
Add: Current Year Outstanding Warrants		<u>1,662</u>	
Ending Cash Balance		<u>\$ 599,579</u>	

**CHEROKEE COUNTY, OKLAHOMA
NOTE TO SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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 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
CHEROKEE 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 Cherokee County, Oklahoma, as of and for the year ended June 30, 2018, and the related notes to the financial statement, which collectively comprises Cherokee County's basic financial statement, prepared using accounting practices prescribed or permitted by Oklahoma state law, and have issued our report thereon dated February 11, 2020.

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, 2018, 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 Cherokee 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 Cherokee County's internal control. Accordingly, we do not express an opinion on the effectiveness of Cherokee 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 responses, 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 responses to be material weaknesses: 2018-001 and 2018-005.

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 deficiency described in the accompanying schedule of findings and responses to be significant deficiency: 2018-004.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cherokee 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2018-004.

We noted certain matters regarding statutory compliance that we reported to the management of Cherokee County, which are included in Section 2 of the schedule of findings and responses contained in this report.

Cherokee County's Response to Findings

Cherokee County's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. Cherokee 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

February 11, 2020

**CHEROKEE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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 2018-001 – Lack of County-Wide Internal Controls (Repeat Finding 2017-001, 2014-001, 2013-001, 2012-001, 2011-002, 2010-002, 2009-002, 2008-003)

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 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 of County Commissioners, County Clerk, and County Treasurer: We have obtained a county-wide internal controls handbook and checklist. We will review this at the next quarterly meeting to address implementing a policy for county-wide controls regarding Risk Assessment and Monitoring.

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 Controls – OV1.01 states in part:

Definition of Internal Controls

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.

**CHEROKEE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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.

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 2018-004 – Internal Controls and Noncompliance Over Sales Tax Apportionments and Disbursements (Repeat Finding 2017-004)

Condition: Upon inquiry, observation, and review of sales tax collections and disbursements, we noted the following:

- The calculations of sales tax collections performed and apportioned by the County Treasurer are not reviewed or approved, by someone other than the preparer.
- Sales tax revenues that is apportioned to the Sales Tax fund, and Governmental Building authority (GBA) fund are co-mingled with other revenue sources. In addition, those other revenues in GBA fund are considered trust and agency funds and are not county funds.
- The disbursements from the Governmental Building Authority fund are approved by the Authority Board instead of the Board of County Commissioners.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure collections are properly apportioned and appropriated to the designated funds.

Effect of Condition: These conditions resulted in noncompliance with state statute. Further, a single person having responsibility for recording, authorization, custody of assets, and execution of transactions without management oversight could result in unrecorded transactions, misstated financial reports, clerical errors, or misappropriation of funds.

Recommendation: The most effective controls lie in management's overseeing of office operations and a periodic review of operations. OSAI recommends designing and implementing internal controls that are critical functions of the office and having management review and approval of accounting functions. Also, documentation and evidence of management reviewing these ledgers and reports should be retained in the County Treasurer's office. Furthermore, other forms of revenues should not be co-mingled with sales tax revenues and revenues that belong to the Governmental Building Authority fund should be accounted for separately from the County sales tax money. Additionally, the Board of County Commissioners should approve all county disbursements.

**CHEROKEE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

Management Response:

County Treasurer: Sales tax collections calculations will be reviewed/approved by someone in management other than the preparer.

As of July 1, 2019, sales tax funds are apportioned to each individual sales tax account. Sales tax money designated for Governmental Building Authority (GBA) is apportioned to JAIL-ST, Jail sales tax account. It is no longer co-mingled with any other revenues such as housing of prisoners, commissary, etc. those monies are now miscellaneous receipted into the GBA fund and at end of the month apportioned to the GBA fund. We write a general account bank check for that amount that is due GBA and deposit it into the GBA bank account.

Donations will be receipted by miscellaneous receipt as a donation; presented to the Board of County Commissioners by resolution or donor name and apportioned to donation fund 1235. The County Clerk will appropriate to the proper department and account.

Chairman of the Board of County Commissioners: Starting July 1, 2019, sales tax money for GBA is receipted in and spent by purchase order and signed by the Board of County Commissioners and deposited into the GBA trust account.

