JEFFERSON COUNTY

Financial Audit

For the fiscal year ended June 30, 2020

Cindy Byrd, CPA

State Auditor & Inspector

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

This publication, issued by the Oklahoma State Auditor and Inspector's Office as authorized by 19 O.S. § 171, has not been printed, but is available on the agency's website (www.sai.ok.gov) and in the Oklahoma Department of Libraries Publications Clearinghouse Digital Prairie Collection (http://digitalprairie.ok.gov/cdm/search/collection/audits/) pursuant to 65 O.S. § 3-114.

Cindy Byrd, CPA | State Auditor & Inspector
2300 N. Lincoln Blvd., Room 123, Oklahoma City, OK 73105 | 405.521.3495 | www.sai.ok.gov

December 21, 2021

TO THE CITIZENS OF
JEFFERSON COUNTY, OKLAHOMA

Transmitted herewith is the audit of Jefferson 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.

This report is 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.

Sincerely,

Cindy Byrd

CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR

Board of County Commissioners

District 1 – Bryce Bohot
District 2 – Ty Phillips
District 3 – Ricky Martin

County Assessor

Sandra Watkins

County Clerk

Traci Smith

County Sheriff

Jeremie Wilson

County Treasurer

Emily Taylor

Court Clerk

Kim Berry

District Attorney

Jason Hicks

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FINANCIAL SECTION

O·K·L·A·H·O·M·A
SAI
STATE AUDITOR & INSPECTOR
Cindy Byrd, CPA | State Auditor & Inspector
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Independent Auditor's Report

TO THE OFFICERS OF
JEFFERSON 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 Jefferson 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 Jefferson 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 Jefferson 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 Jefferson 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 December 6, 2021, on our consideration of Jefferson 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 Jefferson County's internal control over financial reporting and compliance.

CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR

December 6, 2021

REGULATORY BASIS FINANCIAL STATEMENT

JEFFERSON 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	$ 422,387	$ 1,134,383	$ 100,000	$ 100,000	$ 1,184,026	$ 372,744
County Highway Unrestricted	1,760,731	1,745,023	100,000	533,989	1,661,236	1,410,529
Health	242,166	127,828	-	-	95,415	274,579
Resale Property	132,916	77,791	57	-	64,608	146,156
Treasurer Mortgage Certification	1,143	910	-	-	376	1,677
County Clerk Lien Fee	13,637	8,538	-	-	1,135	21,040
County Clerk Records Management and Preservation	17,398	14,270	-	-	11,193	20,475
Assessor Revolving Fee	3,692	2,665	-	-	3,236	3,121
Sheriff Service Fee	105,161	203,809	-	-	223,933	85,037
Sheriff Commissary	18,090	23,400	-	-	28,228	13,262
Rural Economic Action Plan (REAP)	-	127,640	-	-	127,640	-
Free Fair Board	4,398	750	-	-	1,940	3,208
County Donations	468	51	50	-	-	569
Reward Fund	712	115	-	-	-	827
911 Phone Fees	41,092	77,956	-	-	92,505	26,543
911 Wireless Fees	3,238	-	-	-	3,238	-
Hospital Sales Tax	27,053	409,203	-	-	394,790	41,466
Court Clerk Payroll	-	64,853	-	-	60,099	4,754
County Bridge and Road Improvement	-	228,435	407,891	100,000	279,373	256,953
Combined Total - All County Funds	$ 2,794,282	$ 4,247,620	$ 607,998	$ 733,989	$ 4,232,971	$ 2,682,940

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

1. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

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

B. Fund Accounting

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

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 are for the purpose of constructing and maintaining county roads and bridges.

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

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

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

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

County Clerk Records Management and Preservation – accounts for fees collected for instruments filed with the County Clerk's office as restricted by statute to be used for preservation of records.

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

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

Sheriff Commissary – accounts for the collection from the sale of items to inmates and disbursement of funds as restricted by state statute.

Rural Economic Action Plan (REAP) – accounts for state grant funds received and disbursed in accordance with the grant agreement.

Free Fair Board – accounts for revenues derived from the rental of the fair building and disbursed for fair expenses.

County Donations – accounts for collections of donations and disbursement of funds as specified by donors.

