



# CRAIG COUNTY

## Financial Report

For the fiscal year ended June 30, 2019

**Cindy Byrd, CPA**  
State Auditor & Inspector

**CRAIG COUNTY, OKLAHOMA  
FINANCIAL STATEMENT  
AND INDEPENDENT AUDITOR'S REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

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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](http://www.sai.ok.gov)

June 29, 2020

TO THE CITIZENS OF  
CRAIG COUNTY, OKLAHOMA

Transmitted herewith is the audit of Craig County, Oklahoma for the fiscal year ended June 30, 2019. 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". The signature is fluid and cursive, with the first and last names clearly legible.

CINDY BYRD, CPA  
OKLAHOMA STATE AUDITOR & INSPECTOR



**CRAIG COUNTY OFFICIALS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

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**Board of County Commissioners**

District 1 – Lowell Walker  
District 2 – Mike Fitzpatrick  
District 3 – Dan Peetoom

**County Assessor**

Terri Lee

**County Clerk**

Tammy Malone

**County Sheriff**

Heath Winfrey

**County Treasurer**

Lisa Washam

**Court Clerk**

Debbie Mason

**District Attorney**

Matt Ballard

**CRAIG COUNTY, OKLAHOMA  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

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## **FINANCIAL SECTION**

## **Independent Auditor's Report**

TO THE OFFICERS OF  
CRAIG 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 Craig County, Oklahoma, as of and for the year ended June 30, 2019, 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 Craig 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 Craig County as of June 30, 2019, 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 Craig County, for the year ended June 30, 2019, 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 is 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 June 25, 2020, on our consideration of Craig 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 Craig 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

June 25, 2020

## **REGULATORY BASIS FINANCIAL STATEMENT**

**CRAIG COUNTY, OKLAHOMA**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND**  
**CHANGES IN CASH BALANCES—REGULATORY BASIS**  
**(WITH COMBINING INFORMATION)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

	Beginning Cash Balances July 1, 2018	Receipts Apportioned	Transfers In	Transfers Out	Disbursements	Ending Cash Balances June 30, 2019
Combining Information:						
County General Fund	\$ 1,730,405	\$ 3,568,973	\$ 8	\$ -	\$ 3,704,454	\$ 1,594,932
County Highway Fund	1,680,170	2,235,276	-	-	2,205,976	1,709,470
Sheriff Drug Enforcement	44	-	-	-	-	44
County Health	432,742	459,149	-	-	447,282	444,609
County Sinking	4	4	-	8	-	-
Sales Tax Building Cash Account	362,440	1,427,296	-	-	1,611,008	178,728
Sheriff Service Fee	157,955	401,993	194,758	-	167,124	587,582
Resale Property	321,551	87,534	963	-	85,352	324,696
Assessor Revolving	25,963	2,880	2,390	-	1,334	29,899
County Clerk Lien Fee	8,005	3,089	-	-	1,734	9,360
Assessor Visual Inspection	2,415	-	-	2,390	25	-
Treasurer Mortgage Tax Certification Fee	15,273	2,325	-	-	1,556	16,042
Juvenile Transport	1,111	1,053	-	-	571	1,593
County Clerk Records Management and Preservation	21,827	13,025	-	-	23,896	10,956
Department of Corrections Board of Prisoners	191,265	63,008	-	194,758	59,515	-
Sheriff Drug Buy	2,069	-	-	-	-	2,069
Sheriff Jail Commissary Profit	28,859	72,176	-	-	82,691	18,344
Flood Plain Board	184	-	-	-	-	184
County Bridge and Road Improvement Fund	1,161,577	383,514	-	-	502,685	1,042,406
Craig County Emergency Management-2	13,947	37,565	-	-	41,985	9,527
Sheriff Littering Reward	288	150	-	-	-	438
Local Emergency Planning Committee (LEPC)	1,158	1,000	-	-	730	1,428
CED #1 Easements (Circuit Engineering District #1)	304,410	-	-	300,000	-	4,410
Drug Court User Fees	17,347	39,249	-	-	41,121	15,475
Safe Room Reimbursement (SRR)	13,875	-	-	-	13,875	-
<b>Combined Total - All County Funds</b>	<b>\$ 6,494,884</b>	<b>\$ 8,799,259</b>	<b>\$ 198,119</b>	<b>\$ 497,156</b>	<b>\$ 8,992,914</b>	<b>\$ 6,002,192</b>

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

**CRAIG COUNTY, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

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**1. Summary of Significant Accounting Policies**

**A. Reporting Entity**

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

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

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

**B. Fund Accounting**

The County uses funds to report on receipts, disbursements, and changes in cash balances. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

Following are descriptions of the county funds included as combining information within the financial statement:

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

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

Sheriff Drug Enforcement – accounts for the receipt of state grant monies and donations. Disbursements are for the operations of the Sheriff's office in the fight of illegal drug possession and use.

