



HARPER COUNTY

Financial Report

For the fiscal year ended June 30, 2018

Cindy Byrd, CPA
State Auditor & Inspector

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

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Cindy Byrd, CPA | State Auditor & Inspector

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June 4, 2020

TO THE CITIZENS OF
HARPER COUNTY, OKLAHOMA

Transmitted herewith is the audit of Harper County, Oklahoma for the fiscal year ended June 30, 2018. The audit was conducted in accordance with 19 O.S. § 171.

A report of this type can be critical in nature. Failure to report commendable features in the accounting and operating procedures of the entity should not be interpreted to mean that they do not exist.

The goal of the State Auditor and Inspector is to promote accountability and fiscal integrity in state and local government. Maintaining our independence as we provide this service to the taxpayers of Oklahoma is of utmost importance.

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

Sincerely,

A handwritten signature in blue ink that reads "Cindy Byrd". The signature is fluid and cursive, with the first letters of the first and last names being capitalized.

CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR



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

Board of County Commissioners

District 1 – Cody Hickman

District 2 – Gary Nielsen

District 3 – Steve Myatt

County Assessor

Lynette Ingraham

County Clerk

Karen Hickman

County Sheriff

Tom McClendon

County Treasurer

Peggy Tillery

Court Clerk

Susan Breon

District Attorney

James Boring

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

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FINANCIAL SECTION

Independent Auditor's Report

TO THE OFFICERS OF
HARPER 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 Harper County, Oklahoma, as of and for the year ended June 30, 2018, and the related notes to the financial statement, which collectively comprise the County's basic financial statement as listed in the table of contents.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the regulatory basis of accounting described in Note 1, and for determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1, the financial statement is prepared by Harper 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 Harper County as of June 30, 2018, or changes in financial position for the year then ended.

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the combined total of receipts, disbursements, and changes in cash balances for all county funds of Harper County, for the year ended June 30, 2018, in accordance with the basis of accounting described in Note 1.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the combined total of all county funds on the financial statement. The supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and are not a required part of the financial statement.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statement.

Harper County has not presented the budgetary comparison information for the Comparative Schedule of Receipts, Expenditures, and Changes in Cash Balances—Budget and Actual—Budgetary Basis—General Fund. Although not a part of the financial statement, such information is an integral part of the regulatory presentation for county government.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 28, 2020, on our consideration of Harper 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 Harper County's internal control over financial reporting and compliance.



CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR

May 28, 2020

REGULATORY BASIS FINANCIAL STATEMENT

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

	Beginning Cash Balances July 1, 2017	Receipts Apportioned	Disbursements	Ending Cash Balances June 30, 2018
Combining Information:				
County General Fund	\$ 394,797	\$ 1,016,246	\$ 985,187	\$ 425,856
Highway Cash	2,566,043	2,563,266	2,597,994	2,531,315
Visual Inspection Reimbursement	12,647	-	-	12,647
County Assessor Revolving	5,163	2,492	1,834	5,821
County Clerk Special	25,527	15,953	23,089	18,391
Sheriff Drug Cash Forfeiture	14,181	-	1,053	13,128
Sheriff Service Fee	69,750	32,690	58,291	44,149
Sheriff Commissary	9,882	4,888	2,371	12,399
Sheriff Department of Corrections	10,935	1,242	2,590	9,587
Sheriff Courthouse Security	11,579	4,255	7,186	8,648
Treasurer Mortgage Tax Certification Fee	4,756	915	380	5,291
Resale Property	69,061	25,046	38,824	55,283
County Sales Tax - Health Department	45,432	33,802	54,073	25,161
County Sales Tax - OSU Extension	137,039	21,517	21,838	136,718
County Sales Tax - Free Fair	50,845	23,691	31,180	43,356
County Sales Tax - Rural Fire	56,039	26,060	7,679	74,420
County Sales Tax - Laverne EMS	2,682	18,953	18,560	3,075
County Sales Tax - Buffalo Senior Citizens	6,617	1,185	1,808	5,994
County Sales Tax - Laverne Senior Citizens	960	1,185	700	1,445
County Sales Tax - Laverne Delphian Library	3,573	1,185	4,317	441
County Sales Tax - Rural Development	22,803	4,738	14,000	13,541
County Sales Tax - County General	45,512	90,145	120,341	15,316
County Sales Tax - Buffalo Library	680	1,185	1,759	106
County Sales Tax - Buffalo EMS	2,693	18,953	18,571	3,075
County Sales Tax - County Hospital	17,074	236,913	235,624	18,363
Harper County Emergency Management	2,668	4,000	1,149	5,519
E911	317,670	73,116	4,455	386,331
Bridges	1,327,964	265,616	91,851	1,501,729
Court Clerk Special	10,279	-	-	10,279
Occupational Assistance Grant	11,964	7,780	9,602	10,142
Health Department Special	-	216	-	216
Free Fair Board Special	-	3,378	3,075	303
Combined Total - All County Funds	\$ 5,256,815	\$ 4,500,611	\$ 4,359,381	\$ 5,398,045

