

# OKLAHOMA COUNTY, OKLAHOMA REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE

For the year ended June 30, 2015



*Independently serving the citizens of  
Oklahoma by promoting the  
accountability and fiscal integrity of  
governmental funds.*



Oklahoma State  
Auditor & Inspector  
Gary A. Jones, CPA, CFE

**OKLAHOMA COUNTY, OKLAHOMA  
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*  
FOR THE YEAR ENDED JUNE 30, 2015**

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# Oklahoma State Auditor & Inspector

2300 N. Lincoln Blvd. • State Capitol, Room 100 • Oklahoma City, OK 73105 • Phone: 405.521.3495 • Fax: 405.521.3426

February 26, 2016

TO THE CITIZENS OF  
OKLAHOMA COUNTY, OKLAHOMA

Transmitted herewith is the 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* of Oklahoma County, Oklahoma for the fiscal year ended June 30, 2015. The audit was conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*.

A report of this type is critical in nature; however, we do not intend to imply that our audit failed to disclose commendable features in the present accounting and operating procedures of the County.

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

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

Sincerely,

A handwritten signature in blue ink that reads "Gary A. Jones".

GARY A. JONES, CPA, CFE  
OKLAHOMA STATE AUDITOR & INSPECTOR



# Oklahoma State Auditor & Inspector

2300 N. Lincoln Blvd. • State Capitol, Room 100 • Oklahoma City, OK 73105 • Phone: 405.521.3495 • Fax: 405.521.3426

**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  
OKLAHOMA 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 financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Oklahoma County, Oklahoma, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprises Oklahoma County's basic financial statements, and have issued our report thereon dated February 25, 2016. Our report includes a reference to other auditors who audited the financial statements of the Oklahoma County Public Buildings Authority, the Oklahoma County Finance Authority, and the Defined Benefit Retirement Plan of the Employees' Retirement System of Oklahoma County, as described in our report on Oklahoma County's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

## **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Oklahoma 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 statements, but not for the purpose of expressing an opinion on the effectiveness of Oklahoma County's internal control. Accordingly, we do not express an opinion on the effectiveness of Oklahoma 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 of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies: 2015-1, 2015-2.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Oklahoma County's financial statements are 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Oklahoma County's Response to Findings**

Oklahoma County's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Oklahoma County's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **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 results 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.



GARY A. JONES, CPA, CFE  
OKLAHOMA STATE AUDITOR & INSPECTOR

February 25, 2016

**OKLAHOMA COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2015**

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**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 2015-1–Inadequate Internal Controls Over Purchasing and Noncompliance with State Statutes**

**Condition:** While performing expenditures testwork, we noted the following pertaining to expenditures made for medical expenses of inmates:

- The Board of County Commissioners (BOCC) approved to enter into a contract with Inmate Medical Care for medical services for inmates. Throughout the fiscal year, the Sheriff's Office did not obtain purchase orders and periodically encumber amounts expected to be used for medical expenses, in accordance to the contract. As a result, eleven invoices totaling \$3,055,769.63 were not submitted for payment and were part of an outstanding balance due at June 30, 2015.
- Because the Sheriff's Office failed to properly encumber these expenditures, the amount of \$3,055,769.63 was not properly recorded in the County's financial records and the expenditures did not follow state statutes regarding the expenditure of county funds. No invoices were presented to the County Clerk's office and the BOCC for payment.
- We noted one purchase order totaling \$338,771.61 that was not timely encumbered due to the requisition and purchase order dated after the invoice date.
- The contract with Inmate Medical Care includes a clause for the vendor to submit an invoice to the County for final payment within 180 days after the end of the fiscal year.
- On October 14, 2015, Inmate Medical Care filed a lawsuit against the BOCC in the amount of \$3,314,610.67 for breach of contract.

