

**DELAWARE COUNTY, OKLAHOMA  
FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORT  
FOR THE YEAR ENDED JUNE 30, 2002**

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STATE OF OKLAHOMA  
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN  
State Auditor and Inspector

April 29, 2004

TO THE CITIZENS OF  
DELAWARE COUNTY, OKLAHOMA

Transmitted herewith is the audit of Delaware County, Oklahoma, for the fiscal year ended June 30, 2002. A report of this type is critical in nature; however, we do not intend to imply that our audit failed to disclose commendable features in the present accounting and operating procedures of the County.

We wish to take this opportunity to express our appreciation for the assistance and cooperation extended to our office during the course of our audit.

The Office of the State Auditor and Inspector is committed to serve the public interest by providing independent oversight and to issue reports that serve as a management tool to the state to ensure a government which is accountable to the people of the State of Oklahoma.

Sincerely,

A handwritten signature in cursive script that reads "Jeff A. McMAHAN".

JEFF A. McMAHAN  
State Auditor and Inspector

DELAWARE COUNTY, OKLAHOMA  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2002

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REPORT TO THE CITIZENS  
OF  
DELAWARE COUNTY, OKLAHOMA

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Located on the Oklahoma-Arkansas border, Delaware County takes pride in its lakes and recreation areas. Grove, situated on the northern edge of the Old Cherokee Nation, is a resort center for the eastern shore of Grand Lake, which covers 46,500 acres, and includes 1,300 miles of shoreline.

Jay, the county seat of Delaware County, was named for Jay Washburn, the grandson of an early-day missionary. The principal industry is the raising and processing of chickens. Green beans and soybeans are raised throughout the area, as well as cattle.

Annual events in Delaware County include the Pelican Festival held in Grove every autumn, and the Huckleberry Festival located in Jay during July.

County Seat – Jay

Area – 740.7 Square Miles

County Population – 34,977  
(1999 est.)

Farms – 1,303

Land in Farms – 264,620 Acres

Source: Oklahoma Almanac 2001-2002.

See independent auditor's report.

**DELAWARE COUNTY OFFICIALS  
AND RESPONSIBILITIES**

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**COUNTY ASSESSOR**

Sharon Lane  
(D) Jay

The County Assessor has the responsibility to appraise and assess the real and personal property within the county for the purpose of ad valorem taxation. Also, the County Assessor is required to compute the ad valorem taxes due on all taxable property. The County Assessor appraises all the taxable real and personal property according to its fair cash value for which the property is actually being used as of January 1 of the taxable year at the percentages provided for in Article 10, § 8 of the Oklahoma Constitution.

The County Assessor is required to build and maintain permanent records of the taxable real property and tax exempt real property within the county. Information entered on each record includes the property's legal description, owner's name and address, and the homestead exemption status of the owner.

**COUNTY CLERK**

Carol Fortner  
(R) Grove

The County Clerk serves as the register of deeds and custodian of records for the county. The County Clerk also serves as the secretary to several boards, including the Board of County Commissioners, the County Excise Board, the County Board of Equalization, and the Board of Tax Roll Corrections.

The County Clerk reviews all the claims for payment of goods and services purchased or contracted by the county, and prepares the proper warrants for payment of those goods and services and the county payroll. The County Clerk, or his or her designated deputy, serves as the purchasing agent for the county. This system is a means to ensure the public that tax dollars are being spent appropriately.

Various records within the different county offices are classified as "open records." As such, they can be reviewed and mechanically copied by the public.

See independent auditor's report.

**DELAWARE COUNTY OFFICIALS  
AND RESPONSIBILITIES**

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**BOARD OF COUNTY COMMISSIONERS**

**DISTRICT #1**  
Bruce Poindexter  
(D) Grove

**DISTRICT #2**  
Howard Payton  
(D) Jay

**DISTRICT #3**  
Dave Kendrick  
(D) Colcord

The Board of County Commissioners is the chief administrative body for the county. County Commissioners are also responsible for maintaining and constructing the county roads and bridges.

The Commissioners must act as a Board when entering into contracts or other agreements affecting the county's welfare. Thus, actions taken by the Board are voted on and approved by a majority of the Commissioners. The Board of County Commissioners' business meetings are open to the public.

As the county's chief administrative body, the three County Commissioners must make major financial decisions and transactions. The Board has the official duty to ensure the fiscal responsibility of the other county officers who handle county funds. The review and approval procedures empowered to the Board of County Commissioners are a means to provide the public with a fiscally efficient system of county government.

See independent auditor's report.

**DELAWARE COUNTY OFFICIALS  
AND RESPONSIBILITIES**

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**COUNTY SHERIFF**  
Lenden Woodruff  
(R) Jay

The County Sheriff is responsible for preserving the peace and protecting life and property within the county's jurisdiction. As the county's chief law enforcement officer, the sheriff has the power and authority to suppress all unlawful disturbances, to apprehend and secure persons charged with felony or breach of peace, and to operate the county jail.

The County Sheriff has the responsibility of serving warrants and processing papers ordered by the District Court.

**COUNTY TREASURER**  
Mary Jane Law  
(D) Jay

All revenues received by county government from ad valorem taxes and other sources are deposited with the County Treasurer. The County Treasurer collects ad valorem taxes for the county and its political subdivisions. The County Treasurer is authorized to issue delinquent personal property tax warrants and to impose tax liens on real property for delinquent taxes.

To account for county revenues and expenditures, the County Treasurer is required to maintain an accurate record of all the monies received and disbursed. The State Auditor and Inspector's Office prescribes all the forms used by the County Treasurer, and at least twice a year inspects the County Treasurer's accounts.

See independent auditor's report.

**DELAWARE COUNTY OFFICIALS  
AND RESPONSIBILITIES**

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**COURT CLERK**  
Caroline M. Weaver  
(D) Jay

The Court Clerk has the primary responsibility to record, file, and maintain as permanent records the proceedings of the District Court.

Court proceedings are recorded in the appropriate journal or record docket. All the court proceedings are public information except those related to juvenile, guardianship, adoption, and mental health cases.