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

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

1. Summary of Significant Accounting Policies

A. Reporting Entity

Harper 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.

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

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

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

Visual Inspection Reimbursement – accounts for the collections and disbursements by the Assessor as restricted by state statute for the visual inspection program.

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

County Clerk Special – accounts for lien fee collections by the County Clerk and disbursements are restricted by state statute.

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

Sheriff Drug Cash Forfeiture – accounts for money seized by the Sheriff's office and disbursed for drug interdiction.

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

Sheriff Commissary – accounts for the profit derived from the sale of items to inmates and disbursements to purchase commissary goods from the vendor and for the maintenance and operation of the jail.

Sheriff Department of Corrections – accounts for state receipts and disbursements are for the purpose of housing and feeding Department of Correction inmates.

Sheriff Courthouse Security – accounts for the \$10.00 fee collected on traffic, misdemeanor, and felony court cases and disbursements are for enhancing existing or providing additional courthouse security as restricted by state statute.

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

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

County Sales Tax – Health Department – accounts for sales tax collections received from Oklahoma Tax Commission and disbursements are made according to sales tax ballot requirements to fund the Health Department.

County Sales Tax – OSU Extension – accounts for sales tax collections received from Oklahoma Tax Commission and disbursements are made according to sales tax ballot requirements to fund the OSU Extension.

County Sales Tax – Free Fair – accounts for sales tax collections received from Oklahoma Tax Commission and disbursements are made according to sales tax ballot requirements to fund the Free Fair.

County Sales Tax – Rural Fire – accounts for sales tax collections received from Oklahoma Tax Commission and disbursements are made according to sales tax ballot requirements to fund the Rural Fire.

County Sales Tax – Laverne EMS – accounts for sales tax collections received from Oklahoma Tax Commission and disbursements are made according to sales tax ballot requirements to fund the Laverne EMS.

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

County Sales Tax – Buffalo Senior Citizens – accounts for sales tax collections received from Oklahoma Tax Commission and disbursements are made according to sales tax ballot requirements to fund the Buffalo Senior Citizens.

County Sales Tax – Laverne Senior Citizens – accounts for sales tax collections received from Oklahoma Tax Commission and disbursements are made according to sales tax ballot requirements to fund the Laverne Senior Citizens.

County Sales Tax – Laverne Delphian Library – accounts for sales tax collections received from Oklahoma Tax Commission and disbursements are made according to sales tax ballot requirements to fund the Laverne Delphian Library.

County Sales Tax – Rural Development – accounts for sales tax collections received from Oklahoma Tax Commission and disbursements are made according to sales tax ballot requirements to fund the Rural Development.

County Sales Tax – County General – accounts for sales tax collections received from Oklahoma Tax Commission and disbursements are made according to sales tax ballot requirements to fund the County General fund.

County Sales Tax – Buffalo Library – accounts for sales tax collections received from Oklahoma Tax Commission and disbursements are made according to sales tax ballot requirements to fund the Buffalo Library.

