



OKMULGEE COUNTY

Financial Audit

For the fiscal year ended June 30, 2018

Cindy Byrd, CPA
State Auditor & Inspector

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

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Cindy Byrd, CPA | State Auditor & Inspector

2300 N. Lincoln Blvd., Room 123, Oklahoma City, OK 73105 | 405.521.3495 | www.sai.ok.gov

March 24, 2021

TO THE CITIZENS OF
OKMULGEE COUNTY, OKLAHOMA

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

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

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

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

Sincerely,

A handwritten signature in blue ink that reads "Cindy Byrd".

CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR



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

Board of County Commissioners

District 1 – Ron Ballard
District 2 – Robert Hardridge
District 3 – James Connors

County Assessor

Lisa Smart

County Clerk

Becky Thomas

County Sheriff

Eddy Rice

County Treasurer

Vonna Lampkins

Court Clerk

Charly Criner

District Attorney

Rob Barris

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

TABLE OF CONTENTS

FINANCIAL SECTION

Report of State Auditor and Inspector 1

 Financial Statement:

 Statement of Receipts, Disbursements, and Changes in Cash Balances—Regulatory Basis (with
 Combining Information)..... 4

 Notes to the Financial Statement..... 5

SUPPLEMENTARY INFORMATION

 Comparative Schedule of Expenditures—Budget and Actual—Budgetary Basis—General Fund..... 13

 Comparative Schedule of Expenditures—Budget and Actual—Budgetary Basis—County Health ... 14

 Note to Supplementary Information..... 15

INTERNAL CONTROL AND COMPLIANCE SECTION

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..... 16

Schedule of Findings and Responses..... 18

FINANCIAL SECTION

Independent Auditor's Report

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

Management's Responsibility for the Financial Statement

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

Auditor's Responsibility

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

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

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



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

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

Unmodified Opinion on Regulatory Basis of Accounting

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

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the combined total of all county funds on the financial statement. The supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and 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 March 23, 2021 on our consideration of Okmulgee 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 Okmulgee County's internal control over financial reporting and compliance.



CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR

March 23, 2021

REGULATORY BASIS FINANCIAL STATEMENT

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

	Beginning Cash Balances July 1, 2017	Receipts Apportioned	Transfers In	Transfers Out	Disbursements	Ending Cash Balances June 30, 2018
Combining Information:						
County General Fund	\$ 913,327	\$ 2,554,384	\$ -	\$ -	\$ 2,670,113	\$ 797,598
Highway Cash Fund	409,174	2,388,146	-	-	2,385,941	411,379
Highway TCR Fund	2,013,446	885,216	-	-	864,658	2,034,004
Half Cent Road Tax	354,372	1,416,914	-	-	1,330,950	440,336
County Health	877,269	623,680	-	-	581,864	919,085
Resale Property	1,010,123	366,810	46,899	-	399,246	1,024,586
CBRIF-105	964,957	501,311	-	-	335,582	1,130,686
County Use Tax	491,440	427,869	-	-	805,767	113,542
County Clerk Preservation Fee	38,257	33,715	-	-	35,248	36,724
Sheriff Service Fee	88,406	162,978	-	-	147,643	103,741
Sheriff 1/4 Cent Sales Tax	46,630	714,592	-	-	716,474	44,748
County Building Authority Sales Tax Proceeds	-	1,400,912	-	-	1,400,912	-
Anna McBride M.H. CT Grant	49,972	13,255	44,561	-	74,522	33,266
Family Treatment Court	58,081	41,655	-	57,115	38,323	4,298
Emergency Management	22,053	55,241	-	-	39,589	37,705
County Clerk Lien Fee	20,769	13,287	-	-	18,301	15,755
Drug Court	74,786	117,638	12,554	-	169,488	35,490
Sheriff Consolidated Special	1,935	-	-	-	-	1,935
County Treasurer Certification Fee	16,777	5,242	-	-	8,831	13,188
Sheriff DOC Cash	198	-	-	-	28	170
County Sinking	8,837	21	-	-	-	8,858
Assessor Visual Inspection	8,578	20	-	-	-	8,598
Trash Cops Fund	8,280	100	-	-	310	8,070
DARE	318	-	-	-	250	68
Anti Gang	151	-	-	-	-	151
Sheriff Reserve Account	330	-	-	-	-	330
Assessor Revolving Fund	10,094	1,395	-	-	400	11,089
Community Development Block Grant-Rural Water District 7	913	-	-	-	-	913
Community Development Block Grant-County Fairgrounds	1,172	-	-	-	-	1,172
Community Development Block Grant-Rural Water District 5	1,620	130,844	-	-	132,464	-
Emergency 911	100,790	548,812	-	-	582,260	67,342
District Attorney JAG ARRA 2010	66	-	-	-	-	66
Court Clerk Payroll	-	247,434	-	-	227,205	20,229
Industrial Development Sinking Fund	34,498	81	-	-	-	34,579
Criminal Justice Authority	2,500	-	-	-	-	2,500
Combined Total - All County Funds	\$ 7,630,119	\$ 12,651,552	\$ 104,014	\$ 57,115	\$ 12,966,369	\$ 7,362,201

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

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

1. Summary of Significant Accounting Policies

A. Reporting Entity

Okmulgee 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 school districts and cities and towns. The cash receipts and disbursements attributable to those other entities do not appear in funds on the County's financial statement; those funds play no part in the County's operations. Any trust or agency funds maintained by the County are not included in this presentation.

