



HARMON COUNTY

Financial Report

For the fiscal year ended June 30, 2020

Cindy Byrd, CPA
State Auditor & Inspector

**HARMON COUNTY, OKLAHOMA
FINANCIAL STATEMENT
AND INDEPENDENT AUDITOR'S REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

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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

June 4, 2021

TO THE CITIZENS OF
HARMON COUNTY, OKLAHOMA

Transmitted herewith is the audit of Harmon County, Oklahoma for the fiscal year ended June 30, 2020. 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



**HARMON COUNTY OFFICIALS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

Board of County Commissioners

District 1 – Gary Lewis
District 2 – Nicky Boone
District 3 – Greg Strawn

County Assessor

Kendra Tillman

County Clerk

Kara Gollihare

County Sheriff

Leslie Orr

County Treasurer

Donna Altom

Court Clerk

Stacy Macias

District Attorney

David Thomas

**HARMON COUNTY, OKLAHOMA
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

TABLE OF CONTENTS

FINANCIAL SECTION

Report of State Auditor and Inspector	1
Financial Statement:	
Statement of Receipts, Disbursements, and Changes in Cash Balances—Regulatory Basis (with Combining Information).....	4
Notes to the Financial Statement.....	5

SUPPLEMENTARY INFORMATION

Comparative Schedule of Expenditures—Budget and Actual—Budgetary Basis—General Fund.....	11
Comparative Schedule of Expenditures—Budget and Actual—Budgetary Basis—Health Fund.....	12
Note to Supplementary Information.....	13

INTERNAL CONTROL AND COMPLIANCE SECTION

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	14
Schedule of Findings and Responses	16

FINANCIAL SECTION

Independent Auditor's Report

TO THE OFFICERS OF
HARMON 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 Harmon County, Oklahoma, as of and for the year ended June 30, 2020, 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 Harmon 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 Harmon County as of June 30, 2020, 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 Harmon County, for the year ended June 30, 2020, 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 1, 2021, on our consideration of Harmon 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 Harmon 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 1, 2021

REGULATORY BASIS FINANCIAL STATEMENT

HARMON COUNTY, OKLAHOMA
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES—REGULATORY BASIS
(WITH COMBINING INFORMATION)
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

	Beginning Cash Balances July 1, 2019	Receipts Apportioned	Transfers In	Transfers Out	Disbursements	Ending Cash Balances June 30, 2020
Combining Information:						
County General	\$ 239,666	\$ 646,895	\$ -	\$ -	\$ 527,296	\$ 359,265
County Highway Unrestricted	5,398,921	1,412,597	-	-	1,210,158	5,601,360
County Bridge and Road Improvement	747,330	244,187	-	-	144,732	846,785
Health	82,517	58,865	-	-	57,347	84,035
Resale Property	35,545	23,842	-	4,957	22,901	31,529
County Clerk Lein Fee	38,938	2,344	-	-	2,527	38,755
Treasurer Mortgage Certification Fee	3,251	899	-	-	-	4,150
Assessor Revolving Fee	22,786	1,902	-	-	6,804	17,884
Sheriff Service Fee	108,809	62,766	-	-	69,168	102,407
County Clerk Records Management	16,053	5,695	-	-	3,056	18,692
Cash Drawers	525	-	-	-	-	525
General Government Sales Tax	229,247	134,324	-	-	117,532	246,039
Hospital Sales Tax	-	134,307	-	-	134,307	-
Judgement Sales Tax Debt	43,839	134,428	-	-	-	178,267
County Sinking	78,926	556,198	-	-	500,020	135,104
Combined Total - All County Funds	\$ 7,046,353	\$ 3,419,249	\$ -	\$ 4,957	\$ 2,795,848	\$ 7,664,797

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

**HARMON COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

1. Summary of Significant Accounting Policies

A. Reporting Entity

Harmon 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, libraries, school districts, and cities and towns. The cash receipts and disbursements attributable to those other entities do not appear in funds on the County's financial statement; those funds play no part in the County's operations. Any trust or agency funds maintained by the County are not included in this presentation.

B. Fund Accounting

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

During the fiscal year ended June 30, 2020, the County converted to a new chart of accounts; therefore, several fund names and descriptions change. However, these changes do not reflect a change in the sources and uses of revenues over the prior fiscal year.

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

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

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

County Bridge and Road Improvement – accounts for state receipts and disbursements are for the purpose of maintaining bridges and roads.

Health – accounts for monies collected for charges for services and ad valorem taxes expended for operations of the county health department.

**HARMON COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

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

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

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

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

Sheriff Service Fee – accounts for the collection of fees for the services provided by the County Sheriff's office and disbursed for the operations of the Sheriff's office.