County Sales Tax – Buffalo EMS – accounts for sales tax collections received from Oklahoma Tax Commission and disbursements are made according to sales tax ballot requirements to fund the Buffalo EMS.

County Sales Tax – County Hospital – accounts for sales tax collections received from Oklahoma Tax Commission and disbursements are made according to sales tax ballot requirements to fund the County Hospital.

Harper County Emergency Management – accounts for collections and disbursements of funds for the purpose of data collection and establishing and implementing procedures to follow in the event of an emergency. Collections include annual contributions of \$3,000 each from Harper County, the Town of Buffalo, and the Town of Laverne, to be expended for the salary of the Emergency Management Representative. Grants received for projects completed are spent to supplement the salary and for maintenance and operations expenses.

E911 – accounts for fees collected on all land line and wireless phone numbers within the County and disbursed to establish a 911 emergency system.

Bridges – accounts for monies received from the State to improve bridges and roads within the County.

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

Court Clerk Special – accounts for Oklahoma Bar Association grant money and donations to be spent for updates to the courtroom.

Occupational Assistance Grant – accounts for private donations and forestry and operation grants. Forestry grants are restricted expenditures. Donations and operation grants are non-restricted.

Health Department Special – accounts for monies collected on behalf of the County Health Department and state and local revenues and disbursed for legal operations of the office.

Free Fair Special – accounts for rent collected on fairground property and disbursed for legal operations of the office.

C. Basis of Accounting

The financial statement is prepared on a basis of accounting wherein amounts are recognized when received or disbursed. This basis of accounting differs from accounting principles generally accepted in the United States of America, which require revenues to be recognized when they become available and measurable or when they are earned, and expenditures or expenses to be recognized when the related liabilities are incurred. This regulatory basis financial presentation is not a comprehensive measure of economic condition or changes therein.

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

D. Budget

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

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

E. Cash and Investments

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

State statutes require financial institutions with which the County maintains funds to deposit collateral securities to secure the County's deposits. The amount of collateral securities to be pledged is established by the County Treasurer; this amount must be at least the amount of the deposit to be secured, less the amount insured (by, for example, the FDIC).

The County Treasurer has been authorized by the County's governing board to make investments. Allowable investments are outlined in statutes 62 O.S. § 348.1 and § 348.3.

All investments must be backed by the full faith and credit of the United States Government, the Oklahoma State Government, fully collateralized, or fully insured. All investments as classified by state statute are nonnegotiable certificates of deposit. Nonnegotiable certificates of deposit are not subject to interest rate risk or credit risk.

2. Ad Valorem Tax

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

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.

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

3. Other Information

A. Pension Plan

Plan Description. The County contributes to the Oklahoma Public Employees Retirement Plan (the Plan), a cost-sharing, multiple-employer defined benefit pension plan administered by the Oklahoma Public Employees Retirement System (OPERS). Benefit provisions are established and amended by the Oklahoma Legislature. The Plan provides retirement, disability, and death benefits to Plan members and beneficiaries. Title 74, Sections 901 through 943, as amended, establishes the provisions of the Plan. OPERS issues a publicly available financial report that includes financial statements and supplementary information. That report may be obtained by writing OPERS, P.O. Box 53007, Oklahoma City, Oklahoma 73105 or by calling 1-800-733-9008.

Funding Policy. The contribution rates for each member category are established by the Oklahoma Legislature and are based on an actuarial calculation which is performed to determine the adequacy of contribution rates.

B. Other Post Employment Benefits (OPEB)

In addition to the pension benefits described in the Pension Plan note, OPERS provides post-retirement health care benefits of up to \$105 each for retirees who are members of an eligible group plan. These benefits are funded on a pay-as-you-go basis as part of the overall retirement benefit. OPEB expenditure and participant information is available for the state as a whole; however, information specific to the County is not available nor can it be reasonably estimated.