The Court Clerk issues marriage licenses, passports, notary certificates, beer and pool hall licenses, and private process server licenses.

Monies from the court fund are identified for distribution by the Court Clerk to the appropriate units of county and state government. Court Clerks use forms and follow procedures prescribed by the Court Administrator's Office, the Oklahoma Supreme Court, and the State Auditor and Inspector.

**DISTRICT ATTORNEY**  
Thomas May  
(R) Miami

As the chief attorney for county government, the District Attorney acts as the legal advisor to the county officers on matters related to their duties. The District Attorney represents the county in civil litigation. County officials may call upon the District Attorney to clarify a law or request an official interpretation from the Attorney General.

See independent auditor's report.

**DELAWARE COUNTY OFFICIALS  
AND RESPONSIBILITIES**

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**ELECTION BOARD SECRETARY**

Earlene Bradford  
(D) Grove

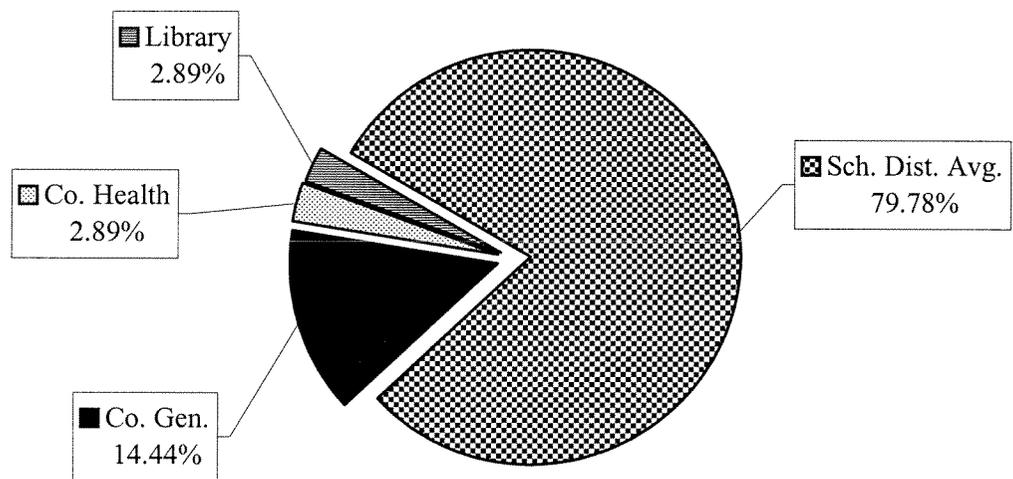
The Election Board Secretary is appointed by the State Election Board and is the chief administrative officer of the County Election Board. The County Election Board has direct responsibility for all the ballots used in all elections within the county. The Board also conducts all elections held within the county.

To finance the operating expenses of the County Election Board, the County Excise Board must appropriate sufficient funds annually. The state and counties split the election costs, but counties must pay for any county elections not held concurrently with state elections.

See independent auditor's report.

**DELAWARE COUNTY, OKLAHOMA  
AD VALOREM TAX DISTRIBUTION  
SHARE OF THE AVERAGE MILLAGE**

Property taxes are calculated by applying a millage rate to the assessed valuation of property. Millage rates are established by the Oklahoma Constitution. One mill equals one-thousandth of a dollar. For example, if the assessed value of property is \$1,000.00 and the millage rate is 1.00, then the tax on that property is \$1.00. This chart shows the different entities of the County and their share of the various millages as authorized by the Constitution.



<u>County-Wide Millages</u>		<u>School District Millages</u>							
				<u>Gen.</u>	<u>Bldg.</u>	<u>Skg.</u>	<u>Career-Tech</u>	<u>Common</u>	<u>Total</u>
Co. General Fund	10.45	Jay	I-1	36.61	5.23	2.10	10.45	4.18	58.57
Co. Health	2.09	Grove	I-2	36.40	5.20	9.94	10.45	4.18	66.17
Library	2.09	Kansas	I-3	37.06	5.29	22.01	10.45	4.18	78.99
		Colcord	I-4	37.74	5.39		10.45	4.18	57.76
<u>Other</u>		Oaks-Mission	I-5	37.05	5.29		10.45	4.18	56.97
		Cleora	D-6	36.77	5.26		10.45	4.18	56.66
Grove EMS	2.40	Leach	D-14	37.77	5.40		10.45	4.18	57.80
		Kenwood	D-30	37.19	5.31		10.45	4.18	57.13
		Moseley	D-34	36.77	5.25	4.29	10.45	4.18	60.94
		Skelly	J-01	35.00	5.00			4.18	44.18
		Ketchum	J-06	36.74	5.25	7.59		4.18	53.76
		Turkey Ford	J-10	36.27	5.18	10.28		4.18	55.91
		Spavinaw	J-21	38.00	5.43			4.18	47.61
		Afton	J-26	35.95	5.14		10.45	4.18	55.72

See independent auditor's report.

## **Independent Auditor's Report**



STATE OF OKLAHOMA  
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN  
State Auditor and Inspector

**Independent Auditor's Report**

TO THE OFFICERS OF  
DELAWARE COUNTY, OKLAHOMA

We have audited the accompanying general-purpose financial statements of Delaware County, Oklahoma, as of and for the year ended June 30, 2002, as listed in the table of contents. These general-purpose financial statements are the responsibility of Delaware County's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit. We did not audit the financial statements of the Delaware County Courthouse Renovation Trust and Delaware County Solid Waste Authority, which are component units of Delaware County. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Delaware County Courthouse Renovation Trust and Delaware County Solid Waste Authority, is based on the reports of the other auditors.

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 statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinion.

As explained in Note 1(H), the general-purpose financial statements referred to above do not include the general fixed assets account group, which should be included in order to conform with accounting principles generally accepted in the United States of America. The amount that should be recorded in the general fixed assets account group is not known.