B. Fund Accounting

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

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

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

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

Highway TCR Fund – accounts for revenues from imposed fuel taxes, FEMA reimbursements, interest, and miscellaneous reimbursements. Disbursements are for maintenance, material, and equipment for county roads and highways.

Half Cent Road Tax – accounts for revenues from special sales tax from the State of Oklahoma and interest. Disbursements are for the Okmulgee County road system.

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

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

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

CBRIF-105 – accounts for revenues from state-imposed taxes, Oklahoma Department of Transportation, and interest. Disbursements are for road and bridge projects.

County Use Tax – accounts for sales tax charged to out-of-county vendors on in-county sales. Disbursements are for any legal expense of the County.

County Clerk Preservation Fee – accounts for fees collected for instruments filed with the County Clerk as restricted by statute to be used for preservation of records.

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

Sheriff 1/4 Cent Sales Tax – accounts for revenues from special sales tax and disbursements are for lawful operations of the Sheriff's office.

County Building Authority Sales Tax Proceeds – accounts for the revenue from ½ cent county sales tax to be disbursed in accordance with the sales tax ballot.

Anna McBride M.H. CT Grant – accounts for contractual revenues from the state and fees and donations from individuals enrolled in the program. Disbursements are for personal services and maintenance and operation costs related to the operation of the program.

Family Treatment Court – accounts for contractual revenues from the state and fees and donations from individuals enrolled in the program. Disbursements are for personal services and maintenance and operation costs related to the operation of the program.

Emergency Management – accounts for revenues from state matching grants, and miscellaneous fees and disbursements are for personal services and maintenance and operation.

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

Drug Court – accounts for contractual revenues from state and fees and donations from individuals enrolled in the program. Disbursements are for personal services and maintenance and operation costs related to the operation of the program.

Sheriff Consolidated Special – accounts for consolidation of miscellaneous Sheriff's funds.

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

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

Sheriff DOC Cash – accounts for revenues from the state for the reimbursements of juvenile transports and disbursements are for maintenance and operation.

County Sinking – accounts for debt service receipts derived generally from a special ad valorem tax levy and from interest earned on investments of cash not immediately required for debt service payments.

Assessor Visual Inspection – accounts for the receipt and disbursement of funds by the Assessor as restricted by state statute for the visual inspection program.

Trash Cops Fund – accounts for the state trash cop grant and disbursed for the purpose of trash patrol.

DARE – accounts for revenues from donations and disbursements are for program operations.

Anti Gang – accounts for state grant revenues and disbursements are for program operations.

Sheriff Reserve Account – accounts for revenues from donations and disbursements are for equipment and for reserve program.

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

Community Development Block Grant-Rural Water District 7 – accounts for collections and disbursements of Community Development Block Grant monies used for rural water improvements in Rural Water District 7.

Community Development Block Grant-County Fairgrounds – accounts for collections and disbursements of Community Development Block Grant monies used for improvements to the county fairgrounds.

Community Development Block Grant-Rural Water District 5 – accounts for collections and disbursements of Community Development Block Grant monies used for rural water improvements in Rural Water District 5.

Emergency 911 – accounts for monies received from private telephone companies for the operations of emergency 911 services.

District Attorney JAG ARRA 2010 – accounts for federal grant money to be used by the County Sheriff for the Justice Assistance Grant program as restricted by the grant requirements.

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

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

Industrial Development Sinking Fund – accounts for interest earned on revenues generated from the leasing of County lands.

Criminal Justice Authority – accounts for Rural Economic Action Plan (REAP) grant money received from the state and disbursed as restricted by the grant requirements.

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 May 31 of each year, each officer or department head submits an estimate of needs (budget) to the governing body. The budget is approved for the respective fund by office, or department and object. Within weeks, the County Budget Board may approve changes of appropriations within the fund by office or department and object.

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.

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

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

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

amended by the Oklahoma Legislature. The Plan provides retirement, disability, and death benefits to Plan members and beneficiaries. Title 74, Sections 901 through 943, as amended, establishes the provisions of the Plan. OPERS issues a publicly available financial report that includes financial statements and supplementary information. That report may be obtained by writing OPERS, P.O. Box 53007, Oklahoma City, Oklahoma 73105 or by calling 1-800-733-9008.

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

B. Other Post Employment Benefits (OPEB)

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

C. Contingent Liabilities

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

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

D. Sales Tax

The voters of Okmulgee County approved a one-half of one percent (0.50%) sales tax on November 9, 1999. This sales Tax was established solely to pay for acquiring, constructing, equipping, operating and maintaining new county jail facilities and parking facility for Okmulgee County and to pay the principal and interest on indebtedness incurred on behalf of the Okmulgee County Governmental Building Authority. One-fourth of one percent (0.25%) shall continue on a permanent basis and one-fourth (0.25%) shall expire and cease to be collected when aforesaid indebtedness of the Okmulgee County Governmental Building Authority is paid or December 31, 2019, whichever comes first. These funds are accounted for in the County Building Authority Sales Tax Proceeds fund.

On March 4, 2014, the voters of Okmulgee County approved a permanent extension of the Okmulgee County Governmental Building Authority's one-fourth of one percent (0.25%) sales tax

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

that would have otherwise terminated no later than December 31, 2019. This sales tax was continued to pay for acquiring, constructing, equipping, operating and maintaining the County jail and parking facilities and to pay the principal of and interest on indebtedness incurred on behalf of the County by any public trust having the County as the beneficiary. These funds are accounted for in the County Building Authority Sales Tax Proceeds fund.