C. Contingent Liabilities

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

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

D. Sales Tax

The voters of Harper County approved a one percent (1%) sales tax on November 8, 2011. This sales tax was established to provide funds to the Harper County OSU Extension Office (9%); Harper County Free Fair (10%); Harper County Rural Fire Association (11%); Buffalo EMS (8%); Laverne EMS (8%); Laverne Senior Citizens (.5%); Buffalo Senior Citizens (.5%); Harper County Rural Development Council (2%); Laverne Delphian Municipal Library (.5%); Buffalo Public

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

Library (.5%); Harper County Health Department (14%); Harper County General Fund (36%). The tax imposed herein expired after sixty (60) months. The voters elected to continue the sales tax for an additionally 60 months on November 8, 2016. These funds are accounted for separately in special revenue funds as noted below:

- County Sales Tax – OSU Extension
- County Sales Tax – Free Fair
- County Sales Tax – Rural Fire
- County Sales Tax – Buffalo EMS
- County Sales Tax – Laverne EMS
- County Sales Tax – Laverne Senior Citizens
- County Sales Tax – Buffalo Senior Citizens
- County Sales Tax – Rural Development
- County Sales Tax – Laverne Delphian Library
- County Sales Tax – Buffalo Library
- County Sales Tax – Health Department
- County Sales Tax – County General Fund

The voters of Harper County also approved a one percent (1%) sales tax for providing funds for General Operations and Capital Improvements of Health Care Facilities, for purposes pertaining to the health and general well-being of the people of Harper County, Oklahoma. The sales tax became effective May 1, 2013 and expired April 30, 2018. The voters elected to continue the sales tax on November 8, 2016 to be effective from May 1, 2018 and expire April 30, 2023. These funds are accounted for in the County Sales Tax – County Hospital Fund.

SUPPLEMENTARY INFORMATION

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

1. Budgetary Schedules

The Comparative Schedule of Receipts, Expenditures, and Changes in Cash Balances—Budget and Actual—Budgetary Basis for the General Fund have not been presented. Therefore, the legally adopted budget cannot be compared with actual data for the General Fund. The Comparative Schedules of Receipts, Expenditures, and Changes in Cash Balances—Budget and Actual—Budgetary Basis for the General Fund present comparisons of the legally adopted budget with actual data. The "actual" data, as presented in the comparison of budget and actual, will differ from the data as presented in the Statement of Receipts, Disbursements, and Changes in Cash Balances (with Combining Information) because of adopting certain aspects of the budgetary basis of accounting and the adjusting of encumbrances and outstanding warrants to their related budget year.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in these funds. At the end of the year unencumbered appropriations lapse.

INTERNAL CONTROL AND COMPLIANCE SECTION

**Independent Auditor's Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance With *Government Auditing Standards***

TO THE OFFICERS OF
HARPER 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 Harper County, Oklahoma, as of and for the year ended June 30, 2018, and the related notes to the financial statement, which collectively comprises Harper County's basic financial statement, prepared using accounting practices prescribed or permitted by Oklahoma state law, and have issued our report thereon dated May 28, 2020.

Our report included an adverse opinion on the financial statement because the statement is prepared using accounting practices prescribed or permitted by Oklahoma state law, which is a basis of accounting other than accounting principles generally accepted in the United States of America. However, our report also included our opinion that the financial statement does present fairly, in all material respects, the receipts, disbursements, and changes in cash balances – regulatory basis of the County for the year ended June 30, 2018, on the basis of accounting prescribed by Oklahoma state law, described in Note 1.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered Harper 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 Harper County's internal control. Accordingly, we do not express an opinion on the effectiveness of Harper 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: 2018-001, 2018-003, 2018-004, and 2018-005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Harper 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2018-003.

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

Harper County's Response to Findings

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

May 28, 2020

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

SECTION 1—Findings related to the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Finding 2018-001 – Lack of County-Wide Controls (Repeat Finding 2017-001)

Condition: Through the process of gaining an understanding of the County’s internal control structure, it was noted that county-wide controls regarding Risk Assessment and Monitoring have not been designed.