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

Cash Drawers – accounts for money used in the County Treasurer's office for the purpose of making change.

General Government Sales Tax – accounts for monies received from county sales tax and expended for general maintenance and operations of Harmon County.

Hospital Sales Tax – accounts for monies received from county sales tax and expended for general operations and maintenance of Harmon County Healthcare Authority, including Harmon County Memorial Hospital and Colonial Manor Nursing Home.

Judgement Sales Tax Debt – accounts for the collection of sales tax to be disbursed for the payment of the judgement indebtedness until paid, then to the Harmon County General Fund for operation and maintenance of Harmon County.

County Sinking – accounts for the collection of an ad valorem tax levy to be disbursed for the payment of the judgement indebtedness.

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.

**HARMON COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

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

D. Budget

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

E. Cash and Investments

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

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.

**HARMON COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

2. Ad Valorem Tax

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

Taxes are due on November 1 following the levy date, although they may be paid in two equal installments. If the first half is paid prior to January 1, the second half is not delinquent until April 1. The County Treasurer, according to the law, shall give notice of delinquent taxes and special assessments by publication once a week for two consecutive weeks at any time after April 1, but prior to the end of September following the year the taxes were first due and payable. Unpaid real property taxes become a lien upon said property after the treasurer has perfected the lien by public notice.

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

3. Other Information

A. Pension Plan

Plan Description. The County contributes to the Oklahoma Public Employees Retirement Plan (the Plan), a cost-sharing, multiple-employer defined benefit pension plan administered by the Oklahoma Public Employees Retirement System (OPERS). Benefit provisions are established and 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.

**HARMON COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

OPEB expenditure and participant information is available for the state as a whole; however, information specific to the County is not available nor can it be reasonably estimated.

C. Contingent Liabilities

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

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

D. Long Term Obligations

1. Judgments

The County has a judgment which is being retired by a tax levy. The County is obligated to pay the judgment over a ten-year period. During the fiscal year ending June 30, 2020, the County paid the third of ten (10) payments of \$500,000, and processing fee of \$20.

<u>Case Number</u>	<u>Original Judgment</u>
CIV-14-936-F	\$6,500,000

A settlement and forbearance agreement was executed and paid on June 26, 2017 which required the County to pay to the plaintiff and her attorneys the sum of \$1,695,411, plus any accrued interest, which was on deposit in the registry of the Court as required by the Court's Order of March 3, 2017, (Docket No. 248). Additionally, Harmon County agrees that it shall make ten (10) equal payments of \$500,000 each to the plaintiff or her designee with the first payment to be due and paid on or before April 1, 2018 with nine (9) additional like payments to be made on the first day of April each year thereafter through April 1, 2027.

Payments in the amount of \$500,000 shall be paid on or before April 15 of each year. Future principal payments that will become due on the existing judgment are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Total</u>
2021	\$ 500,000	\$ 500,000
2022	500,000	500,000
2023	500,000	500,000

**HARMON COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

2024	500,000	500,000
2025	500,000	500,000
2026	500,000	500,000
2027	<u>500,000</u>	<u>500,000</u>
Total	<u>\$3,500,000</u>	<u>\$3,500,000</u>

E. Sales Tax

Sales Tax of February 24, 1984

The voters of Harmon County approved a permanent one cent (1%) sales tax effective May 1, 1984. This sales tax was established to provide revenue for general operations and county roads of the government of Harmon County, Oklahoma. These funds are accounted for in the General Government Sales Tax.

Sales Tax of June 26, 2018

The voters of Harmon County approved a one cent (1%) sales tax effective October 1, 2018 for a limited life of twenty-five (25) years. These funds are to be used for the general operations and maintenance of Harmon County Healthcare Authority, including Harmon Memorial Hospital and Colonial Manor Nursing Home. These funds are accounted for in the Hospital Sales Tax fund and disbursed directly to Harmon County Healthcare Authority.

The voters of Harmon County approved an additional one cent (1%) sales tax effective November 1, 2018, for an unlimited duration. These funds are to be used for the payment of the judgement against Harmon County, CIV-14-936-F until paid, then to the Harmon County General Fund for the operation and maintenance of Harmon County. These funds are accounted for in the Judgement Sales Tax Debt fund.

F. Interfund Transfers

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

- \$4,957 was transferred from the Resale Property Fund to the Excess Resale (a trust and agency fund) to establish a fund for excess resale, a trust and agency fund.