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

**CRAIG COUNTY, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

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County Sinking – accounts for debt service receipts derived generally from a special ad valorem tax levy and from interest earned on investments of cash not immediately required for debt service payments.

Sales Tax Building Cash Account – accounts for the collection of sales tax revenue and the disbursement of funds as restricted by the sales tax ballot.

Sheriff Service Fee – accounts for the collection and disbursement of sheriff process service fees, Court Clerk fees, and contract revenues related to the boarding of prisoners as restricted by state statute.

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

Assessor Revolving – accounts for revenues from fees charged by the County Assessor and disbursements as restricted by state statute.

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

Assessor Visual Inspection – accounts for the receipt of fees charged to all entities receiving ad valorem taxes. Disbursements are for the expenses incurred for the re-evaluation of all county property for ad valorem purposes.

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

Juvenile Transport – accounts for state grant revenues and travel reimbursements from the State of Oklahoma for the transport of juvenile offenders. Disbursements are for the salaries of the transport officers.

County Clerk Records Management and Preservation – accounts for fees collected for instruments filed in the County Clerk's office. Disbursements are for the maintenance and preservation of public records.

Department of Corrections Board of Prisoners – accounts for the monies received from the State of Oklahoma for the boarding and feeding of Department of Corrections prisoners and disbursements as restricted by state statute.

Sheriff Drug Buy – accounts for monies set aside for law enforcement sting operations.

Sheriff Jail Commissary Profit – accounts for revenues from profits on commissary sales in the county jail. Disbursements are for jail operations as defined by state statute.

**CRAIG COUNTY, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

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Flood Plain Board – accounts for the receipt of fees from flood plain permits obtained from mortgages. Disbursements are for lawful expenses of the flood plain office.

County Bridge and Road Improvement Fund – accounts for state funds to be used in the construction of roads and bridges throughout the County.

Craig County Emergency Management-2 – accounts for the receipt and disbursement of funds from federal, state and local governments for the operations of the emergency management office.

Sheriff Littering Reward – accounts for the monies collected from fines imposed for littering and disbursed to citizens involved in the reporting of littering offenses.

Local Emergency Planning Committee (LEPC) – accounts for revenues from a state grant to cover the cost of paperwork for hazardous materials that are moved within the County. Disbursements as restricted by grant agreement.

CED #1 Easements (Circuit Engineering District #1) – accounts for revenues from the Cherokee Nation to be used for the White Oak Road Project.

Drug Court User Fees – accounts for revenues generated from fines and costs assessed to individuals participating in the Drug Court program and contractual payments from the Oklahoma Department of Mental Health and Substance Abuse to be used to offset costs associated with running the program.

Safe Room Reimbursement (SRR) – accounts for federal grant revenues and expenditures for the Safe Room Reimbursement Project.

**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

**CRAIG COUNTY, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

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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.

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

**CRAIG COUNTY, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

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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 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



**CRAIG COUNTY, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

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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**

Sales Tax of December 10, 2002

The voters of Craig County approved a one percent (1%) sales tax effective May 11, 2004. One-fourth of one percent (1/4%) sales tax shall be levied until repealed by a majority of the electors of Craig County in an election called for that purpose, the remaining three-fourths of one percent (3/4 %) sales tax shall expire and cease to be collected on January 1, 2023. This sales tax was established to pay for acquiring, constructing, equipping, repairing, renovating, operating, and maintaining County courthouse and jail facilities of Craig County, Oklahoma; and to pay the principal and interest on indebtedness incurred on behalf of said County by the Craig County Governmental Building Authority for such purpose. These funds are accounted for in the Sales Tax Building Cash Account fund.

Sales Tax of May 11, 2010

The voters of Craig County approved to extend and renew the three-fourths of one percent (3/4 %) sales tax set to expire on January 1, 2023 until July 1, 2040. The purpose of the extended sales tax is to pay for acquiring, constructing, equipping, repairing, renovating, operating, and maintaining County community center facilities of Craig County, Oklahoma; and to pay the principal and interest on indebtedness incurred on behalf of said County by the Craig County Governmental Building Authority (Authority) for such purpose.