Cause of Condition: Policies and procedures have not been designed and implemented to address the risks of the County.

Effect of Condition: Without an adequate system of county-wide controls, there is greater risk of a breakdown in control activities which could result in unrecorded transactions, undetected errors, or misappropriation of funds.

Recommendation: The Oklahoma State Auditor & Inspector’s Office (OSAI) recommends that the County design and implement a system of county-wide procedures to identify and address risks related to financial reporting and to ensure that information is communicated effectively. OSAI also recommends that the County design and implement monitoring procedures to assess the quality of performance over time. These procedures should be written policies and procedures and could be included in the County’s policies and procedures handbook.

Management Response:

Chairman of the Board of County Commissioners: We will begin discussing and completing the County-Wide Internal Controls Checklist in the Officers’ meetings.

County Clerk: We will continue to discuss the County-Wide Controls, specifically Risk Assessment and Monitoring during our Officers’ meetings.

County Treasurer: We will continue to discuss the County-Wide Controls, specifically Risk Assessment and Monitoring during our Officers’ meetings.

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

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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

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

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

Finding 2018-003 – Lack of Internal Controls and Noncompliance Over Disbursements (Repeat Finding – 2008-004, 2008-006, 2009-004, 2009-006, 2017-003)

Condition: Upon inquiry, observation, and review of thirty-five (35) disbursements, the following was noted:

- Four (4) were not encumbered prior to receiving goods or services
- Four (4) were not supported by adequate documentation.
- One (1) was not reviewed and approved by an authorized Requisitioning Officer.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure purchase orders are approved by an authorized requisitioning officer, encumbered prior to receiving goods and services, in accordance with state statutes and have appropriate supporting documentation, including a receiving report.

Effect of Condition: These conditions resulted in noncompliance with the state statute and could result in unrecorded transactions, misstated financials reports, undetected errors, and misappropriation of funds.

Recommendation: OSAI recommends the County design and implement internal controls to ensure compliance with state statutes. All purchases should be properly requisitioned and be encumbered prior to ordering goods or services in accordance with 19 O.S. § 1505(C)(2). Further, OSAI recommends a receiving report be attached to all invoices for goods or services, including insurances and utilities.

Management Response:

Chairman of the Board of County Commissioners: The Board will discuss these findings in our meetings and visit with other entity's about correct purchasing procedures.

County Clerk: I will communicate to the purchasing agent that all purchase orders have to have receiving reports before being submit for payment. I will communicate these issues to the next County Clerk, so that

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she will be aware that authorized requisitioning signatures are required for payment of purchase orders. We will continue to emphasize the need to encumber prior to ordering.

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

Compliance Objectives

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

Further, GAO Standards – Principle 6 – Defined Objectives and Risk Tolerances - 6.05 states:

Definitions of Objectives

Management considers external requirements and internal expectations when defining objectives to enable the design of internal control. Legislators, regulators, and standard-setting bodies set external requirements by establishing the laws, regulations, and standards with which the entity is required to comply. Management identifies, understands, and incorporates these requirements into the entity's objectives. Management sets internal expectations and requirements through the established standards of conduct, oversight structure, organizational structure, and expectations of competence as part of the control environment.

Title 19 O.S. § 1505(C)(2) requires that funds be encumbered prior to the ordering of goods or services.

Finding 2018-004 – Lack of Internal Controls Over Payroll Disbursements (Repeat Finding – 2008-006, 2009-007, 2017-004)

Condition: Upon inquiry and review of thirty-two (32) payroll disbursements, the following was noted:

- One (1) was not supported by adequate documentation.

Further, it was noted that the payroll clerk has the ability to enroll new employees and make changes to the amount of withholdings.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure timesheets are maintained for each employee. Further, policies and procedures have not been designed to ensure payroll duties are properly segregated.

Effect of Condition: These conditions could result in inaccurate payroll transactions, inaccurate payroll deductions, inaccurate retirement contributions, unrecorded transactions, misstated financials reports, undetected errors, and misappropriation of funds.