SUPPLEMENTARY INFORMATION

HARMON COUNTY, OKLAHOMA
COMPARATIVE SCHEDULE OF EXPENDITURES—BUDGET AND ACTUAL—
BUDGETARY BASIS—GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

	General Fund		
	Budget	Actual	Variance
District Attorney - County	\$ 100	\$ 100	\$ -
County Sheriff	184,763	168,841	15,922
County Treasurer	59,501	58,678	823
County Commissioners O.S.U. Extension	12,501	7,403	5,098
County Clerk	46,377	39,102	7,275
Court Clerk	50,000	49,481	519
County Assessor	31,558	31,005	553
Revaluation of Real Property	32,944	24,285	8,659
Juvenile Shelter Bureau	2,000	1,740	260
General Government	6,200	3,799	2,401
Excise - Equalization Board	2,251	1,500	751
County Election Expense	58,759	50,021	8,738
Insurance - Benefits	79,915	73,871	6,044
County Audit Budget Account	4,445	-	4,445
Free Fair Budget Account	2,750	2,321	429
Total Expenditures, Budgetary Basis	<u>\$ 574,064</u>	<u>\$ 512,147</u>	<u>\$ 61,917</u>

HARMON COUNTY, OKLAHOMA
COMPARATIVE SCHEDULE OF EXPENDITURES—BUDGET AND ACTUAL—
BUDGETARY BASIS—HEALTH FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

	Health Fund		
	Budget	Actual	Variance
Health and Welfare	\$ 130,207	\$ 61,838	\$ 68,369
Total Expenditures, Budgetary Basis	\$ 130,207	\$ 61,838	\$ 68,369

**HARMON COUNTY, OKLAHOMA
NOTE TO SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

1. Budgetary Schedules

The Comparative Schedules of Expenditures—Budget and Actual—Budgetary Basis for the General Fund and the Health 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
HARMON 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 Harmon County, Oklahoma, as of and for the year ended June 30, 2020, and the related notes to the financial statement, which collectively comprises Harmon County's basic financial statement, prepared using accounting practices prescribed or permitted by Oklahoma state law, and have issued our report thereon dated June 1, 2021.

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, 2020, 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 Harmon 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 Harmon County's internal control. Accordingly, we do not express an opinion on the effectiveness of Harmon County's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be material weaknesses: 2020-001, and 2020-003.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Harmon County's financial statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items: 2020-003.

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

Harmon County's Response to Findings

Harmon County's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. Harmon 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 1, 2021

**HARMON COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

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 2020-001 – Lack of County-Wide Controls and Internal Controls Over Information Systems (Repeat Finding 2013-001, 2014-001, 2018-001, 2019-001)

Condition: When assessing the county-wide controls the following weaknesses were noted:

- County-wide controls regarding Risk Assessment and Monitoring have not been designed.
- The County Sheriff does not have a Disaster Recovery Plan for his office.
- 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 address risks of the County, to prevent unauthorized access to data, and to ensure that all offices have designed and implemented a Disaster Recovery Plan.

Effect of Condition: This condition could compromise security for computers, computer programs, and data, and does not allow the County to function in the most effective manner possible. Additionally, without written documentation of the county-wide controls it is more difficult to retain organizational knowledge, communicate that knowledge to personnel, indicate what internal controls are present and monitor those controls.

Recommendation: The Oklahoma State Auditor & Inspector’s Office (OSAI) recommends that the County design and implement policies and procedures to document their internal control framework. This documentation should outline the importance of internal controls, the risk that the County has identified, the control activities established to address the risk, the steps taken to properly communicate pertinent information in a timely manner and the methodology to monitor 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. Further, OSAI recommends the County comply with best practices presented in the criteria. The specifics of the recommendation have been sanitized to protect the County pursuant to the provision of 51 O.S. § 24A.28.

Management Response:

Chairman, Board of County Commissioners: We will work towards having quarterly meetings in order to assess and identify risks in the design of written county-wide controls.

County Sheriff: I will prepare a Disaster Recovery Plan for my office.

County Clerk: I have contacted my software vendor, and this has been corrected.

**HARMON COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

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.

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

Components, Principles, and Attributes

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

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

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

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

Further, 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.

Finding 2020-003 – Lack of Internal Controls and Noncompliance Over the Payroll and Disbursement Processes (Repeat Finding 2013-003, 2014-003, 2018-005, 2019-003)

Condition: Upon inquiry and observation of the payroll disbursement process, we noted the duties of processing payroll are not adequately segregated.

**HARMON COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

- The Payroll Clerk enrolls new hires, makes payroll changes, and maintains personnel files. In addition, there is no evidence of review of payroll changes or enrollments.

Further, our review of sixty (60) disbursements reflected the following:

- Three (3) disbursements were not timely encumbered.

