



MCCURTAIN COUNTY

Financial Report

For the fiscal year ended June 30, 2019

Cindy Byrd, CPA
State Auditor & Inspector

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

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Cindy Byrd, CPA | State Auditor & Inspector

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January 19, 2021

TO THE CITIZENS OF
McCURTAIN COUNTY, OKLAHOMA

Transmitted herewith is the audit of McCurtain County, Oklahoma for the fiscal year ended June 30, 2019. The audit was conducted in accordance with 19 O.S. § 171.

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

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

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

Sincerely,

CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR



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

Board of County Commissioners

District 1 – Chris White

District 2 – Joe Coffman

District 3 – Jimmy Westbrook

County Assessor

Stan Lyles

County Clerk

Karen Bryan

County Sheriff

Kevin Clardy

County Treasurer

Brad Box

Court Clerk

Vicki Justus

District Attorney

Mark Matloff

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

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FINANCIAL SECTION

Independent Auditor's Report

TO THE OFFICERS OF
McCURTAIN 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 McCurtain County, Oklahoma, as of and for the year ended June 30, 2019, and the related notes to the financial statement, which collectively comprise the County's basic financial statement as listed in the table of contents.

Management's Responsibility for the Financial Statement

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

Auditor's Responsibility

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

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

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



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

As described in Note 1, the financial statement is prepared by McCurtain 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 McCurtain County as of June 30, 2019, or changes in financial position for the year then ended.

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the combined total of receipts, disbursements, and changes in cash balances for all county funds of McCurtain County, for the year ended June 30, 2019, in accordance with the basis of accounting described in Note 1.

Other Matters

Supplementary Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2020, on our consideration of McCurtain 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 McCurtain County's internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Cindy Byrd". The signature is written in a cursive, flowing style.

CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR

December 14, 2020

REGULATORY BASIS FINANCIAL STATEMENT

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

	Beginning					Ending
	Cash Balances	Receipts	Transfers	Transfers		Cash Balances
	July 1, 2018	Apportioned	In	Out	Disbursements	June 30, 2019
Combining Information:						
County General Fund	\$ 522,687	\$ 3,269,165	\$ 595,000	\$ 595,000	\$ 2,983,465	\$ 808,387
Highway Cash	1,681,290	4,749,553	370,000	567,811	4,790,659	1,442,373
Assessor Revolving	2,351	1,621	-	-	1,710	2,262
County Clerk Lien Fee	5,696	10,154	-	-	14,970	880
County Clerk Preservation	16,466	40,565	-	-	20,298	36,733
Federal Forest	133,378	799	-	-	-	134,177
County Health Department	978,443	737,698	-	-	678,214	1,037,927
Hospital Authority	114,494	1,009,631	-	-	1,043,180	80,945
McCurtain County Tourism Authority	1,290,269	1,294,794	-	-	1,096,524	1,488,539
McCurtain County Fair Board	40,585	75,660	-	-	89,459	26,786
McCurtain County Volunteer Fire Department	1,768,759	1,026,916	-	-	934,974	1,860,701
Sheriff Confiscated Drug Fund	1,356	940	-	-	1,300	996
McCurtain County Sheriff Office	115,320	1,009,802	-	-	1,027,220	97,902
Pine Creek Patrol	1,897	17,636	-	-	18,660	873
Sheriff Service Fee	150,926	202,981	-	-	269,585	84,322
Solid Waste	616,839	2,119,470	-	-	2,035,065	701,244
Treasurer Mortgage Tax Certification Fee	21,274	7,065	-	-	16,872	11,467
Resale Payroll	23,669	175,000	-	-	147,639	51,030
Resale Property	311,871	232,969	291,411	225,000	304,347	306,904
Use Tax	379,603	619,373	-	-	808,345	190,631
McCurtain County Jail Trust	1,726,499	2,081,286	-	-	2,053,195	1,754,590
Court Clerk Payroll	555	218,597	-	-	205,297	13,855
Local Emergency Planning	2,217	1,000	-	-	-	3,217
KEDDO (REAP)	25	63,056	-	-	63,081	-
County Donations	-	24,400	-	-	-	24,400
Combined Total - All County Funds	<u>\$ 9,906,469</u>	<u>\$ 18,990,131</u>	<u>\$ 1,256,411</u>	<u>\$ 1,387,811</u>	<u>\$ 18,604,059</u>	<u>\$ 10,161,141</u>

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

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

1. Summary of Significant Accounting Policies

A. Reporting Entity

McCurtain 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 ad valorem, sales tax, officer's fees, interest earnings, and miscellaneous collections of the County. Disbursements are for the general operations of the County.

