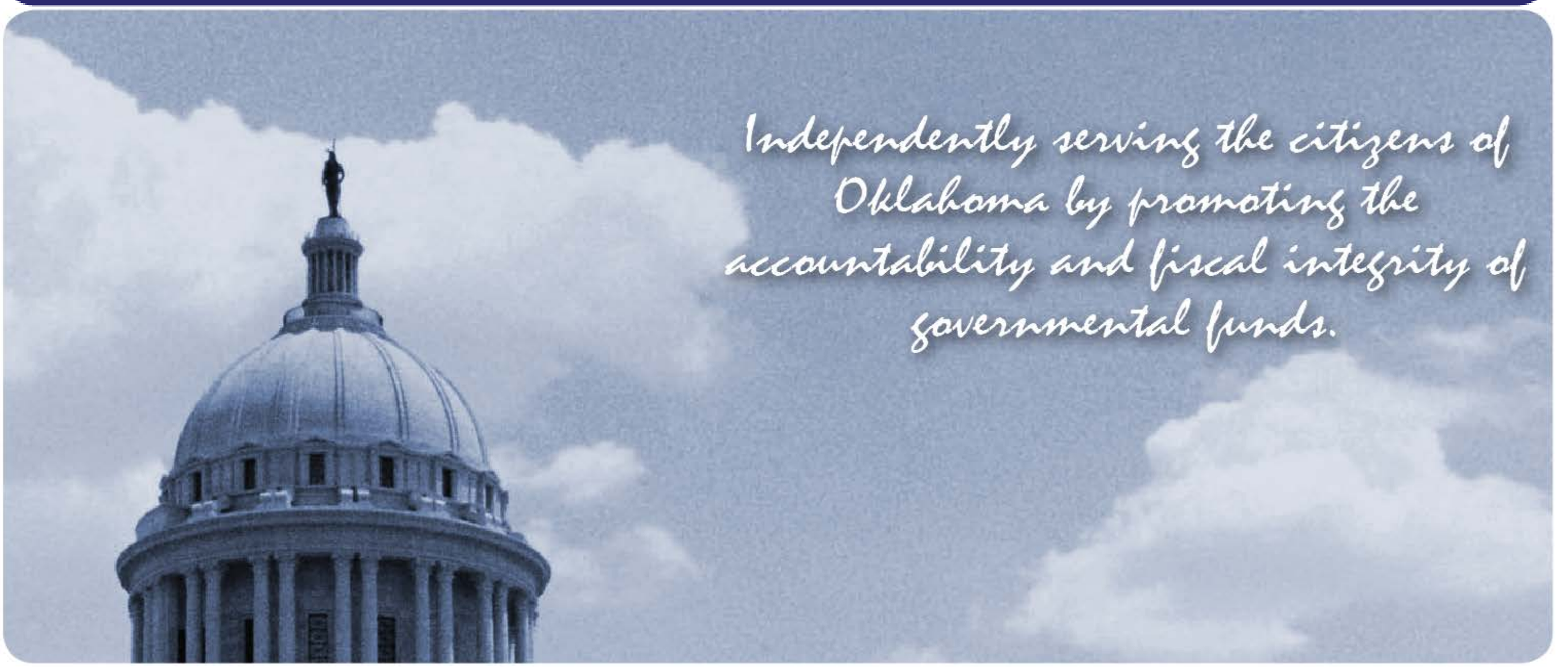
# Oklahoma County, Oklahoma
## Report on Internal Control Over Financial Reporting and Compliance

For the fiscal year ended June 30, 2017




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, 2017**

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Oklahoma State Auditor & Inspector

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April 4, 2018

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, 2017. 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,

Gary A Jones

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

**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, 2017, and the related notes to the financial statements, which collectively comprise Oklahoma County's basic financial statements, and have issued our report thereon dated March 26, 2018. 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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: 2017-001 and 2017-002.

**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*.

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

**Oklahoma County's Responses to Findings**

Oklahoma County's responses to the findings identified in our audit are 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 the responses.

**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

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

March 26, 2018

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

### Finding 2017-001 - Inadequate Internal Controls Over Payroll Disbursements (Repeat Finding)

**Condition:** We noted the following weaknesses in internal controls over processing of payroll:

- The centralized payroll process approved by the Budget Board and Board of County Commissioners (BOCC) is not being properly utilized resulting in the following:
    - Two departments use timekeeping systems that do not effectively interact with the approved centralized payroll system. Rather, the restrictions in the centralized system are not automatically applied to the two other timekeeping systems. Additionally, beginning leave balances were not included in the centralized payroll system's initial totals for one of these offices, which does not allow for leave benefits to be centrally tracked and calculated.
    - Negative leave balances were noted for some employees. There are no safeguards in the software system to prevent employees from recording annual or sick leave used when no balance is available.
    - Shared Leave is being donated without evidence of employees meeting all the proper Family Medical Leave Act (FMLA) criteria and without following the County Handbook policies.
    - Holiday Leave is not accurately accrued in two county departments according to the Fair Labor Standard Act (FLSA).
    - Compensatory time in some departments is not consistently calculated in accordance with FLSA regarding the time of law enforcement personnel, non-exempt and exempt employees.
- The County Employee Handbook has not been timely updated after concerns and inconsistencies were noted in the prior audit period.