Cause of Condition: Policies and procedures have not been designed and implemented regarding the disbursement process to strengthen internal controls and ensure compliance with state statute.

Effect of Condition: This condition resulted in noncompliance with state statute which could result in unrecorded transactions, misstated financial reports, undetected errors, and misappropriation of funds.

Recommendation: OSAI recommends the County implement a system of internal controls over the disbursement process. Such controls should include implementing a review process with adequate documentation to support the review and ensuring that funds are encumbered prior to the receipt of goods and/or services in accordance with 19 O.S. § 1505.

Management Response:

County Clerk: We are in the process of implementing review processes for payroll. I will be more diligent in the timely encumbrance of funds.

Board of County Commissioners: The Board of County Commissioners will express to fellow County officials the importance of County funds being encumbered prior to the receipt of goods and/or services.

Criteria: The GAO Standards – Principal 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, Principal 10 - Segregation of Duties states:

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

10.13 – Segregation of duties helps prevent fraud, waste, and abuse in the internal control system. Management considers the need to separate control activities related to authority, custody, and accounting of operations to achieve adequate segregation of duties. In particular, segregation of duties can address the risk of management override. Management

**HARMON COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

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.

Further, effective internal controls require that management properly implement procedures to ensure that purchases comply with 19 O.S. § 1505.

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 2020-006 – Lack of Internal Controls Over Inmate Trust Fund Checking Account

Condition: Upon inquiry and the observation of records of the Inmate Trust Fund Checking Account, the following deficiencies were noted:

- The duties regarding the inmate trust fund checking account are not adequately segregated. One (1) employee is primarily responsible for making deposits, preparing checks, and reconciling the Inmate Trust Fund Checking Account to the bank statement each month.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure that internal controls are in place to adequately segregate duties with regards to the Inmate Trust Fund Checking Account.

Effect of Condition: A single person having responsibility for more than one area of recording, authorizing, custody of assets, and execution of transactions could result in the untimely detection of unrecorded transactions, misstated financial reports, and clerical errors. In addition, without proper accounting and safeguarding of the Inmate Trust Fund Checking Account, there is an increased risk of misappropriation of funds.

Recommendation: OSAI recommends management be aware of these conditions and realize that a concentration of duties and responsibilities is not desired from a control point of view. Management should provide segregation of duties so that no one employee is able to perform all accounting functions. Also, it is recommended that two people reconcile bank statements monthly to the inmate accounts, as well as the ledger, with evidence of review documented with initials and date.

Management Response:

County Sheriff: We will work to implement a review process, and will maintain an inmate ledger, and reconcile the ledger to the bank statement monthly.

**HARMON COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

Criteria: The GAO Standards – Principal 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, Principal 10 - Segregation of Duties states:

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

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

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

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.”

Finding 2020-007 – Lack of Internal Controls Over the Court Clerk Receipting and Disbursement Processes (Repeat Finding 2013-008, 2014-007, 2018-007, 2019-007)

Condition: Upon inquiry and observation of records within the Court Clerk’s office, we noted the following deficiencies in the collection, depositing, and disbursement processes:

- The collection duties were not adequately segregated One employee removes collections from the drawer at the end of the day and the next morning the employee will print the deposit report and

**HARMON COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

reconcile the report to cash and checks. This employee also takes the deposit report, cash, and checks to the County Treasurer to be deposited.

- There is no evidence maintained to document that the official depository end of month report is reviewed for accuracy.
- The disbursement duties were not adequately segregated. The Court Clerk prepares and approves the Court Fund claims, prepares and prints the vouchers, takes the vouchers to the County Treasurer's office for registration, and distributes the vouchers.
- The report preparation duties were not adequately segregated. The Court Clerk prepares the Quarterly Reports for the Court Fund and the Court Clerk Revolving Fund, however, there is no documented verification of a review of the reports.

Cause of Condition: Policies and procedures have not been designed and implemented to separate duties and document the review process within the office of the Court Clerk.

Effect of Condition: A single person having responsibility for more than one area of recording, authorization, custody of assets, and execution of transactions could result in the untimely detection of unrecorded transactions, misstated financial reports, clerical errors, or misappropriation of funds.

Recommendation: OSAI recommends management be aware of these conditions and implement internal controls over the reconciling, reporting, and expenditure processes to safeguard assets.

Management Response:

Court Clerk: We will work to implement controls and segregation of duties over the collection and Court Fund process. Further, we will document a review process over the official depository monthly, Court Fund and Court Clerk Revolving quarterly reports.

Criteria: The GAO Standards – Principal 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, Principal 10 - Segregation of Duties states:

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

**HARMON COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

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

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



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