Reward Fund – accounts for collections received from the Court Clerk's office and disbursements are for rewards in cases of littering.

911 Phone Fees – accounts for collections for landline and wireless fees and disbursed for operating emergency 911 services.

911 Wireless Fees – accounts for money received from wireless connections and disbursed for operating emergency wireless services.

Hospital Sales Tax – accounts for the receipts and disbursements of sales tax for the County Healthcare Authority.

Court Clerk Payroll – accounts for the monies disbursed for payroll of the Court Clerk's employees.

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

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.

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.

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

Sales Tax of December 1, 1992

The voters of Jefferson County approved a one percent (1%) sales tax that went into effect on December 1, 1992. This sales tax has an unlimited duration. The sales tax was established to provide revenue for the general operating for the County Government, and for the support of County Civil Defense, OSU Extension services, County Law Enforcement, County-Wide Rural Fire Protection, and Fair Board maintenance and operations. These funds are accounted for in the County General fund.

Sales Tax of June 24, 2014 and March 5, 2019

The voters of Jefferson County approved the continuation of the one percent (1%) sales tax on March 5, 2019 for an additional 5 years, expiring October 31, 2024. The prior approved continuation approved by voters on June 24, 2014 expired, during the fiscal year, on October 31,

2019. The original sales tax went into effect on November 1, 2000. The sales tax was established for planning, financing, and construction of the Jefferson County Healthcare Authority or related medical facilities. These funds are accounted for in the Hospital Sales Tax fund.

E. <u>Interfund Transfers</u>

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

Residual Transfer:

- $50 was transferred to County Donations from OSU Special (a trust and agency fund) by Board of County Commissioners (BOCC) resolution for the purpose of closing the fund.

Operating Transfers:

- $100,000 was transferred to County General from County Highway Unrestricted for the purpose of funding operating expenses as allowed by 68 O.S § 3021.
- $100,000 was transferred to County Highway Unrestricted from County General to reimburse County Highway Unrestricted to repay the operating transfer as required by 68 O.S § 3021.
- $307,891 was transferred to County Bridge and Road Improvement from County Highway Unrestricted for the purpose of establishing the County Bridge and Road Improvement fund.
- $126,098 was transferred to the Emergency and Transportation Revolving fund (a trust and agency fund) from County Highway Unrestricted to repay borrowed funds from CED for road and bridge projects.
- $57 was transferred to Resale Property from Excess Resale (a trust and agency fund) in accordance with 68 O.S. § 3131C.
- $100,000 was transferred to County Bridge and Road Improvement from the Emergency Transportation Revolving fund (a trust and agency fund) for the purpose of borrowing funds from CED to fund road and bridge projects.
- $100,000 was transferred to the Emergency Transportation Revolving fund (a trust and agency fund) from County Bridge and Road Improvement to repay borrowed funds from CED for funding of road and bridge projects.

SUPPLEMENTARY INFORMATION

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

	General Fund		
	Budget	Actual	Variance
District Attorney - County	$ 2	$ -	$ 2
County Treasurer	87,238	86,315	923
County Clerk	114,053	109,970	4,083
Court Clerk	87,228	86,859	369
County Assessor	71,393	71,048	345
Revaluation of Real Property	104,152	95,138	9,014
General Government	263,273	75,012	188,261
Excise-Equalization Board	4,501	3,335	1,166
County Election Board	70,046	68,516	1,530
Insurance - Benefits	208,195	189,951	18,244
Fire Fighting Services-Sales Tax	1	-	1
Civil Defense-Sales Tax	1	-	1
General Government-Sales Tax	28,965	-	28,965
Excise-Equalization Board Sales Tax	1	-	1
County Sheriff-Sales Tax (Jail)	346,895	346,734	161
County Sheriff-Sales Tax	29,180	29,180	-
Free Fair Budget Account-Sales Tax	6,500	5,982	518
OSU Extension-Sales Tax	21,121	19,492	1,629
County Audit Budget Account	15,000	-	15,000
Total Expenditures, Budgetary Basis	$ 1,457,745	$ 1,187,532	$ 270,213

JEFFERSON 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	$ 347,081	$ 158,864	$ 188,217
Total Expenditures, Budgetary Basis	$ 347,081	$ 158,864	$ 188,217

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

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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
JEFFERSON 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 Jefferson County, Oklahoma, as of and for the year ended June 30, 2020, and the related notes to the financial statement, which collectively comprises Jefferson County's basic financial statement, prepared using accounting practices prescribed or permitted by Oklahoma state law, and have issued our report thereon dated December 6, 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 Jefferson 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 Jefferson County's internal control. Accordingly, we do not express an opinion on the effectiveness of Jefferson County's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses: 2020-001, 2020-002, and 2020-005.