The voters of Okmulgee County approved a permanent one-half percent (0.50%) sales tax on December 14, 2010. This sales tax was established to provide revenue for the use and benefit of the Okmulgee County Road System. These funds are accounted for in the Half Cent Road Tax fund.

The voters of Okmulgee County also approved a permanent one-fourth of one percent (0.25%) sales tax on December 14, 2010. This sales tax was established to provide revenue for the lawful duties and responsibilities of the County Sheriff's Office. These funds are accounted for in the Sheriff ¼ Cent Sales Tax 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 \$35,422 of ad valorem taxes abated under this program for the fiscal year ended June 30, 2018.

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.

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

F. Interfund Transfers

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

- \$46,899 was transferred from the Excess Resale fund, a trust and agency fund, to the Resale Property fund in accordance with 68 O.S. § 3131C.
- \$12,554 was transferred from the Family Treatment Court fund to the Drug Court fund to correct a prior year apportionment error.
- \$44,561 was transferred from the Family Treatment Court fund to the Anna McBride M.H. CT Grant fund to correct a prior year apportionment error.

SUPPLEMENTARY INFORMATION

OKMULGEE COUNTY, OKLAHOMA
COMPARATIVE SCHEDULE OF EXPENDITURES—BUDGET AND ACTUAL—
BUDGETARY BASIS—GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	General Fund		
	Budget	Actual	Variance
District Attorney - State	\$ 12,664	\$ 7,933	\$ 4,731
County Sheriff	157,281	157,034	247
County Treasurer	72,993	72,848	145
County Commissioners	214,144	209,076	5,068
County Commissioners O.S.U. Extension	75,233	75,079	154
County Clerk	209,255	207,746	1,509
Court Clerk	107,247	106,052	1,195
County Assessor	112,440	111,941	499
Revaluation of Real Property	311,682	310,300	1,382
General Government	1,434,723	1,142,313	292,410
Excise - Equalization Board	3,629	2,746	883
County Election Expense	92,472	89,670	2,802
County Purchasing Agent	32,974	32,578	396
Charity	1,000	1,000	-
Highway Budget Account	76,470	62,946	13,524
County Audit Budget Account	49,606	30,609	18,997
Free Fair Budget Account	25,001	24,983	18
Provisions for Interest	5,000	2,994	2,006
Total Expenditures, Budgetary Basis	\$ 2,993,814	\$ 2,647,848	\$ 345,966

OKMULGEE COUNTY, OKLAHOMA
COMPARATIVE SCHEDULE OF EXPENDITURES—BUDGET AND ACTUAL—
BUDGETARY BASIS—COUNTY HEALTH
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	Health Fund		
	Budget	Actual	Variance
Health and Welfare	\$ 1,377,628	\$ 659,811	\$ 717,817
Total Expenditures, Budgetary Basis	\$ 1,377,628	\$ 659,811	\$ 717,817

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

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

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
OKMULGEE 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 Okmulgee County, Oklahoma, as of and for the year ended June 30, 2018, and the related notes to the financial statement, which collectively comprises Okmulgee County’s basic financial statement, prepared using accounting practices prescribed or permitted by Oklahoma state law, and have issued our report thereon dated March 23, 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, 2018, on the basis of accounting prescribed by Oklahoma state law, described in Note 1.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered Okmulgee 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 Okmulgee County’s internal control. Accordingly, we do not express an opinion on the effectiveness of Okmulgee County’s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be material weaknesses: 2018-001, 2018-005, 2018-009, 2018-010, 2018-011.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Okmulgee 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 matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2018-010.

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

Okmulgee County's Response to Findings

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

March 23, 2021

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

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

2018-001 – Lack of County-Wide Internal Controls and Lack of Disaster Recovery Plans (Repeat Finding – 2015-001, 2016-001, 2017-001)

Condition: When assessing the county-wide internal controls, the following weaknesses were noted:

- County-wide internal controls regarding Control Environment, Risk Assessment, Information and Communication and Monitoring have not been designed.
- The County Sheriff, County Assessor, and the County Commissioner’s Districts have not yet designed a Disaster Recovery Plan over information systems operating within each office.

Cause of Condition: Policies and procedures have not been designed and implemented to address county-wide internal controls and to ensure all county offices have a Disaster Recovery Plan.

Effect of Condition: Without an adequate system of county-wide internal controls, there is a greater risk of a breakdown in control activities which could result in unrecorded transactions, undetected errors, or misappropriation of funds. Further, the lack of a Disaster Recovery Plan could also result in the loss of data, the unreliability of data, and increase the risk that the County may not recover from an emergency and/or disaster in a timely manner.

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

OSAI further recommends all officials have a formal Disaster Recovery Plan for their office in order to maintain operations in the event of a disaster.

Management Response:

Chairman of the Board of County Commissioners/District 2 County Commissioner: Okmulgee County Budget Board will be more involved as a group to create a county-wide control system. In addition, we will design and implement a county-wide Disaster Recovery Plan and ensure each elected official designs and implements a Disaster Recovery Plan as well.

District 1 County Commissioner: I will work with the other County Officials to implement quarterly meetings to discuss and assess risks and with the other County Commissioners to prepare Disaster Recovery Plans.

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

District 3 County Commissioner: County Commissioners, along with other office heads, will be working with Emergency Management to design and implement a county-wide Disaster Recovery Plan and ensure that each elected official implements a plan as well. Additionally, we will work to implement county-wide controls regarding Control Environment, Risk Assessment, Information and Communication, and Monitoring.

County Clerk: Okmulgee County Budget Board will be more involved as a group to create a county-wide control system, in lieu of each individual office.