In our opinion, based on our audit and the reports of the other auditors, except for the effect on the general-purpose financial statements of the omission described in the preceding paragraph, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of Delaware County, Oklahoma, as of June 30, 2002, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 5, 2003, on our consideration of Delaware County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements of Delaware County, Oklahoma, taken as a whole. The other information listed in the table of contents under *Introductory Section* has not been audited by us, and accordingly, we express no opinion on such data.

Sincerely,

A handwritten signature in cursive script that reads "Jeff A. McMahon". The signature is written in black ink and is positioned above the printed name and title.

JEFF A. McMAHAN  
State Auditor and Inspector

June 5, 2003

**General-Purpose Financial Statements**

**DELAWARE COUNTY, OKLAHOMA**  
**COMBINED BALANCE SHEET – ALL FUND TYPES AND ACCOUNT GROUP**  
**JUNE 30, 2002**

	Governmental Fund Types		Proprietary Fund Types		Fiduciary Fund Types	Account Group	Total (Memorandum Only)
	General	Special Revenue	Enterprise Fund	Internal Service Fund	Trust and Agency	General Long-Term Debt	
<u>ASSETS</u>							
Cash and cash equivalents	\$ 318,363	\$ 1,916,503	\$ 374,298	\$ 226,724	\$ 1,804,379	\$	\$ 4,640,267
Ad valorem taxes receivable	57,959	11,592					69,551
Due from other governments	15,533	213,062					228,595
Accrued interest receivable	5,567	3,945					9,512
Accounts receivable			71,163				71,163
Fixed assets							
Property and equipment net of depreciation			846,723	4,358,587			5,205,310
Amount to be provided for capitalized lease agreements						1,196,017	1,196,017
<b>Total assets</b>	<b>\$ 397,422</b>	<b>\$ 2,145,102</b>	<b>\$ 1,292,184</b>	<b>\$ 4,585,311</b>	<b>\$ 1,804,379</b>	<b>\$ 1,196,017</b>	<b>\$ 11,420,415</b>
<u>LIABILITIES AND FUND EQUITY</u>							
Liabilities:							
Warrants payable	\$ 130,560	\$ 200,739	\$	\$	\$	\$	\$ 331,299
Accounts payable	11,954	77,561	42,020	5,831			137,366
Due to other taxing units					166,043		166,043
Due to others					1,638,336		1,638,336
Accrued leave payable			14,425				14,425
Accrued interest payable			181				181
Notes payable - current			27,680				27,680
Notes payable - long-term			29,328				29,328
Capitalized lease obligations payable						1,196,017	1,196,017
<b>Total liabilities</b>	<b>142,514</b>	<b>278,300</b>	<b>113,634</b>	<b>5,831</b>	<b>1,804,379</b>	<b>1,196,017</b>	<b>3,540,675</b>
Fund equity:							
Retained earnings:							
Unrestricted			1,178,550	4,579,480			5,758,030
Fund balances:							
Reserved for encumbrances	2,179	30,422					32,601
Unreserved:							
Undesignated	252,729	1,836,380					2,089,109
<b>Total fund equity</b>	<b>254,908</b>	<b>1,866,802</b>	<b>1,178,550</b>	<b>4,579,480</b>			<b>7,879,740</b>
<b>Total liabilities and fund equity</b>	<b>\$ 397,422</b>	<b>\$ 2,145,102</b>	<b>\$ 1,292,184</b>	<b>\$ 4,585,311</b>	<b>\$ 1,804,379</b>	<b>\$ 1,196,017</b>	<b>\$ 11,420,415</b>

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

**DELAWARE COUNTY, OKLAHOMA**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCES – ALL GOVERNMENTAL FUND TYPES**  
**FOR THE YEAR ENDED JUNE 30, 2002**

	<u>Governmental Fund Types</u>		Total (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Revenues:			
Ad valorem taxes	\$ 1,922,515	\$ 562,306	\$ 2,484,821
Charges for services	228,751	332,976	561,727
Intergovernmental revenues	607,692	2,935,124	3,542,816
Miscellaneous revenues	93,730	207,880	301,610
Total revenues	<u>2,852,688</u>	<u>4,038,286</u>	<u>6,890,974</u>
Expenditures:			
Current operating:			
General government	2,154,903	441,966	2,596,869
Public safety	602,942	325,235	928,177
Culture and recreation	10,861	241	11,102
Education	45,836		45,836
Health and welfare		320,839	320,839
Roads and highways	172,049	3,350,395	3,522,444
Total expenditures	<u>2,986,591</u>	<u>4,438,676</u>	<u>7,425,267</u>
Excess of revenues over (under) expenditures	<u>(133,903)</u>	<u>(400,390)</u>	<u>(534,293)</u>
Other financing sources (uses):			
Capitalized lease agreements		381,655	381,655
Total other financing sources (uses)	<u>-</u>	<u>381,655</u>	<u>381,655</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>(133,903)</u>	<u>(18,735)</u>	<u>(152,638)</u>
Beginning fund balances	<u>388,811</u>	<u>1,885,537</u>	<u>2,274,348</u>
Ending fund balances	<u>\$ 254,908</u>	<u>\$ 1,866,802</u>	<u>\$ 2,121,710</u>

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

**DELAWARE COUNTY, OKLAHOMA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**BUDGET AND ACTUAL - GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2002**

	General		
	Budget	Actual	Variance
Beginning fund balances, budgetary basis	\$ 265,142	\$ 266,970	\$ 1,828
Revenues:			
Ad valorem taxes	1,810,494	1,915,091	104,597
Charges for services	214,172	228,751	14,579
Intergovernmental revenues	590,660	606,524	15,864
Miscellaneous revenues	171,565	93,461	(78,104)
Total revenues, budgetary basis	2,786,891	2,843,827	56,936
Expenditures:			
Current operating:			
General government	2,217,390	2,107,007	110,383
Public safety	602,402	601,365	1,037
Education	46,100	45,837	263
Culture and recreation	11,000	10,869	131
Roads and highways	175,141	172,049	3,092
Total expenditures, budgetary basis	3,052,033	2,937,127	114,906
Excess of revenues and beginning fund balances over expenditures	\$ -	173,670	\$ 173,670
Reconciliation to Statement of Revenues, Expenditures, and Changes in Fund Balances			
Add: Ad valorem taxes receivable		57,959	
Interest receivable		5,567	
Due from other governments		15,533	
Reserved for encumbrances		2,179	
Ending fund balances		\$ 254,908	