**Cause of Condition:** Policies and procedures have not been implemented to ensure leave balances are centrally tracked and calculated for all county departments. The County Handbook has not been timely updated to reflect FMLA and FLSA guidelines regarding leave benefits for shared leave, holiday leave, and compensatory time. There is a lack of county-wide communication regarding allowed leave benefits.

**Effect of Condition:** These conditions could result in noncompliance with the FLSA and the County Employee Handbook. Employees were allowed paid time off without having accrued leave balances to use. The County Employee Handbook not being updated timely resulted in leave benefits not being consistently calculated and properly approved. These conditions could result in unrecorded transactions, misstated payroll records, under/over benefit payouts and reported leave balance obligations.

**Recommendation:** The Oklahoma State Auditor & Inspector's Office (OSAI) recommends Oklahoma County implement internal controls that will ensure that all departments utilize the centralized payroll system to properly and accurately account for leave balances. Additionally, OSAI recommends the County update the Employee Handbook for proper guidance in accruing leave benefits for compensatory time, shared leave, and holiday leave to ensure compliance with Fair Labor Standards Act and the Family Medical Leave Act. Further, OSAI recommends the BOCC enact county-wide policies that result in all departments following federal, state, and county requirements regarding the accrual and use of leave benefits. OSAI further recommends the official County Employee Handbook be updated in a timely manner.

**Management Response:**
**Chairman, Board of County Commissioners:** The County Handbook Committee is finalizing an updated version of the County Handbook and will soon make their recommendations to the Budget Board regarding consistency in interfacing with the centralized payroll system to comply with FMLA and FLSA guidelines.

**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 and to ensure compliance with the Family Medical Leave Act (FMLA) and the Fair Labor Standards Act (FLSA) regarding compensatory time, shared and holiday leave balances. Further, the FLSA sets forth specific requirements regarding the accrual of leave benefits for law enforcement personnel, non-exempt and exempt employees. Under FLSA, compensatory time for a non-exempt employee is based on 40 hours per work week.

Fair Labor Standards Act (FLSA):

> 29 C.F.R. § 553.211(a),(f) states in part:
> (a) As used in sections 7(k) and 13(b)(20) of the Act, the term “any employee . . . in law enforcement activities” refers to any employee (1) who is a uniformed or plainclothed member of a body of officers and subordinates who are empowered by State statute or local ordinance to enforce laws designed to maintain public peace and order and to protect both life and property from accidental or willful injury, and to prevent and detect crimes, (2) who has the power to arrest, and (3) who is presently undergoing or has undergone or will undergo on-the-job training and/or a course of instruction and study which typically includes physical training, self-defense, firearm proficiency, criminal and civil law principles, investigative and law enforcement techniques, community relations, medical aid and ethics.
>
> (f) The term “any employee in law enforcement activities” also includes, by express reference, “security personnel in correctional institutions.” A correctional institution is any government facility maintained as part of a penal system for the incarceration or detention of persons suspected or convicted of having breached the peace or committed some other crime. Typically, such facilities include penitentiaries, prisons, prison farms, county, city and village jails, precinct house lockups and reformatories. Employees of correctional institutions who qualify as security personnel for purposes of the section 7(k) exemption are those who have responsibility for controlling and maintaining custody of inmates and of safeguarding them from other inmates or for supervising such functions, regardless of whether their duties are performed inside the correctional institution or outside the institution (as in the case of road gangs). These employees are considered to be engaged in law enforcement activities regardless of their rank (e.g., warden, assistant warden or guard)

> or of their status as “trainee,” “probationary,” or “permanent,” and regardless of their assignment to duties incidental to the performance of their law enforcement activities, or to support activities of the type described in paragraph (g) of this section, whether or not such assignment is for training or familiarization purposes or for reasons of illness, injury or infirmity.
>
> 29 C.F.R. § 553.224 (a) states in part:
> As used in section 7(k), the term “work period” refers to any established and regularly recurring period of work which, under the terms of the Act and legislative history, cannot be less than 7 consecutive days nor more than 28 consecutive days.

During July 1999, the Oklahoma County Budget Board amended the employee policy regarding Exempt Employees to read: “Includes elected officials, department directors, first and second deputies of record in the County Clerk’s office, as well as other senior administrative personnel as designated by their elected official, and all other employees deemed “Exempt” by the FLSA, 29 U.S.C. Exempt employees are not entitled to compensatory time”.

**Finding 2017-002 - Inadequate Internal Controls Over the County Treasurer’s Bank Accounts**

**Condition:** Upon inquiry of the County Treasurer staff, review of documentation, and confirmation of bank accounts, it was noted that authorized check signers for the County’s bank accounts are not updated in a timely manner.