County Treasurer: We will work on designing and implementing procedures over county-wide controls to identify and address risks regarding Control Environment, Risk Assessment, Information and Communication, and Monitoring.

County Sheriff: I will work with the other County Officials to implement quarterly meetings to discuss and assess risks. Additionally, we are in the process of preparing our Disaster Recovery Plan.

County Assessor: I was not in Office at this time and had no knowledge of needing a Disaster Recovery Plan. However, I have since created a Disaster Recovery Plan for my office. My plan for the future is to work with the County Commissioners and other County Officers to establish new policies and procedures for county-wide controls.

Court Clerk: I will discuss these issues with the proper officials and work with them to put a county-wide control plan in place.

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.

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

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, an important aspect of internal controls is the safeguarding of assets which includes adequate Disaster Recovery Plans. 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 in a County being unable to function in the event of a disaster.

According to the standards of the Information Systems Audit and Control Association (CobiT Delivery and Support 4), information services function management should ensure that a written Disaster Recovery Plan is documented and contains guidelines and instructions for the county to follow in the event of a disaster.

Finding 2018-005 – Lack of Internal Controls Over County Treasurer Operations – Cash Balances (Repeat Finding - 2015-009, 2016-009, 2017-005)

Condition: Upon inquiry of the County Treasurer's staff and observation of records, we noted the following:

- One person is responsible for posting to the General Ledger, reconciling the General Ledger to the daily reports, preparing and signing the monthly reports, and performing banks reconciliations.
- If the person responsible for the preparation of the monthly reports and bank reconciliations is unavailable, no one assumes these duties but rather these duties are not performed until said individual returns.
- Bank reconciliations were not always reviewed and approved by someone other than the preparer.

Cause of Condition: Policies and procedures have not been designed and implemented to separate key functions and processes among various employees in the office, to have levels of review over the processes performed, and to ensure accurate and proper accounting of funds.

Effect of Condition: These conditions could result in unrecorded transactions, misstated financial reports, clerical errors or misappropriation of funds not being detected in a timely manner.

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 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.

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

Management Response:

County Treasurer: The County Treasurer will make every effort to review, date, and initial as a reviewer on the items listed above on a regular basis. In addition, cross-training will be performed so that essential bookkeeping duties are not left undone when an employee is out of office.

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 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 2018-009 – Lack of Internal Controls Over the Reconciliation of the Appropriation Ledger to the General Ledger (Repeat Finding - 2015-008, 2016-008, 2017-008)

Condition: The County Clerk does not reconcile the appropriation ledger to the County Treasurer’s general ledger.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure the reconciliation of the County Clerk’s appropriation ledger to the County Treasurer’s general ledger is performed on a monthly basis for all funds.

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

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

Recommendation: OSAI recommends the County Clerk reconciles the appropriation ledger to the County Treasurer's general ledger on a monthly basis. The reconciliation should be reviewed and approved by someone other than the preparer. All documentation to support the performance and review and approval of the reconciliation should be retained.

Management Response:

County Clerk: The County Clerk's office and Treasurer's office are now balancing the appropriation ledger every month to ensure accuracy.

County Treasurer: This Office has been working with the County Clerk to balance the appropriation ledger to the general ledger and will continue to provide necessary information to the County Clerk.

Criteria: The GAO Standards - Principle 16 – Perform Monitoring Activities: 16.05 states in part:

Internal Control System Monitoring

Management performs ongoing monitoring of the design and operating effectiveness of the internal control system as part of the normal course of operations. Ongoing monitoring includes regular management and supervisory activities, comparisons, reconciliations and other routine actions.

2018-010 - Lack of Internal Controls and Noncompliance Over Disbursement Process (Repeat Finding – 2000-001, 2001-001, 2015-011, 2016-011, 2017-009)

Condition: Upon inquiry, observation, and review of the County's disbursement process, the following was noted:

- One person, the Purchasing Agent is responsible for generating and printing warrants, taking the warrants to the Treasurer to be registered, voiding warrants in the system, and, and using the County Clerk's signature stamp to sign warrants.
- OSAI obtained the County Clerk's disbursement data three (3) different times. Each time the data was incomplete and lacked warrant pay dates. There appears to be an issue with importing data between the County Treasurer and the County Clerk.
- The County expended \$1,556,586 in County funds without following proper expenditure procedures as outlined in 19 O.S. § 1505.
 - \$1,400,762 in sales tax collections were paid to the Okmulgee County Building Authority via bank transfer without issuing a purchase order and warrant.
 - \$155,824 in payroll expense for Court Clerk employees were paid via Court Fund claims and vouchers.

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

The audit of sixty-three (63) out of six thousand seven hundred seventy-seven (6,777) expenditures reflected the following:

- Four (4) payroll expenditures totaling \$8,106 were not charged to the proper fund and were not supported by timesheets.
- Two (2) expenditures totaling \$3,302 were not made for the appropriate amount.
- Ten (10) expenditures totaling \$6,230 were not encumbered prior to the ordering or receiving of goods or services.

Additionally, the County issued thirty-two (32) purchase orders and warrants totaling \$261,368 between County funds. The purchase orders and warrants were issued to reimburse one county fund for another county fund's actual expenditures, transfers from one county fund to another, or correct apportionment errors.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure:

- Key functions and processes over disbursements are properly segregated or have adequate levels of reviews over processes performed.
- The County is in compliance with state statute regarding the disbursement process for all County funds.
- Purchase orders are not issued for the purpose of transferring funds or to correct errors.
- Expenditures are accurately reflected in the County's expenditure data.
- Signature stamps are safeguarded from unauthorized use.