Highway Cash – accounts for state, local, and miscellaneous receipts and disbursements for the maintenance and construction of county roads and bridges.

Assessor Revolving – accounts for the collection of fees for copies and disbursements as restricted by state statutes.

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

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

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

Federal Forest – accounts for Schools and Roads Program Title III funds held, a federal grant program for the purpose of performing activities under the Firewise Communities program and to reimburse for emergency services performed on national forests.

County Health Department – accounts for monies collected on behalf of the county health department from ad valorem taxes, miscellaneous fees charged by the health department, and state and local revenues. Disbursements are for the operation of the county health department.

Hospital Authority – accounts for the collection of sales tax to be used for the purchase of equipment and to maintain the property of McCurtain County Hospital Authority.

McCurtain County Tourism Authority – accounts for the excise tax collected on lodging to be used for the promotion and development of tourism and recreational activities for McCurtain County.

McCurtain County Fair Board – accounts for the collection of sales tax funds to be used for the operation of the fairgrounds.

McCurtain County Volunteer Fire Department – accounts for sales tax funds to be used for the operation of the McCurtain County Volunteer Fire Departments.

Sheriff Confiscated Drug Fund – accounts for proceeds from forfeited drug cases. These funds are used for the intervention and prevention of narcotics use.

McCurtain County Sheriff Office – accounts for sales tax monies received for the operation of the McCurtain County Sheriff's Office.

Pine Creek Patrol – accounts for monies received from the Corps of Engineers for patrolling services.

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

Solid Waste – accounts for the sales tax and fee monies collected for the maintenance and operation of a solid waste system.

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 Payroll – accounts for the collections of interest and penalties on delinquent taxes and the disposition of same 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.

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

Use Tax – accounts for the use tax funds collected by the Oklahoma Tax Commission and remitted to the County. The BOCC has designated these funds to be used to help the County develop comprehensive emergency management and for the operation of the County.

McCurtain County Jail Trust – accounts for sales tax funds to be used for the operating, equipping, staffing, and maintaining the McCurtain County Jail.

Court Clerk Payroll – accounts for funds deposited by the Court Clerk to be used for payroll for the office.

Local Emergency Planning – accounts for funds from the Oklahoma Department of Environmental Quality for the operation of the volunteer fire departments.

KEDDO (REAP) – accounts for state funds received to be expended for the purpose of Rural Enterprise Assistance Project (REAP) projects.

County Donations – accounts for revenue from private donors to be disbursed for specific purposes.

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.

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

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

For the purposes of financial reporting, "Ending Cash Balances, June 30" includes cash and cash equivalents 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."

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

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.

2. 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.

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

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 McCurtain County approved a permanent one-half percent (1/2%) sales tax becoming effective immediately. This sales tax was established to provide revenue for the maintenance and operation of a solid waste system. These funds are accounted for in the Solid Waste fund.

On November 9, 1999, the voters of McCurtain County approved a permanent one-half percent (1/2%) sales tax effective January 1, 2000. This sales tax was established to provide revenue to operate, equip, staff, and maintain the McCurtain County Jail. These funds are accounted for in the McCurtain County Jail Trust fund.

On November 9, 1999, the voters of McCurtain County approved a permanent one-quarter percent (1/4%) sales tax effective January 1, 2000. This sales tax was established to provide revenue to staff and maintain the McCurtain County Sheriff's Department. These funds are accounted for in the McCurtain County Sheriff Office fund.

On June 26, 2012, the voters of McCurtain County approved a permanent one-quarter percent (1/4%) sales tax effective January 1, 2007. This sales tax was established to provide revenue for the fire protection of the county fire departments located in the following communities: Battiest, Bethel, Broken Bow, Eagletown, Garvin, Haworth, Hochatown, Holly Creek, Idabel, Millerton, Pickens, Pine Creek, Ringold, Rufe, Sherwood, Shinewell, Smithville, Tom, Valliant, Watson, and Wright City. These funds are accounted for in the McCurtain County Volunteer Fire Department fund.