In the Craig County Governmental Building Authority Sales Tax Revenue Bonds Series 2010, dated September 15, 2010, the Authority incurred indebtedness in the aggregate original principal amount not to exceed \$3,700,000 for the acquiring, constructing, and equipping of county community center facilities and properties of Craig County, Oklahoma. Payments for this indebtedness will not begin until January 25, 2023, more than twelve (12) years after the debt was incurred, resulting in a total of \$13,080,000 in payments made between 2023 and 2040.

Sales Tax of May 14, 2013

The voters of Craig County approved to extend and renew the one percent (1%) sales tax set to expire on June 30, 2014. This extension is for a five (5) year period beginning July 1, 2014. The revenue of said sales tax is to be designated as follows: county roads in the amount of 62.50%; emergency medical (ambulance) services in the amount of 12.50%; law enforcement in the amount

**CRAIG COUNTY, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

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of 10%; and general county operations in the amount of 15%. These funds are accounted for in the 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 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 \$3,888 of ad valorem taxes abated under this program for the fiscal year ended June 30, 2019.

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:

- \$8 was transferred from the County Sinking fund to the County General Fund as authorized by 62 O.S. § 445.
- \$2,390 was transferred from the Assessor Visual Inspection fund to the Assessor Revolving fund by Board of County Commissioners (BOCC) approved transfer resolution to establish a uniform system of bookkeeping in accordance with 74 O.S. § 214.
- \$194,758, was transferred from the Department of Corrections Board of Prisoners fund to the Sheriff Service Fee fund by BOCC approved transfer resolution to comply with 19 O.S. § 180.43.
- \$963 was transferred from the Excess Resale fund (a trust and agency fund) to the Resale Property fund as authorized by 68 O.S. § 3131.

**CRAIG COUNTY, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

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- \$300,000 was transferred from CED #1 Easements (Circuit Engineering District #1) fund to the Emergency Transportation Revolving fund (a trust and agency fund) to repay the loan for the White Oak Road project.

## **SUPPLEMENTARY INFORMATION**

**CRAIG 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, 2019**

	General Fund		
	Budget	Actual	Variance
Beginning Cash Balances	\$ 1,730,405	\$ 1,730,405	\$ -
Less: Prior Year Outstanding Warrants	(236,171)	(236,171)	-
Less: Prior Year Encumbrances	(35,139)	(28,126)	7,013
Beginning Cash Balances, Budgetary Basis	1,459,095	1,466,108	7,013
Residual Transfer	-	8	8
Total Receipts, Budgetary Basis	3,340,414	3,568,973	228,559
Total Expenditures, Budgetary Basis	4,799,509	3,677,544	1,121,965
Excess of Receipts and Beginning Cash			
Balances Over Expenditures, Budgetary Basis	\$ -	1,357,545	\$ 1,357,545
Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances			
Add: Cancelled Warrants		52	
Add: Current Year Outstanding Warrants		31,160	
Add: Current Year Encumbrances		206,175	
Ending Cash Balance		\$ 1,594,932	

**CRAIG 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, 2019**

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	County Health Department Fund		
	Budget	Actual	Variance
Beginning Cash Balances	\$ 432,742	\$ 432,742	\$ -
Less: Prior Year Outstanding Warrants	(24,416)	(24,416)	-
Less: Prior Year Encumbrances	(13,545)	(9,530)	4,015
Beginning Cash Balances, Budgetary Basis	<u>394,781</u>	<u>398,796</u>	<u>4,015</u>
 Total Receipts, Budgetary Basis	 <u>667,750</u>	 <u>459,149</u>	 <u>(208,601)</u>
 Total Expenditures, Budgetary Basis	 <u>1,062,531</u>	 <u>424,005</u>	 <u>638,526</u>
 Excess of Receipts and Beginning Cash Balances Over Expenditures, Budgetary Basis	 <u>\$ -</u>	 433,940	 <u>\$ 433,940</u>
 Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances			
Add: Cancelled Warrants		15	
Add: Current Year Encumbrances		5,428	
Add: Current Year Outstanding Warrants		5,226	
Ending Cash Balance		<u>\$ 444,609</u>	

**CRAIG COUNTY, OKLAHOMA  
NOTE TO SUPPLEMENTARY INFORMATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

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**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  
CRAIG 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 Craig County, Oklahoma, as of and for the year ended June 30, 2019, and the related notes to the financial statement, which collectively comprises Craig County's basic financial statement, prepared using accounting practices prescribed or permitted by Oklahoma state law, and have issued our report thereon dated June 25, 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, 2019, 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 Craig 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 Craig County's internal control. Accordingly, we do not express an opinion on the effectiveness of Craig 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: 2019-001, 2019-005, 2019-007, and 2019-009.