Effect of Condition: These conditions resulted in noncompliance with state statute, unrecorded transactions, undetected errors, and inaccurate records and could have resulted in the 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 approve accounting functions.

OSAI also recommends the County implement a system of internal controls over the disbursement process. Such controls should include:

- Expenditures are made from the appropriate funds.
- Funds are encumbered prior to the receipt of goods and/or services.
- Expenditures are supported by adequate documentation.
- Purchase orders and warrants are issued in accordance with 19 O.S. § 1505.
- Expenditure data is complete and accurate.

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

- Signature stamps are safeguarded from unauthorized use and are only used by the official to whom it belongs.

Management Response:

Chairman of the Board of County Commissioners/District 2 County Commissioner: I will make the necessary adjustments and adhere to the state purchasing guidelines for all County funds. I will ensure for all departments that fall under the authority of the BOCC, that purchase orders are encumbered prior to the receipt of goods and/or services, purchase orders are supported by adequate documentation, purchase orders and warrants are issued in accordance with 19 O.S. § 1505.

District 1 County Commissioner: I will ensure receiving reports are signed for all expenditures and continue to ensure encumbrances are completed before purchases are made. The sales tax expenditure process has been corrected by issuing a purchase order and warrant to disburse the funds.

District 3 County Commissioner: I will work towards ensuring expenditures are supported by adequate documentation and are encumbered properly. We will work on not issuing warrants and purchase orders between funds.

County Clerk: I will work to segregate the purchasing duties by implementing compensating controls and no longer allow the use of my signature stamp by anyone but myself. Going forward I will make the necessary adjustments and adhere to the state purchasing guidelines for all County funds. I will ensure purchase orders are encumbered prior to the receipt of goods and/or services, and purchase orders are supported by adequate documentation, purchase orders and warrants are issued in accordance with 19 O.S. § 1505. Additionally, I will work to ensure the accuracy of the County's financial data.

County Treasurer: The Treasurer's Office does not use purchase orders and warrants in place of transfers. The sales tax disbursement issue has been corrected by using purchase orders and warrants to disburse funds. Additionally, I will work to ensure funds are encumbered prior to the receipt of goods and/or services.

County Sheriff: I will file all timesheets with the County Clerk's Office. Additionally, fund to fund disbursements will no longer be made. Additionally, I will implement a system of internal controls over the disbursement process to ensure funds are encumbered prior to the receipt of goods and/or services, expenditures are supported by adequate documentation, and that expenditures are made in the correct amount.

Health Department: I will work to implement a system of internal controls over the disbursement process to ensure that funds are encumbered prior to the receipt of goods and/or services.

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 for authorizing transactions, processing and recording them, reviewing the transactions,

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

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.

Furthermore, Principle 13 – Use of Quality Information states in part:

Relevant Data from Reliable Sources

13.04 - Management obtains relevant data from reliable internal and external sources in a timely manner based on the identified information requirements. Relevant data have a logical connection with, or bearing upon, the identified information requirements. Reliable internal and external sources provide data that are reasonably free from error and bias and faithfully represent what they purport to represent. Management evaluates both internal and external sources of data for reliability. Sources of data can be operational, financial, or compliance related. Management obtains data on a timely basis so that they can be used for effective monitoring.

Data Processed into Quality Information

13.05 - Management processes the obtained data into quality information that supports the internal control system. This involves processing data into information and then evaluating the processed information so that it is quality information. Quality information meets the identified information requirements when relevant data from reliable sources are used. Quality information is appropriate, current, complete, accurate, accessible, and provided on a timely basis. Management considers these characteristics as well as the information processing objectives in evaluating processed information and makes revisions when necessary so that the information is quality information.

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

Section 2 – Establishing an Effective Internal Control System – OV2.23 states in part:

Objectives of an Entity – 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.

Effective internal controls require that management properly implement procedures to ensure that expenditures comply with 19 O.S. § 1505.

Finding 2018-011 – Lack of Internal Controls and Segregation of Duties Over Payroll (Repeat Finding – 2011-001, 2012-001, 2015-012, 2016-012, 2017-010)

Condition: Upon inquiry and observation of the County’s payroll process, we noted one employee is responsible for the following:

- Enrolling new hires.
- Reviewing payroll claims.
- Inputting payroll information into the system.
- Calculating withholdings.
- Preparing withholding reports.
- Preparing, printing, and distributing payroll warrants.
- Signing payroll warrants with County Clerk’s signature stamp.
- Maintaining warrant register.
- Removing terminated employees from payroll system.
- Maintaining personnel files.
- Reconciling direct deposit amounts back to payroll claims. Additionally, this individual is the direct contact for the bank regarding direct deposit issues.

Cause of Condition: Policies and procedures have not been designed and implemented with regard to segregation of duties and/or compensating controls over the payroll process.

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

Recommendation: OSAI recommends that 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 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 approve accounting functions.

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

The following key accounting functions of the payroll process should be adequately segregated:

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

Further, OSAI also recommends that signature stamps are only used by the official to whom it belongs.

Management Response:

County Clerk: I am now responsible for removing terminated employees from the payroll system. Additionally, I review and certify the payroll affidavit which includes the withholdings. The Treasurer's Office is the contact for any direct deposit issues. Lastly, my signature stamp is now under my physical control and will only be used by me.

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 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.