The voters of McCurtain County approved a permanent renewal of a three percent (3%) excise tax upon public lodging receipts effective June 26, 2012. In addition to all other city, county, and state excise taxes upon the gross proceeds or gross receipts derived from the services of furnishing of rooms hotel, apartment hotel, rental cabin or motel, for the furnishing of public lodging, except campsites; said tax beginning to be collected on the first day of the calendar quarter following this election, and permanent, provided that the proceeds of such additional 3% excise tax shall be distributed as follows:

- 5% - To the McCurtain County General Fund for McCurtain County Fair Board;
- 10% - To the McCurtain County General Fund for administrative cost;
- 85% - To the McCurtain County Tourism Authority to be named by the McCurtain County Commissioners.

The purpose of said additional 3% excise tax to be to promote, encourage, and develop tourism and recreational activities beneficial to McCurtain County. These funds are accounted for in the

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

McCurtain County Tourism Authority fund, County General Fund, and McCurtain County Fair Board fund.

On June 28, 2016, the voters of McCurtain County approved a permanent renewal of a County sales tax of one-fourth of one percent (1/4%) presently being levied and assessed until rescinded by a vote of the qualified of the registered voters of McCurtain County; said tax continuing to be collected from April 1, 2017, all as set out in a resolution of the Board of County Commissioners of McCurtain County adopted March 28, 2016, providing that the one-fourth of one percent (1/4%) sales tax shall be used by the McCurtain County Hospital Authority, in its discretion, to purchase equipment and/or other capital improvements for the Hospital Authority, pay the principal and interest incurred to finance the purchase of equipment and/or capital improvements for the Hospital Authority, including supplies, capital equipment and labor, pay the cost of the annual independent audit of the accounting records of the Hospital Authority, and maintain the property of the McCurtain County Hospital Authority, and to support McCurtain Memorial Medical Management, Inc., with operating expenses, however, these funds may not be used for salaries, employee benefits, bonuses, employee travel, payroll taxes and expenses, or vehicles. These funds are accounted for in the Hospital Authority fund.

E. Tax Abatements

The County is subject to ad valorem tax abatements granted by the State of Oklahoma in accordance with the Oklahoma Constitution, Article 10 Section 6B for qualifying manufacturing concern—ad valorem tax exemption.

Under this program, a five-year ad valorem tax exemption exempts all real and personal property that is necessary for the manufacturing of a product and facilities engaged in research and development which meet the requirements set by the Oklahoma Constitution and statutes. Under Title 68 O.S. § 2902, in exchange for the five-year exemption, qualifying manufacturing concerns must meet certain minimum investment requirements for construction, acquisition, or expansion of a manufacturing facility. In addition, there are general minimum payroll requirements that must be met and the qualifying manufacturing concern must offer basic health benefit plans to all full-time employees within 180 days of employment.

The County had \$271,643 of ad valorem taxes abated under this program for the fiscal year ended June 30, 2019.

The State has an Ad Valorem Reimbursement Fund in accordance with Title 62 O.S. § 193 that is used to reimburse the County for the loss of revenue. Monies apportioned to this fund by the State also may be transferred to other state funds or otherwise expended as directed by the Legislature. In the event monies apportioned to the Fund are insufficient to pay all claims for reimbursement, claims for reimbursement for loss of revenue due to manufacturing exemptions of ad valorem taxes shall be paid first, and any remaining funds shall be distributed proportionally among the counties making claims for reimbursement for loss of revenue for school district exemptions.

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

F. Interfund Transfers

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

- \$370,000 was transferred from the Highway Cash fund to the County General Fund to meet requirements of appropriations in accordance with 68 O.S. § 3021. The interfund loan was repaid to the Highway Cash fund by the end of the fiscal year.
- \$225,000 was transferred from the Resale Property fund to the County General Fund to meet requirements of appropriations in accordance with 68 O.S. § 3021. The interfund loan was repaid to the Resale Property fund by the end of the fiscal year.
- \$66,411 was transferred from the Excess Resale Fund (a trust and agency fund) to the Resale Property fund in accordance with 68 O.S. § 313 (C).
- \$197,811 was transferred from Highway Cash fund into the ETR fund (a trust and agency fund) for repayment of loan for bridge and road projects.