**Cause of Condition:** Policies and procedures have not been designed and implemented to review the authorized check signers on the County’s bank accounts.

**Effect of Condition:** This condition resulted in two employees, who are no longer employed by the County, being authorized check signers on two county bank accounts. Also, two current officials, who are not listed as authorized check signers with multiple bank accounts, have the ability to sign County checks.

Further, this condition could result in unrecorded transactions, misstated financial reports, undetected errors, or misappropriation of funds.

**Recommendation:** OSAI recommends that the County Treasurer implement a system of internal controls to provide reasonable assurance that only authorized employees of the County are signers on the County’s bank accounts.

**Management Response:**
**Chairman, Board of Commissioners:** The County Treasurer’s office has implemented a system of internal controls to provide reasonable assurance that only authorized employees of the County are on the County’s bank accounts.

**County Treasurer:** The Oklahoma County Treasurer's Comptroller was notified by SA&I in November 2017 regarding outdated bank signature cards. All bank signature cards were updated and proof thereof was provided to SA&I on December 1, 2017. Controls have been put in place to update signature cards when applicable.

**Criteria:** Accountability and stewardship are overall goals of management in the accounting of funds. An important aspect of internal controls is the safeguarding of assets. Internal controls over safeguarding of assets constitute a process, affected by an entity's governing body, management, and other personnel, designed to provide reasonable assurance regarding prevention or timely detection of unauthorized transactions, and safeguarding assets from misappropriation. Good internal controls would include a periodic review of authorized check signers with financial institutions to ensure only current personnel are authorized to sign County checks.

**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 2017-003 - Inadequate Internal Controls and Noncompliance Over Inmate Trust Fund Checking Account and Sheriff Commissary Fund**

**Condition:** An audit of the Inmate Trust Fund Checking Account and the Sheriff Commissary Fund reflected the following;

- The inmate ledger was not reconciled to the bank statements and cash on hand.
- Expenditures made from the Inmate Trust Fund Checking Account are for purposes other than to the Sheriff Commissary Fund or refunds to inmates.
- An annual Commissary Fund report was not filed with the Board of County Commissioners by January 15$^{th}$.

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

**Effect of Condition:** These conditions resulted in noncompliance with state statutes. Additionally, without proper accounting and safeguarding of the Inmate Trust Fund Checking Account there is an increased risk of misappropriation of funds.

**Recommendation:** OSAI recommends the following:

- Inmate Trust Fund monies should be maintained in a manner that reflects each inmate's trust deposits, disbursements, and account balances. The inmate's ledger balances should be reconciled to the bank statements and cash on hand each month.

- Expenditures should be made from the Inmate Trust Fund Checking Account in accordance with 19 O.S. § 531(A).
- The Sheriff should file a report of the Commissary with the Board of County Commissioners by January 15th, of each year in accordance with 19 O.S. § 180.43.

**Management Response:**
**Chairman, Board of County Commissioners:** The Sheriff's office is implementing steps to properly manage the accounting of funds.

**County Sheriff:**

- **Inmate ledger not being reconciled to the bank statement and cash on hand:**
  Currently the agency balances on a daily basis to the inmate specific account. This level of detail ensures accurate daily balances. At the recommendation of OSAI, Oklahoma County Sheriff's office has had discussions with our jail tracking vendor, and they are building a report where balances will be able to be reconciled to the overall bank statement on a monthly basis.

- **Expenditures made from the Inmate Trust fund are for purposes other than to the Sheriff Commissary Account or refund to inmates:**
  Previously, with the prior written consent and direction, inmates were allowed to instruct Inmate Trust as to where the inmate's money should be spent to purchase items not available on commissary (e.g. purchase telephone minutes, pay attorneys, pay bail bondsmen). Procedures will be further refined and controls examined to ensure that only allowable expenditures are discharged from the Inmate Trust Account. Alternative means are being examined that could benefit the inmate toward achieving their desired expenses.

- **Annual Commissary Fund report was not filed with the Board of County Commissioners by January 15th:**
  The form of the report has been supplied to OSAI and met with their approval. The report will be submitted in short order.

**Criteria:** Accountability and stewardship are overall goals of management in the accounting of funds. Internal controls should be designed to analyze and check accuracy, completeness, and authorization of disbursement calculations and/or transactions.

Title 19 O.S. § 531(A) states in part, "The county sheriff may establish a checking account, to be designated the "Inmate Trust Fund Checking Account[…]. The county sheriff shall deposit all monies collected from inmates incarcerated in the county jail into this checking account and may write checks to the Sheriff's Commissary Account for purchases made by the inmate during his or her incarceration and to the inmate from unencumbered balances due the inmate upon his or her discharge."

Title 19 O.S. § 180.43(D) states in part, "…the sheriff shall file an annual report on any said commissary under his or her operation no later than January 15 of each year..."

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