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

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

Finding 2018-003 - Lack of Internal Controls Over the Schedule of Expenditures of Federal Awards (Repeat Finding)

Condition: During the review and reconciliation of the Schedule of Expenditures of Federal Awards (SEFA) prepared by the County, OSAI identified federal programs that were not listed accurately on the County’s SEFA resulting in federal expenditures being understated by \$150,316.

The following misstatements were noted:

- The actual expenditures for the Payments in Lieu of Taxes, CFDA 15.226, were \$11,397; however, the County reported \$0, which understated expenditures by \$11,397.
- The actual expenditures for the National Wildlife Refuge Fund, CFDA 15.659, were \$14,194; however, the County reported \$25,580, which overstated expenditures by \$11,386.
- The actual expenditures for Disaster Grants - Public Assistance (Presidentially Declared Disasters), CFDA 97.036 were \$150,305; however, the County reported \$0, which understated expenditures by \$150,305.

Reported Total Expenditures of Federal Awards	\$202,538
Plus: Payments in Lieu of Taxes (CFDA 15.226)	11,397
Less: National Wildlife Refuge Fund (CFDA 15.659)	(11,386)
Plus: Disaster Grants – Public Assistance (Presidentially Declared Disasters) (CFDA 97.036)	<u>150,305</u>
Actual Federal Expenditures of Federal Awards	<u>352,854</u>
Original SEFA Understated by	<u>\$150,316</u>

Additionally, the County did not present the SEFA to OSAI until December 17, 2018, six months after the fiscal year end and the SEFA was not approved by the BOCC in an open meeting.

Cause of Condition: Internal controls over the SEFA have not been designed and implemented to ensure an accurate and timely reporting of expenditures for federal awards.

Effect of Condition: These conditions resulted in the erroneous reporting and a material misstatement of the County’s SEFA and could increase the potential for material noncompliance.

Recommendation: OSAI recommends County Officials and department heads gain an understanding of federal programs awarded to Okmulgee County. Internal control procedures should be designed and

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

implemented to ensure accurate reporting of expenditures on the SEFA and to ensure compliance with federal requirements.

Management Response:

District 1 County Commissioner: I will work with the other elected officials to ensure an accurate and timely reporting of federal expenditures on the SEFA.

District 2 County Commissioner: I will work to implement controls to ensure an accurate and timely reporting of expenditures and revenues on the SEFA and to ensure compliance with federal requirements.

District 3 County Commissioner: Internal controls will be designed and implemented to ensure an accurate and timely reporting of federal expenditures on the SEFA and to ensure compliance with federal grant requirements.

County Clerk: I will continue to report the federal revenues and expenditures that are given to me when compiling the SEFA and will add extra steps to check all figures for accuracy.

County Treasurer: This office will continue to aid in the preparation of the SEFA by providing the necessary reports that we have available to the County Clerk, who compiles the information for the County.

County Sheriff: I will work with the other elected officials to ensure the SEFA is accurately and timely prepared.

Criteria: Title 2 CFR 200 § 200.510(b) Financial Statements reads as follows: (b) Schedule of expenditures of Federal awards. The auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with §200.502 Basis for determining Federal awards expended.

2 CFR § 200.303(a) *Internal Controls* reads as follows:

The non-Federal entity must:

Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

2 CFR § 200.508(b) *Auditee responsibilities* reads as follows:

The auditee must:

Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with §200.510 Financial statements.

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

2 CFR § 200.510(b) *Financial statements* reads as follows:

Schedule of expenditures of Federal awards.

The auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with §200.502 Basis for determining Federal awards expended. [...]

Additionally, GAO Standards – Section 2 – Establishing an Effective Internal Control System – OV2.23 states in part:

Objectives of an Entity – 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.

Furthermore, 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.

Finding-2018-007 – County Officials’ Salaries in Excess of Statutory Limits (Repeat Finding)

Condition: During our review and recalculation of the Okmulgee County officers’ salaries the following was noted:

- On May 29, 2013, the Board of County Commissioners (BOCC) approved a raise for all eight (8) elected officials to go into effect on July 1, 2013.
- The approved raise resulted in the County Officials receiving salary increases in excess of the maximum annual salary allowed by statute as noted:

Fiscal Year	Maximum Annual Salary Allowed	Actual Annual Salary Received	Over/(Under) Payment Per Official	Total Overpayment For Year
2013	\$54,300.00	\$52,447.44	(\$1,852.56)	\$ -
2014	\$54,300.00	\$62,500.08	\$8,200.08	\$ 65,600.64

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

Fiscal Year	Maximum Annual Salary Allowed	Actual Annual Salary Received	Over/(Under) Payment Per Official	Total Overpayment For Year
2015	\$54,300.00	\$62,500.08	\$8,200.08	\$ 65,600.64
2016	\$54,400.00	\$62,500.08	\$8,100.08	\$ 64,800.64
2017	\$54,500.00	\$62,500.08	\$8,000.08	\$ 64,000.64
2018	\$54,800.00	\$62,500.08	\$7,700.08	\$ 61,600.64
2019	\$54,900.00	\$61,866.74	\$6,966.74	\$ 55,733.92
Total Over Payment as of June 30, 2019				\$377,337.12

- Per a review of the BOCC minutes, the Board of County Commissioners did not formally set the salaries for the elected County Officials from July 1, 2014 through July 1, 2018.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure County official’s salaries are calculated correctly, are within the amounts allowed by state statute, and are set by the BOCC annually.

Effect of Condition: These conditions resulted in noncompliance with state statutes and collectively, County Officials being overpaid \$377,337.12 as of June 30, 2019.