A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies: 2019-003.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Craig 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 item 2019-007.

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

### **Craig County's Response to Findings**

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

June 25, 2020

**CRAIG COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

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**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 2019-001 – County-Wide Controls (Repeat Finding 2008-002, 2010-002, 2012-001, 2013-001, 2014-001, 2017-001, 2018-001)**

**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 a 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 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:** As Chairman I will work with the other officials of Craig County to assess and identify risk and monitoring and to design written policies/procedures to be included in the county handbook. I will also call for quarterly meetings with all elected officials to discuss and take action 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 Control – OV1.01 states in part:

*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.

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

*Components, Principles, and Attributes*

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 2019-003 – Internal Controls Over Information System Security – County Clerk (Repeat Finding 2008-001, 2010-001, 2012-002, 2013-002, 2014-002, 2017-003, 2018-004)**

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

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

**Effect of Condition:** These conditions could result in compromised security for the computers, computer programs, and data.

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

**Management Response:**

**County Clerk:** I am in the process of upgrading to a new software system, which should remedy this situation.

**Criteria:** According to the standards of the Information Systems Audit and Control Association (CobiT, Deliver and Support Ds5), the need to maintain the integrity of information and protect IT assets requires a security management process. This process includes establishing and maintaining IT security roles and responsibilities, policies, standards, and procedures. Security management also includes performing security monitoring and periodic testing and implementing corrective actions for identified security weaknesses or incidents. Effective security management protects all IT assets to minimize the business impact of security vulnerabilities and incidents.

**CRAIG COUNTY, OKLAHOMA  
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FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

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**Finding 2019-005 – Internal Controls Over the Financial Statement Presentation**

**Condition:** The County is responsible for preparing their annual financial statement. During the review and reconciliation of the financial statement, as initially prepared by the County, the following was noted:

- Apportionment errors of \$50,887 in the aggregate. These errors were due to:
  - \$40,878 in purchase orders and warrants being issued between accounts in the County Health fund.
  - \$10,009 in apportionment errors corrections classified as transfers.
- Disbursement errors of \$357,679 in the aggregate. These errors were due to:
  - \$40,878 in purchase orders and warrants being issued between accounts in the County Health fund.
  - \$2,926 in disbursement error corrections classified as transfers.
  - \$13,875 in county expenditures from the Safe Room Reimbursement (SRR) fund classified as trust and agency expenditures.
  - \$300,000 in Emergency Transportation Revolving (ETR) loan repayments being issued from County funds in error.
- Beginning fund balance errors of \$13,875 in the aggregate due to the Safe Room Reimbursement (SRR) fund not being classified as a County fund.

**Cause of Condition:** Policies and procedures have not been designed and implemented to ensure the County's financial statement, notes to the financial statement, and supplemental information is accurately presented.

**Effect of Condition:** These conditions resulted in the cash balance, revenues, and disbursements being inaccurately reported on the County financial statement.

**Recommendation:** OSAI recommends the County design and implement policies and procedures to ensure the financial statement, notes to the financial statement, and supplemental information are prepared in a timely manner, reviewed for accuracy and completeness, and approved by management.

**Management Response:**

**Chairman of the Board of County Commissioners:** I will work with the other officials to make sure the financial statements, are reviewed for accuracy and completeness, prior to being approved by management.

**County Clerk:** Will work with other officials to review and check accuracy.

**County Treasurer:** The County has hired a Certified Public Accountant to prepare the County's financial statements; however, I will try to review and catch errors.

**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."

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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 2019-007 – Internal Controls and Noncompliance Over Disbursement Process (Repeat Finding 2006-003, 2007-003, 2008-013, 2008-022, 2010-012, 2010-019, 2012-008 2012-010, 2013-006, 2013-008, 2014-005, 2014-007, 2017-007, 2018-009)**

**Condition:** Upon inquiry and observation of the County’s disbursement process, we noted the following:

- One employee generates all requisition/purchase orders, encumbers the funds, verifies the purchase order upon receiving all supporting documentation, prepares warrants, prints warrants, distributes signed warrants, maintains warrant register, posts warrants as paid in the system, and maintains appropriation ledger.