A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses to be a significant deficiency: 2020-004.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Jefferson 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: 2020-005.

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

Jefferson County's Response to Findings

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

CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR

December 6, 2021

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 Internal Controls and Internal Controls Over Information Systems (Repeat Finding - 2006-006, 2007-005, 2012-001, 2013-001, 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 and implemented.
- 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 Risk Assessment and Monitoring in the County as well as prevent unauthorized access to data.

Effect of Condition: These conditions 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 of the Board of County Commissioners: The Board of County Commissioners will work towards assessing and identifying risks to design written county-wide controls.

County Clerk: The County Clerk's office will implement necessary controls.

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 2020-002 – Lack of Internal Controls Over the County Financial Statement

Condition: Jefferson County has not designed and implemented internal controls to accurately present the County Financial Statement. During the review and reconciliation of the financial statement as prepared by the County, we determined that cash disbursements were overstated $217,382. The misstatement was due to the County reflecting several Trust and Agency funds as County Funds on the Financial Statement.

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 Financial Statement being materially overstated.

Recommendation: OSAI recommend the County design and implement policies and procedures to ensure the Financial Statement is accurately presented.

Management Response:
Chairman of the Board of County Commissioners: We will ensure that only County Funds are reported on the County Financial Statement for fiscal year ending June 30, 2021.

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

Finding 2020-004 – Lack of Internal Controls and Noncompliance Over the Collection and Appropriation Process of County Sales Tax (Repeat Finding - 2019-004)

Condition: Upon inquiry and observation of records over the collections and appropriations of sales tax funds, the following was noted:

- Use tax collections and sales tax collections were co-mingled with regards to the approved appropriations within the County General fund set forth by the BOCC in Resolution #54.2018-2019.
- The BOCC did not approve a resolution establishing only sales tax appropriations for designated funds. The document presented to OSAI for review was Resolution #25-2019-2020 which stated "…Appropriation of Budget for FY2019-2020…" and included all appropriations approved for the County General fund.
- Available appropriations for fiscal year 2020 totaled $572,113 and actual appropriations totaled $544,148 for a remaining balance of $27,965 that was not accurately appropriated.
- Lapsed balances at June 30, 2019 were not properly carried forward to designated sales tax funds approved by the voters of Jefferson County. Accurate amounts of sales tax lapsed balances for June 30, 2019, were undeterminable due to the co-mingling of use tax with sales tax.

Fund To Be Appropriated: (as outlined by the sales tax ballot)	Sales Tax Appropriations by BOCC Resolution	Prior Years Lapsed Balance and Excess Sales Tax Collections	Actual Sales Tax Available to be Appropriated FY19	Actual Sales Tax Appropriated FY19	Over or (Under) Appropriated
General Operations	$ 38,515	$56,665	$ 95,180	$150,000	$54,820
County Civil Defense	1	-	1	1	-
OSU Extension Office	21,121	6,140	27,261	21,121	(6,140)
County Law Enforcement	366,525	75,289	441,814	366,525	(75,289)
County Rural Fire Protection	1	1	2	1	(1)
Fair Board Maintenance	6,500	1,355	7,855	6,500	(1,355)
Totals	$432,663	$139,450	$572,113	$544,148	$(27,965)

Cause of Condition: Policies and procedures have not been designed and implemented to ensure sales tax revenue is properly appropriated, including lapsed balances, and to comply with AG Opinions and Title 68 O.S. § 1370E and Title 68 O.S § 1411. Further, the BOCC has not established, through Resolution, the percentage of sales tax that should be appropriated to each account within the County General fund.