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

**DELAWARE COUNTY, OKLAHOMA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**BUDGET AND ACTUAL - SPECIAL REVENUE**  
**(COUNTY HEALTH DEPARTMENT ONLY) FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2002**

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	Health Fund		
	Budget	Actual	Variance
Beginning fund balances, budgetary basis	\$ 502,978	\$ 502,993	\$ 15
Revenues:			
Ad valorem taxes	350,291	383,018	32,727
Intergovernmental revenues		40	40
Miscellaneous revenues	24,272	24,452	180
Total revenues, budgetary basis	374,563	407,510	32,947
Expenditures:			
Current operating:			
Health and welfare	877,541	303,412	574,129
Total expenditures, budgetary basis	877,541	303,412	574,129
Excess of revenues and beginning fund balances over expenditures	\$ -	607,091	\$ 607,091
Reconciliation to Statement of Revenues, Expenditures, and Changes in Fund Balances			
Add: Ad valorem taxes receivable		11,592	
Interest receivable		553	
Reserved for encumbrances		1,400	
Ending fund balances		\$ 620,636	

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

**DELAWARE COUNTY, OKLAHOMA**  
**COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN**  
**RETAINED EARNINGS - PROPRIETARY FUND TYPES**  
**BLENDED COMPONENT UNITS**  
**FOR THE YEAR ENDED JUNE 30, 2002**

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	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>	
	Solid Waste Authority	Courtthouse Renovation Trust	Total (Memorandum Only)
Operating revenues:			
Sales tax	\$ 1,158,466	\$ 315,409	\$ 1,473,875
Fees	429,091		429,091
Total revenues	<u>1,587,557</u>	<u>315,409</u>	<u>1,902,966</u>
Operating expenses:			
Personal services	584,686		584,686
Purchased services and professional fees	525,246		525,246
Trustee fees		750	750
Maintenance and operations	243,137		243,137
Total expenditures	<u>1,353,068</u>	<u>750</u>	<u>1,353,818</u>
Net operating income	<u>234,489</u>	<u>314,659</u>	<u>549,148</u>
Non-operating revenues (expense):			
Interest income	8,342	10,350	18,692
Insurance reimbursement	61,287		61,287
Interest expense	(3,700)	(11,363)	(15,063)
Depreciation	(191,523)	(44,026)	(235,549)
Total non-operating revenues (expenses)	<u>(125,594)</u>	<u>(45,039)</u>	<u>(170,633)</u>
Net income (loss)	108,895	269,620	378,515
Retained earnings, beginning of year as restated	<u>1,069,655</u>	<u>4,309,860</u>	<u>5,379,515</u>
Retained earnings, end of year	<u>\$ 1,178,550</u>	<u>\$ 4,579,480</u>	<u>\$ 5,758,030</u>

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

**DELAWARE COUNTY, OKLAHOMA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND TYPES – BLENDED COMPONENT UNITS  
FOR THE YEAR ENDED JUNE 30, 2002**

	Enterprise Fund	Internal Service Fund	Total (Memorandum Only)
	Solid Waste Authority	Courthouse Renovation Trust	
Cash flows from operating activities:			
Net income (loss) from operations	\$ 108,895	\$ 269,620	\$ 378,515
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	191,523	44,026	235,549
Increase (decrease) in accounts receivable	(71,163)		(71,163)
Increase (decrease) in accounts payable	(58,149)	5831	(52,318)
Increase (decrease) in accrued leave payable	601		601
Increase (decrease) in accrued interest payable	(1,283)		(1,283)
Net cash provided (used) by operating activities:	<u>170,424</u>	<u>319,477</u>	<u>489,901</u>
Cash flows from investing activities:			
Increase (decrease) in fixed assets	(240,744)		(240,744)
Increase (decrease) in construction in progress		(352,430)	(352,430)
Net cash provided (used) by investing activities	<u>(240,744)</u>	<u>(352,430)</u>	<u>(593,174)</u>
Cash flows from financing activities:			
Increase (decrease) in long-term liabilities	(220,595)	(505,000)	(725,595)
Net cash provided (used) by financing activities	<u>(220,595)</u>	<u>(505,000)</u>	<u>(725,595)</u>
Net increase (decrease) in cash	(290,915)	(537,953)	(828,868)
Cash and cash equivalents at beginning of year	665,213	764,677	1,429,890
Cash and cash equivalents at end of year	<u>\$ 374,298</u>	<u>\$ 226,724</u>	<u>\$ 601,022</u>

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

## **Notes to the Financial Statements**

1. Summary of Significant Accounting Policies

The financial statements of the County are required to be presented in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies and practices are described below.

A. Financial Reporting Entity

Counties were created by the Constitution of Oklahoma. One county officer is appointed; however, most county officers are locally elected by their constituents. All county powers are delegated by the state.

In accordance with GASB Statement No. 14, *The Financial Reporting Entity*, the County is required to present the entities that comprise the primary government and its legally separate component units in the fiscal year 2002 financial statements.

Blended Component Units

The combined financial statements include the financial data of the County's component units. Component units are included in the reporting entity when the primary government is financially accountable, is able to impose its will on the organization, and the governing body is substantively the same as the governing body of the primary government.

The following component units have been presented as blended component units because the component units' governing body is substantially the same as the governing body of the County, or the component unit provides services almost entirely to the primary government.

Delaware County Solid Waste Authority (DCSWA) - The Authority was established as a trust for the purpose of promoting the healthful proper management of disposal of solid waste within and without the territorial limits of Delaware County, Oklahoma, to provide additional employment which will benefit and strengthen the economy of the State of Oklahoma and Delaware County, and to perform functions and powers as mandated and authorized by the solid waste management statutes of the State of Oklahoma and the United States of America. Audited financial statements may be obtained from the Authority.