County Clerk:

Sales tax collections calculations will be reviewed/approved by someone in management other than the preparer.

Sales tax revenues are now being apportioned directly to each individual sales tax account. They are no longer co-mingled with other accounts or County General.

Criteria: The GAO Standards - Principle 10 – Design Control Activities: 10.03 states in 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.

Title 68 O.S. § 1370(I), states in part.... “Each such revolving fund shall be designated for a particular purpose and shall consist of all monies generated by such sales tax which are designated for such purpose. Monies in such funds shall only be expended for the purposes specifically designated as required by this section. A county sales tax revolving fund shall be a continuing fund not subject to fiscal year limitations.”

**CHEROKEE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

Finding 2018-005 – Reconciliation of Appropriation Ledger to General Ledger (Repeat Finding 2017-006, 2014-010, 2013-009, 2012-008)

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

Management Response:

County Clerk and County Treasurer: We are currently working on past months and making efforts to get the reconciliation between the County Treasurer’s General ledger and the County Clerk’s appropriation ledger current. The reconciliations will be reviewed by someone other than the preparer with documentation of the review.

Criteria: The GAO Standards - Principle 16 – Performance 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.

SECTION 2—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 2018-012 – Lack of Internal Controls Over the Schedule of Expenditures of Federal Awards (SEFA) (Repeat Finding)

Condition: During our audit we identified federal programs that were not listed accurately on the County’s Schedule of Expenditures of Federal Awards (SEFA). Federal expenditures were understated by \$255,159.

**CHEROKEE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

The following misstatements were noted:

- Non-federal expenditures for Rural Economic Action Plan (REAP), a state of Oklahoma grant, were reported on the SEFA in the amount of \$42,811.
- The actual expenditures for the Disaster Grants - Public Assistance (Presidentially Declared Disasters) CFDA 97.036 were \$297,970 and the County reported \$0. The County understated the expenditures for CFDA 97.036 by \$297,790.

Reported Total Expenditures of Federal Award	\$231,980
Less: REAP Grant (State Grant)	(42,811)
Add: Public Assistance Grant (CFDA 97.036)	<u>297,970</u>
Actual Federal Expenditures of Federal Awards	\$487,139
Original SEFA understated by	<u>\$255,159</u>

Cause of Condition: Policies and procedures have not been designed and implemented to ensure accurate reporting of expenditures for all federal awards.

Effect of Condition: This condition resulted in inaccuracy in the recording of the federal expenditures on the SEFA.

Recommendation: OSAI recommends county officials and department heads gain an understanding of federal programs awarded to Cherokee County. Internal control procedures should be designed and implemented to ensure accurate reporting of expenditures on the SEFA and to ensure compliance with federal requirements.

Management Response:

Chairman of the Board of County Commissioners: I have met with the County Clerk and we have outlined policies and procedures to ensure accurate reporting for all federal awards. We decided the County Clerk will now be producing the SEFA. She has attended SA&I training to get a general overview of proper reporting requirements on the SEFA and will continue with the outline and other available training. She will be conferring with the County District secretaries, County Sheriff Department, County Treasurer, and all other involved parties on a quarterly basis to ensure expenditures and receipts will be reported properly. She will have the above listed parties receive training to ensure a proper accounting of federal funds received and an accurate record of federal expenditures.

Criteria: 2 CFR § 200.303(a) *Internal Controls* reads as follows:

The non-Federal entity must:

Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in "Standards for Internal Control in the Federal Government" issued by the Comptroller General of the

**CHEROKEE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

United States or the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

2 CFR § 200.508(b) *Auditee responsibilities* reads as follows:

The auditee must:

Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with §200.510 Financial statements.

2 CFR § 200.510(b) *Financial statements* reads, in part, as follows:

Schedule of expenditures of Federal awards. The auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with §200.502 Basis for determining Federal awards expended.

Further, GAO Standards – Section 2 – Objective of an Entity - OV2.23 states in part:

Compliance Objective

Management conducts activities in accordance with applicable laws and regulations. As part of specifying compliance objectives, the entity determines which laws and regulations apply to the entity. Management is expected to set objectives that incorporate these requirements.



Cindy Byrd, CPA | State Auditor & Inspector

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