Effect of Condition: This condition resulted in noncompliance with state statutes and nonconformity with the AG Opinions and could result in unrecorded transactions, misstated financial reports, undetected errors, and misappropriation of funds.

Recommendation: OSAI recommends that internal controls be designed and implemented to ensure sales tax collections are appropriated in accordance with the sales tax ballot; specifically, through BOCC Resolution, management should establish percentages to discretely present sales tax funds appropriated into separate accounts within the County General fund in accordance with the AG Opinions and 68 O.S. § 1370E.

Further, OSAI recommends the County refrain from co-mingling use tax collections and sales tax collections. Other than interest generated, no other revenue source should be deposited and appropriated into designated sales tax funds. Title 68 O.S. § 1411 establishes guidelines over use tax collections and the BOCC, by Resolution, should establish the purpose of Use Tax at the local level.

Management Response:
Chairman of the Board of County Commissioners: The Board of County Commissioners are working to correct the condition.

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.

Title 68 O.S. § 1370E requires the sales tax collections to be deposited in the general revenue or sales tax revolving fund of the County and be used only for the purpose for which such sales tax was designated.

Title 68 O.S. § 1411 authorizes the BOCC levy and impose a county or municipal use tax. Such tax shall be paid by every person storing, using or otherwise consuming, within the county or municipality, tangible personal property purchased or brought into the county or municipality.

Further, AG opinion 2005 OK AG 23 dated 7/13/2005 states:

> 3. Proceeds of a county sales tax voted for a specific purpose but placed in the county's General fund must be accounted for as a discrete fund, and any surplus not needed for the stated purpose during one fiscal year must be transferred to the county budget for the next fiscal year, for the same specified purpose.

Additionally, AG opinion 2014 OK AG 15 dated 10/31/2014 states:

> 4. C. As the fiscal agent responsible for superintending the funds of Canadian County, the board of county commissioners is responsible to ensure that the sales tax proceeds are not intermingled. The board can direct that the funds be deposited in a dedicated revolving fund and not intermingled with other revenues. Okla. Const. art. X § 19; 68 O.S. 2011, § 1370; 19 O.S. Supp. 2013, § 339; 19 O.S. 2011, § 345; Cavin v. Bd of County Comm'rs, 1943 OK 245 ¶ 11, 33 P.2d 477, 479.

Finding 2020-005 – Lack of Internal Controls and Noncompliance Over the Disbursement Process (Repeat Finding - 2012-005, 2013-005)

Condition: In the examination of forty-four (44) disbursements, it was noted that six (6) were not timely encumbered.

Cause of Condition: Policies and procedures have not been designed and implemented 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 ensuring that funds are encumbered prior to the receipt of goods and/or services in accordance with 19 O.S. § 1505.

Management Response:
Chairman of the Board of County Commissioners: The BOCC 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:

> Management designs appropriate types of control activities for the entity's internal control system. Control activities help management fulfill responsibilities and address identified risk responses in the internal control system. The common control activity categories listed in figure 6 are meant only to illustrate the range and variety of control activities that may be useful to management. The list is not all inclusive and may not include particular control activities that an entity may need.

Further, effective internal controls require that management properly implement procedures to ensure 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 2020-007 – Driving a County-Owned Vehicle While Receiving the Monthly Travel Allowance (Repeat Finding - 2012-008, 2013-007, 2019-007)

Condition: During the audit period, the District 2 County Commissioner received the monthly travel allowance in addition to driving a county-owned vehicle.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure compliance with state statute and AG Opinion regarding travel.

Effect of Condition: This condition resulted in noncompliance with state statute and AG Opinion that prohibits an official from receiving both the travel allowance and driving a vehicle for in-county travel purposes.

Recommendation: OSAI recommends that the Board of County Commissioners establish and approve a policy pertaining to County Official's monthly travel allowance. Further, OSAI recommends after establishing a travel policy for the elected official that each officer choose and document one of the following travel elections:

- Receive the monthly travel allowance as outlined by state statute and AG Opinion.
- File monthly claims with appropriate documentation for actual out of pocket travel expenses.
- Drive a County-owned vehicle in lieu of a monthly allowance.

Management Response:
County Commissioner District 2: I only drive a county vehicle to pick up and deliver parts and employees.