Delaware County Courthouse Renovation Trust (DCCRT) - The Trust was created May 27, 1997, to construct, equipment, modernize, restore, renovate and add to the Delaware County Courthouse and maintain and continually improve such facilities and related facilities. Audited financial statements may be obtained from the Authority.

Summary of Significant Accounting Policies (continued)

Related Organization Excluded From the Reporting Entity

The County's officials are responsible for appointing the members of the board of another organization, but the County's accountability for this organization does not extend beyond making the appointments. The following organization is not included in the financial statements.

Monkey Island Development Authority - Board members are appointed by the County; however, board members are all authoritative. The County is not responsible for approving budgets, contracts, key personnel, fiscal matters or day-to-day operations of the Authority.

B. Fund Accounting

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The government uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

Funds are classified into the following categories: governmental, proprietary, and fiduciary. Each category in turn is divided into separate fund types.

Governmental Funds

Governmental funds are used to account for all or most of a government's general activities, including the collection and disbursement of earmarked monies (special revenue funds).

The general fund is used to account for all activities of the general government not accounted for in some other fund.

Summary of Significant Accounting Policies (continued)

Proprietary Funds-Blended Component Units

Proprietary funds are used to account for activities similar to those found in the private sector, when the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities can be provided either to outside parties (enterprise funds) or to other departments or agencies primarily within the government (internal services funds).

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the County has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) except for those that conflict with GASB pronouncements.

Fiduciary Funds

Fiduciary funds are used to account for assets held on behalf of outside parties, including other governments, or on behalf of other funds within the government. Agency funds are generally used to account for assets that the government holds on behalf of others as their agent.

Account Groups

General Fixed Assets Account Group (GFAAG) - Accounting principles generally accepted in the United States of America require that the fixed assets of a government not reported in a proprietary fund or a trust fund be reported in a general fixed assets account group (GFAAG). This account group is not a fund. It does not have a balance sheet as such, nor does it report operations. Instead, the GFAAG serves as a list of the government's fixed assets and is designed to ensure accountability.

General Long-Term Debt Account Group (GLTDAG) - The general long-term debt account group (GLTDAG) is used to account for a government's unmatured long-term indebtedness that has not been identified as a specific fund liability of a proprietary or trust fund. In addition to general obligation debt instruments (e.g., bonds, notes), the GLTDAG is also used to report revenue bonds that will be repaid from general government resources, special assessment debt when the government is "obligated in some manner," special revenue bonds, and certain liabilities that are normally not expected to be liquidated with expendable available financial resources (e.g., capitalized lease-purchase obligations).

C. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus and basis of accounting. All governmental fund types are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these fund types present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Summary of Significant Accounting Policies (continued)

Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

The accrual basis of accounting is utilized by proprietary fund types. Under this method, revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred.

The modified accrual basis of accounting is used by all governmental fund types and agency funds. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be quantified, and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The government considers property taxes as available if collected within 60 days after year-end. Expenditures are recorded when incurred and the related fund liability is expected to be paid from available spendable resources. Principal and interest on general long-term debt are recorded as fund expenditures when paid or when amounts for principal and interest have been accumulated in the debt service fund for payments to be made early in the following year.

Those revenues susceptible to accrual are property taxes, sales tax, interest revenue, and other taxes collected and held by the Oklahoma Tax Commission at year-end on behalf of the government. Charges for services are not susceptible to accrual because generally they are not measurable until received in cash.

D. Budgetary Policies and Procedures

Under current Oklahoma Statutes, the general fund and county health department are the only funds required to adopt a formal budget. The budget presented for the general fund and special revenue (county health department only) funds include the originally approved budgeted appropriations for expenditures as adjusted for supplemental appropriations and approved transfers between budget categories. Appropriations for the highway funds and other cash funds are made on a monthly basis, according to the funds then available.

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 the general and special revenue funds.

Any encumbrances outstanding at year-end are reported as reservations of fund balances since they do not constitute expenditures or liabilities. At the end of the year, unencumbered appropriations are lapsed.

Summary of Significant Accounting Policies (continued)

The Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General and Special Revenue (County Health Department only) Funds presents comparisons of the legally adopted budget with actual data. The "actual" data, as presented in the comparison of budget and actual, will differ from the data as presented in the Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - All Governmental Fund Types because of adopting certain aspects of the modified accrual basis of accounting and the adjusting of encumbrances to their related budget year.

E. Cash – Primary Government

The County pools cash resources of its various funds to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash accounts is available to meet current operating requirements. All funds were deposited in interest-bearing demand accounts at June 30, 2002.

Cash and Cash Equivalents – (DCSWA) and (DCCRT)

For the purposes of the statement of cash flows, the DCSWA and DCCRT consider all cash on hand, demand deposits and highly liquid investments, with an original maturity of three months or less when purchased, to be cash and cash equivalents.

F. Receivables

All receivables are reported at their gross value.

G. Interest Receivable

Interest on deposits is recorded as revenue in the year the interest is earned and is available to pay liabilities of the current period.

H. Fixed Assets

The County presently maintains some individual records of personal property; however, the County does not keep similar records for land, buildings, and improvements. For this reason, a statement of general fixed assets, required by accounting principles generally accepted in the United States of America, is not presented on the Combined Balance Sheet - All Fund Types and Account Group.

I. Depreciation – (DCSWA)

Depreciation of property and equipment is computed by using the straight-line method.