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Recommendation: OSAI recommends all county employees have properly approved time records to support monthly payroll on file with the County Clerk. Each employee's time record should reflect the hours worked for each day; the compensatory time earned, annual, sick and compensatory time taken or paid; and be approved by the County officer or department head. Further, OSAI recommends that payroll duties be segregated. One employee should not be responsible for processing payroll claims while still having the ability to enroll new hires into the system and change withholding amounts.

Management Response:

Chairman of the Board of County Commissioners: I will discuss this with the County Clerk for possible solutions.

County Clerk: I am aware of this condition and have always performed extra review. I will talk to the software provider about ways to mitigate the risk.

County Sheriff: It is now a requirement that all employees in the Sheriff's office fill out a timesheet. I approve all timesheets.

Criteria: The GAO Standards – Section 2 – Objectives of an Entity - OV2.23 states in part:

Compliance Objectives

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

Further, GAO Standards – Principle 6 – Define Objectives and Risk Tolerances - 6.05 states:

Definitions of Objectives

Management considers external requirements and internal expectations when defining objectives to enable the design of internal control. Legislators, regulators, and standard-setting bodies set external requirements by establishing the laws, regulations, and standards with which the entity is required to comply. Management identifies, understands, and incorporates these requirements into the entity's objectives. Management sets internal expectations and requirements through the established standards of conduct, oversight structure, organizational structure, and expectations of competence as part of the control environment.

The GAO Standards – Principle 10 – Design Control Activities states:

Segregation of Duties

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.

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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.

Finding 2018-005 – Lack of Internal Controls Over the County’s Financial Statement Presentation

Condition: The County has not designed and implemented internal controls to ensure the accurate presentation of the County’s financial statement. During the review and reconciliation of the financial statement as initially prepared by the County, we determined that the beginning cash balance was overstated \$268,618, apportionments were overstated \$247, disbursements were overstated by \$163,328, which resulted in the ending balance being overstated by \$105,537.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure that the County’s financial statement is accurately presented.

Effect of Condition: This condition resulted in the County’s financial statement being materially misstated.

Recommendation: OSAI recommends the County design and implement policies and procedures to ensure the County’s financial statement is accurately presented.

Management Response:

County Treasurer: I will make sure the financial statements are accurately recorded.

Criteria: The County is required to present a financial statement for each fiscal year ended June 30.

Title 19 O.S. § 171 states, in part, “Unless the county elects to prepare its financial statement in accordance with Generally Accepted Accounting Principles as prescribed by the Governmental Accounting Standards Board, the county shall present their financial statements in a regulatory basis of accounting.”

The limitations of the auditor are described in the American Institute of Certified Public Accountants Clarified Statements on Auditing Standards AU-C § 210, which states, in part: “The concept of an independent audit requires that the auditor's role does not involve assuming management's responsibility for the preparation and fair presentation of the financial statements or assuming responsibility for the entity's related internal control and that the auditor has a reasonable expectation of obtaining the information

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necessary for the audit insofar as management is able to provide or procure it. Accordingly, the premise is fundamental to the conduct of an independent audit.”

SECTION 2—This section contains certain matters not required to be reported in accordance with *Government Auditing Standards*. However, we believe these matters are significant enough to bring to management’s attention. We recommend that management consider these matters and take appropriate corrective action.

**Finding 2018-002 – Lack of Internal Controls Over the Financial Statement and Estimate of Needs
(Repeat Finding 2017-002)**

Condition: When verifying the Budget to Actual for the budgeted account (County General) prepared in the Estimate of Needs, it was noted that beginning balances, disbursements and ending balances did not agree with the financial statement. The variances were a result of disbursement correction to the financial statement not reflected on the Estimate of Needs.

There were one hundred thirteen (113) checks totaling \$267,043 that cleared the bank in June of 2017 but were not posted to the system until July of 2017. This resulted in an overstatement of beginning fund balances and the disbursements on the Estimate of Needs.