**Cause of Condition:** The Sheriff did not follow state purchasing procedures which require that expenditures be encumbered prior to obligating the County for payment. Properly encumbering funds ensures that funds are available for the expenditure as well as providing for accurate financial records.

**Effect of Condition:** This condition resulted in the Sheriff obligating the County for expenditures that were not properly encumbered and resulted in noncompliance with state statutes. Further, the invoices not being sent to the County Clerk's office and the BOCC for payment have resulted in a lawsuit filed against the BOCC.

**Recommendation:** OSAI recommends that the county adhere to state purchasing guidelines and approved contracts by the BOCC. All contracts should be charged against the appropriation of the account from which it will be paid from and purchase orders should be encumbered before goods or services are received. All invoices incurred by the County should be timely submitted to the County Clerk's Office for payment.

**OKLAHOMA COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2015**

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**Management Response:**

**Board of County Commissioners Chairman:** The Board of County Commissioners was unaware of the problem. The problem was remediated after we found out about the problem. By resolution dated June 10, 2015, no contract will be approved by the BOCC unless the funds are encumbered for the contractual obligation.

**Criteria:** 62 O.S. § 310.2 states in part, "...The amount and purpose of each purchase order or contract shall be charged against the appropriation as made by the excise board or governing body at the time purchase is made or contract let and the balance in the appropriation account after such charges are deducted shall constitute the unencumbered balance available..."

19 O.S. § 1505 prescribes the procedures established for the requisition, purchase, lease-purchase, rental, and receipt of supplies, material, and equipment for maintenance, operation, and capital expenditures of county government.

62 O.S. § 310.4 states in part, "...All unencumbered balances, if any, as shown by the officer charged with keeping the appropriation and expenditure records of the county, city, or town on hand at the close of day June 30, may remain as a credit for said fiscal year up to the close of day September 30, next. Said officer charged with keeping the appropriation and expenditure records of the county, city, or town shall at any time during the month of July advertise in a newspaper of general circulation in the county and shall cause to be published for two (2) consecutive times if in a daily newspaper and once if in a weekly newspaper. Provided this act shall not be so construed to allow the incurring of a new indebtedness after June 30 chargeable to the appropriation account of the immediately preceding fiscal year..."

**Finding 2015-2–Payroll Internal Controls (Repeat Finding)**

**Condition:** During the examination of internal controls over processing of payroll, we noted certain weaknesses in that:

- 1) Each department submits a monthly payroll claim; however, controls are not in place to verify the accuracy of the payroll calculations that have been submitted by the individual department.
- 2) No controls are in place to check the accuracy of the leave balances submitted for payment by the individual department when an employee has been terminated.

This is a repeat finding from previous years and has not been corrected.

**Cause of Condition:** Procedures have not been designed to check the accuracy of the payroll claims and leave balances.

**Effect of Condition:** This condition could result in unrecorded transactions, misstated payroll records, or undetected errors.

**OKLAHOMA COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2015**

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**Recommendation:** The Oklahoma State Auditor & Inspector's Office (OSAI) recommends Oklahoma County implement internal controls that will ensure that all payroll calculations and/or transactions, which are submitted by each department, are properly checked for accuracy, completeness, and authorization. Our recommendation includes creating a centralized payroll department that has use of an automated, integrated payroll system. The accuracy of the time records can also be accomplished by independent oversight until an integrated resource information system is implemented.

**Management Response:**

**County Clerk:** Oklahoma County has implemented a new computer system for payroll and employee leave tracking. The system's first payroll cycle was January 2016. Oklahoma County established a payroll cycle whereby employees are paid for actual time worked. The system will maintain and track leave time and store all leave balances. The system calculates pay; there are no manual calculations by departments. The leave accrual calculations were formulated from the tables used by the State of Oklahoma.

**Criteria:** A component objective of an effective internal control system is to provide accurate and reliable information. Internal controls are designed to analyze and check accuracy, completeness, and authorization of payroll calculations and/or transactions.



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