**DELAWARE COUNTY, OKLAHOMA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2002**

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Summary of Significant Accounting Policies (continued)

J. Risk Management

The County is exposed to various risks of loss as follows:

<u>Types of Loss</u>	<u>Method Managed</u>	<u>Risk of Loss Retained</u>
General Liability - Torts - Errors and Omissions - Law Enforcement Officers Liability - Vehicle	The County participates in a public entity risk pool; Association of County Commissioners of Oklahoma-Self-Insurance Group. (See ACCO-SIG.)	If claims exceed pool assets, the County would have to pay its share of the pool deficit.
Physical Plant - Theft - Damage to Assets - Natural Disasters	The County participates in a public entity risk pool. (See ACCO-SIG.)	If claims exceed pool assets, the County would have to pay its share of the pool deficit.
Worker's Compensation - Employees' Injuries	The County participates in a public entity risk pool; Association of County Commissioners of Oklahoma-Self-Insurance Fund. (See ACCO-SIF.)	If claims exceed pool assets, the County would have to pay its share of the pool deficit.
Health and Life - Medical - Disability - Dental - Life	The County carries commercial insurance for these types of risk.	None

ACCO-SIG - The pool operates as a common risk management and insurance program and is to be self-sustaining through member premiums. Each participating county will pay a deductible amount (\$1,000 to \$10,000; Delaware County has a \$5,000 deductible) for each insured event as stated in the County's "Certificate of Participation." The risk pool will pay legitimate claims in excess of the deductible amounts up to and including \$50,000 per insured event. The pool has acquired commercial reinsurance to cover claims in excess of \$50,000 up to \$1,000,000 limit per insured event. The pool, established in 1986, has never had to assess additional premiums to be paid by its members.

ACCO-SIF - The pool operates as a common risk management and insurance program and is to be self-sustaining through member premiums. ACCO-SIF was set up in 1984 and will pay legitimate worker's compensation claims up to \$500,000 per incident. A reinsurance policy, with no limit, pays claims that exceed \$500,000 for a particular incident. The pool has not assessed additional premiums to be paid by its members in the past three years.

Summary of Significant Accounting Policies (continued)

The County continues to carry commercial insurance for employee's health and life insurance. Management believes such coverage is sufficient to preclude any significant uninsured losses to the County. Settled claims have not exceeded insurance coverage in any of the past three fiscal years. There have been no significant reductions in insurance coverage during the 2002 fiscal year.

K. Compensated Absences

All full-time employees are entitled to annual leave that is accrued on a monthly basis. Employees with 1 year of service are entitled to 5 days vacation. Those with 2 to 9 years of service are entitled to 10 days of vacation. Employees with 10 or more years are entitled to 15 days vacation. In management's opinion, the amount of compensated absences is not material to the financial statements for the fiscal year ended June 30, 2002.

The County does not accumulate sick leave. An employee earns up to 15 days per year and may accumulate up to 130 days. Since there is no history of sick leave usage from which to project future usage, no liability for such has been recorded. Such an amount, if recorded, would not be material to the financial statements. In management's opinion, the amount of sick leave is not material to the financial statements for the fiscal year ended June 30, 2002.

L. Long-Term Obligations

The County reports long-term debt of governmental funds at face value in the general long-term debt account group. Certain other governmental fund obligations not expected to be financed with current available financial resources are also reported in the general long-term debt account group.

M. Memorandum Only - Total Columns

Total columns on the financial statements are captioned "memorandum only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with accounting principles generally accepted in the United States of America. Interfund transactions have not been eliminated from the total column of each financial statement.

2. Stewardship, Compliance, and Accountability

Budgetary Compliance

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 by fund, 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.

3. Detailed Notes on Account Balances

Title 62 O.S. § 348.3 authorizes the County Treasurer to invest in:

- U.S. government obligations
- Certificates of deposit
- Savings accounts
- G.O. bonds issued by counties, municipalities, or school districts
- Money judgments against county, municipalities, or school districts
- Bonds and revenue notes issued by a public trust when the beneficiary of the trust is a county, municipality, or school district
- Negotiable certificates of deposit
- Prime bankers acceptances which are eligible for purchase by the Federal Reserve System
- Prime commercial paper with a maturity of 180 days or less
- Repurchase agreements
- Money market funds regulated by the securities and exchange commission and which investments consist of the above-mentioned types of investments

A. Deposits

At year-end, the carrying amount of the County's deposits was \$4,039,245 and the bank balance was \$4,782,981. Of the bank balance, all funds were covered by federal depository insurance or collateral held by the County's agent in the County's name.

At year-end, the carrying amount of the DCSWA's deposits was \$374,298 and the bank balance was \$374,298. Of the bank balance, all funds were covered by federal depository insurance or collateral held by the DCSWA agent in the DCSWA's name.

At year-end, the carrying amount of the DCCRT's deposits was \$226,724 and the bank balance was \$226,724. Of the bank balance, all funds were covered by federal depository insurance or collateral held by the DCCRT's agent in the DCCRT's name.

Total deposits for the government entity were \$4,640,267.

B. Receivables

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 every four (4) years."

The net assessed property value as of January 1, 2002, was \$184,363,891.

Detailed Notes on Account Balances (continued)

Per Article 10, § 8A, with the repeal of personal property tax, the millage with the adjustment factor is 10.45 mills (the legal maximum) for general fund operations, 2.09 mills for the county health department, and 2.09 mills for the multi-county library. In addition, the County also collects the ad valorem taxes assessed by cities and towns and school districts and apportions the ad valorem taxes collected to the appropriate taxing units.

Taxes are due on November 1 following the levy date, although, they may be paid in two equal installments. If the first half is paid prior to January 1, the second half is not delinquent until April 1. Unpaid real property taxes become a lien upon said property on October 1 of each year. Unpaid delinquent personal property taxes are published usually in May. If the taxes are not paid within 30 days from publication, they shall be placed on the personal tax lien docket.

Current year tax collections for the year ended June 30, 2002, were approximately 95 percent of the tax levy.

C. 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. County employees are required to contribute between 3.5% and 8.5% of earned compensation. The County contributes between 5.0% and 10.0% of earned compensation. Elected officials could contribute between 4.5% and 10% of their entire compensation. The County contributes 10.0% of earned compensation for elected officials. The County's contributions to the Plan for the years ending June 30, 2002, 2001, and 2000, were \$315,333, \$309,952, and \$294,039 respectively, equal to the required contributions for each year.