Recommendation: OSAI recommends that the BOCC set the salaries for County Officials every year by action of the Board in accordance with 19 O.S. §§ 180.74 and 180.75. OSAI also recommends the County design and implement policies and procedures to ensure officer’s salaries are within the limitations as outlined by 19 O.S. §§ 180.71 – 180.83.

Additionally, OSAI recommends the proper authorities review this finding to determine what action, if any, may be required.

Management Response:

District 1 County Commissioner: Immediate action was taken upon notification of the salary calculation error. On June 10, 2019, the BOCC passed resolution 19-22 decreasing the annual salary for Okmulgee County Elected Officials to \$54,900. I will continue to work with the other elected officials to ensure calculations that determine the County Officials’ salaries are correct and reviewed for accuracy, County Officials’ salaries are within statutory limitations, and salaries for County Officials are set and approved by the BOCC each year.

District 2 County Commissioner: Immediate action was taken upon notification of the salary calculation error. On June 10, 2019, the BOCC passed resolution 19-22 decreasing the annual salary for Okmulgee County Elected Officials to \$54,900. I will continue to work with the other elected officials to ensure calculations that determine the County Officials’ salaries are correct and reviewed for accuracy, County Officials’ salaries are within statutory limitations, and salaries for County Officials are set and approved by the BOCC each year.

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

District 3 County Commissioner: Immediate action was taken upon notification of the salary calculation error. On June 10, 2019, the BOCC passed resolution 19-22 decreasing the annual salary for Okmulgee County Elected Officials to \$54,900. I will continue to work with the other elected officials to ensure calculations that determine the County Officials' salaries are correct and reviewed for accuracy, County Officials' salaries are within statutory limitations, and salaries for County Officials are set and approved by the BOCC each year.

County Clerk: Immediate action was taken upon notification of the salary calculation error. On June 10, 2019, the BOCC passed resolution 19-22 decreasing the annual salary for Okmulgee County Elected Officials to \$54,900. I will continue to work with the other elected officials to ensure calculations that determine the County Officials' salaries are correct and reviewed for accuracy, County Officials' salaries are within statutory limitations, and salaries for County Officials are set and approved by the BOCC each year.

County Treasurer: Immediate action was taken upon notification of the salary calculation error. On June 10, 2019, the BOCC passed resolution 19-22 decreasing the annual salary for Okmulgee County Elected Officials to \$54,900. I will continue to work with the other elected officials to ensure calculations that determine the County Officials' salaries are correct and reviewed for accuracy, County Officials' salaries are within statutory limitations, and salaries for County Officials are set and approved by the BOCC each year.

County Assessor: Immediate action was taken upon notification of the salary calculation error. On June 10, 2019, the BOCC passed resolution 19-22 decreasing the annual salary for Okmulgee County Elected Officials to \$54,900. I will continue to work with the other elected officials to ensure calculations that determine the County Officials' salaries are correct and reviewed for accuracy, County Officials' salaries are within statutory limitations, and salaries for County Officials are set and approved by the BOCC each year.

County Sheriff: Immediate action was taken upon notification of the salary calculation error. On June 10, 2019, the BOCC passed resolution 19-22 decreasing the annual salary for Okmulgee County Elected Officials to \$54,900. I will continue to work with the other elected officials to ensure calculations that determine the County Officials' salaries are correct and reviewed for accuracy, County Officials' salaries are within statutory limitations, and salaries for County Officials are set and approved by the BOCC each year.

Court Clerk: Immediate action was taken upon notification of the salary calculation error. On June 10, 2019, the BOCC passed resolution 19-22 decreasing the annual salary for Okmulgee County Elected Officials to \$54,900. I will continue to work with the other elected officials to ensure calculations that determine the County Officials' salaries are correct and reviewed for accuracy, County Officials' salaries are within statutory limitations, and salaries for County Officials are set and approved by the BOCC each year.

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

Criteria: Title 19 O.S. §§ 180.71 – 180.83 provides guidance for the calculation and setting of County officials' salaries. Specifically, Title 19 O.S. §§ 180.74 and 180.75 defines the formula for the calculation of the minimum and maximum salary allowed for county officials.

Finding 2018-013 – Lack of Internal Controls over Collection, Disbursements and Reporting and Reconciliation Processes – Court Clerk (Repeat Finding)

Condition: Upon inquiry regarding the receipting, disbursement, and reporting and reconciliation processes over the Official Depository Fund, Court Fund, and the Court Clerk Revolving Fund, the following weaknesses were noted:

Official Depository:

- Deposits are not reviewed for accuracy before they are taken to the Treasurer's office.
- One individual can receive collections and issue receipts; calculate amounts to be vouchered out; prepare, sign, and distribute official depository vouchers; post official depository vouchers to register; and reconcile official depository to the County Treasurer.

Court Fund:

- One individual can prepare, approve, and review Court Fund claims; prepare, sign, and distribute Court Fund vouchers; take Court Fund vouchers to Treasurer to be register and receive registered vouchers; post Court Fund disbursements to the claims calendar/voucher register; prepare the Court Fund monthly, quarterly, and yearly reports.
- The Court Clerk is relying on the County Treasurer to review the Court Fund reports for accuracy.

Revolving Fund:

- The Revolving Fund quarterly reports are not reviewed by someone other than the preparer.

Cause of Condition: Policies and procedures have not been designed and implemented with regard to segregation of duties over all aspects of collection, disbursement, reporting, and reconciliation processes within the Court Clerk's office.

Effect of Condition: These conditions could result in unrecorded transactions, misappropriation of funds, or clerical errors that are not detected in a timely manner.