Additionally, there were one hundred eight (108) checks totaling \$103,962 that cleared the bank in June of 2018 but were not posted to the system until July 2018. This resulted in an overstatement of ending fund balance and an understatement of disbursements on the Estimate of Needs.

The following adjustments were made to the financial statements disbursements but not reflected on the Estimate of Needs.

	Amounts Moved to FY17 from FY18	Amounts Moved From FY19 to FY18
County General	\$22,121	\$13,376
Highway Cash	110,010	60,238
County Assessor Revolving	1,500	16
County Clerk Lien Fee	1,657	386
Sheriff Service Fee	1,010	1,252
Sheriff Commissary	183	-
Sheriff Department of Corrections	-	389
Sheriff Courthouse Security	549	-
Resale Property	943	184
County Sales Tax - Health Department	2,878	2,925
County Sales Tax - OSU Extension	871	967
County Sales Tax - Free Fair	259	32

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County Sales Tax - Rural Fire	3,094	55
County Sales Tax - Laverne EMS	584	-
County Sales Tax - Buffalo Senior Citizens	150	-
County Sales Tax - Laverne Senior Citizens	-	-
County Sales Tax - County General	2,076	3,362
County Sales Tax - Buffalo Library	-	89
County Sales Tax - County Hospital	16,457	20,077
Harper County Emergency Management	76	-
County Road and Bridge Improvement	102,625	-
Occupational Assistance Grant	-	614
Total Adjustments	<u>\$267,043</u>	<u>\$103,962</u>

Cause of Condition: Policies and procedures have not been designed and implemented over the disbursements corrections in preparation of the financial statement and Estimate of Needs.

Effect of Condition: This condition resulted in an inaccurate reporting of beginning balances, disbursements, and ending balances of the Financial Statement as well as an inaccurate Estimate of Needs.

Recommendation: OSAI recommends the County establish policies and procedures to ensure the disbursement corrections are made on a timely basis in preparation of the financial statement. Also, amounts presented in the Estimate of Needs should be an accurate reporting of the beginning fund balance, receipts apportioned, disbursements and ending fund balance of the County.

Management Response:

Chairman of the Board of County Commissioners: The Board will request year-end financial statements by August 15th with the June 30th bank reconciliation. When the Estimate of Needs is completed, we will compare it to the approved financial statements.

County Clerk: I will communicate this issue with the next County Clerk. I will suggest that she clarify with the County Treasurer that the amount of disbursements includes all checks that have cleared the bank at June 30th.

County Treasurer: I will make sure the financial statements have the proper disbursements recorded by August 15th, to ensure that the budget maker has the correct amounts when preparing the budget.

Criteria: The GAO Standards – Section 2 – Objectives of an Entity - OV2.23 states in part:

Compliance Objectives

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

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Further, GAO Standards – Principle 6 – Define Objectives and Risk Tolerances - 6.05 states:

Definitions of Objectives

Management considers external requirements and internal expectations when defining objectives to enable the design of internal control. Legislators, regulators, and standard-setting bodies set external requirements by establishing the laws, regulations, and standards with which the entity is required to comply. Management identifies, understands, and incorporates these requirements into the entity's objectives. Management sets internal expectations and requirements through the established standards of conduct, oversight structure, organizational structure, and expectations of competence as part of the control environment.

The adopted budget is an expression of public policy and financial intent and is a method of providing controls over that intent. Effective internal controls as they relate to government entities financial reporting should assist in fulfilling government's duty to be publicly accountable and should enable user's access to that accountability by demonstrating whether resources were obtained and used in accordance with the entity's adopted budget.

Title 68 O.S. § 3002(A) states in part "each board of county commissioners and the board of education of each school district, shall, prior to October 1 of each year, make, in writing, a financial statement, showing the true fiscal condition of their respective political subdivisions as of the close of the previous fiscal year ended June 30th, and shall make a written itemized statement of estimated needs and probable income from all sources including ad valorem tax for the current fiscal year. Such financial statement shall be supported by schedules or exhibits showing, by classes, the amount of all receipts and disbursements, and shall be sworn to as being true and correct."



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