D. Capital Leases

The County acquires road machinery and equipment through lease-purchase agreements financed by the Oklahoma Department of Transportation and/or the equipment vendors or their assignees pursuant to the provisions of 69 O.S. § 636.1 through § 636.7. Lease agreements entered into with the Oklahoma Department of Transportation (ODOT) are interest free. However, starting in January 1997, ODOT began charging a one-time fee of 3% on all subsequent pieces of machinery acquired.

**DELAWARE COUNTY, OKLAHOMA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2002**

Detailed Notes on Account Balances (continued)

Oklahoma Statutes prohibit the County from entering into contracts of this nature longer than one year. For this reason, these lease-purchase agreements do not qualify for capitalization until the year the lease-purchase agreements are completed and title to the equipment is transferred to the County. However, it is the County's intent to exercise its right to purchase this property; accordingly, the lease-purchase agreements have been capitalized to conform with accounting principles generally accepted in the United States of America. The unpaid portions of these agreements have been reflected as capitalized lease obligations within the general long-term debt account group.

Providing all capital leases are renewed each year by resolution of the Board of Commissioners, minimum lease commitments under capitalized lease-purchase agreements as of June 30, 2002, are as follows:

Year Ending June 30,	Principal	Interest	Total
2003	\$ 301,989	\$ 38,548	\$ 340,537
2004	283,333	29,451	312,784
2005	218,655	21,047	239,702
2006	190,555	13,347	203,902
2007	143,410	6,431	149,841
2008 & thereafter	58,075	2,785	60,860
Total	<u>\$ 1,196,017</u>	<u>\$ 111,609</u>	<u>\$ 1,307,626</u>

During the year, the County capitalized leases totaling \$381,655 and paid \$354,891 on the outstanding balances of lease-purchase agreements.

Capital Leases – (DCSWA)

The Authority entered into a number of lease-purchase agreements during the fiscal year 1998-1999. These agreements are for the remaining of the current year with options to renew annually for a set period of time (36 months to 60 months). At the end of the lease period the equipment becomes the property of the Authority. The Authority has elected to capitalize the equipment and treat the lease agreement as a note payable since the past history of the Authority has been to retain equipment past the lease period.

Year Ending June 30,	Principal	Interest	Total
2003	\$ 27,680	\$ 2,583	\$ 30,263
2004	29,328	935	30,263
Total	<u>\$ 57,008</u>	<u>\$ 3,518</u>	<u>\$ 60,526</u>

**DELAWARE COUNTY, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002**

Detailed Notes on Account Balances (continued)

E. Changes in Fixed Assets – (DCSWA)

	June 30, 2001			June 30, 2002
	<u>Balances</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u>
Land and buildings	\$ 357,353	\$ 5,295	\$ -	\$ 362,648
Vehicles and equipment	1,808,113	235,449	(86,794)	1,956,768
 Total	 <u>\$ 2,165,466</u>	 <u>\$ 240,744</u>	 <u>\$ (86,794)</u>	 2,319,416
 Less accumulated depreciation				 (1,472,693)
Balance				<u>\$ 846,723</u>

F. Long-Term Debt – (DCCRT)

The Trust obligated itself to the Bank of Oklahoma in the amount of \$2,545,000 on November 1, 1998, in a note payable to construct and renovate the courthouse. The note was secured by sales tax proceeds voted by the public.

Interest and principal payments commenced November 25, 1998, and continued monthly through July 25, 2001, at which time the notes were paid in full.

G. Changes in Long-Term Liabilities

During the year ended June 30, 2002, the following changes occurred in liabilities reported in the general long-term debt account group:

	Balance			Balance
	<u>July 1, 2001</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2002</u>
Capital leases	\$ 1,169,253	\$ 381,655	\$ 354,891	\$ 1,196,017
Total	<u>\$ 1,169,253</u>	<u>\$ 381,655</u>	<u>\$ 354,891</u>	<u>\$ 1,196,017</u>

H. Fund Equity

Retained earnings reflect the accumulated earnings of an enterprise or internal service fund.

Reservations of fund balances of governmental funds are established to either (1) satisfy legal covenants that require a portion of the fund balance be segregated or (2) identify the portion of the

Detailed Notes on Account Balances (continued)

fund balance that is not appropriable for future expenditures. Designated fund equity represents tentative plans for future use of financial resources, which are available for appropriation. Specific reservations of the fund balance accounts are summarized below:

Reserved for Encumbrances – The reserve for encumbrances represents encumbrances outstanding at the end of the year based on purchase orders and contracts signed by the County but not completed as of the close of the fiscal year.

4. Contingent Liabilities

The government is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in management's opinion, the resolution of these matters will not have a material adverse effect on the financial condition of the government.

5. Sales Tax

The voters of Delaware County voted a permanent ½ cent sales tax, which became effective April 1, 1988. The purpose of the sales tax is to provide revenue to be used only for the acquisition, establishment and operation of Solid Waste Services for the people of Delaware County.

On April 1, 1997, the voters of Delaware County approved a sales tax of ½ cent for the exclusive purpose of funding the modernization, restoration, renovation, construction, and addition to the Delaware County Courthouse, together with associated costs and expenses. The ½ cent sales tax became effective on June 1, 1997, and continued until May 31, 2001.

On June 1, 2001, the sales tax was reduced to 1/10 of 1 cent and shall continue until May 31, 2006, with all of the income from said reduced sales tax to be allocated for the exclusive purpose of funding the maintenance, operation and continued improvement of said courthouse and county officers. The reduced sales tax of 1/10 of 1 cent shall be voted on every five years to determine if it shall be continued for another five years.

On May 8, 2001, the voters of Delaware County approved, in addition to all other city, county, and state excise taxes, a four tenths of one percent (.4%) sales tax to become effective July 1, 2001. The .4% sales tax is for the purpose of construction or improving fire stations, purchase of equipment, training, education, general maintenance and operation of 19 fire departments in Delaware County, Oklahoma. The sales tax may be terminated at any time after 5 years from its implementation, by a simple majority vote of the voters of Delaware County.