SUPPLEMENTARY INFORMATION

McCURTAIN COUNTY, OKLAHOMA
COMPARATIVE SCHEDULE OF RECEIPTS, EXPENDITURES, AND
CHANGES IN CASH BALANCES—BUDGET AND ACTUAL—BUDGETARY BASIS—
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	General Fund		
	Budget	Actual	Variance
Beginning Cash Balances	\$ 522,687	\$ 522,687	\$ -
Less: Prior Year Outstanding Warrants	(12,229)	(12,229)	-
Less: Prior Year Encumbrances	(54,037)	(49,180)	4,857
Beginning Cash Balances, Budgetary Basis	<u>456,421</u>	<u>461,278</u>	<u>4,857</u>
 Total Receipts, Budgetary Basis	 <u>2,171,541</u>	 <u>3,269,165</u>	 <u>1,097,624</u>
Total Expenditures, Budgetary Basis	<u>3,244,635</u>	<u>2,973,406</u>	<u>271,229</u>
 Excess of Receipts and Beginning Cash Balances Over Expenditures, Budgetary Basis	 <u>\$ (616,673)</u>	 757,037	 <u>\$ 1,373,710</u>
 Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances			
Add: Cancelled Warrants		652	
Add: Current Year Outstanding Warrants		25,828	
Add: Current Year Encumbrances		<u>24,870</u>	
Ending Cash Balance		<u>\$ 808,387</u>	

McCURTAIN COUNTY, OKLAHOMA
COMPARATIVE SCHEDULE OF RECEIPTS, EXPENDITURES, AND
CHANGES IN CASH BALANCES—BUDGET AND ACTUAL—BUDGETARY BASIS—
COUNTY HEALTH DEPARTMENT FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	County Health Department Fund		
	Budget	Actual	Variance
Beginning Cash Balances	\$ 978,443	\$ 978,443	\$ -
Less: Prior Year Outstanding Warrants	(1,521)	(1,521)	-
Less: Prior Year Encumbrances	(112,756)	(106,316)	6,440
Beginning Cash Balances, Budgetary Basis	<u>864,166</u>	<u>870,606</u>	<u>6,440</u>
 Total Receipts, Budgetary Basis	 <u>678,966</u>	 <u>737,698</u>	 <u>58,732</u>
 Total Expenditures, Budgetary Basis	 <u>1,543,132</u>	 <u>655,497</u>	 <u>887,635</u>
 Excess of Receipts and Beginning Cash Balances Over Expenditures, Budgetary Basis	 <u>\$ -</u>	 952,807	 <u>\$ 952,807</u>
 Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances			
Add: Current Year Encumbrances		82,333	
Add: Current Year Outstanding Warrants		<u>2,787</u>	
Ending Cash Balance		<u>\$ 1,037,927</u>	

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

1. Budgetary Schedules

The Comparative Schedules of Receipts, Expenditures, and Changes in Cash Balances—Budget and Actual—Budgetary Basis for the General Fund and the County Health Department Fund present comparisons of the legally adopted budget with actual data. The "actual" data, as presented in the comparison of budget and actual, will differ from the data as presented in the Statement of Receipts, Disbursements, and Changes in Cash Balances (with Combining Information) because of adopting certain aspects of the budgetary basis of accounting and the adjusting of encumbrances and outstanding warrants to their related budget year.

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

INTERNAL CONTROL AND COMPLIANCE SECTION

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

TO THE OFFICERS OF
McCURTAIN 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 McCurtain County, Oklahoma, as of and for the year ended June 30, 2019, and the related notes to the financial statement, which collectively comprises McCurtain County's basic financial statement, prepared using accounting practices prescribed or permitted by Oklahoma state law, and have issued our report thereon dated December 14, 2020.

Our report included an adverse opinion on the financial statement because the statement is prepared using accounting practices prescribed or permitted by Oklahoma state law, which is a basis of accounting other than accounting principles generally accepted in the United States of America. However, our report also included our opinion that the financial statement does present fairly, in all material respects, the receipts, disbursements, and changes in cash balances – regulatory basis of the County for the year ended June 30, 2019, on the basis of accounting prescribed by Oklahoma state law, described in Note 1.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered McCurtain 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 McCurtain County's internal control. Accordingly, we do not express an opinion on the effectiveness of McCurtain 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: 2019-002 and 2019-003.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether McCurtain County's financial statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2019-005.

McCurtain County's Response to Findings

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

December 14, 2020

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

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

Finding 2019-002 — Lack of Segregation of Duties Over the Purchasing Process (Repeat Finding 2012-005, 2013-005, 2014-005, 2015-005, 2016-004, 2017-004, 2018-002)

Condition: Upon inquiry and observation of the County’s purchasing process, it was noted that there is a lack of segregation of duties:

- The Purchasing Deputy prepares purchase orders, encumbers purchase orders, approves/authorizes the encumbrance, reviews the purchase order for accuracy, prepares the warrants, maintains ledgers, distributes checks, and has access to make changes within the purchasing system.