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. Additionally, OSAI recommends all reconciliations be reviewed and approved by someone other than the preparer and documentation of the review and approval be retained.

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

Management Response:

Court Clerk: For the Official Depository we will start having two people count money and verify amounts. Although one person has the ability to receipt, report, disburse, and reconcile, it very rarely happens. I will work to implement compensating controls to mitigate the risks involved where duties are concentrated due to the limited number of staff by separating key processes and critical functions of the office. Additionally, I am currently training my First Deputy to be able to use the Court Fund System and review Court Fund reports. Lastly, my First Deputy will also be trained to be able to review the Revolving Fund reports.

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 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 2018-015 – Lack of Internal Controls and Noncompliance Over Fixed Assets

Condition: Upon inquiry of County personnel, observation and review of fixed assets inventory records, we noted the following:

- The following officers do not file an inventory list with the County Clerk:
 - District 1
 - District 2

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

- District 3
- Court Clerk
- County Treasurer
- County Sheriff
- County Assessor
- Emergency Management
- The Court Clerk's office does not maintain inventory records:
- County Sheriff's inventory only accounted for a listing of vehicles, radios, and laptops.
- An annual physical inventory count of fixed assets is not being performed in the following offices:
 - District 1
 - District 2
 - District 3
 - Court Clerk
 - County Treasurer
 - County Sheriff
 - Emergency Management
- The County Clerk's inventory list does not include asset numbers, original cost, detailed description, or serial number.

The review of ten (10) fixed asset items with an original cost of \$500 or more from the County Sheriff's office noted the following:

- The inventory list did not include the original cost for ten (10) items, the identification number for three (3) items, and the year purchased for seven (7) items.
- One (1) item, a Glock 357 with serial number EED392U5, was not recorded on the inventory list.

The review of ten (10) fixed asset items with an original cost of \$500 or more from District 1 noted the following:

- The inventory list did not include the original cost for four (4) items and the identification numbers and year purchased for two (2) items.
- Two (2) items were not recorded on the inventory list:
 - STIHL Pole Saw, serial number 509835741.
 - STIHL Chain Saw, serial number 515570572.
- One (1) item, a generator with serial number 80134-001, could not be identified on the inventory listing due to the lack of an asset tag on the item and inadequate identifying information on the inventory list.

Cause of Condition: Policies and procedures have not been designed and implemented regarding effective internal controls over the safeguarding of fixed assets and to ensure compliance with state statutes.

Effect of Condition: These conditions resulted in noncompliance with state statutes. Opportunities for loss and misappropriation of county assets may be more likely to occur when the County does not have procedures in place to account for fixed assets.

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

Recommendation: OSAI recommends the County adopt policies and procedures to implement a system of internal controls to safeguard fixed assets and to ensure compliance with state statutes.

Management Response:

District 1 County Commissioner: I am now performing an annual physical inventory of fixed assets and filing an updated fixed assets inventory listing with the County Clerk. I will continue to improve my fixed asset inventory listing to include all of District 1 assets and the necessary information for the identification of assets.

District 2 County Commissioner: The District 2 inventory listing is now being filed with the County Clerk and an annual physical inventory of fixed assets is being performed.

District 3 County Commissioner: An annual inventory count is now being performed and an inventory listing is now being filed with the County Clerk.

County Clerk: I will implement a system of internal controls over fixed assets to ensure compliance with state statutes.

Court Clerk: We are currently working on completing a fixed assets inventory list for our office. Once our inventory is complete and accurate, I will file the listing with the County Clerk. Going forward an annual inventory count will be performed and filed with the County Clerk.

County Treasurer: The original office inventory is kept in the Treasurer's Office but going forward will be performed annually and filed in the County Clerk's Office.

County Assessor: I am in the process of updating inventory records and will file the new listing with the County Clerk and ensure yearly inventory is taken.

County Sheriff: I will adopt policies and procedures to implement a system of internal controls over fixed assets to ensure compliance with state statutes.

Criteria: GAO Standards – Section 2 – Establishing an Effective Internal Control System – OV2.24 states in part:

Objectives of an Entity - Safeguarding of Assets

Management designs an internal control system to provide reasonable assurance regarding prevention or prompt detection and correction of unauthorized acquisition, use, or disposition of an entity's assets.

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

Furthermore, GAO Standards – Principle 10 – Design of Appropriate Types of Control Activities – 10.03 states in part:

Physical control over vulnerable assets

Management establishes physical control to secure and safeguard vulnerable assets. Examples include security for and limited access to assets such as cash, securities, inventories, and equipment that might be vulnerable to risk of loss or unauthorized use. Management periodically counts and compares such assets to control records.

Title 19 O.S. § 178.1 requires the board of county commissioners in each county of this state to take or cause to be taken, an annual inventory of all working tools, apparatus, machinery and equipment.

Title 19 O.S. § 178.3 requires the elected officials to create and maintain inventory records of their office and to file that with the County Clerk.

Title 19 O.S. § 1502(A)(1) requires a prescribed uniform identification system for all supplies, materials, and equipment of a county used for maintenance for roads and bridges.

Title 19 O.S. § 1502(B)(1) requires a prescribed uniform identification system for all supplies, materials, and equipment of a county not used in the construction and maintenance for roads and bridges.

Title 69 O.S. § 645 requires all county owned, rented, or leased road machinery or equipment be clearly and visibly marked “Property Of.”

O·K·L·A·H·O·M·A
S·A·I
STATE AUDITOR & INSPECTOR



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