A sample of seventy (70) out of eighteen thousand two hundred seventy-three (18,273) expenditures reflected the following:

- Nine (9) expenditures totaling \$23,578 were not encumbered prior to receiving goods or services.

**Cause of Condition:** Policies and procedures have not been designed and implemented to ensure:

- Adequate segregation of duties in the County Clerk’s office with regard to the disbursement process.
- The County is in compliance with state statute regarding the disbursement process.
- Purchase orders are not issued for the purpose of transferring funds or to correct errors.

**Effect of Condition:** These conditions resulted in noncompliance with state statute and could result in unrecorded transactions, undetected errors, inaccurate records, incomplete information, and misappropriation of funds.

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

Additionally, OSAI recommends that the County implement internal control procedures to ensure compliance with purchasing guidelines:

**CRAIG COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS AND RESPONSES  
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- Purchase orders should be encumbered before goods or services are ordered.
- Purchase orders and warrants should not be issued for transfers between accounts within a fund or to correct errors.

**Management Response:**

**Chairman of the Board of County Commissioners/District 1 Commissioner:** I will do a better job of encumbering in a timely manner. I will also discuss the issue of timely encumbering with the Emergency Management Director. I believe the issue of purchase orders and warrants being issued between accounts within the County Health fund has been resolved.

**County Commissioner District 2:** I will do a better job encumbering prior to purchasing.

**County Clerk:** The Clerk's office has worked toward implementing procedures to reduce segregation of duties over the disbursement process. Currently, purchase orders are reviewed and signed off on by someone other than the purchasing agent who encumbered the purchase order. Additionally, I will remind all officers the need to encumber properly.

**County Sheriff:** The Craig County Sheriff's Office, going forward, will work to ensure we are in compliance with any and all county purchasing laws.

**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.

Additionally, Principle 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.

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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.

Furthermore, GAO Standards – Section 2 – Establishing an Effective Internal Control System – OV2.23 states in part:

*Objectives of an Entity – Compliance Objectives*

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.

Effective internal controls require that management properly implement procedures to ensure that expenditures comply with 19 O.S. § 1505.

**Finding 2019-009 – Internal Controls and Segregation of Duties Over Payroll (Repeat Finding 2008-006, 2010-006, 2012-009, 2013-007, 2014-006, 2017-010, 2018-11)**

**Condition:** Upon inquiry, observation, and testing of the County’s payroll process, we noted one employee is responsible for the following:

- Enrolling new hires.
- Reviewing payroll claims.
- Inputting payroll information into the system.
- Calculating withholdings.
- Preparing withholding reports.
- Preparing, printing, and distributing payroll warrants.
- Maintaining warrant register.
- Removing terminated employees from payroll system.
- Maintaining personnel files.

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

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

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



**CRAIG COUNTY, OKLAHOMA  
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The following key accounting functions of the payroll process should be adequately segregated:

- Enrolling new employees and maintaining personnel files,
- Reviewing time records and preparing payroll, and
- Distributing payroll warrants to individuals.

**Management Response:**

**County Clerk:** I am working on segregating the duties within payroll as much as possible. The payroll clerk is currently enrolling new employees. Payroll claims are reviewed and signed by the officers of each department. Employees sign payroll claims before issuance of warrants. Withholding reports, such as direct deposit, insurance, retirement, and any other withholdings, are being reviewed by someone other than the payroll clerk. Following written notice from the official terminating an employee, the employee is terminated in the system by a County Clerk employee other than the payroll clerk.

**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.

Additionally, Principle 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.

**CRAIG COUNTY, OKLAHOMA  
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**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 2019-018 – Inadequate Internal Controls and Noncompliance Over Inmate Trust Fund Checking Account, Sheriff Commissary, and Sheriff Commissary Fund (Repeat Finding)**

**Condition:** Upon inquiry, observation of procedures and records, and test work performed, OSAI noted the following regarding the Inmate Trust Fund Checking Account, Sheriff Commissary, and the Sheriff Commissary Fund:

**Inmate Trust Fund Checking Account:**

- There are two (2) Inmate Trust Fund Checking Accounts. One established under the prior administrations (Account 1) and one established under the current administration (Account 2):
  - Account 1 –
    - Bank reconciliations are not being performed.
    - Individual inmate balances cannot be identified.
  - Account 2 –
    - Bank reconciliations generated by the Sheriff’s Commissary vendor system are not reviewed for accuracy by anyone at the County.
    - Individual inmate balances cannot be identified.
- One employee is responsible for receiving/receipting monies, accessing and balancing the drop box collections, preparing deposit slips, updating inmates’ account balances with credits and deductions, issuing checks, and maintaining physical control of outstanding checks that have not been picked up by inmates.
- There is no oversight over the Inmate Trust Fund Checking Account bookkeeping processes to ensure completeness and accuracy.