Additionally, the Purchasing Deputy has limited knowledge over allowable disbursements for restricted funds.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure adequate segregation of duties in the County Clerk’s office with regard to the purchasing process. Also, policies and procedures have not been designed and implemented to ensure expenditures are appropriate for the designated funds.

Effect of Condition: This condition could result in unrecorded transactions, misstated financial reports, undetected errors, unallowable disbursements, and misappropriation of funds.

Recommendation: The Oklahoma State Auditor & Inspector’s Office (OSAI) recommends management be aware of this condition and determine if duties can be properly segregated. In the event that segregation of duties is not possible due to limited personnel, OSAI recommends implementing compensating controls to mitigate the risk involved with a concentration of duties. Compensating controls would include separating key processes and/or critical functions of the office, and having management review and approve accounting functions.

OSAI recommends management take steps to adequately segregate the following key accounting functions:

- Preparing purchase orders.
- Encumbering purchase orders.
- Printing warrants.
- Distributing warrants.

In addition, OSAI recommends designing and implementing internal controls to ensure expenditures are allowable for restricted funds.

**McCURTAIN COUNTY, OKLAHOMA
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Management Response:

County Clerk: Implementation of controls for segregation of duties regarding the purchasing duties are currently in transition.

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 – Principle 10 – Design Control Activities – 10.03 states in part:

Segregation of duties

Management divides or segregates key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud. This includes separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets so that no one individual controls all key aspects of a transaction or event.

Additionally, Principle 10 - Segregation of Duties states:

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

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

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

Finally, Objective of an Entity – Compliance Objectives – OV2.25 states:

Safeguarding of Assets

Management can develop from objectives more specific subobjectives throughout the organizational structure. Management defines subobjectives in specific and measurable terms that can be communicated to the personnel who are assigned responsibility to achieve

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these subobjectives. Both management and personnel require an understanding of an objective, its subobjectives, and defined levels of performance for accountability in an internal control system.

Finding 2019-003 – Lack of Segregation of Duties Over the Payroll Process (Repeat Finding 2008-002, 2009-002, 2010-018, 2011-018, 2012-006, 2013-006, 2014-006, 2015-006, 2016-005, 2017-005, 2018-003)

Condition: The duties over the payroll process in the County Clerk's office are not properly segregated.

- The Payroll Clerk enrolls new employees, inputs payroll information into the system, prepares the OPERS reports and state and federal tax reports. In addition, the Payroll Clerk processes payroll claims, prints and reviews payroll verification reports for errors, prints payroll warrants, and distributes payroll warrants.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure adequate segregation of duties in the County Clerk's office with regard to the payroll process.

Effect of Condition: This condition could result in unrecorded transactions, misstated financial reports, undetected errors, and misappropriation of funds.

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

OSAI recommends management take steps to adequately segregate the following key accounting functions:

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

Management Response:

County Clerk: Due to limited funds available the payroll department, payroll duties and processes are primarily limited to one deputy. A second deputy will assist in the payroll duties when available. To implement compensating controls, I will monitor and assist with the payroll process. Further, I will review the warrant register to ensure signatures are obtained to document distribution of payroll warrants.

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

Segregation of duties

Management divides or segregates key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud. This includes separating the responsibilities

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for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets so that no one individual controls all key aspects of a transaction or event.

Additionally, Principle 10 - Segregation of Duties states:

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

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

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

Finding 2019-005 — Noncompliance Over Disbursements (Repeat Finding 2008-005, 2009-005, 2010-010, 2011-011, 2012-012, 2013-012, 2014-010, 2015-010, 2016-009, 2017-009, 2018-005)

Condition: Of sixty-two (62) disbursements tested, five (5) disbursements were not timely encumbered.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure the County is in compliance with state statute regarding the disbursement process.

Effect of Condition: This condition resulted in noncompliance with state statutes and could result in unrecorded transactions, undetected errors, inaccurate records, incomplete information, and misappropriation of funds.

Recommendation: OSAI recommends that the County implement internal control procedures to ensure compliance with purchasing guidelines. Purchase orders should be encumbered before goods or services are ordered.

Management Response:

County Clerk: Our office is working with all departments in order to ensure compliance regarding the timely encumbrance of purchase orders.

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Chairman of the Board of County Commissioners: We are currently taking steps to correct this action, by educating our officers on proper processes.

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



Cindy Byrd, CPA | State Auditor & Inspector

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