6. Restatement of Beginning Retained Earnings

Retained earnings, beginning of the year has been restated for the Internal Service Fund. Construction in progress was erroneously presented as \$6,111,708 and should have been presented as \$4,050,183. This results in the restatement of beginning retained earnings from \$6,371,385, as previously reported, to \$4,309,860 as currently reported.

**Report on Compliance and on Internal Control Over Financial Reporting  
Based on an Audit of Financial Statements Performed in Accordance With  
*Government Auditing Standards***



STATE OF OKLAHOMA  
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN  
State Auditor and Inspector

**Report on Compliance and on Internal Control Over Financial Reporting  
Based on an Audit of Financial Statements Performed in Accordance With  
*Government Auditing Standards***

TO THE OFFICERS OF  
DELAWARE COUNTY, OKLAHOMA

We have audited the financial statements of Delaware County, Oklahoma, as of and for the year ended June 30, 2002, and have issued our report thereon dated June 5, 2003. We qualified our opinion because the general fixed assets account group was not included in the financial statements. We did not audit the financial statements of Delaware County Courthouse Renovation Trust and Delaware County Solid Waste Authority. Those financial statements were audited by other auditors, whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for the component units is based solely upon the reports of the other auditors. 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.

Compliance

As part of obtaining reasonable assurance about whether Delaware County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Delaware County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described below.

### **Finding 98-1 - (Repeat Finding)**

Criteria: Accounting principles generally accepted in the United States of America for a governmental entity using governmental fund types require the presentation of the general fixed assets account group (GFAAG) in the financial statements.

Condition: Information is not available for reporting general fixed assets in accordance with accounting principles generally accepted in the United States of America for a government entity. The general fixed assets control account is not accurate.

Effect: This component of internal control is not effective. Accordingly, there is a greater risk that a fixed asset may not be properly accounted for and safeguarded against loss.

Recommendation: We recommend records include acquisition cost, a complete description, purchase date, location of such asset, and that a control total of the cost of these assets be maintained and reconciled annually.

### **Finding 02-1 - General Internal Control Objectives**

Criteria: According to the standards of the Information Systems Audit and Control Association (COBIT Delivery & Support 7), management should educate and train users to ensure that users are making effective use of technology and are aware of their risks and responsibilities.

Condition: The County does not have written policies and procedures addressing information security or provide adequate awareness training.

Effect: The lack of Policies, Procedures, and Awareness Training could result in the loss of:

- Ad Valorem information;
- Financial information;
- State and Federal Reporting Data

Recommendation: We recommend the County establish Information Security Policies and Procedures. A Security awareness training program should be established and all employees using computers required to participate.

### **Finding 02-2 - General Internal Control Objectives**

Criteria: According to the standards of the Information Systems Audit and Control Association (COBIT Delivery & Support 4.3), management should ensure that a written Disaster Recovery Plan is documented and contains the following:

- Guidelines on how to use the recovery plan;
- Emergency procedures to ensure the safety of all affected staff members;
- Roles and responsibilities of information services function, vendors providing recovery services, users of services and support administrative personnel;
- Listing of systems requiring alternatives (hardware, peripherals, software);
- Listing of highest to lower priority applications, required recovery times and expected performance norms;
- Various recovery scenarios from minor to loss of total capability and response to each in sufficient detail for step-by-step execution;

- Specific equipment and supply needs are identified such as high speed printers, signatures, forms, communications equipment, telephones, etc. and a source and alternative source defined;
- Training and/or awareness of individual and group roles in continuity plan;
- Listing of contracted service providers;
- Logistical information on location of key resources, including back-up sites for recovery operating system, applications, data files, operating manuals and program/system/user documentation;
- Current names, addresses, telephone/pager numbers of key personnel;
- Business resumption alternatives for all users for establishing alternative work locations once IT resources are available.

Condition: The County does not have a written Disaster Recovery Plan, and all back up tapes are stored in the Courthouse.

Effect: The lack of an effective and adequate Disaster Recovery Plan could result in potential loss of:

- Ad Valorem information;
- County residents information;
- State and Federal Reporting Data.

Recommendation: We recommend the County establish a Disaster Recovery Plan to ensure the safekeeping and integrity of the County's financial and non-financial data. Additionally, we recommend the County Treasurer begin storing one back up tape a week off-site.

### **Finding: 02-3 - General Internal Control Objectives**

Criteria: According to the standards of the Information Systems Audit and Control Association (COBIT Delivery & Support 5), management should ensure that system security is sufficient to safeguard information against unauthorized use, disclosure or modification, damage or loss. User ID's and passwords should ensure that access to information is restricted to authorized users.

Condition: It was found through our information security review that the County:

- Does not require employees to have unique user ID's and passwords when logging onto the network;
- Has log on identification that is the ID assigned to a PC and not a specific user. The ID does not restrict the user's access within the system nor does it allow for identifying which employee posted the information to the system;
- Does not log system and application activity by user ID.
- New employees are assigned old employees passwords.

Effect: The lack of System Security could result in the unauthorized use, disclosure or modification, damage or loss of the County's information.

Recommendation: We recommend the County establish Information Security Policies to address the log on access controls needed to safeguard their system and information. These controls should be implemented to adequately secure the information and to log activity within the system.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions, and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 98-1 to be a material weakness.

The American Institute of Certified Public Accountants' Statement on Auditing Standards No. 87 requires the inclusion of the following paragraph in this report:

This report is intended solely for the information and use of the management of the County and is not intended to be and should not be used by anyone other than these specified parties.

However, the Oklahoma Open Records Act states that all records of public bodies and public officials shall be open to any person, except as specifically exempted. The purpose of this Act is to ensure and facilitate the public's right of access to and review of government records so they may efficiently and intelligently exercise their inherent political power. Therefore, this report is a matter of public record and its distribution is in no way limited or restricted.

Sincerely,



JEFF A. McMAHAN  
State Auditor and Inspector

June 5, 2003