Auditor Response: In accordance with state law, a county official can either receive the statutory monthly allowance, file monthly claims with appropriate documentation for actual out of pocket travel expense, or drive a county-owned vehicle in lieu of a monthly allowance.

Criteria: Title 19 O.S. § 165(A) outlines the monthly travel allowance in lieu of reimbursements.

Further, 1999 OK AG 68 states in part: "Both the monthly travel allowances of Section 165 and the use of a county-owned vehicle under Section 19 O.S. 180.43(C) are "in lieu of" receiving a mileage reimbursement under Section 164. The use of a county-owned vehicle is also "in lieu" of the Section 165 monthly travel allowance." "Section 165 was amended in 1998 to specify that receipt of a travel allowance under Section 165 does not preclude the "emergency use of a county-owned vehicle or county-owned equipment by a county officer when such county officer is acting on behalf of the county or when such use is related to county business." Under this section, either a county sheriff or county commissioner may use a county-owned vehicle in an emergency situation even if the official received aa monthly allowance.

Finding 2020-009 – Lack of Internal Controls Over the Court Clerk Process (Repeat Finding - 2012-010, 2013-009, 2019-009)

Condition: Upon inquiry and observation of records, we noted the following deficiencies in the collection and deposit process:

- All employees can collect money and issue receipts from the same cash drawer.

Upon inquiry and observation of records, regarding the disbursement process of the Court Fund and Court Clerk Revolving, we noted the following:

- The Court Clerk performs the duties of requisitioning, preparing vouchers, signing vouchers, mailing, or delivering vouchers to vendors.

Cause of Condition: Policies and procedures have not been designed and implemented regarding internal controls over the collection and disbursement processes of the Court Fund and Court Clerk Revolving Fund.

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 that the duties of the collection process be adequately segregated. OSAI further recommends the disbursement process be adequately segregated regarding requisitioning, signing vouchers, issuing vouchers, receiving goods and services, and mailing or delivering vouchers to vendors.

Management Response:
Court Clerk: We will work to implement controls over the collection process. We will also work to have another employee help in the expenditure process of the Court Fund and Court Clerk Revolving Fund.

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.

Finding 2020-011 – Lack of Internal Controls Over the Inmate Trust Fund Checking Account (Repeat Finding - 2013-006, 2019-011)

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

- There is no audit evidence of a review being performed over the daily mail log.
- Receipts are printed but not distributed for checks, money orders or cash received.
- Receipts are not reconciled to the deposit by anyone other than the preparer.
- Audit evidence does not exist to support bank reconciliations are being performed and reviewed.
- At June 30, 2020, the bank account was short $1,578.12 compared to the commissary computer software balance.
- Deposits are not being performed daily.
- Ledgers containing the balance of each inmates' funds are not reconciled.

Cause of Condition: Policies and procedures have not been designed and implemented regarding the Inmate Trust Fund Checking Account.

Effect of Condition: These conditions resulted in noncompliance with state statutes. Also, without proper accounting and safeguarding of the Inmate Trust Fund Checking Account, there is an increased risk of undetected errors and possible misappropriation of funds. This condition could also result in a liability to the County.

Recommendation: OSAI recommends the following:

- 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.
- Receipts be distributed and reconciled to the deposit by someone other than the preparer.
- Collections should be deposited daily into the Inmate Trust Fund Checking Account. OSAI recommends the County Sheriff comply with 19 O.S. § 531(A) and 19 O.S. § 682 regarding daily depositing.

- Inmate trust fund monies should be maintained in a manner that reflects each inmate's trust deposits, disbursements, and account balances. The inmate's trust fund balances should be reconciled to the bank statements each month.
- The County reimburses the Inmate Trust Bank account for variances noted.

Management Response:
Chairman of the Board of County Commissioners: This happened under the previous County Sheriff and we will work with the current County Sheriff to correct this condition.

County Undersheriff: We will work to resolve this condition.

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.

Further, 19 O.S. § 531A that states in part, "…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."

Additionally, effective internal controls require that management properly implement procedures in accordance with 19 O.S. § 682 that states in part, "It shall be the duty of each and every county officer…to deposit daily…all monies…of every kind received or collected by virtue or under color of office…"

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