**Sheriff Commissary:**

- One employee is responsible for ordering or purchasing goods for the commissary, deducting order amounts from inmate balances, receiving items ordered, maintaining and updating inventory records, maintaining inventory items on hand, and performing physical inventory count for commissary items.
- Inventory records were not kept for commissary items on hand.

**Sheriff Commissary Fund:**

- The County Sheriff is required to file a financial report for the Sheriff Commissary Fund with the BOCC by January 15<sup>th</sup> of each year. During the review of this report, OSAI noted that the beginning and ending balances noted on the report did not agree to the County Treasurer’s beginning and ending balances and there was no reconciliation presented to document the differences.

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Reported Beginning balance:	\$ 8,376
Treasurer's Ledger Balance:	<u>16,956</u>
Beginning balance understated by:	<u>\$ (8,580)</u>
Reported Ending balance:	\$ 18,863
Treasurer's Ending balance:	<u>17,090</u>
Ending balance overstated by:	<u>\$ 1,773</u>

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

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

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

OSAI further recommends the County Sheriff implement procedures to ensure:

- Bank reconciliations are performed on a monthly basis, reviewed for accuracy, and approved by someone other than the preparer.
- Inmate Trust Fund Checking Account monies are maintained in a manner that reflects each inmate's trust deposits, disbursements, and account balances.
- The individual inmates' trust fund balances are reconciled to the bank statements each month.
- Inventory records are maintained for all commissary items maintained on hand.
- Annual Commissary Fund reports reconcile to underlying financial records.

**Management Response:**

**County Sheriff:** My office is currently working on closing out the Inmate Trust Fund Checking Account (Account 1) started by the previous administration with guidance from the District Attorney's Office. Bank reconciliations on Account 1 were not performed due to the lack of activity on the account; however, we will perform reconciliations on a monthly basis and all reconciliations will be reviewed and approved by someone other than the preparer. We could not provide OSAI with reports denoting individual inmate balances because we switched commissary vendors and can no longer access the old system to obtain individual inmate balances, this should be fixed in fiscal year 2020 with the new vendor reports. Two employees are used in the process of handling inmate money when possible; however, we will work on segregating duties as we can and implementing review processes to reduce the risks associated with one individual being responsible for so much. We are also working towards developing procedures to better ensure accurate inventory of facility sold items. Additionally, I will work with the County Treasures office

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to find and correct the discrepancies noted in this audit concerning the Sheriff Commissary Fund.

**Criteria:** The GAO Standards – Principle 10 – Design Control Activities – 10.03 states in part:

*Establishment of review of performance measures and indicators*

Management establishes physical control to secure and safeguard vulnerable assets. Examples include security for and limited access to assets such as cash, securities, inventories, and equipment that might be vulnerable to risk of loss or unauthorized use. Management periodically counts and compares such assets to control records.

*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.

*Accurate and timely recording of transactions*

Transactions are promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from its initiation and authorization through its final classification in summary records. In addition, management designs control activities so that all transactions are completely and accurately recorded.

Additionally, GAO Standards – Section 2 – Establishing an Effective Internal Control System – OV2.23 states in part:

*Objectives of an Entity – Compliance Objectives*

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.

Title 19 O.S. § 531 A. states in part, “...The county sheriff may establish a checking account, to be designated the “Inmate Trust Fund Checking Account”... The county sheriff shall deposit all monies collected from inmates incarcerated in the county jail into this checking account and may write checks to the Sheriff’s Commissary Account for purchases made by the inmate during his or her incarceration and to the inmate from unencumbered balances due the inmate upon his or her discharge.”

Furthermore, GAO Standards – Section 2 – Establishing an Effective Internal Control System – OV2.24 states in part:

*Safeguarding of Assets*

Management designs an internal control system to provide reasonable assurance regarding

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prevention or prompt detection and correction of unauthorized acquisition, use, or disposition of an entity's assets.



Cindy Byrd, CPA | State Auditor & Inspector

2300 N. Lincoln Blvd., Room 123, Oklahoma City, OK 73105 | 405.521.3495 | [www.sai.ok.gov](http://www.sai.ok.gov)